

Fundamental

Research Corp.

Investment Analysis for Intelligent Investors

November 30, 2018

Lake Resources N.L. (ASX: LKE) – Maiden Resource at Kachi Beats Expectations / Raising Fair Value Estimate

Sector/Industry: Junior Resource

www.lakeresources.com.au

Market Data (as of November 30, 2018)

Current Price	A\$0.11
Fair Value	A\$0.73
Rating*	BUY
Risk*	5
52 Week Range	A\$0.07 - A\$0.30
Shares O/S	363.63 mm
Market Cap	A\$40.00 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	6.2x
YoY Return	-42.1%
YoY ASX	7.5%

*see back of report for rating and risk definitions.

* All figures in A\$ unless otherwise specified.



Highlights

- On November 27, 2018, Lake Resources (“LKE”, “company”) announced 1 Mt indicated (289 mg/L), and 3.4 Mt inferred (209 mg/L) Lithium Carbonate Equivalent (LCE) resources at its Kachi project.
- We were pleased with the resource as our preliminary estimate was just 2.62 Mt.
- The company also announced an exploration target of 8 Mt – 17 Mt LCE over an area of 20 km x 15 km, to a depth of up to 400 m.
- Management’s goal is to potentially keep expanding the resource, and complete a Pre-Feasibility Study by mid 2019.
- Preliminary testing based on a new direct extraction technology showed high recoveries of 80% - 90%. Management expects to announce results of Phase 1 preliminary engineering work shortly.
- LKE is currently drilling the Cauchari project.
- **We are raising our fair value estimate from \$0.44 to \$0.73 per share.**

Key Financial Data (FYE - June 30)

(\$)	2017	2018	Q1-2019
Cash	\$1,396,825	\$1,744,467	\$291,000
Working Capital	\$1,341,049	\$1,602,047	n/a
Mineral Assets	\$1,887,866	\$4,901,193	n/a
Total Assets	\$3,298,052	\$6,729,741	n/a
Net Income (Loss)	-\$1,170,745	-\$3,540,391	n/a
EPS	-\$0.01	\$0.00	n/a

- Since the end of Q1, the company raised \$1.8 million from exercise of options and a loan facility.

Maiden Resource at Kachi

On November 27, 2018, the company announced a maiden resource estimate on its Kachi project, which showed 1 Mt indicated (289 mg/L), and 3.4 Mt inferred (209 mg/L) LCE resources. The Kachi project is located approximately 80 km south of Livent Corporation’s (NYSE: LTHM; a spin-off of FMC Corporation / NYSE: FMC) Hombre Muerto lithium brine operation, and Galaxy Resources Limited’s (ASX: GXY) Sal de Vida lithium brine project (feasibility study completed). It is also 40 km southeast of Albemarle Corp’s lithium brine development project in Salar de Antofalla.

Kachi Mineral Resource Estimate - November 2018 (JORC Code 2012 Edition)

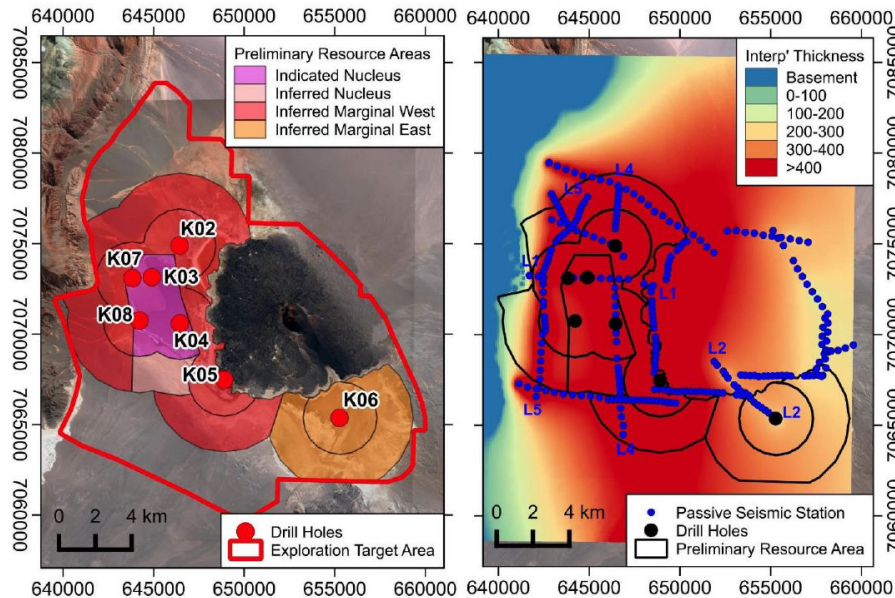
RESOURCE ESTIMATE KACHI						
	Indicated		Inferred		Total Resource	
Area km ²	17.10		158.30		175.40	
Aquifer volume km ³	6		41		47	
Brine volume km ³	0.65		3.2		3.8	
Mean drainable porosity % (Specific yield)	10.9		7.5		7.9	
Element	Li	K	Li	K	Li	K
Weighted mean concentration mg/L	289	5,880	209	4,180	211	4380
Resource tonnes	188,000	3,500,000	638,000	12,500,000	826,000	16,000,000
Lithium Carbonate Equivalent tonnes	1,005,000		3,394,000		4,400,000	
Potassium Chloride tonnes	6,705,000		24,000,000		30,700,000	

Source: Company

The estimate was based on 15 holes, and covers an area of 7.5 km by 10 km, with a central area of 3.5 km x 5 km, to a depth of up to 400 m. **We were very pleased with the resource as our preliminary estimate was just 2.62 Mt based on a depth of 400 m, as per our initiating report in September 2018.**

The indicated resource is assigned to the central area of the project, while the inferred resource is assigned to surrounding areas, as shown in the images below.

Location of the Resource



Source: Company

Earlier in November, the company had announced an exploration target of 8 Mt – 17 Mt LCE over an area of 20 km x 15 km, to a depth of up to 400 m.

Table 3: Kachi Project Potential – Exploration Target Estimate

KACHI EXPLORATION TARGET ESTIMATE										
Subarea	Area km ²	Average Thickness m	Specific yield %	Brine volume million m ³	Lithium Concentration mg/L	Contained Lithium metric tonnes	Lithium Carbonate tonnes*	Potassium Concentration mg/L	Contained Potassium metric tonnes	Potassium Chloride tonnes*
UPPER RANGE SCENARIO										
High Confidence Western Sector	55.2	375	10%	2,801	310	641,000	3,412,000	5,880	16,470,000	31,457,000
High Confidence Eastern Sector	16.7	338	10%	873	250	141,000	752,000	5,880	5,133,000	9,804,000
Moderate Confidence Sector	150.7	350	10%	6,631	310	1,633,000	8,689,000	5,880	38,990,000	74,471,000
Low Confidence Sector	72.6	321	10%	2,733	310	723,000	3,849,000	5,880	16,070,000	30,694,000
Total						3,139,000	16,700,000		76,663,000	146,426,000
LOWER RANGE SCENARIO										
High Confidence Western Sector	55.2	375	7%	2,801	210	304,000	1,618,000	4,180	6,053,000	32,204,000
High Confidence Eastern Sector	16.7	338	7%	873	150	83,000	442,000	4,180	1,655,000	8,803,000
Moderate Confidence Sector	150.7	350	7%	6,631	210	774,000	4,120,000	4,180	15,415,000	82,009,000
Low Confidence Sector	72.6	321	7%	2,733	210	343,000	1,825,000	4,180	6,828,000	36,327,000
Total						1,480,000	7,878,000		29,951,000	159,342,000

Source: Company

Management’s goal is to potentially keep expanding the resource, and complete a Pre-Feasibility Study by mid-2019.

The company is planning to adopt a **direct extraction technology** (a proprietary ion exchange technology developed by Lilac Solutions – a privately held California based company). In October 2018, the company announced that Phase 1 engineering work based on this extraction technology resulted in high recoveries of 80% - 90%, and suitable brine concentrate grades. The technology is also likely to have relatively low costs and reduced time to production, as it eliminates the need for evaporation ponds. Although encouraging, we believe we will need to wait for additional results prior to forming an opinion on the technology’s viability on large-scale operations. The Lilac process will be trialed alongside conventional evaporation methods.

The company recently applied for additional mining leases to increase the Kachi project’s holdings from 54,000 ha to 69,000 ha. The company’s portfolio currently includes three lithium brine projects, and one hard rock project in Argentina, totaling approximately 196,050 ha.

Expands Land Package

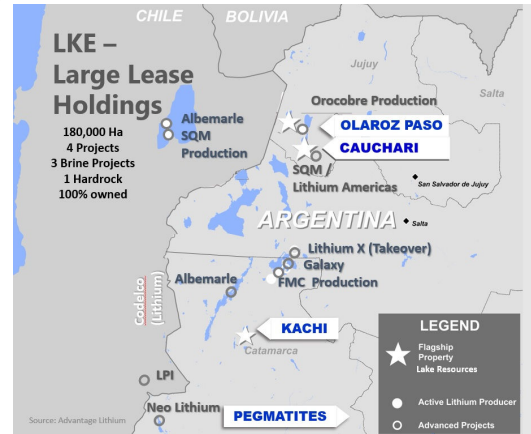
Portfolio Summary

Project	Hectares	Province
Kachi Brine Brine Project	69,000	Catamarca Province
Olaroz/Cauchari Brine Project	17,950	Jujuy Province
Paso Brine Project	29,600	Jujuy Province
Catamarca Pegmatite Lithium Project	79,500	Catamarca Province
Total	196,050	

Source: Company / FRC

All of the projects are located within the main lithium-bearing region of South America, in the Altiplano Puna plateau (Puna), which is an approximately 2,000 km long by 300 km wide area, with an average elevation of 3,500 m. As shown in the images below, LKE’s projects are located immediately adjacent to brine projects either in production or in advanced stages of development.

Project Location

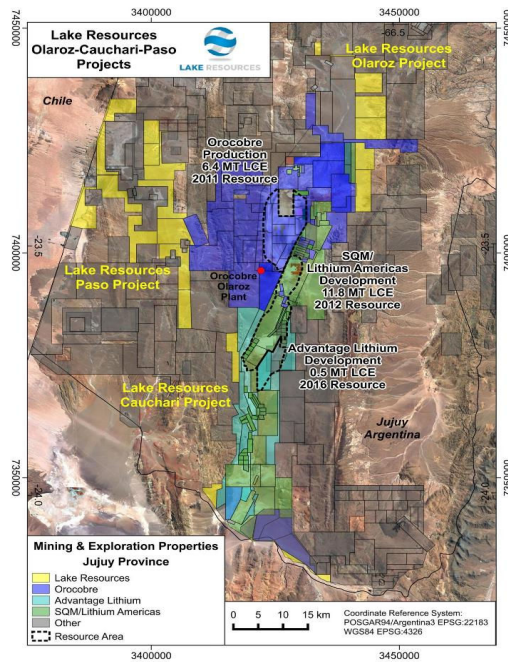


Source: Company

Cauchari,
Jujuy

LKE is currently drilling the Cauchari project (4 holes / 1500 m, up to a depth of 400 m).

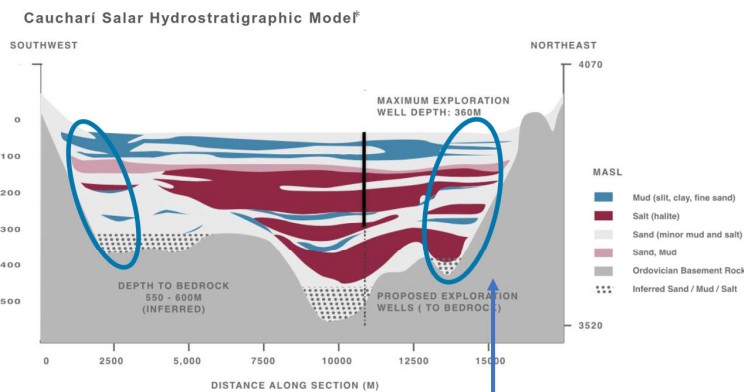
Location



Source: Company

The Cauchari leases stretch over 11 km parallel to the adjoining Ganfeng Lithium (SHE: 002460) / Lithium Americas (TSX: LAC) and Advantage Lithium (TSXV: AAL) / Orocobre’s (ASX: ORE) Cauchari lithium projects. Advantage’s drill holes (located across LKE’s lease boundary) have returned high-grade lithium brine results (450-600 mg/L) with high flow rates. The Cauchari leases show a straight-line boundary along the recent Cauchari lithium resource of Advantage Lithium / Orocobre, indicating potential for direct resource extensions.

Cross section of Cauchari



Olaroz/Cauchari Section

Targets on basin boundaries with potential for same aquifer & high flows

Source: Lithium Americas / LKE

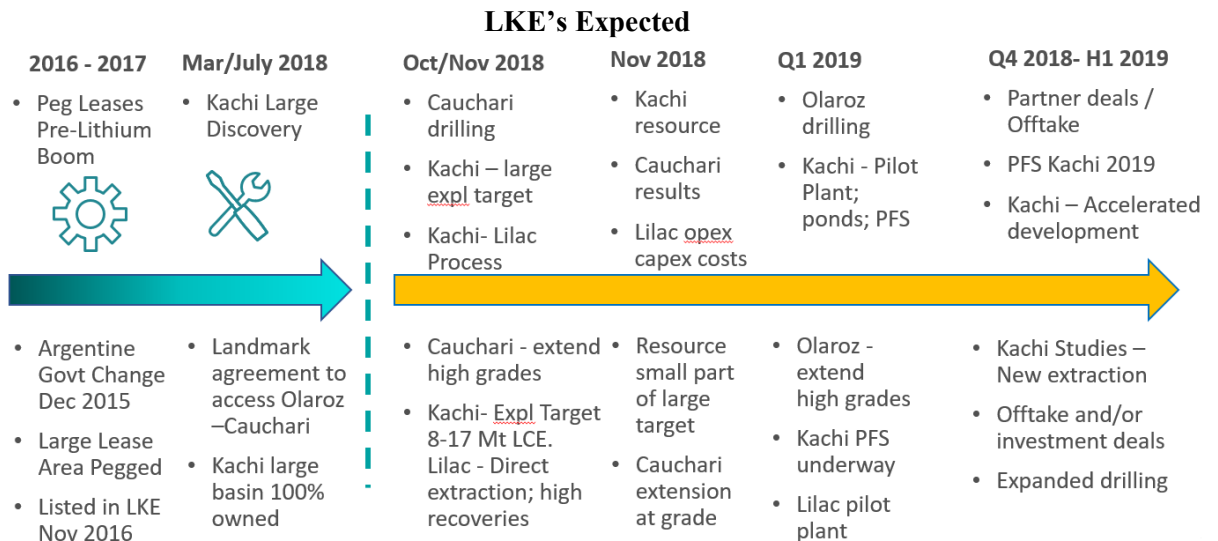
Upcoming Catalysts

There were two significant and highly encouraging transactions in the region in the past two months:

- In October 2018, Ganfeng Lithium (SHE: 002460), the largest integrated lithium producer in China, acquired SQM’s 37.5% interest, and entered into a US\$172 million strategic investment with Lithium Americas Corp. (TSX: LAC), who owns the remaining 62.5% interest in the Cauchari lithium brine project. The project is currently in construction stage, with first production targeted in 2019/2020. The project has reserves of 1.5 Mt LCE, with grades over 700 MG/l (within a depth of 500 m), within a resource of 11.8 Mt LCE. The annual production capacity is estimated to be 25 Kt LCE. **Lake is drilling within 450 m from this project.**
- In November 2018, Galaxy completed the sale of the northern portion of its Sal De Vida project to South Korean steelmaker POSCO (KOSE: A005490) for US\$280 million. Galaxy’s Sal De Vida project is located towards the north of the Salar del Hombre Muerto. The assets sold hold 1.58 Mt of LCE in measured and indicated resources (implying a valuation of US\$177/t), and 2.54 Mt in total resources (US\$110/t). **We estimate that these valuations are significantly higher than the current averages (see page 9).** Galaxy is using the funds to develop the southern portion of the project to production. This project has a reserve estimate of 1.14 Mt LCE, and has the potential to produce up to 25 Kt LCE and 95 Kt potassium chloride, over a 40 year mine life.

The following points highlight LKE management’s key plans for the next 12 months:

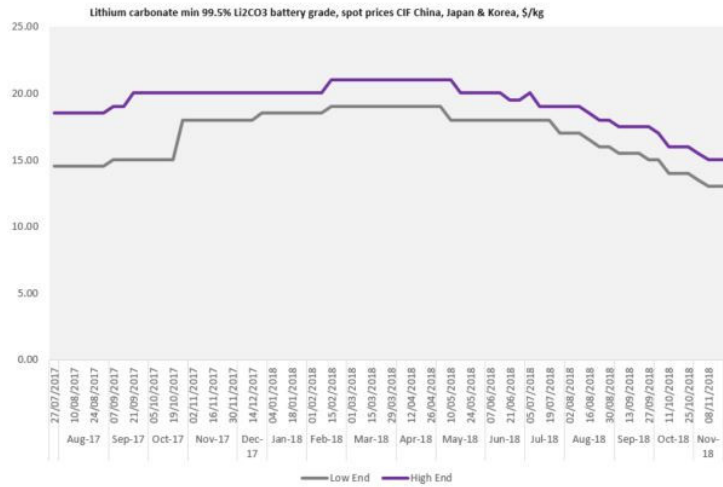
- Seek potential strategic partners, and advance Kachi to pre-feasibility study stage
- Setup a demonstration (test) plant at Kachi
- Complete drill programs at Olaroz and Cauchari, leading to an initial resource
- Advance initial exploration on the Catamarca pegmatites identifying drill targets



Source: Company

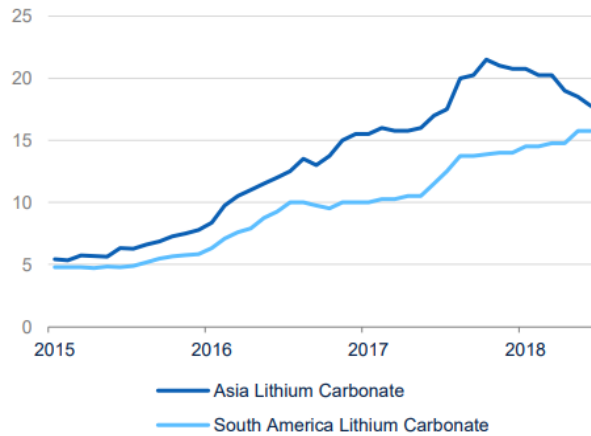
**Outlook on
Lithium**

Lithium carbonate prices have dropped in recent months, but are trading well above historical levels, as shown in the charts below.



Source: www.metalbulletin.com

Lithium carbonate – battery grade – prices (US\$/t)



Source: BBVA Research and Bloomberg

Financials

At the end of Q1-FY2019 (ended September 30, 2018), the company had cash of \$0.29 million. Subsequently, the company raised \$1.8 million through the exercise of options, and a \$0.5 million short term debt facility. We estimate the company had a burn rate (cash spent on operating and investing activities) of \$751k per month in the quarter. The following table summarizes the company’s liquidity position:

Liquidity Position

	2017	2018	Q1-2019
Cash	\$1,396,825	\$1,722,000	\$291,000
Working Capital	\$1,341,049	\$1,602,047	n/a
Current Ratio	20.41	8.13	n/a
LT Debt / Assets	-	-	n/a
Monthly Burn Rate (G&A + property related)	\$93,512	\$429,555	\$750,667
Cash from Financing Activities	\$2,444,763	\$5,502,307	\$799,000

Data Source: Financial Statements

We estimate the company currently has 25.25 million options (weighted average exercise price of \$0.19 per share) and nil warrants outstanding. Currently, 6.25 million options are in-the-money. The company can raise up to \$0.31 million from these options.

Our revised valuation on LKE's shares is \$0.73 per share versus our previous estimate of \$0.44 per share. The following table shows a summary of our valuation.

Valuation Summary	
Kachi's Resource (\$M)	\$215.60
Other Assets totaling 127,050 ha (\$M)	\$51.39
Working Capital (\$M)	\$0.59
Fair Value of LKE (\$M)	\$267.58
No. of Shares (treasury stock method) - millions	\$367.04
Value per Share (\$ per Share)	\$0.73

Source: FRC

We valued the Kachi project's maiden resource estimate at a multiple of \$80/t, which is the average of comparable juniors, presented in the table below.

Valuation & Rating

Company	Enterprise Value / Lithium Carbonate Resource
1 Galaxy Resources	\$185.72
2 Lithium X (acquired)	\$151.90
3 Pure Energy	\$114.00
4 Standard Lithium (assuming 50% int)	\$104.99
5 Advantage Lithium Corp	\$69.33
6 Lithium Power	\$47.55
7 Bearing Lithium	\$37.32
8 Lithium Americas	\$30.81
9 LSC Lithium	\$28.87
8 Millennial Lithium Corp.	\$28.03
10 Neo Lithium Corp	\$11.36
11 Cypress Development Corp.	\$2.39
Average (excl outliers)	\$79.85

Resource = 100% of Measured and Indicated + 50% of Inferred Resources

Source: FRC

We have valued LKE's other projects based on the average Enterprise Value (EV) to hectare ratio of comparable juniors (see below). We have continued to apply a 50% discount to LKE's land package, considering the early stage nature.

Company	Enterprise Value (EV) - millions	EV / Area (\$/ha)
1 Bearing Lithium	\$13	\$9,385
2 Lithium Americas Corp.	\$446	\$8,873
3 Millennial Lithium	\$72	\$3,619
4 Lithium Corporation	\$23	\$1,919
5 Neo Lithium	\$62	\$1,771
6 Advantage Lithium	\$78	\$1,243
7 Wealth Minerals	\$61	\$808
8 Lithium Power	\$46	\$736
9 Pure Energy	\$12	\$528
10 Ultra Lithium	\$9	\$363
11 Lithium Chile	\$53	\$347
12 Dajin	\$10	\$189
13 Lithium Energi Exploration	\$24	\$187
14 Argentina Lithium & Energy	\$3	\$50
Average (excl. outliers) - \$/ha		\$809

Source: FRC

Risks

We are raising our fair value estimate of \$0.73 and maintaining our BUY rating.

We believe the company is exposed to the following key risks (not exhaustive):

- The value of the company is dependent on lithium prices.
- The company's projects in Argentina are in early stages.
- Exploration and development risks.
- Exchange rate risks.

As with most junior resource companies, we rate LKE's shares a risk of 5 (Highly Speculative).

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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