5 July 2018

METALS & MINING

Initiation of Coverage

Marketing Communication (Connected Research)

Lake Resources#

BBG Ticker: LKE AU *Price: A$0.10/sh.* *Mkt Cap: A$30m*

SPECULATIVE BUY

Serious Value Potential; No Messi'ing About

Large Scale Exploration in Key Locations

Lake Resources (LKE AU) has built a large lithium brine portfolio (102k hectares; 393 sq miles) offering exposure to greenfield exploration, extensions from known resources, potential development assets and options over significant pegmatite acreage (70k hectares). Currently capitalised at A$30m we believe the scale of LKE's assets is not fairly reflected in its valuation particularly given recent drilling results at Kachi that demonstrated up to 308mg/L Li to over 400m depth at a magnesium ratio of 4.3.

A maiden resource announcement is planned for mid H2 2018 at Kachi; a large (22km x 8km) and previously untested basin. Permits are pending for drilling at LKE's Cauchari Olaroz licenses which lie contiguous to those of **SQM (SQM US)**, **Lithium Americas (LAC CN)**, **Orocobre (ORE AU)** and **Advantage Lithium (AAL CN).** We expect strong newsflow in the coming months from LKE as well as neighbouring explorers and further market transaction over lithium resources indicating potential for significant catalysts and consequently opportunities for a rerating of the shares.

Lithium Outlook Remains Strong

The lithium market grew a further 10% YoY in 2017 to 210kt as demand for lithium ion batteries continued robustly. The demand outlook remains strong with majors such as **FMC (FMC US)** forecasting demand for lithium carbonate reaching 1mntpa by 2025 underpinned by the combination of strong Chinese demand and Western Governments committing to Electric Vehicles.

Lithium carbonate production from brines has increased only modestly in response to recent prices and growth in higher cost hard rock production is largely responsible for meeting the current supply shortfall. However, bottlenecks in conversion capacity mean that carbonate prices remain supported and we highlight that SQM contract prices were up again in Q1 2018 to US$16,400/t.

Recommendation

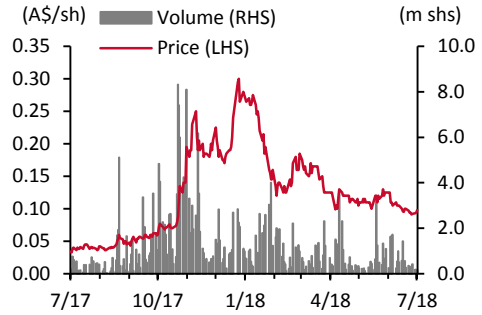
Despite strong lithium market fundamentals sentiment in the lithium sector has been weak in H1 2018 and LKE's shares have pulled back from their December 2017 highs, amid lithium oversupply fears which we consider overdone. We believe that given the strong period of upcoming newsflow in LKE and potential catalysts the shares now offer a compelling opportunity.

We initiate coverage with a Speculative Buy recommendation.

Company Description

Lithium exploration and development company with assets in Argentina.

One Year Price Performance



Price % chg	1mn	3mn	12mn
	-21.6%	-21.6%	188.2%

12mn high/low A$0.3/A$0.033

***SOURCE**: FactSet, as of 4 July 2018 close.*

Market:	ASX
Shares in issue	305.7m
Free float:	69.8%
Net cash (Mar 2018):	A$4.2m
Enterprise value:	A$34.2m

Major shareholders	
Peter Gilchrist	6.90%
Stephen Promnitz	4.58%
202 Ltd	4.32%

Oliver O'Donnell, Natural Resources

+44 (0)20 3617 5180 | oodonnell@vsacapital.com

Investment Case

Lake Resources (LKE AU) has built an attractive portfolio of Argentinian lithium exploration assets, which we believe offer significant value given the current market capitalisation of just A$30m (US$22m). The portfolio offers investors a wide range of lithium exposure through large scale assets, covering 180,000ha (c700 sq miles), with significant exploration upside and development assets, potential consolidation activity and exposure to both brines and pegmatites. With a strong fundamental backdrop in the lithium market we believe that LKE is well placed to capitalise and realise significant value given the attractive nature of its asset base and optionality. Further value exists in comparison with similar companies and in the high values in recent transactions over lithium brine assets in Argentina.

Map of Lake Resources Project Areas

SOURCE: *Company data, VSA Capital Research.*

The brine assets are all located within the Lithium Triangle. The current focus is on the Kachi Basin where LKE was the first to drill in 2018, yielding results of an average of up to 308mg/L Li values over wide intervals. At 54,000ha this, in our view, is the most risky of the assets within the portfolio but given its scale and previously untested nature the upside potential is likely the most significant within the portfolio given the sole ownership which downstream producers desire. The other brine assets at Cauchari/Olaroz are within the heart of existing lithium production licenses and are contiguous with **SQM (SQM US)** development project and **Orocobre's (ORE AU)** currently producing assets. As well as de-risking these license areas from an exploration standpoint, whilst utilising an oil and gas exploration approach, we believe that consolidation across these contested salars over the coming years is likely as incumbent producers look to expand to meet rising global demand.

With further drilling planned at Kachi, and a maiden resource expected to be announced in late Q3 2018 and permit approval pending for drilling at Cauchari-Olaroz, we expect strong newsflow and potential catalysts to drive a rerating of the stock in the coming months. We believe that at its current market cap of A$30m, this presents an attractive entry point for investors, particularly during a period of weak sentiment in the lithium space.

Kachi Basin Maiden Drilling Confirms Large Scale Potential

LKE is the first company to actively explore and drill the Kachi basin, which prior to the drill programme, was one of the largest untested salars in Argentina. LKE's wholly owned local subsidiary holds a 100% interest in the land package of 54,211ha (209 sq miles). Initial drilling results along with surface samples have confirmed that LKE has a compelling project with significant exploration potential. The basin is located in the Catamarca Province in Argentina, around 100km south of **FMC's (FMC US)** Hombre Muerto operation. Although this may not initially appear particularly close we highlight that the Kachi salar is itself 25km long, in the deepest part of a basin 60km long. The Mina Felix operation at Hombre Muerto has capacity of around 18ktpa lithium carbonate, undergoing a threefold expansion, and is one of around 30 salars in the Jujuy, Salta and Catamarca provinces. The project is accessible by unsealed roads.

An initial seven exploratory drill holes, spaced widely across the license area over 11km, have been drilled intercepting multiple horizons of lithium bearing brine sediments and yielding up to 308mg/l Li with a low magnesium ratio of around 4.3. With lithium-bearing brines intercepted across six of the seven holes over wide intervals, potentially more than 400m depth, this confirms the potential scale of LKE's Kachi project while the strong top end grades are clearly sufficient to be considered economic, in our view. The current size of 22km x 8km, which may expand compares favourably with SQM/ORE's Cauchari salt lake of approximately 25km x 12km. The maiden drilling has confirmed the initial potential and provided key information for further drill targeting during 2018. LKE will now work towards defining a maiden resource in mid H2 2018 with further drilling and pump testing in the interim.

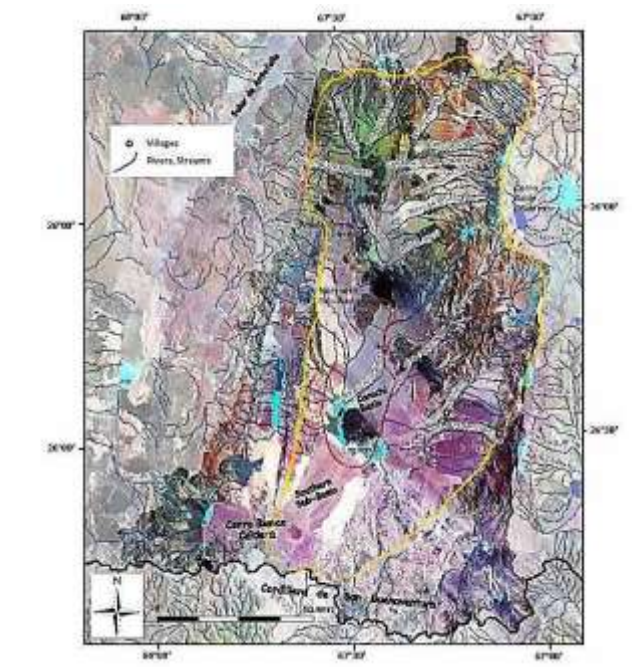
Maiden Drilling on Salar in Lithium Triangle

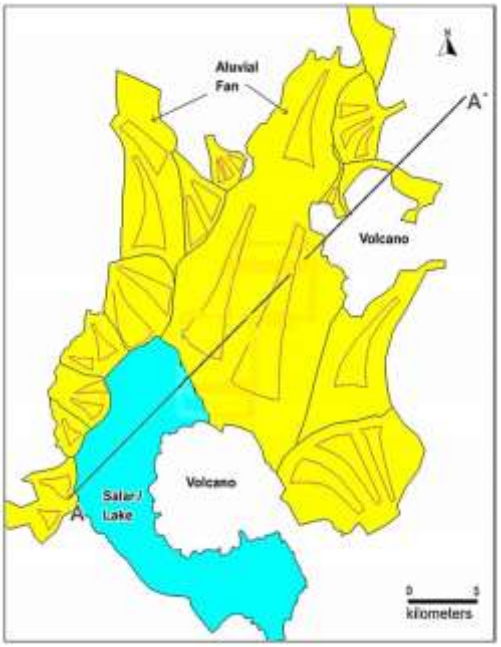
SOURCE: *Company data, VSA Capital Research.*

One of the key features of the Puna geological Province are the closed basins of which Kachi is one. All waters in the Puna environment whether meteoric, thermal or from surface springs drain into these closed basins where they accumulate and evaporate generating brines and saline crust. The southern portion of La Puna appears to be a larger

primary basin which has evolved into multiple smaller basins. The Kachi salar area of the wider Carachi Pampa basin is thought to be the original depocentre, draining an area over 5000km^2, making it an attractive prospect for lithium exploration, in our view.

Kachi Salar is Centre of Local Hydrological System

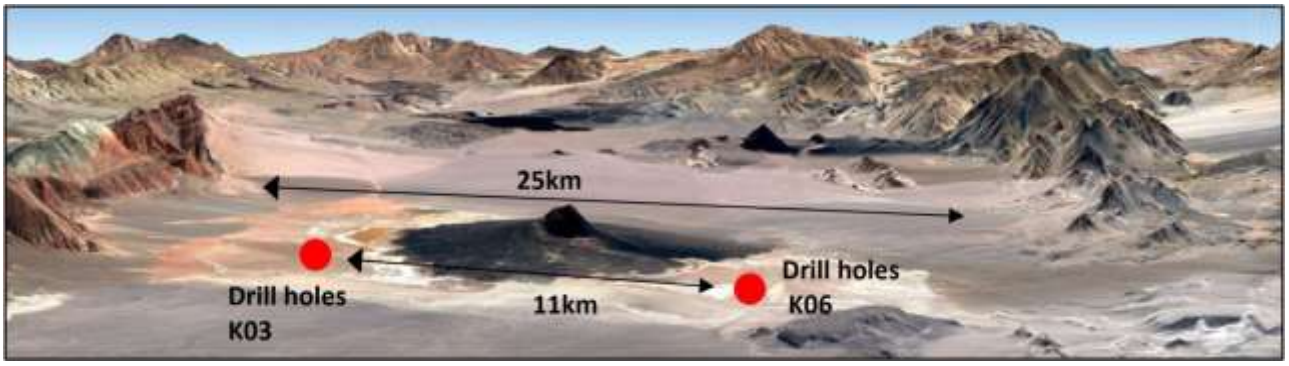




SOURCE: *NRG Metals, VSA Capital Research.*

The salar part of the basin has been untested despite sharing many of the characteristics of globally significant producing lithium brine deposits. At around 3,000m above sea level the salar is climatically suited to lithium production with hyper-arid conditions and humidity below 10%. Annual average temperature is below 10^{o}C while local rainfall averages 70mm per year. This is inconsistent and it rains between once a year and once every five years. Precipitation can be sufficient to inundate the depressed areas of the salar, and water might be in the salt lake to a depth of a few centimetres for up to four weeks only due to the high local evaporation rates. Net evaporation is typically 750mm per year with the highest rates in mid spring to early autumn.

Image of the Kachi Salar and Basin



SOURCE: *Company data, VSA Capital Research.*

Geologically the characteristics are also in line with those of notable producing salars and advanced development projects, in our view. Multiple layers of ignimbrites have been identified at Kachi Lake initially by seismic testing and confirmed by stratigraphy in the drill core. At Hombre Muerto, for example, and elsewhere the weathering of ignimbrites has been the local source of lithium which have then concentrated in the brines of the salar. The basin is

closed and characterised by deep structural depressions, while seismic work is being carried out to better understand those structural controls which delineate the salar as well as internally. Furthermore, the surface lake is partially filled by warm geothermal lithium bearing fluids, with geothermal activity another key characteristic of major lithium deposits. The caldera south of the lake is also clearly indicative of prior tectonic activity while brines across multiple aquifers have been identified. The scale of the basin and these shared characteristics were features which initially attracted LKE to the assets and early results are vindicating the license choices, in our view.

Kachi Licenses

SOURCE: *Company data, VSA Capital Research.*

Surface results of up to 322mg/L Li were sufficiently elevated in lithium content to warrant drilling. Typically surface results are indicative of grades at depth; however, where surface water is present this can negatively skew results, as likely has occurred at LKE due to the lagoon present at the time of sampling. The following table highlights the general stability of mg/l Li values from surface to depth. We believe that this perhaps explains why investors to date have been cautious on LKE, which remains discounted versus peers. However, we highlight **Neo Lithium (NLC CN)** which also has lagoons at the North and South of the Tres Quebradas salar. Where surface results were 190mg/L Li, drilling yielded average lithium grades of 528mg/L over 192m, which demonstrates clearly that surface sampling is not sufficient as a standalone. Given that we do not believe that this has been fully reflected in LKE's valuation, this highlights the immediate opportunity ahead of further de-risking.

During H1 2018 LKE drilled seven initial holes, the results of which have now been received and are being used to inform follow up drilling. The results demonstrated multiple horizons of lithium bearing brines from surface to 400m depth with high conductivity and density (1.18-1.22g/cm^3) in thick and sandy aquifers with attractive grades and drilling spaced over 11km. The basin remains open at depth, where the strongest grades of up to 308mg/L Li were found. Lithium concentrations tend to increase in line with density and therefore it is no surprise that higher grades should be found at depth. Follow up drilling will focus on the deeper horizons of 400m and beyond.

Comparison of Surface Sampling & Drilling Grades

Salar	Province	Company	Li Grade at Surface (mg/L)	Li Grade resource (mg/L)
Olaroz	Jujuy	Orocobre	700-800	690
Cauchari	Jujuy	SQM	600	586
Pastos Grandes	Salta	Millennial	300-400	445
Rio Grande	Salta	Lithium Exploration Group	400	374
Centenario	Salta	Eramet	200-500	250
Ratones	Salta	Eramet	400-600	490
Hombre Muerto East	Catamarca	Galaxy- Santa Rita-Moreno	700-1000	753
Laguna Caro	Catamarca	Lithium X	200-300	501
Antofalla	Catamarca	Albemarle	350	350
Carachi Pampa	Catamarca	NRG	150-260	141
Tres Quebradas	Catamarca	Neo Lithium	300-800	567
Kachi	Catamarca	Lake Resources	100-322	Up to 306*

Maiden drill results only.* ***SOURCE:* *Company Data, VSA Capital Research.*

Diamond drilling intersected thick intervals of intercalated sands, gravels and sandy clays with some clay horizons. Sandy horizons are dominant and initial indications from field hydraulic testing indicates high permeabilities for the sandy material, which will be further tested once pump testing is carried out. The sandy material was, however, poorly consolidated and core recoveries in these horizons were relatively poor. An ignimbritic breccia was encountered below 300m, which was previously highlighted by seismic data. This breccia is underlain by further sediments containing brines. These initial results are positive in terms of potential porosity, which is important for demonstrating viability for extraction of the brines from depth, and when combined with the fact that there are multiple horizons over such a wide area (22km x 8km) is indicative of the significant potential scale.

Maiden Drill Programme Results Summary

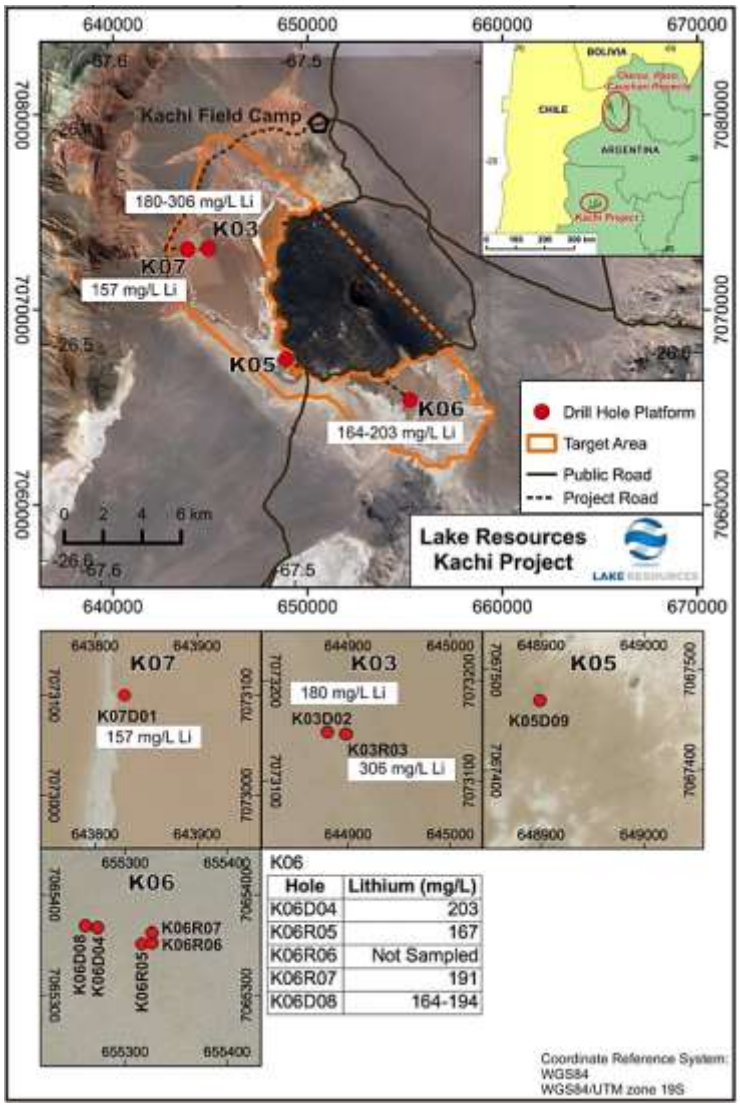
Exploration Hole	Total Depth (m)	Assay Interval (m)	Lithium (mg/L)	Potassium (mg/L)	Drilling Method	Dip°	Mg Ratio
Northern Drill Holes							
K07D01	76.25	10 - 34	157	3330	Diamond	90	-
K03D02	150.5	74 - 92	180	4435	Diamond	90	9.7
K03R03	242	3 - 242	306	5998	Rotary	90	4.3
Southern Drill Holes							
K06D04	167.5	95 - 113	203	3321	Diamond	90	3.8
K06R05	87	68 - 85	167	3160	Rotary	90	6.0
K06R06	180		.		Rotary	90	
K06R07	189	159 - 179	191	961	Rotary	90	5.3
K06D08	405	69 - 70	194	3171	Diamond	90	4.9
		120 - 1421	191	3199		90	4.6
		165 - 166	170	3650		90	5.2
		205 - 206	164	3590		90	5.5
		258 - 259	164	3560		90	5.4
		354 - 405	170	3670		90	5.2

SOURCE: *Company Data, VSA Capital Research.*

Lithium grades in the initial round of drilling, which was a small programme of just seven widely spaced holes, yielded results of between 157-306mg/L Li. Five of the holes were located in the Southern portion of the salar and brine horizons were intercepted at depths of 60-85m, 95-120m, 160-170m, 205m, 258m, 354-405m. Good brine chemistry with low impurities and low Mg/Li ratios is promising for future extraction. Grades in the southern portion of the salar

were between 164-194mg/L Li. Historically these grades on a standalone basis are on the low side and in a sub US$6,000/t price environment would likely be at the higher end of the cost curve for brine production, flow rates aside. However, with PFS and BFS now routinely being conducted at US$12,000/t, long term consensus pricing at more than US$7,000/t and the number of lithium brines with available offtake declining we expect global production grades to begin to fall given the expectations for demand growth as the economic cut off is clearly lower now than the historical norm. New direct extraction techniques, while not yet at commercial scale, promise much higher recoveries than conventional methods. That said, higher cost brine projects are likely to have stronger margins than hard rock projects, in our view, which have been the key driver of recent supply increases with cash costs of closer to US$4,500/t.

Schematic of Drill Results and Locations



K06

Hole	Lithium (mg/L)
K06D04	203
K06R05	167
K06R06	Not Sampled
K06R07	191
K06D08	164-194

SOURCE: *Company data, VSA Capital Research.*

The most exciting results came from the Northern part of the salar from K03R03 which yielded 306mg/L Li from 4-242m depth. This grade over such a wide horizon is very encouraging, in our view, and at grades which are in line with top tier projects in the region. Further drilling is being focused around K03R03 to test the deeper unconsolidated sediments down to at least 400m and potentially to 600m with grades expected to continue to strengthen with depth. This has been indicated by the geophysical survey.

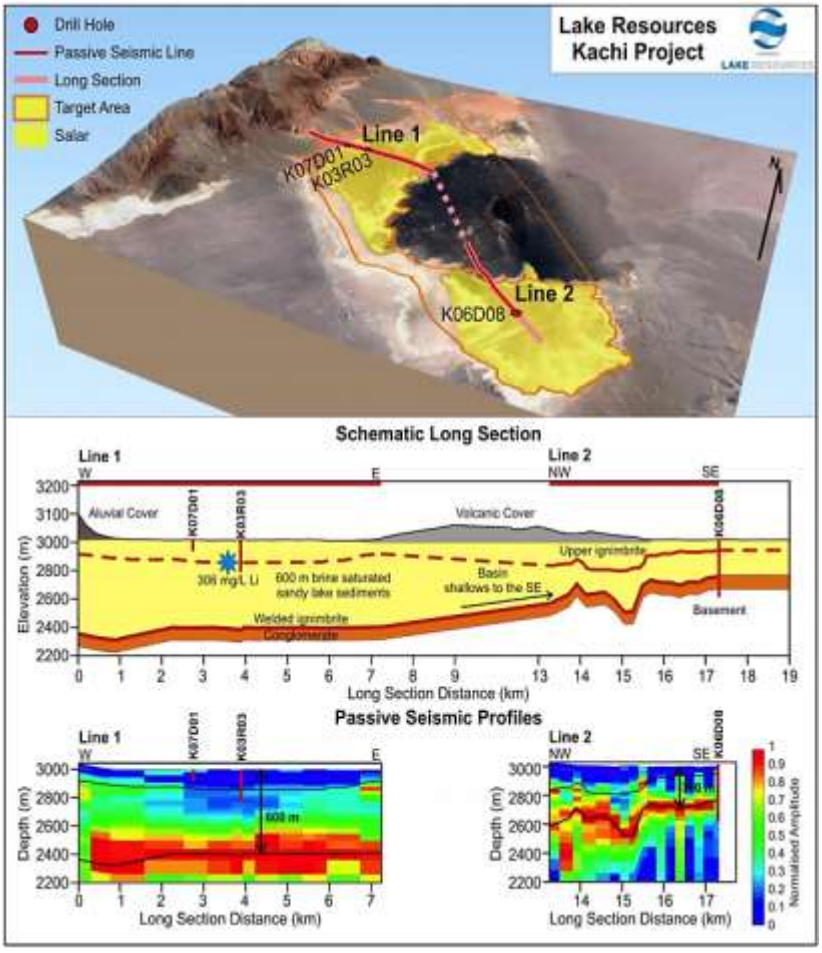
As well as grades and flow rate the magnesium to lithium ratio is one of the primary factors in determining the viability of lithium brine projects. Slaked lime must be added to the brine to extract the magnesium, adding additional costs, and a ratio of ten to one (Mg/Li) has previously been considered the upper limit for commercial development which

has held back development of projects in China, in particular. Fortunately; the results to date show that this is not likely to be a significant factor for LKE since the ratios in the initial drilling programme were low and largely between 3.8 and 5.4 with 4.3 in hole K03R03. Although in the medium to long term technological advances may improve processing technology to negate this issue it is currently a key reason why Chinese companies have been signing overseas offtakes. China has significant lithium reserves domestically in brine form, however, high magnesium content means its currently not viable to produce from these sources.

Geophysical

In addition to the drilling, LKE has also undertaken a geophysical survey to better understand the basin geometry and thickness of the brine bearing horizons to about 600m depth. This technique has been successfully utilised elsewhere in South America to contrast unconsolidated lake sediments and harder cemented sediments, basement rocks or ignimbrites (compact volcanic ash units).

Geophysical Survey Highlights Significant Brine Thickness



SOURCE: *Company data, VSA Capital Research.*

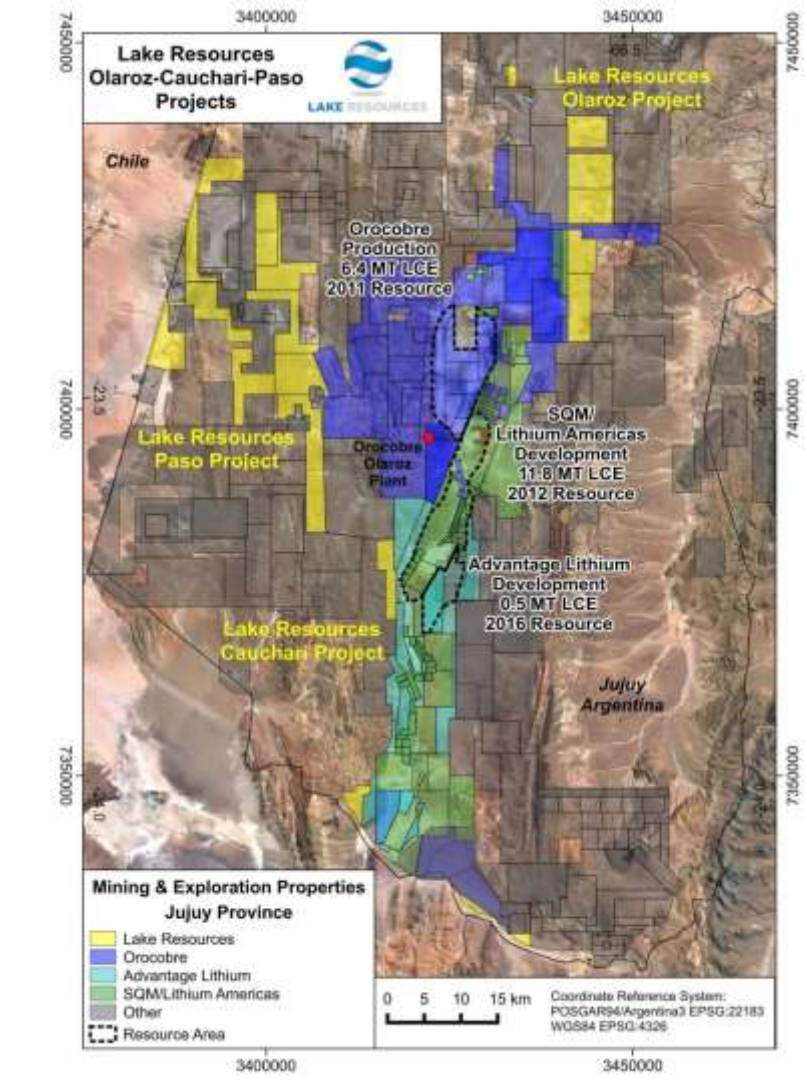
The results to date correlate with the stratigraphies found in the drilling with the ignimbrite breccia (c300m depth) and cemented ignimbrite bedrock both visible over significant portions of the lines. Encouragingly, the basalt caldera appears to be largely surface material which overlies the lake sediments. This potentially increases the volume of brines as the underside of the caldera had been discounted previously. However, we look forward to the results of further testing. Furthermore, given the scale of the salar and the known asymmetrical nature of the basin we believe that the information on the internal structures will be important. This may provide an indication as to the reason for the grade differential between the North and Southern zones.

Alongside the initial resource drilling, LKE have been carrying out pump test type drilling to prepare for flow testing. This will pump initial lithium brine into trial evaporation ponds and then brine evaporation and chemical evolution will be tested. Results from pump testing are expected during Q3 2018. Final results from the geophysical surveys are also expected in the near term. Further resource drilling will focus on the Northern area of the salar to test the area around K03R03 and at depth, which currently remains open. LKE currently has three operational rigs at Kachi and with early results demonstrating economic grades and significant scale we believe that upcoming newsflow presents a number of potential catalysts for rerating through the balance of 2018.

Olaroz / Cauchari

LKE holds mining leases which cover around 48,000ha in two areas of the Jujuy Province, in North West Argentina for which it owns 100%. The first set cover 18,010ha in the Olaroz/Cauchari area and the second cover 29,626ha in the Paso salar. The company signed an agreement with Jujuy Province confirming LKE's tenure over these licenses in March 2018. The company is currently awaiting permission to drill now the license agreement has been completed. Unlike Kachi, these licenses are contiguous to known lithium bearing brine deposits belonging to **SQM (SQM US), Lithium Americas (LAC CN), Advantage Lithium (AAL CN)** and the producing assets of **Orocobre (ORE AU)**. To the Northwest of ORE's licenses on the Olaroz salar, LKE holds licenses over 29,626ha. The licenses cover the salt lake to the West of ORE's production facility; however, exploration to date has been limited. Surface sampling has indicated elevated lithium values although no drilling has as yet been carried out.

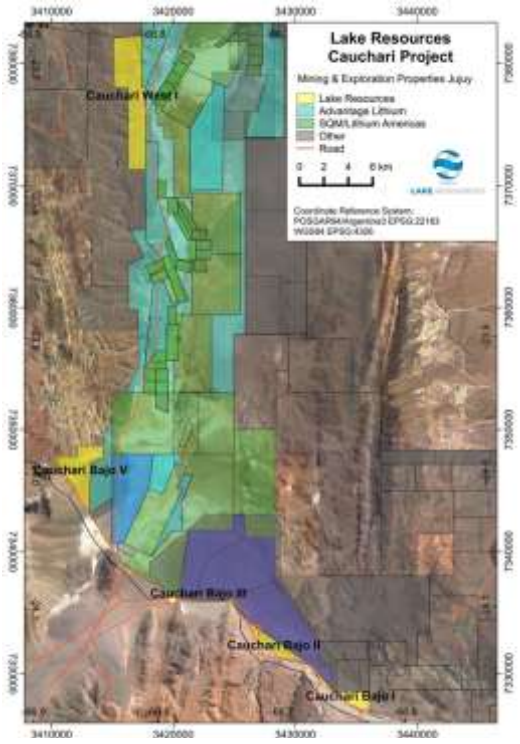
Lake Resources Significant Acreage in Olaroz / Cauchari



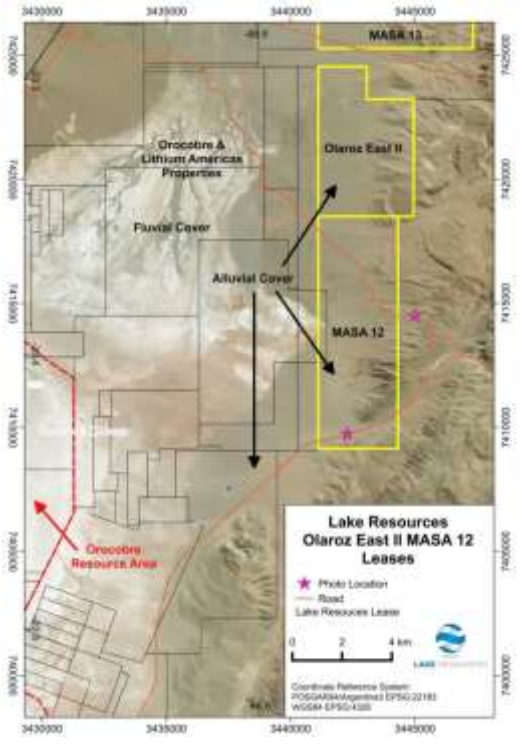
SOURCE: *Company data, VSA Capital Research.*

Although only at the beginning of their exploration programme, LKE is one of the largest license holders in a highly prospective basin with known economic viability. The risk profile associated with these assets is totally different to that at Kachi and we believe that there is the additional potential for consolidation within the basin given its prime nature and the presence of incumbent producers.

Cauchari Licenses



Olaroz Licenses



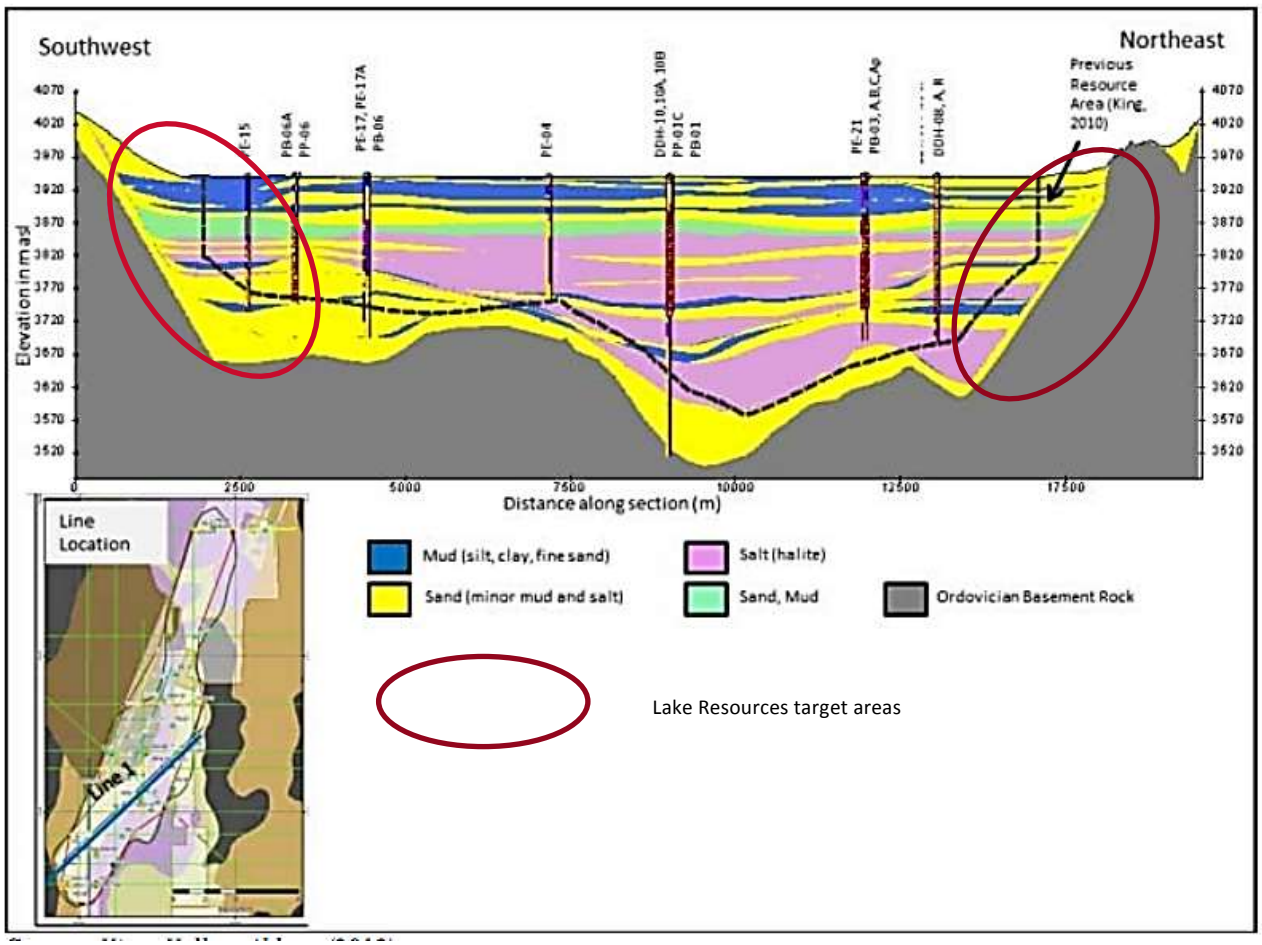
SOURCE: *Company data, VSA Capital Research.*

LKE has identified licenses where it believes the known lithium bearing aquifers extend laterally whilst also identifying possible trapsites for higher concentration at the margins of the basins. This oil and gas style approach to exploration has not to date been widely utilised and recent drilling by LKE's neighbours appears to be vindicating the theory behind the choice of licenses.

The Olaroz Cauchari basins are two salars that run North South for over 100km divided by an alluvial fan which dissects the two salars. It is possible therefore that these are in fact connected salars, which are merely overlain by alluvial sediments and the lithium bearing brines are far larger than previously envisaged. Exploration has been focused on the centres of the salars uncovered by alluvial sediments and although production has begun there is significant further exploration potential, in our view.

The Olaroz Cauchari licenses extend for over 30km to the North East of ORE's Olaroz processing plant which produced 12.5kt 2017 and produced 3.6ktpa lithium carbonate in Q2 2018 and 11km North-South to the East of SQM/LAC (16.45mnt LCE at 712mg/l inclusive of reserves) and AAL's resource area at Cauchari. Orocobre has established a resource of 1.21 mnt LCE at a grade of 690mg/L Li at Olaroz while AAL recently announced a resource of 3mnt LCE resource at 450mg/L Li at Cauchari. The salars are therefore rich in lithium and with both ORE and AAL continuing to expand their drilling programmes across the full salar, it highlights that these resources remain open and that the scale of these lithium deposits has not yet been fully recognised.

Cauchari Hydrostratigraphic Model

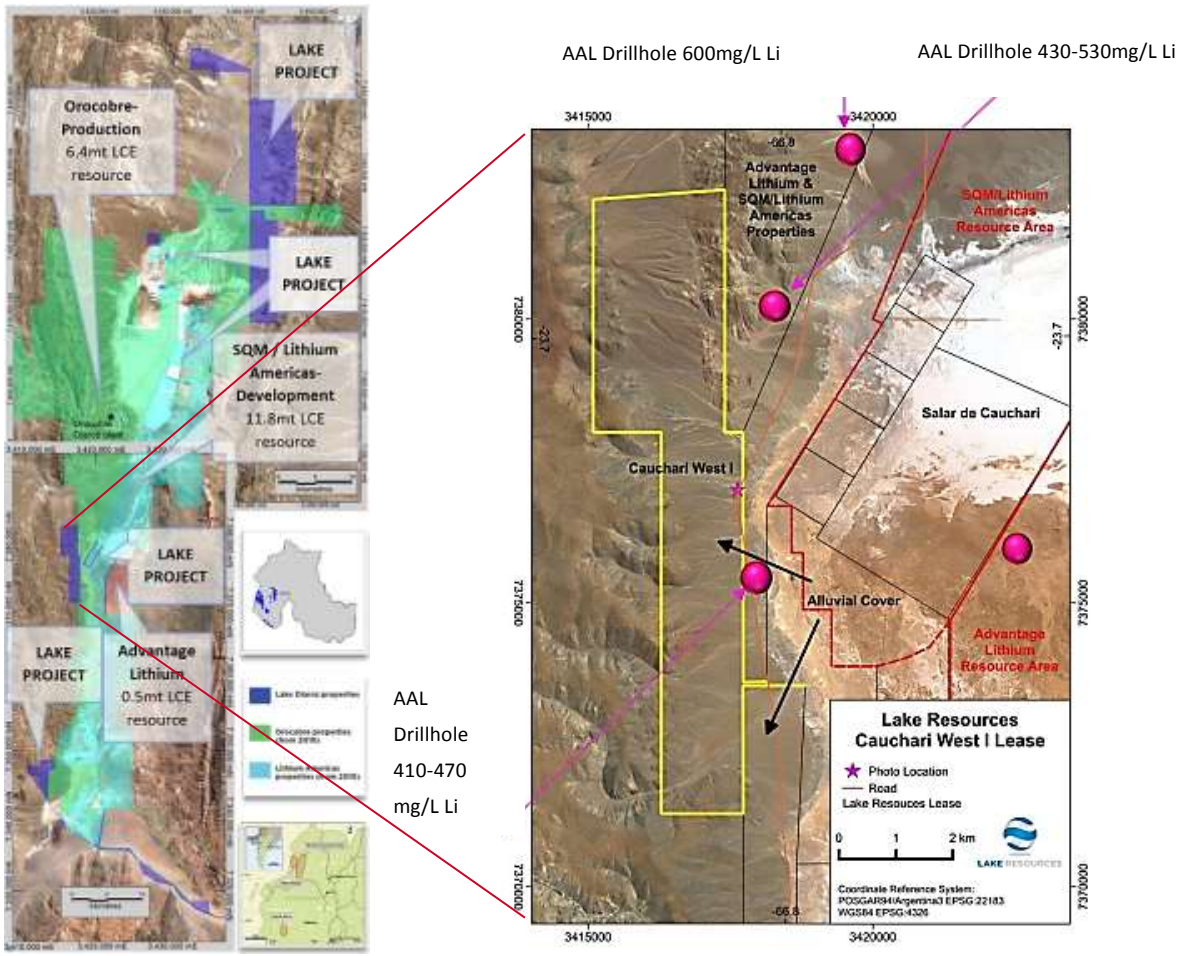


SOURCE: *Lithium Americas, VSA Capital Research.*

What differentiates LKE's strategy here from that of AAL or indeed ORE is that the focus of the license areas is on the areas of alluvial cover towards the borders of the salar in both the case of the Olaroz and Cauchari areas of the licenses. To date there has been limited drilling in these areas of alluvial cover, however, LAC have performed some drilling on the Archibarca alluvial cover which currently divides the Olaroz and Cauchari salars at surface to test whether the basins are in fact connected. Furthermore, AAL has been positioning drilling rigs close to LKE's tenements to test the theory that higher concentrations may be present in these areas. This follows gravity surveys which indicate that the density patterns exhibited by the lithium bearing brines extend out into LKE's license areas and that the overall depth and thickness of the salar sediments has to date been substantially underestimated.

In the current programme the results from CAU15 and CAU16 are of particular note given their proximity to LKE's Cauchari West 1 licenses as part of exploration of AAL's NW target. The NW target forms around 50% of AAL's recently announced resource (3mnt LCE contained) at a grade of 465mg/L Li. CAU15 intersected a brine body extending over 132m vertically which remains open beyond the limit of the drill hole at 234.5m with an average of 407mg/L Li from 102-234.5m which was higher at 475mg/L Li between 174-234.5m the average magnesium ratio was just 3.1. CAU16 intersected a brine body extending over 284m vertically with an average of 529mg/L Li and a magnesium ratio of 2.5.

Significant Brine Resources Adjacent to LKE and Strong Recent Step Out Drilling Results

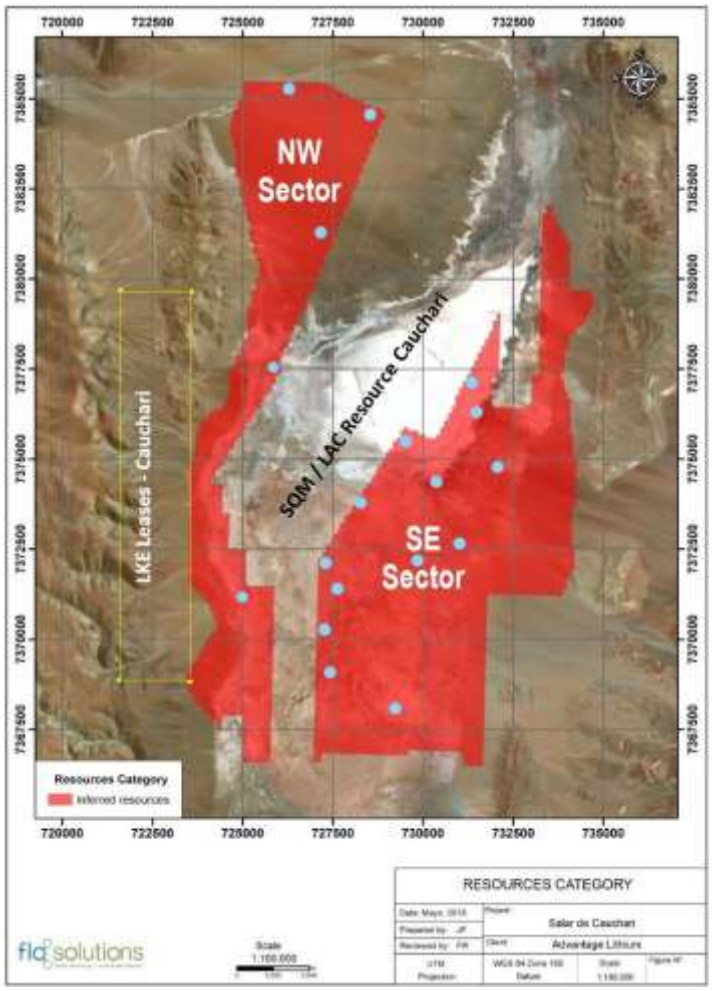


SOURCE: *Company data, VSA Capital Research.*

We believe that it is encouraging that other explorers within the basin are now actively drilling in the vicinity of LKE's licenses and achieving strong results that confirm the broader extent of the known lithium bearing brine aquifers. As interconnected and porous aquifers, production can impact the distribution of grade and flow rates elsewhere within the aquifer. There is therefore a logical consolidation opportunity to maximise economies of scale, however, we highlight the scale of LKE's assets which at 18,000ha and given the recent analogues have the potential, in our view, to host significant resources which could support independent production.

This optionality is highly attractive, in our view, and we believe that very little of this value is currently reflected in the share price. From a risk reward perspective we believe that the strong analogue results against a market capitalisation indicate a compelling opportunity with drilling due to commence on permitting approval. Indeed, before AAL began its drill programme in early 2017, (albeit with a historical resource) the company had a market capitalisation off C$28m (US$20m) and has subsequently rerated to C$128m (US$97m) while LKE currently trades at A$30m (US$22m).

SQM and Advantage Olaroz Resource Map



SOURCE: *Company data, VSA Capital Research.*

Catamarca – Pegmatite Option

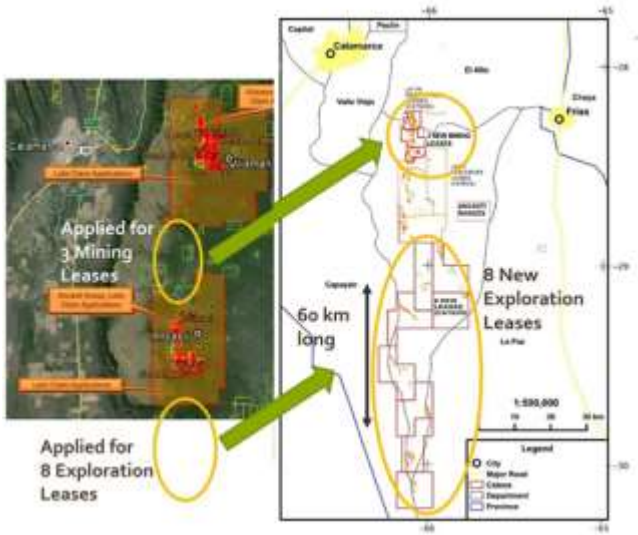
The third leg of LKE's portfolio is its option, from local vendors, over pegmatite leases in Catamarca which cover 70,000ha. The leases are within a 100km belt of pegmatite swarms in Ancasti, Catamarca province identified by frequent outcropping along the belt. The Ancasti mountain range is known historically for small scale lithium production, with previous exploration for other associated minerals such as tantalum and feldspars and there are multiple examples of historic workings across the license area. **Petra Energy**, the local entity, applied for eight cateos (exploration permits) and a number of smaller mining leases. We believe this structure which incentivises and maintains the relationship with the local vendors over the long term is an attractive structure and enables LKE to benefit from local knowledge and expertise.

The terms of the options are as follows and LKE's agreement is with local company Petra Energy:

- 1 million LKE shares on signing and 19 million LKE shares on execution of the option (50% voluntarily escrowed for 6 months).

Literature reviews, aerial image studies and field visits have confirmed the presence of pegmatite swarms and LKE have identified a number of outcrops with coarse grained spodumene crystals 30-70cm long in a number of locations. At this stage no recent exploration work has been carried out, however, current explorers are active on the same belt. Notably, **Latin Resources (LRS AU)** who hold rights to around 79,000ha have already advanced to drilling stage.

LKE Optioned Licenses in relation to Latin Resources



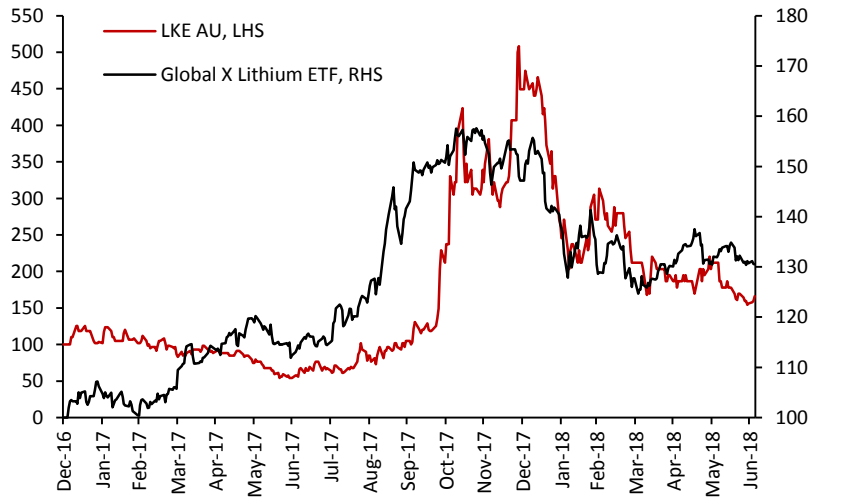
SOURCE: *Company data, VSA Capital Research.*

An LRS drilling programme in Q2 2017 yielded high grades over relatively narrow widths, in lithium terms, of up to 9m true thickness, with intercepts of 3m at 2.98% Li_2O, 5.2m at 1.62% Li_2O, 6m at 2.40% Li_2O, and 7m at 2.17% Li_2O. It does appear, however, that these narrow veins are closely associated and were intercepted at respective depths of 19m, 20m, 29m and 39m. Further drilling is due H2 2018. The close spacing and high grades of the veins is positive, in our view, although there is little data to indicate the broader extent of this mineralisation as to the continuity of these widths and grades. That said, given the proximity to LKE's assets within the same regional structure, this demonstrates that LKE is likely to have further significant lithium resources within its portfolio. Therefore we believe that this optionality in terms of additional acreage and hard rock versus brine further strengthens the company's portfolio.

Valuation & Peer Group Comparison

LKE has completed only an initial maiden drilling campaign at its Kachi project, and although we are confident of rapid progress and strong newsflow in the coming months, we do not yet believe that a quantitative price target is appropriate. However, we believe that the valuation context versus peers demonstrates the significant upside potential which is likely to be realised as LKE develops and de-risks its attractive suite of projects.

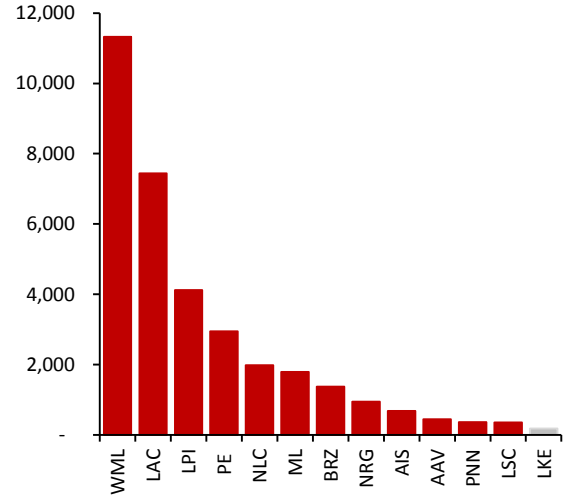
Lake Resources versus Global X Lithium Battery Tech ETF



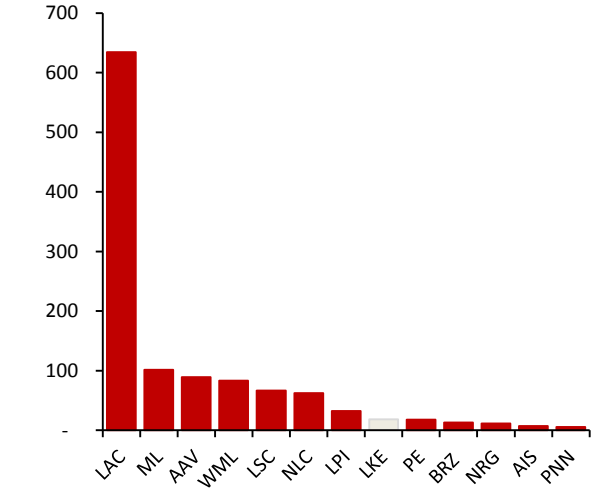
SOURCE: *Factset, VSA Capital Research.*

Since June 2017 the shares have increased threefold, however, they peaked ten times higher at A$0.3/sh. in December 2017 before pulling back amidst weak sentiment in the lithium sector to A$0.09/sh. We believe that the current level provides investors with a highly attractive entry point, particularly given strong upcoming newsflow and potential catalysts for LKE. In 2018 LKE achieved a landmark agreement with the Jujuy Province and began drilling yet this has not been reflected in the valuation, in our view. This is clearly demonstrated by the fact that LKE is trading at a discount to peers on an absolute basis such as **Wealth Minerals (WML CN),** which has also built strategic land holdings across key salars although has not drilled on its acreage and on a US$/ha basis to other pre resource peers such as **NRG Metals (NRG CN)** and **Pepinnini Minerals (PNN AU)**.

Peers Acreage and Value per Hectare, US$/ha



Peers Enterprise Values, US$m



SOURCE: *Company data, VSA Capital Research.*

LKE has attractive optionality within its asset portfolio offering exposure to greenfield exploration, brownfield drilling extending from known resources and also options over significant pegmatite acreage. The risk profile of each of these is different and consequently we believe that comparing against recent transactions provides an indicative guide. Currently capitalised at A$30m the scale of LKE's assets is not fairly reflected in the valuation and the quantum highlights the significant upside potential.

Positive sentiment towards lithium has eased off during 2018 and stocks have pulled back from the December 2017 highs, as evidenced by the pullback in the **Global X Lithium ETF**. This has largely been driven as a result of weaker off contract market prices which had rallied sharply to all-time highs. The lithium spot market is, however, primarily driven by long term bulk contracts or offtake agreements and the off-contract market is not representative of the market pricing. Consequently the pullback in off-contract prices during H1 2018 has dampened market sentiment although is not fully reflective of the current market fundamentals and longer term outlook which remains strong, in our view, and note that **SQM** recorded an increase in pricing in Q1 2018 QoQ to US$16,400/t. Our view is underpinned by the fact that transactional activity has continued such as the **Tianqi** acquisition of a 24% stake in SQM for US$4.1bn (a 12% premium to the market price) as well as **Tesla (TSLA US)** offtake agreement with **Kidman Resources (KDR AU).** We therefore see this recent softness as an attractive entry point for investors.

Although drilling has yet to begin on LKE's Olaroz Cauchari projects we highlight the recent transactions including **Lithium X (LIX CN)**, **Galaxy (GXY AU)** and **LSC Lithium (LSC CN).** China's **Nextview New Energy** agreed to acquire LIX for C$265m in December 2017 and its two brine projects in Salta province with total contained resources of 0.52mnt LCE at a grade of 501mg/L Li implying an EV/t of US$190/t or US$4,900/ha. In May 2018 **Galaxy Resources (GXY AU)** announced the sale of its North tenements within the Salar Del Hombre Muerto in Argentina to Korea's POSCO. Cash of US$280m for c158mnt LCE Measured and indicated and a total resource of 2.54mnt LCE. Therefore the implied valuation on a total resource basis was US$110/t. The transaction covers only a portion of GXY's tenements which form the Sal de Vida project and it maintains 100% of the tenements in the Southern basin. The total resource from 2012 indicated a resource of 7.2mnt LCE at 753mg/l Li with magnesium ratios of 2.2. However, the PFS with a reserve of 1.1mnt LCE was carried out based on the Southwest and East well fields – not those included in the transaction. Important to note that GXY have opted to hold onto the more advanced part of the salar and that this transaction relates to the earlier stage portion with regards to LKE and Kachi's earlier stage of development and proximity to the Salar del Hombre Muerto.

LSC Lithium (LSC CN) have been highly acquisitive over the past 18 months building a significant acreage positon which now totals over 300,000ha in comparable salars to those of LKE. Most recently in November 2017, LSC acquired 2,595ha building on its position in the Salar de Salinas Grandes in Jujuy province for US$2m implying a value of US$770/ha. Previously in March 2017, LSC acquired 34,198ha from AAL and ORE for cUS$7m (albeit with conditions) which implies US$205/ha in the same salar to build an initial position in the area. Also in March 2017 LSC acquired 30,000ha in the Pozuelos Salar for a total of US$44m implying US$1,466/ha.

Although valuations based on acreage do not clearly reflect potential economics and factors such as grade and contained lithium they do provide an indicative guide. We believe that the current implied valuation of US$174/ha (brine projects only), at the lowest end of the transaction range above, indicates that LKE's assets are currently discounted versus other similar stage projects. These cheaper transactions were prior to the broad uplift in sector values indicated by latter transactions in the same salar. This indicates further upside potential from the narrowing discount as well as future de-risking as projects are advanced along the development curve. On this basis LKE is the cheapest amongst the peer group even amongst other projects which have yet to undertake drilling providing a compelling opportunity.

Cash and Options, Lake Resources

Total Current Shares on Issue	**305,683,867**
Listed Options (10c) Aug 2018 Expiry	19,200,000
Options to be listed (20c) 15 Dec 2018 Expiry	33,316,667
Unlisted options (5c) Nov 2018 Expiry	5,042,494
Unlisted options(20c) Dec 2018 Expiry	9,500,000
Unlisted Options (5c) Oct 2019 Expiry	6,250,000
Unlisted Options (28c) Dec 2020 Expiry	9,500,000
LTI Performance Shares	2,500,000
Option over Catamarca Pegmatite project if exercised	19,000,000
Cash (A$m) 31 Mar 2018	**4.2**

SOURCE: *Company Data, VSA Capital Research.*

Having completed an oversubscribed placing of A$4.5m in March 2018, LKE has a cash position at the end of Q1 2018 A$4.2m. The funds from the placing were partially used to fully repay an outstanding loan note of A$1.6m. In addition, there are a number of outstanding options which may provide LKE with further additional cash. Consequently, the company is well placed to carry out its current exploration activities, in our view.

Risks

- **Commodity Prices**. The company is primarily exposed to the lithium market and unexpected changes to commodity prices are likely to affect our valuation.
- **Political Risk.** Changes to the current political regime and mining code in Argentina would potentially alter the risk profile and the ability of the company to deliver on its development schedule. Unfavourable changes regarding capital restrictions represent a further risk.
- **Macro Risk.** Unexpected moves in the Argentine Peso may impact Lake Resources.
- **Execution Risk.** The potential for delays and operating issues are an inherent industry risk, this may include delays in receiving financing or hold ups to the completion of development milestones.
- **Financing Risk.** Access to financing is a perennial risk for junior natural resources companies.

Peer Group Comparison

Company Name	Ticker	M'Cap, US$M	EV, US$m	Country	Land Package, ha	Resource, M&I, LCE*, mnt	mg/l	Inferred, LCE, mnt	mg/l	Mg ratio	Mcap/t (US$) (M&I)	EV/t (US$) (M&I&I)	US$/ha
Lithium Americas	LAC CN	473	634	Argentina	85,233	16.45	712	0.00	0.00	2.40	29	39	7,442
Millennial Lithium	ML CN	130	102	Argentina	24,718	2.13	445	0.88	469	6.30	43	34	4,117
Neo Lithium	NLC CN	105	63	Argentina	35,000	0.71	716	1.34	567	1.99	51	30	1,789
Wealth Minerals	WML CN	89	83	Canada, Mexico, Peru, Chile	60,900	-	-	-	-	-	0	0	1,371
Advantage Lithium	AAL CN	97	89	Argentina, US	44,872	-	-	3.00	380	2.50	32	30	1,985
LSC Lithium	LSC CN	78	67	Argentina	149,732	1.30	387	0.50	-	5.50	44	37	447
Lithium Power International	LPI AU	51	32	Argentina	2,843	1.72	1,143	0.43	1,289	6.50	24	15	11,323
Pure Energy	PE CN	20	18	US	26,000	0.00	-	0.22	123	2.90	90	82	687
Bearing Lithium	BRZ CN	15	13	Chile, USA	4,463	0.33	1,143	0.63	1,289	6.50	16	14	2,946
NRG Metals	NRG CN	14	12	Argentina	32,467	-	-	-	-	-	0	0	355
Pepinnini Minerals	PNN AU	7	6	Argentina	15,980	-	-	-	-	-	0	0	367
AIS Resources	AIS CN	7	7	Argentina	7,500	-	-	-	-	-	0	0	945
Lake Resources	**LKE AU**	**22**	**19**	**Argentina**	**101,847**	**-**	**-**	**-**	**-**	**-**	**0**	**0**	**183**

Inclusive of Reserves* ***SOURCE:* *Company data, FactSet, VSA Capital Research.*

Electric Vehicles & Battery Demand

Rising Penetration Underpinned by Government Policy

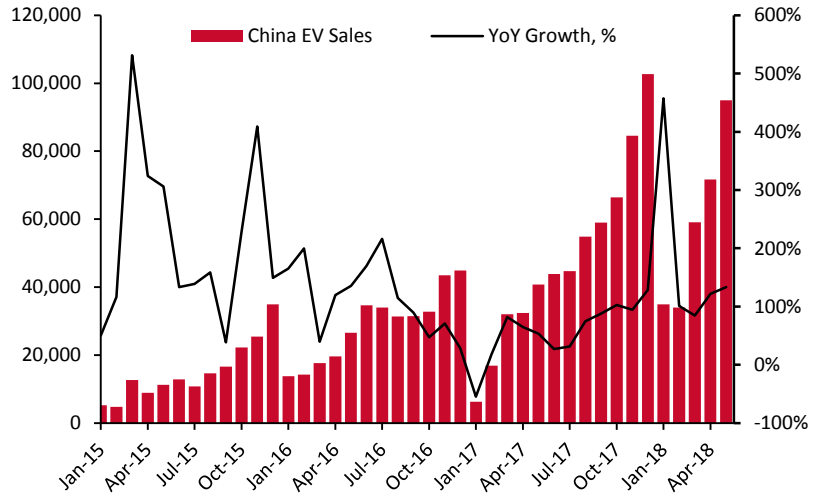
During 2017 the battery and electric vehicle markets received a significant increase in attention as governments in Western Europe set out targets to completely eradicate internal combustion engines from their roads. France and the UK committed to banning the sale of petrol and diesel cars by 2040 in response to the emissions scandal and the revelation over the negative effects of diesel emissions, particularly in relation to urban air quality. India has also committed to banning petrol and diesel engines by 2030.

Global electric vehicle sales currently account for just 1% of global automobile sales with only 10 countries accounting for 95% of global sales. China is the market leader with over 50% of new sales and has been championing the sector for a number of years. With governments underpinning demand through legislation and major markets like India, which currently accounts for 0.1% of demand, starting to aggressively electrify their fleets we believe the outlook for demand growth is strong.

According to the China Association of Automobile Manufacturers (CAAM), China sold around 770k electric vehicles in 2017 gaining a market share of 2.7%. The CAAM is targeting a 12% share for electric vehicles by 2020 and 20% by 2025. Meanwhile in the US, the 200k units sold in 2017 accounted for 1.7% of the market although growth at 24% YoY was slower than the 37% YoY achieved in the prior year. Bloomberg New Energy Finance (BNEF) expects 50% of new car sales globally to be electric by 2040 with the total fleet being one third electric by that point. BNEF estimates are relatively conservative compared to some in the market although they have been adopted by major energy companies such as **Shell (RDSA LN)** and the implied growth from these figures alone indicates a fundamental shift.

The improving economics of EVs have played a key role in the uptick in demand notably the significant reduction in battery costs (down 24% YoY in 2017 and 80% since 2010 according to Bloomberg) and improving vehicle range. Currently EVs are heavily subsidised while vehicle range and charging times are constantly at the forefront of consumer's minds; in the UK, grants of up to £4,500 are available for purchasing approved EV models whilst in China subsidies of up to RMB110,000/unit, however, we are encouraged by the proactive approach the UK government is taking. For example, subsidies were recently changed to exclude vehicles if the range was less than 150km and have been increased for those above 400km demonstrating a proactive policy in line with the needs of consumers.

China Electric Vehicle Sales Continue to Grow Strongly



SOURCE: *Company data, VSA Capital Research.*

Two key factors will determine the speed of uptake of EVS, in our view; the role out of the required infrastructure and the pace of technological advance and its impact on EV economics. As we have highlighted, subsidies currently are

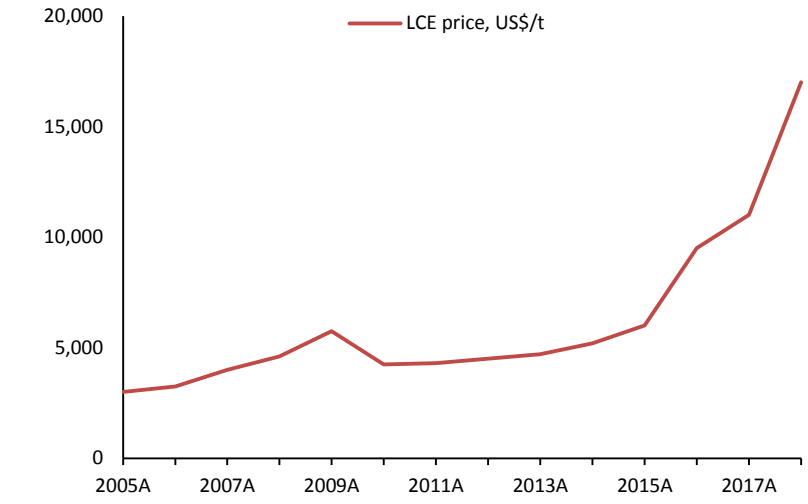
crucial to incentivising consumers to choosing EVs over traditional vehicles. Ultimately these must be reversed for the industry to stand on its own and given the trajectory of battery costs and rapid growth in sales this is unlikely to be an issue, in our view. The reversal of subsidies that comes with the commercialisation and broad uptake of electric vehicles leaves governments with a conundrum as they will have to replace fuel duty revenue as petrol and diesel are phased out; in the UK fuel duty revenue is projected at £27.5bn in 2017-18.

The commitment to EVs necessitates investment in charging infrastructure. This is an area in which governments are perhaps best placed to assist as they can lead in providing investment support as well as providing regulation to prevent heterogeneous charging points being developed. The State Grid Corporation of China announced earlier this year that it plans to build 120,000 public charging stations by 2020; there are currently around 90,000 petrol stations across China. This highlights the commitment to the pivot towards EVs and we believe the demand outlook is incredibly strong and battery materials have a key role to play in the roll out of development.

Lithium Market Overview

The rapid growth of the lithium market has been driven by a surge in demand for lithium-ion batteries, primarily driven by the growth of the electric vehicle market in China where sales have increased 130% YTD to 295k units after a 70% YoY increase in 2017 to 584k units. In order to meet rising demand, battery manufacturers have commissioned additional manufacturing capacity often termed mega-factories. The most well-known of these is the **Tesla (TSLA US)** gigafactory in Nevada, which we anticipate to require around 25-30ktpa of lithium carbonate equivalent demand to meet its 500,000 battery pack annual capacity. However, China is the largest single consumer with far more significant battery manufacturing capacity being built and currently accounting for around 35% of global demand which we estimate reached c.210ktpa LCE in 2017.

Lithium Carbonate Price, Contracts US$/t



SOURCE: *Company data, VSA Capital Research.*

As well as TSLA's factory for which there is potential to double capacity with a Phase 2 expansion, there are 35 other factories in the pipeline which are expected to commission between 2018 and 2023 with 470GWh capacity in total. **BYD (1211 HK)** recently announced an additional 60GWh by 2020; three times their previous target. **CATL** have planned an additional 50GWh while **Samsung SDI (006400 KR)** have announced a 20GWh expansion in South Korea.

Global demand was up by around 10% YoY in 2017 to around 210ktpa and we expect strong growth for lithium to continue with the major producers such as FMC and SQM now planning for 1mntpa annual consumption by 2025. As a result, prices of lithium carbonate have risen sharply from around US$6,000/t in 2015 to US$16,400/t in Q1 2018 according to SQM's contract pricing. Lithium hydroxide has experienced greater increases in price fetching above US$19,000/t currently. Lithium hydroxide is the current preferred raw material for battery manufacturers, however, currently there is around only 60ktpa of converting capacity and this bottleneck has driven prices from between US$7-

8,000/t to US$12-15,000/t in 2016 and above US$19,000/t currently. Conversion is a chemical process and consequently the ramp up to capacity run rates is challenging and can be slow and while we expect China to react quickly in terms of building additional capacity there is significant uncertainty as to the rate at which this capacity can be utilised.

On the carbonate front, moves to expand supply of the raw material for conversion have already begun albeit slowly. Production from brines may only be ramped up slowly as it is an evaporation process primarily; the trade-off being lower opex once operational. This has been highlighted by SQM's announcements this year guiding that production capacity will be 70ktpa by year end, however, sales volumes are guided to increase from 48ktpa in 2017 to just 55ktpa. Currently, production increases are largely reliant on hard rock spodumene concentrate production and subsequent conversion to lithium chemical products. However, the largest expansions announced by the majors such as **Albemarle (ABL US)** will have long lead times and slow ramp ups, constraining the supply side response in the near to medium term.

European Catch Up Means Additional Demand Growth

The emissions scandal has focussed development plans for European car manufacturers who are adopting aggressive targets for electric vehicle production which include significant levels of vertical integration. Indeed, both **Daimler** and **Volkswagen Group** have committed to making 25% of their fleet electric by 2025 while **Audi** has made a strong commitment to EVs it has opted to source batteries from Samsung. Daimler have indicated that this would require 22GWh of battery manufacturing capacity and broke ground in May 2017 on a battery plant near Dresden which is expected to take 9-12 months to construct. Furthermore, **Jaguar Land Rover** in partnership with **Ford** and **BMW** have also indicated that they are considering building an integrated facility while **Tesla (TSLA US)** are reviewing sites for a potential European gigafactory.

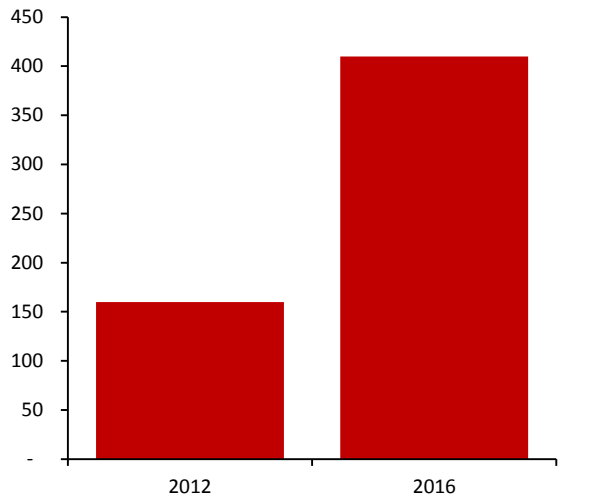
As well as the integrated solutions proposed by the car manufacturers, existing suppliers such as **LG Chem**, **Samsung** and **BMZ** are rolling out plans to build European lithium-ion battery manufacturing capacity. Samsung, having purchased a facility from **Magna Steyr** in Austria are constructing a new facility in Hungary which would be able to supply batteries for 50k EVs per annum by H2 2018. BMZ intend to expand their 15GWh of capacity to 30GWh by 2020. The largest potential addition comes from **Northvolt**, a Swedish company headed by a former Tesla executive which is seeking to raise US$4bn for a 32GWh plant, which would be one of the largest in the world.

The emergence of Europe as a centre of battery manufacturing capacity means the region is likely to become as important as China and the US, in our view. However, this additional centre of demand growth places greater uncertainty in terms of the security of lithium supply which is likely to become a key issue in the medium term as these facilities come online particularly given how Chinese producers have already moved to secure a number of offtakes with the most advanced projects globally. Chinese firms such as **Tianqi** and **Ganfeng** have already moved to secure long term offtakes with the leading Australian and South American projects. The EU and US have been slow to move on securing strategic supply of key battery materials which is likely to mean they will have to pay significantly higher transaction values to meet their needs.

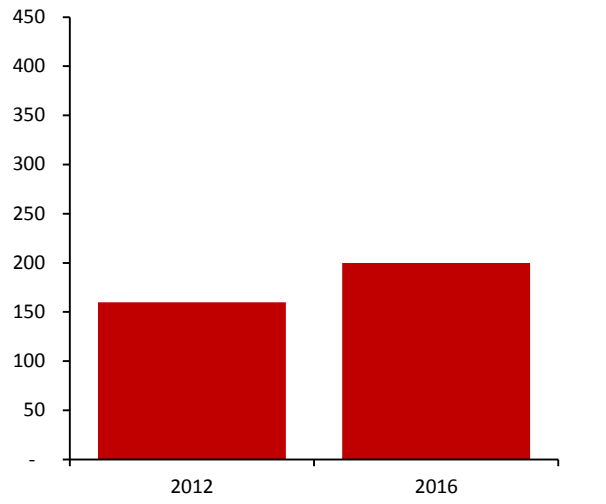
Supply Challenged to Keep Pace with Demand

The nature of lithium production means there are specific industry risks for lithium project developers which limit the ability of both incumbent producers and new entrants to rapidly increase production. As a result, we believe that market deficits are likely to be maintained in the short to medium term, providing support for lithium pricing in both carbonate and hydroxide markets.

Planned Production 2012-16, kt



Actual Production 2012-16, kt



SOURCE: *Company data, VSA Capital Research.*

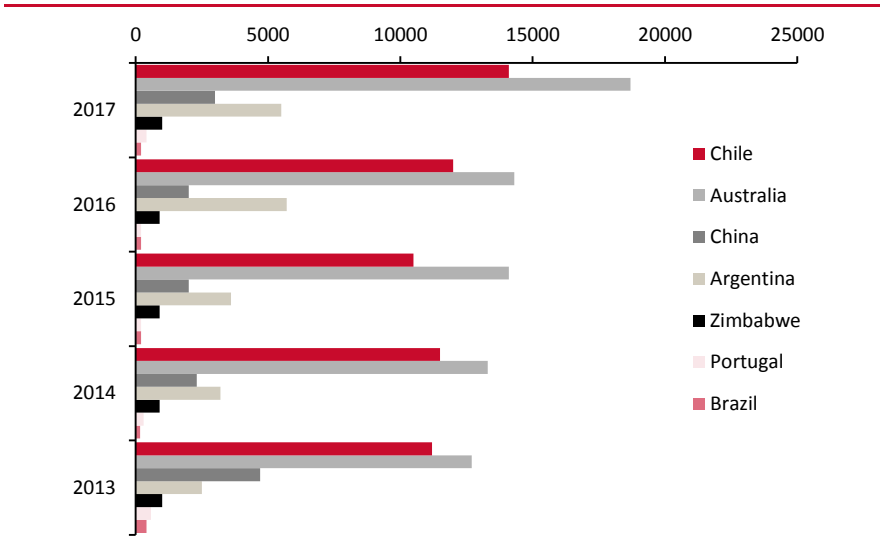
Being highly reactive, lithium never occurs in metallic form in nature, but instead is most commonly found in its oxidised mineral and metal compounds, in two main forms:

- As brines from evaporate basins (dried up seas and salt lakes, as well as from some oil field brines and geothermal well fluids).
- In pegmatites, where the primary lithium minerals are lepidolite $K(Li,Al,Rb)_3(Al,Si)_4O_{10}(F,OH)_2$ and spodumene $LiAl(SiO_3)$. Some high temperature, tin-tungsten ore bodies, called greisens, also produce by-product lithium.
- In addition, lithium-bearing volcanic clays are being considered for future potential commercial exploitation.

Once identified, lithium is extracted using one of two methods and saleable products tend to be conversions of the mineral or brine liquor to one of lithium hydroxide (LiOH and $LiOH\text{-}H_2O$), lithium nitride (Li_3N), or lithium carbonate (Li_2CO_3). The production economics and benefits of brines versus hard rock deposits vary, depending on the size of the resource and its geographic/climatic location.

- Brine extraction is relatively simple, with the fluids pumped to the surface and distributed into large ponds, in order to slowly evaporate. This leaves the soluble salts, including lithium, which are then pumped, or mechanically loaded, to be treated in a chemical separation plant. Brines have lower production costs per tonne of product and longer mine lives, but can have variable production rates month-on-month and season-to-season, depending upon the weather. Brine operations also typically have larger pre-production capex requirements than pegmatite-based mines. They currently represent two-thirds of total world production.
- Lithium from pegmatites or greisens is extracted via mining and processed in a more conventional manner, through crushing and grinding, followed by chemical separation. Pegmatites have the advantage of predictable lithium compound production rates, an advantage when producing high spec product for batteries. However, operating costs tend to be higher than those of brine operations.

Global Lithium Production, t

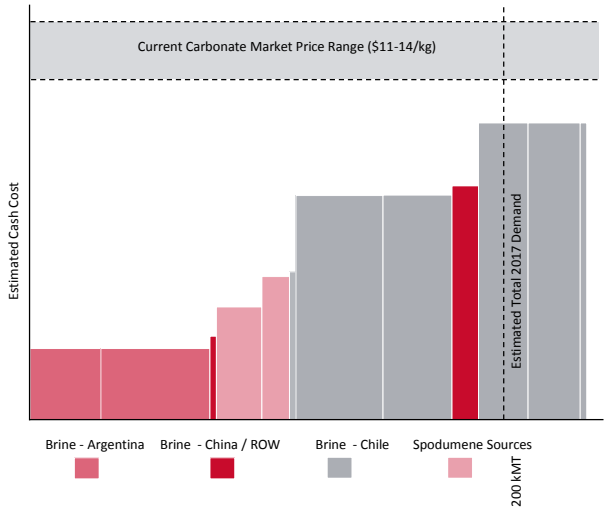


SOURCE: *USGS, VSA Capital Research.*

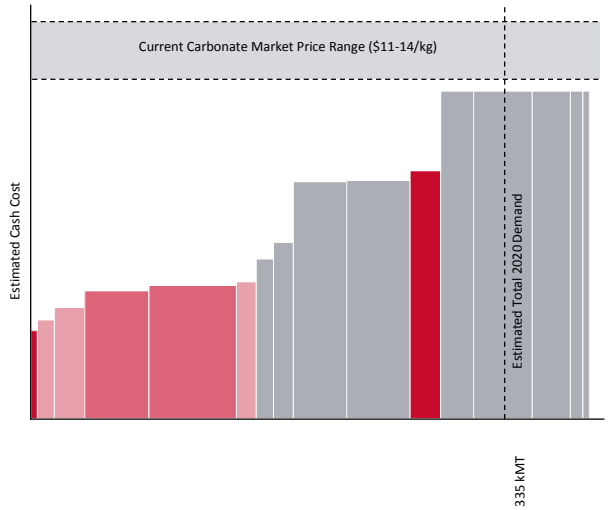
Rapidly increasing production from brine sources is constrained by the nature of the process and this goes some way to explaining the rapid rise in pricing for lithium products recently. SQM increased production by 9% in 2017 to 48kt and are guiding to sales volumes of 55kt in 2018 despite expecting to expand capacity to 70kt this year. However, gains at the other leading lithium producers have been more modest. We highlight that ALB's announcement to double production capacity to 160ktpa by 2020 was like SQM an ambition for capacity and the production ramp up will have a significant lag team beyond the completion of capacity. This demonstrates the challenges associated with rapidly ramping up lithium production and there is significant uncertainty as to the rate at which these ramp ups can be achieved.

Consequently the recent increases in the supply of lithium have come from hard rock projects, primarily in Australia, although we note the recent successful project financing of **Nemaska Lithium (NMX CN)**. However, this primarily means that lithium concentrate production has been increasing from projects such as Mt Catlin and Pilgangoora. This must then be converted to lithium chemical products for end use. The increase in hard rock production does mean that the cost curve in lithium carbonate terms is expected to increase with the marginal cost of production rising we believe that this supports prices in the longer term.

Lithium Carbonate Cost Curve 2017



Lithium Carbonate Cost Curve 2020



SOURCE: *FMC, VSA Capital Research.*

Over the longer term we do expect the extensive brine potential within China to be exploited. **CRU Group** believe 190ktpa of capacity may be forthcoming in the next five to 10 years from announced and quantified projects to date. Logistically, the country is hampered by the brine basins being in the more remote areas of China and Mongolia which lack sufficient or extensive power and transport infrastructure and high levels of magnesium which currently makes these projects uneconomic. China's One Belt One Road policy of expenditure over the coming five years is intended to debottleneck these regions and open them up to investment. However, whether this will be deemed a suitable source of supply for ethically minded EV manufacturers will remain to be seen given China's track record and the European emissions scandal.

Appendix 2: Key Personnel

Stephen Promnitz, Managing Director

Stephen has considerable technical and commercial experience in Argentina, a geologist fluent in Spanish, and a history of exploring, funding and developing projects. Mr Promnitz has previously been CEO and 2IC of mid-tier listed mineral explorers and producers (Kingsgate Consolidated, Indochine Mining), in corporate finance roles with investment banks (Citi, Westpac) and held technical, corporate and management roles with major mining companies (Rio Tinto/CRA, Western Mining).

Stuart Crow, Chairman and Non-Executive Director

Stuart has global experience in financial services, corporate finance, investor relations, international markets, salary packaging and stock broking. Stuart is passionate about assisting emerging listed companies to attract investors and capital and has owned and operated his own businesses.

Nick Lindsay, Non-Executive Director

Dr Nick Lindsay has over 25 years' experience in Argentina, Chile and Peru in technical and commercial roles in the resources sector with major and mid-tier companies, as well as start-ups. Nick has an BSc (Hons) degree in Geology, a PhD in Metallurgy and Materials Engineering as well as an MBA. A fluent Spanish speaker, he has successfully taken companies in South America, such as Laguna Resources which he led as Managing Director, from inception to listing, development and subsequent acquisition. Mr Lindsay is currently CEO of Manuka Resources Ltd, an unlisted company, having previously held the position of President – Chilean Operations for Kingsgate Consolidated Ltd and is a member of the AusIMM and the AIG.

Andrew Bursill, Company Secretary

Mr Bursill is a qualified Chartered Accountant and has held the position of outsourced CFO and Company Secretary with numerous ASX listed, unlisted public and private companies, in a range of industries covering mineral exploration, oil and gas exploration, biotechnology, technology, medical devices and retail.

Appendix 3: Argentina Mining Law and Taxation

There are two types of mineral tenure in Argentina: Mining Permits and Exploration Permits. Mining Permits are licenses that allow the property holder to exploit the property, providing environmental approval is obtained. They are granted in perpetuity as long as obligations set out in the granting of the permit are maintained. Bi-annual rents are paid each year relating to the exploitation of lithium and equate to US$1,600 Argentinean Pesos per 100 hectares.

Exploration Permits are licenses that allow the property holder to explore the property for a period of time that is proportional to the size of the property (approximately 5 years per 10,000 ha). Exploration Permits also require Environmental Permits. An Exploration Permit can be transformed into a Mining Permit any time before the expiry date of the Exploration Permit by presenting a report and paying canon rent. Mining or exploration cannot start without obtaining the Environmental Impact Assessment permit. Environmental Impact reports are filed every two years, or as often as the nature/status of work is expected to change.

Taxation

Argentina applies a 35% tax rate to corporate income. Deductions of 100% are allowed for exploration, special studies, mineralogy and metallurgy (including pilot plants), applied research and other work to identify the technical and economic feasibility of producing minerals and metals. Earnings contributions from mines and mining rights are exempt from income tax.

All assets in Argentina and abroad owned by local companies are subject to a 1% Corporate Asset tax which complements income tax. Assets belonging to mining however are exempt. A personal asset tax of 0.5% is applicable for foreign or domestic company share issues. The value is based upon net equity book value. A 5% export tax was recently rescinded in February 2016 by the Mauricio Macri government in recognition of the difficulties currently experienced by mining firms in earning profits and in promotion of Argentina as a destination for future mining investment.

Individual provinces also have regulations concerning consents and permissions for mineral exploitation. This gives the country in the eyes of mining investors a 'go –or- no -go' perception and mixed message on capital risk toward investments in the country. Salta, Catamarca, San Juan, and Santa Cruz provinces for example have no restrictions on mining. Certain provinces have bans on the use of cyanide, sulphuric acid, or mercury in processing or prohibit open cast mining. Salta's own royalty, once production is underway, is 3% over net revenue and paid directly to the province. Such royalty is referred to as 'boca mina' or mouth-of-mine. This royalty is calculated as being Sales Price minus Processing, minus Handling, minus Transport, minus Insurance, minus tariffs = Royalty.

In keeping with the national interest to promote fiscal stability, no province may exceed a provincial tax rate of 3% on the 'mine mouth' value of the mineral extracted prior to any beneficiation or value added mineral upgrading. Any variance from this by a province or municipality in any taxation grants or disputes allows the company to make claim at the national level for return of funds.

Appendix 4: Financial Statements

Profit and Loss (A$), June Year End

Expenses	2017	2016
Exploration expenditure expensed / written back	-	12,017
Administrative expenses	(25,210)	(16,241)
Corporate expenses	(323,245)	(37,458)
Employee benefit expenses	(185,097)	-
Employee performance incentive expense	(467,500)	-
Consultancy and legal costs	(169,693)	-
Loss after income tax expense attributable to owners of Lake Resources	(1,170,745)	(41,682)

SOURCE: *Company data, VSA Capital Research.*

Balance Sheet (A$), June Year End

	2017	2016
Current assets		
Cash and cash equivalents	1,396,825	74,210
Trade and other receivables	34	-
Other current assets	13,292	1,070
Total current assets	**1,410,151**	**75,280**
Non-current assets		
Investments accounted for using the equity method	35	35
Exploration and evaluation	1,887,866	-
Total non-current assets	**1,887,901**	**35**
Total assets	**3,298,052**	**75,315**
Current Liabilities		
Trade and other payables	69,102	7,284
Total current liabilities	**69,102**	**7,284**
Issued Capital	12,346,866	8,946,465
Reserves	936,260	4,997
Accumulated losses	(10,054,176)	(8,883,431)
Total equity and liabilities	**3,298,052**	**75,315**

SOURCE: *Company data, VSA Capital Research.*

Statement of Cash Flows (A$), June Year End

	2017	2016
Cash flows from operating activities		
Payments to suppliers	(646,044)	(56,010)
Net cash used in operating activities	**(646,044)**	**(56,010)**
Cash flows from investing activities		
Net of cash acquired on acquisition of subsidiaries	2,535	-
Payments for exploration and evaluation	(478,639)	-
Net cash used in investing activities	**(476,104)**	**-**
Cash flows from financing activities		
Proceeds from the issue of shares	2,685,604	-
Share issue of transaction costs	(84,841)	-
Repayment of borrowings	(156,000)	-
Net cash from financing activities	**2,444,763**	**-**
Net increase / (decrease) in cash and cash equivalents	**1,322,615**	**56,010**
Cash and cash equivalents at the beginning of the financial year	**74,210**	**130,220**
Cash and cash equivalents at the end of the financial year	**1,396,825**	**74,210**

SOURCE: *Company data, VSA Capital Research.*

Disclaimer

Investment Analyst Certification

In our roles as Research Analysts for VSA Capital Limited. we hereby certify that the views about the companies and their securities discussed in this report are accurately expressed and that we have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

Non-Independent Research

This is a marketing communication. It is non-independent research as it has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

Important Disclosures

This research report has been prepared by VSA Capital Limited. which is party to an agreement to be paid a fee as corporate finance advisors and arrangers with or has provided investment banking services to Lake Resources or has been party to such an agreement within the last twelve months. and is solely for and directed at persons who are Professional Clients as defined under Annex II of the Markets in Financial Instruments Directive. Directive 2004/39/EC. or as defined in the FCA Handbook. Persons who do not fall within the above category should return this research report to VSA Capital Limited. New Liverpool House. 15-17 Eldon Street. London EC2M 7LD. immediately.

This research report is not intended to be distributed or passed on. directly or indirectly. to any other class of persons. It is being supplied to you solely for your information and may not be reproduced. forwarded to any other person or published. in whole or in part. for any purpose. without out prior written consent.

This research report is exempt from the general restriction on the communication of invitations or inducements to enter into investment activity and has therefore not been approved by an authorised person. as would otherwise be required by Section 21 of the Financial Services and Markets Act 2000 (the "Act"). as amended by The Financial Services and Markets Act 2012.

Neither the information nor any opinion expressed constitutes an offer. or an invitation to make an offer. to buy or sell any securities or any options. futures or other derivatives related to such securities.

The information and opinions contained in this research report have been compiled or arrived at by VSA Capital Limited (the "Company") from sources believed to be reliable and in good faith but no representation or warranty. express or implied. is made as to their accuracy. completeness or correctness. All opinions and estimates contained in the research report constitute the Company's judgments as of the date of the report and are subject to change without notice. The information contained in the report is published for the assistance of those persons defined above but it is not to be relied upon as authoritative or taken in substitution for the exercise of the judgment of any reader.

The Company accepts no liability whatsoever for any direct or consequential loss arising from any use of the information contained herein. The company does not make any representation to any reader of the research report as to the suitability of any investment made in connection with this report and readers must satisfy themselves of the suitability in light of their own understanding. appraisal of risk and reward. objectives. experience and financial and operational resources.

The value of any companies or securities referred to in this research report may rise as well as fall and sums recovered may be less than those originally invested. Any references to past performance of any companies or investments referred to in this research report are not indicative of their future performance. The Company and/or its directors and/or employees may have long or short positions in the securities mentioned herein. or in options. futures and other derivative instruments based on these securities or commodities.

Not all of the products recommended or discussed in this research report may be regulated by the Financial Services and Markets Act 2000. as amended by The Financial Services and Markets Act 2012. and the rules made for the protection of investors by that Act will not apply to them. If you are in any doubt about the investment to which this report relates. you should consult a person authorised and regulated by the Financial Conduct Authority who specialises in advising on securities of the kind described.

The Company does and seeks to do business with the companies covered in its research reports. Thus. investors should be aware that the Company may have a conflict of interest that may affect the objectivity of this report. To view our policy on conflicts of interest and connected companies. please go to: http://www.vsacapital.com/policies/conflict-of-interest-policy.

VSA Capital acts as Corporate Adviser and Broker to Lake Resources and is therefore classed as a connected company.

Investors should consider this report as only a single factor in making their investment decision.

The information in this report is not intended to be published or made available to any person in the United States of America (USA) or Canada or any jurisdiction where to do so would result in contravention of any applicable laws or regulations. Accordingly. if it is prohibited to make such information available in your jurisdiction or to you (by reason of your nationality. residence or otherwise) it is not directed at you.

Definition of Ratings

VSA Capital Limited uses the following stock rating system to describe its equity recommendations. Investors should carefully read the definitions of all ratings used in each research report. In addition. since the research report contains more complete information concerning the analyst's views. investors should carefully read the entire research report and not infer its contents from the rating alone. In any case. ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock or investment fund should depend on individual circumstances and other considerations.

VSA Capital Limited's recommendations are defined as follows:

BUY:	The stock is expected to increase by in excess of 10% in absolute terms over the next twelve months.
HOLD:	The price of the stock is expected to move in a range between -10% and +10% in absolute terms over the next twelve months.
SELL:	The stock is expected to decrease by in excess of 10% in absolute terms over the next twelve months.

In addition. on occasion. if the stock has the potential to increase by in excess of 10%. but on qualitative grounds rather than quantitative. a SPECULATIVE BUY may be used.

Distribution of VSA Capital Limited's Equities Recommendations

VSA Capital Limited must disclose in each research report the percentage of all securities rated by the member to which the member would assign a "BUY". "HOLD. or "SELL" rating. and also the proportion of relevant investments in each category issued by the issuers to which the firm supplied investment banking services during the previous twelve months. The said ratings are updated on a quarterly basis.

Recommendation and Target Price History

Valuation basis

We do not provide a quantitative valuation at this time.

Risks to that valuation

Commodity prices, political risk, execution risk.

This recommendation was first published on 5 July 2018.