30 November 2018

METALS & MINING

Flashnote

Marketing Communication (Connected Research)

Lake Resources#

BBG Ticker: LKE AU *Price: A$0.11/sh.* *Mkt Cap: A$40m* **BUY**

Making a Splash

Maiden Resource Announcement

Lake Resources (LKE AU) has announced a maiden resource at its 100% owned Kachi project in Argentina. With 4.4mnt contained LCE at 211mg/l Li it is one of the largest JORC 2012 compliant resources globally with a 1.1mnt indicated zone and grades of 289mg/l Li. This covers only a portion of the exploration target which at the top end is 17mnt LCE. There is therefore significant further scalable potential which we believe provides highly attractive optionality for potential strategic investors and LKE could conceivably be a 100ktpa producer with a significant mine life.

There is potential to expand the resource both in terms of scale and grade given the lateral and vertical extent of exploration to date. Drilling has to date only reached depths of 400m and grades have tended to concentrate at depth while the brine remains open to at least 700m as indicated by seismic. Significant potential appears to exist extending some 5km to the south west under thin cover as indicated in the seismic data.

Deep Discount Versus Peers

Our analysis suggests a clear disconnect between LKE and its peers which currently trade on an enterprise value per tonne of US$22/t versus LKE on US$7/t. LKE will now advance Kachi and progress the innovative direct extraction technology of **Lilac Solutions** which could enhance recoveries from 40-50% to 70-90% compared to traditional processes. This is potentially transformative for brine economics and LKE's outlook.

Lithium Fundamentals Strengthening

Weak lithium equities performance YTD has disappointed with the **Global X Lithium ETF** down 13%, driven largely by a decline in off spec lithium price in China. However, this accounts for less than 10% of the global market and SQM contract prices have remained supported at US$16,500/t, as demand has surprised to the upside; now expected to grow 25% YoY in 2018 while supply growth continues to lag. We therefore see the sector as a whole as deeply undervalued highlighted by a recent 8% increase in the LIT ETF last month and by recent brine transactions in excess of US$110/t. This further highlights the value opportunity at LKE, in our view.

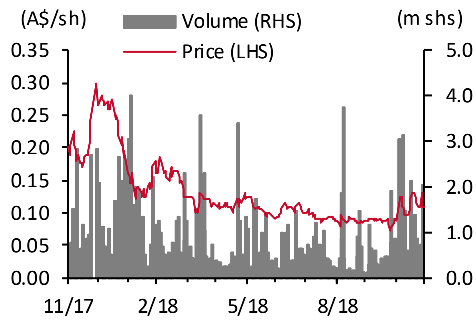
Recommendation

Project development at Kachi now begins with further catalysts for rerating as the project is derisked. Furthermore, with drilling ongoing at Cauchari and strengthening market fundamentals we see support for the positive momentum created by this announcement underpinned by an attractive valuation and 68% discount to peers. LKE now has one of the largest contained LCE resources with one of the lowest enterprise values. **We upgrade our recommendation to a Buy from Speculative Buy with a target price of A$0.36/sh.**

Company Description

Lithium exploration and development company with assets in Argentina.

One Year Price Performance



Price % chg	1mn	3mn	12mn
	31%	23.6%	-45%
12mn high/low			A$0.30/A$0.7

***SOURCE**: FactSet, as of 29 November 2018 close.*

Market:	ASX
Shares in issue	363m
Free float:	69.8%
Net cash (2018):	A$1m
Enterprise value:	A$40m
Major shareholders	
Lambrecht Investment	6.9%
Willaton Properties	6.3%
202 Ltd	5.3%

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#VSA Capital acts as Corporate Broker for Lake Resources.

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Maiden Resource Announced

Lake Resources (LKE AU) has now announced its maiden resource at its 100% owned Kachi project in the Catamarca province in Argentina. At a total of 4.4mnt contained lithium carbonate equivalent (LCE) the resource which covers only a minority of the broader exploration target (up to 17mnt LCE) is now defined and is one of the most significant resources globally. In terms of scale the project is comparable to the leading regional development projects; the recently acquired northern part of Salar de Hombre del Muerto project at 2.54mnt LCE, **Millennial Lithium (ML CN)** 3.0mnt LCE, **Advantage Lithium (AAL CN)** 3.0mnt, however, the exploration target is comparable only to **Lithium Americas (LAC CN)** which stands at a total of 16.45mnt LCE, inclusive of reserves.

The scale and 100% ownership are highly attractive from a commercial perspective, in our view. Lithium production is a chemical process and the tolerance levels for battery manufactures are small. Therefore, once it is determined that a project can deliver a sufficiently high-quality product it is paramount to be able to then deliver that product consistently and having confidence that this can be delivered over the long term is a major positive. Therefore, a project with the scale potential such as Kachi offers long life production and scalable potential to grow with the market which is forecast to reach 1mntpa at least by 2025. The maiden resource provides a platform to demonstrate the economics of a typical 25ktpa project in line with the current market size, however, the broader exploration target shows that LKE could conceivably be a 100ktpa producer and still with a significant mine life.

Kachi Maiden Resource

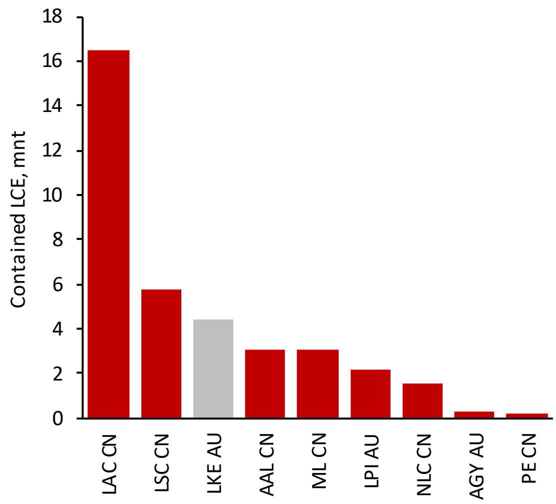
	Brine Volume, km^2	Specific Yield, %	Weighted Mean Concentration, mg/l Li	Weighted Mean Concentration, mg/l K	Contained Tonnes, LCE	Contained Tonnes, KCl
Indicated	6	10.9	289	5,880	**1,005**	6,705
Inferred	41	7.5	209	4,180	**3,394**	24,000
Total	**47**	**7.9**	**211**	**4,380**	**4,400**	**30,700**

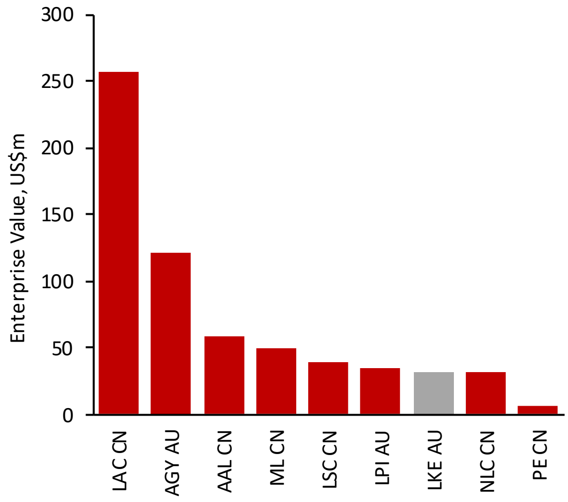
*Converted from lithium metal via a factor 5.323 and 1.91 for potassium **SOURCE:** Company data, VSA Capital Research.*

The grades in the maiden resource of 289mg/l Li in the indicated portion and 209mg/l Li are robust based on historic brine economics and we highlight two key points when comparing Kachi to peer projects based on grade alone. Firstly, the market dynamics have changed considerably in recent years and demand is being satisfied primarily by growth in hard rock spodumene production which occupies the fourth quartile of the cost curve and to convert to lithium carbonate costs in excess of US$8,000/t. Secondly, investors should consider grade in the context of the magnesium ratio which at 3.8-4.6Mg/Li is broadly low at Kachi, together with low impurities and potentially high flow rates given the permeable sand host,which will likely therefore benefit production costs (using a traditional evaporation process).

Furthermore, the water usage at the Salar de Atacama as well as royalty disagreement between CORFO and **Albermarle (ALB US)** means that the potential for higher output from the lowest cost brine production has been severely curtailed and therefore projects ex-Chile are now of greater importance.

One of the largest Contained LCE resources…One of the Lowest Enterprise Values



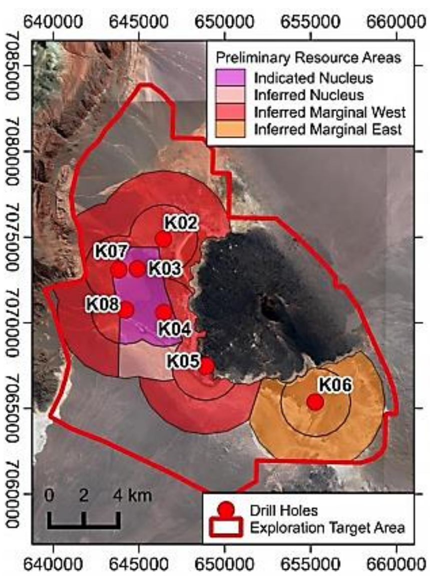


SOURCE: *Company Data, Factset, VSA Capital Research.*

Currently, LKE trades at a significant discount to peers, although we note that the shares have rallied 58% from October lows. Our valuation is based purely on the defined maiden resource and does not consider the broader exploration target. At this stage as there is already a clear disconnect in valuation between LKE and its peers which trade on a weighted EV/t average of US$21.8/t and mean of US$19.9/t. The narrow difference between these averages highlights to us the robust nature of this metric and emphasises that LKE is due a rerating given its current valuation on an EV/t basis of US$7/t. Across the peer group there is a strong correlation between enterprise value and contained LCE and LKE clearly stands out as being undervalued, in our view.

Drilling Results Summary & Resource Parameters

Maiden Resource Area



SOURCE: *Company data, VSA Capital Research.*

The resource was determined based on 15 holes of depths of up to 403m. the resource remains open to the west, south and at depth where the strongest grades have been intercepted. Drilling has covered 3,150m to date comprising a combination of diamond drilling, rotary drill holes and test production bore holes. The most promising results came from the northern part of the salar with grades of up to 306mg/l Li intercepted from depths of 4-242m. Consequently, LKE focussed its drilling here resulting in the highest grade Indicated zone with 1mnt of LCE alone at 289mg/l Li.

Laterally the resource makes up only a portion of the exploration target and the extent of the resource has been limited to 2,000m from drill holes for indicated and from 2,000-3,200m for the inferred level of confidence. The resource covers 175.4km^2 of the 295km^2 exploration target that represents the extent of the known potential brine mineralisation. The resource begins 50m from surface and continues to the maximum extent of drilling at 400m although geophysics indicate that host sediments for the brine go significantly further to at least 700m deep. The upper 50m was excluded as there is evidence that surface water may dilute lithium concentrations and are therefore not representative of concentrations at greater depths leaving a resource 350m thick. Seismic surveying indicated a boundary of cemented conglomerates, ignimbrites and basement lithologies above which are basin infill sediments with lower sediment density which are sandy and relatively uniform in nature. Drilling data has to data correlated well with the seismic date providing confidence in the consistent thickness of resource.

Specific yields have been applied to the volumetric brine zones based on the independent testwork carried out to date of 7.5-10.9% based on the harmonic and geometric mean respectively although the mean average of all testing to date is 13% indicating possible upside. However, due to the nature of sampling which is biased towards finer grained sandy sediment the upper end may be due to the sampling process. This will be better assessed through pump testing as sampling brine through drilling in unconsolidated material is challenging, particularly when using diamond drilling because of the high porosity and permeability of the sediments.

Resource Drilling Highlights

Exploration Hole	Total Depth (m)	Assay Interval (m)	Lithium (mg/L)	Potassium (mg/L)	Drilling Method	Mg Ratio
			Northern Drill Holes			
K03R03	242	3 - 242	306	5998	Rotary	4.3
K03R12	400	358 - 400	267	5180	Rotary	4.4
		60	217	4438	Diamond	16.4
K02D13		64 - 108	182	3620	.	15.8
		269 - 298	204	4100	.	10.6
		313 - 343	252	4987	.	5.6
			Southern Drill Holes			
K08R14	364	301 - 361	326	6038	Rotary	3.8
K04R15	350	290 - 350	265	4993	Rotary	4.4

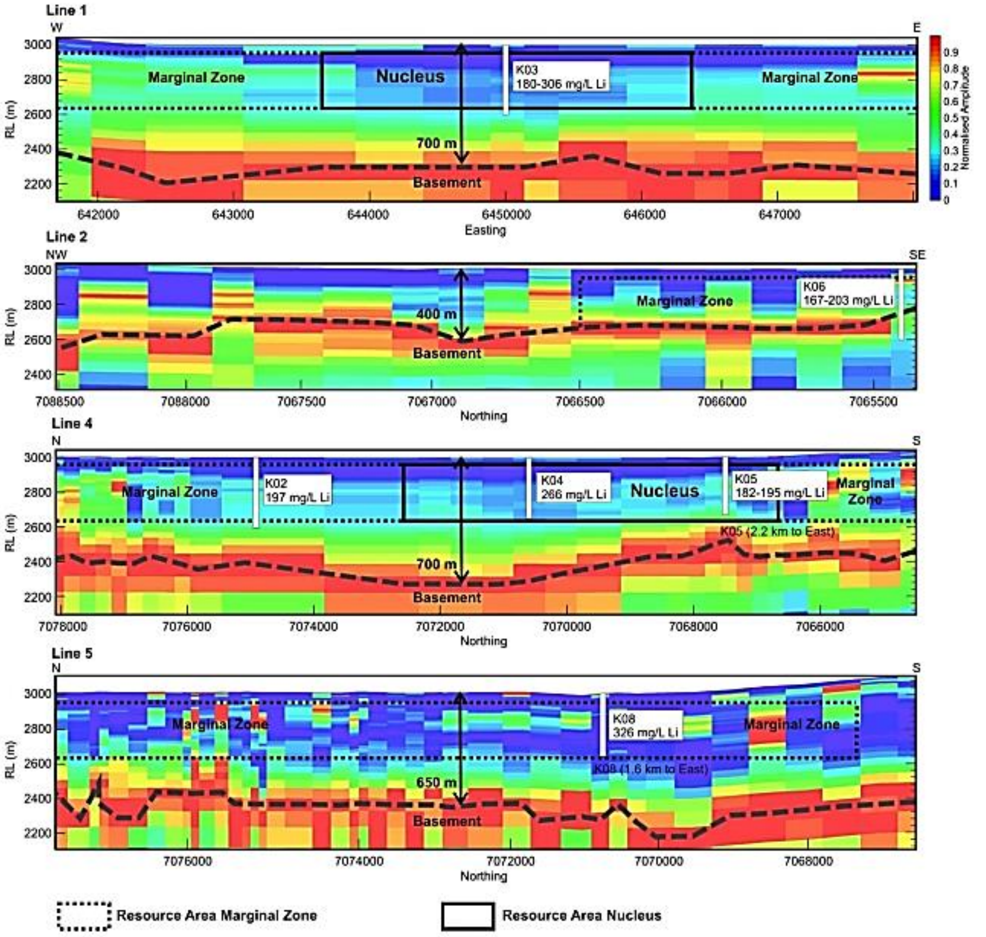
SOURCE: *Company Data, VSA Capital Research.*

Resource Upside; Scale and Grade

This resource provides, in our view, a starting point for the development of one of the largest lithium projects globally and we have previously explored the geological and geomorphic reasons why Kachi has such scalable potential. Indeed, this is largely due to the fact that Kachi is the lowest point within a drainage basin of 6,800km^2. Having established grades of over 300mg/l Li in the upper 400m of the salar (where the resource and recent drilling extends to) which have strengthened at depth there is potential for further grade concentration where the resource remains open.

The seismic data demonstrates that the basin extends to depths of at least 700m whilst the exploration target and maiden resource extend only to the depths of drilling at around 400m. In the diagram of seismic data the black dotted line marks the limits of the target and resource while the red reflector is the cemented ignimbrites and basin limits indicating that there is significant further brine potential at depth. Although pump testing has not yet been carried out we would anticipate that pressure would also likely increase at depth which would support flow rates.

Geophysical Survey Highlights Significant Brine Thickness



SOURCE: *Company data, VSA Capital Research.*

The exploration target where the future growth potential lies has three primary zones, a high confidence zone where all drilling has taken place along with the highest concentration of seismic survey lines. The second zone with the next highest level of data collected has no drilling but seismic data has been collected and assumptions based on the correlation of seismic data and drilling in the high confidence zone. The exploration target has a total range of contained lithium carbonate equivalent of 7.9-16.7mnt with current grades largely in the range of 210-310mg/l Li and investors should now consider that the 4.4mnt maiden resource is largely equivalent to the high confidence zone. Beyond this it is thought that the brine extends to the north and south into the low confidence zone given the expected nature of the basin.

In particular it is thought that the concentration of grades is expected to improve at depth and the basin expected to extend further to the southwest under the alluvial cover. In order to be able to capitalise on this potential, LKE further expanded its license area with an additional 36 mining leases as announced on the 7 November. This means that LKE increased its Kachi license area by 25% to 69,000ha. This project alone would make LKE amongst the largest lithium lease holders in the country, notwithstanding the Cauchari, Olaroz and Catamarca pegmatite projects which takes the company's total acreage to over 200,000ha making it one of the largest lithium lease holders globally. Given that this maiden resource covers only a small portion of one project we see major potential for further lithium discoveries.

Lilac Solutions – Direct Extraction Technology

Last month, the company announced strong results from the laboratory testwork in conjunction with **Lilac Solutions** who have been testing brine samples from the Kachi project in Argentina. The testwork yielded recoveries of 80-90% in just a few hours compared to traditional brine recoveries of around 50% in months for operations in the Salar de

Atacama. Lilac utilises an ion exchange extraction technology and the demonstrated yields effectively mean that 300mg/l Li grades using Lilac's technology produce the same as 600mg/l Li grades using a traditional evaporation approach. Therefore, LKE's lower grade compared to other projects using traditional evaporation processes would be overcome and as a first mover the company would have a significant advantage.

This is potentially transformative for the economics of Kachi and represents a significant first step in exploring this process route. The announcement is particularly significant given the current scrutiny on the environmental impact of traditional evaporation techniques and the knock-on impacts on forecast supply growth from Chile and the Salar de Atacama in particular. Lilac is now assessing the operating costs for this production technique, which directly produces lithium carbonate and/or hydroxide. Costs will of course fundamentally determine the success of the process; however, these initial results are encouraging and Lilac has guided to a competitive position on the global cost curve.

Lilac's ion exchange technology involves a one step process which yields high concentrations of lithium via selective absorption. This is particularly attractive for projects, unlike Kachi, where there are significant amounts of impurities such as calcium and magnesium which have hindered the economics of traditional evaporation processes to produce lithium. Either a lithium hydroxide or carbonate could be produced via this process which would potentially reduce production lead times, transform project recoveries and reduce the environmental footprint of lithium production. This technology has not yet been proven on a commercial scale despite the encouraging results to date. Therefore, LKE intend to assess the technology's potential concurrently with a traditional evaporation process.

Next Steps

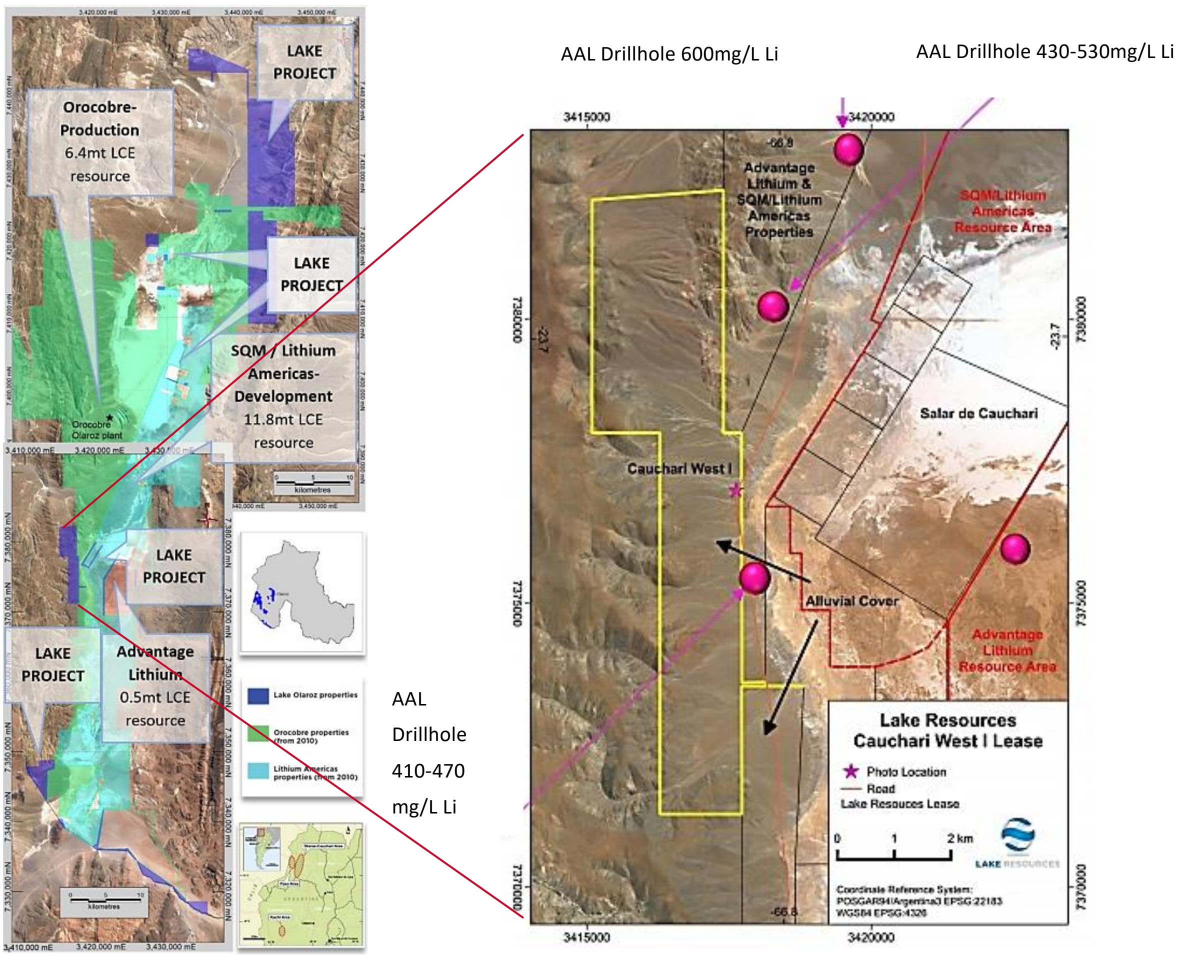
- Drilling results from Cauchari, extensions of high-grade resources with strong flow rates with follow up work in 2019.
- Capital and operating cost guidance from Lilac Solutions for Kachi.
- Accelerated development at Kachi working towards a PFS based on a pilot plant for direct extraction and evaporation ponds. Further drilling and pump testing. PFS publication is targeted for 2019.
- Drill targeting at the Catamarca pegmatite project.
- Drilling at Olaroz subject to final approval.

With four projects, LKE has the scope to progress on all fronts, however, we see the priorities as Kachi and Cauchari in the near term. LKE are due to receive provisional economics from Lilac for their direct extraction technology along with the commencement of the PFS at Kachi and initial drilling results from Cauchari. The shares are up 24% in the last three months and we see significant near term newsflow to support the positive momentum and drive a further rerating towards a fair asset value in line with the peer group valuation. Each of these milestones represents further derisking of the assets which will, in our view, make them increasingly attractive to funding from strategic investors.

Olaroz / Cauchari

LKE announced in October 2018 that it is making progress with drilling at Cauchari with two rigs now on site. The diamond drill rig had completed around 110m of the first hole while the rotary rig which is drilling pre collar holes to a depth of 100m had moved onto hole two. This is due to the gravels near surface and this approach prevents caving before entering the brine sequence. The first two holes are 2,500m apart which highlights the scale of this license area. LKE's Cauchari license is adjacent to licenses held by **Ganfeng** and **Lithium Americas (LAC CN)**, and **Advantage Lithium (AAL CN)** and **Orocobre (ORE AU)** where drilling has yielded grades of 600-705mg/l Li.

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



SOURCE: Company data, VSA Capital Research.

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. 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.

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 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.

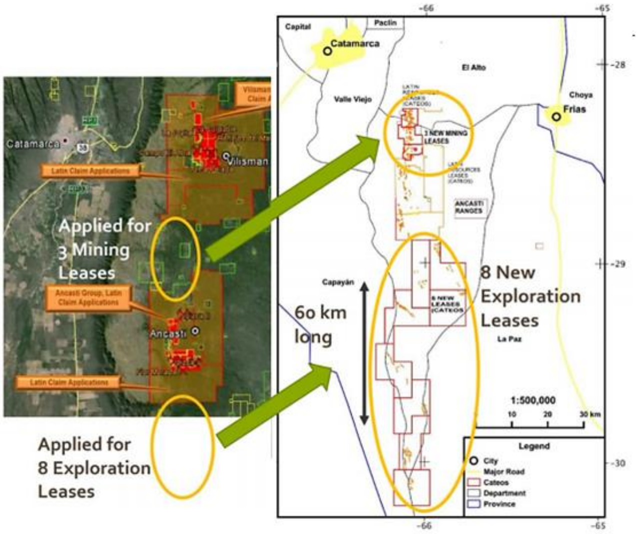
Catamarca – Pegmatite

LKE announced the exercise of an option to acquire 100% of a 70,000ha license with a significant pegmatite belt known to host lithium bearing spodumene within large swarms in September 2018. Through outcropping and relict workings the company has identified the license area within a 150km long pegmatite belt in the Ancasti region, Catamarca, Argentina.

LKE had signed an option agreement in 2017 with local company **Petra Energy SA**, which had applied for eight cateos (exploration permits) and a number of smaller mining leases. The option exercise means the vendors received 19mn LKE shares with 50% escrowed for 6 months. LKE intend to carry out initial exploration work, concurrently with the programmes at Kachi and Cauchari, to identify potential drill targets.

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. Drilling by LRS yielded intercepts of up to 7m at 2.17% Li_20 from 39m as part of a closely spaced high grade vein system.

LKE Licenses in relation to Latin Resources



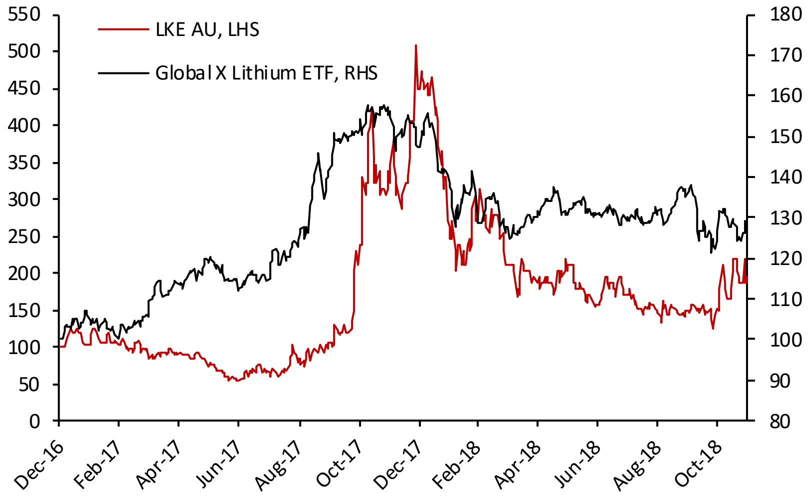
__SOURCE:__ Company data, VSA Capital Research.

A previous 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

The announcement of a 4.4mnt maiden resource and rapid progression of the Kachi project now enables us to quantitatively compare LKE to its peers confirming our view that the project is deeply discounted versus peers. Furthermore, we believe that the lithium market fundamentals have strengthened over the past six months, however, lithium equities have remained weak with the Global X Lithium Index down 13% YTD indicating that the sector itself is undervalued. Currently brine projects trade on an EV/t average of US$22/t while transaction valuations in excess of US$100/t highlight this disconnect.

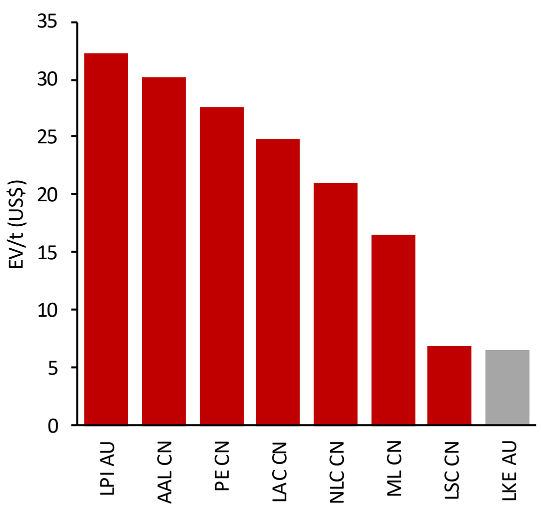
Lake Resources versus Global X Lithium Battery Tech ETF



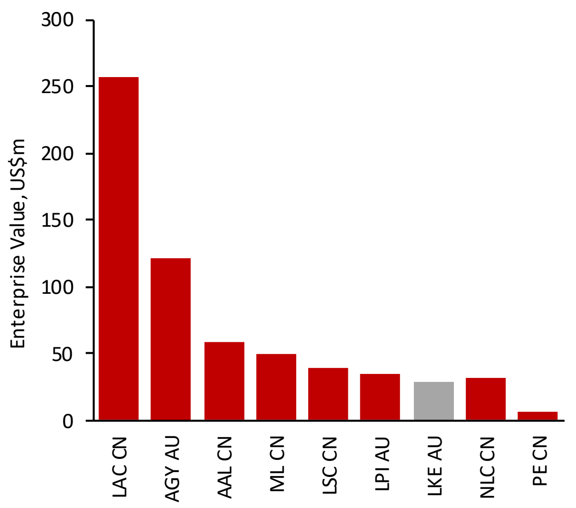
SOURCE: *Factset, VSA Capital Research.*

Although the shares are up 24% in the last three months as anticipation built ahead of the maiden resource announcement, LKE trades on US$7/t, a 68% discount to the peer group, which is unjustified, in our view. Furthermore, our quantitative assessment of LKE is based on the Kachi maiden resource alone which means that our valuation does not yet take into account LKE's other significant projects at Cauchari, Olaroz and Catamarca pegmatites.

Peers Value per tonne, EV/t LCE (M&I & Inf)



Peers Enterprise Values, US$m



SOURCE: *Company data, Factset, VSA Capital Research.*

Although LKE with its maiden resource has defined one of the largest brine resources globally there is significant further exploration potential which to end users provides the optionality to secure long term supply and the potential to grow output in line with the expected rapid demand growth to 1mntpa by 2025. This optionality, together with participating in a brine basin entirely owned by LKE without neighbours is, in our view, highly attractive to end users and a fundamental reason why we believe the stocks current discount is unjustified.

Using a weighted average valuation of the peer group we have established an EV/t of US$16/t which when applied to Kachi implies a fair valuation for the asset of US$72m (A$98m). We have, however, excluded **Argosy Minerals (AGY AU)** from our analysis as with a resource of 0.25mnt LCE and a market cap of US$133m it is a clear outlier. Overall, we believe that current trading valuations are deeply depressed for the sector and there is likely to be further upside beyond US$16/t, however, the discount to peers is currently sufficient to highlight the value potential.

Target Price and Kachi Valuation

Total Resource LCE, kt	4,400
Global Average EV/t (US$/t)	22
Implied Enterprise Value, US$m	96
No. of shares Outstanding, m	364
Target Price, A$/sh.	**0.36**
Current Price, A$/sh.	**0.12**

SOURCE: *Company Data, Factset, VSA Capital Research.*

With a quantitative valuation now in place we are upgrading our recommendation from Speculative Buy to Buy with a target price of A$0.36/sh.

On 24 September 2018 LKE announced additional funding of A$1m from Long State Investments in New York via the exercise of A$0.10 options. In addition, LKE entered into an equity participation agreement with Long State of A$575k per quarter. The potential funding receivable by the company under this arrangement, which is based upon the performance of its Shares, has no upper limit. The company also added a short term A$0.5m unsecured loan to continue operations.

LKE therefore has near term funding optionality although we believe that further derisking of the projects will make them increasingly attractive to strategic investors.

Lithium Market Highlights

Our view that trading valuations are unduly discounted currently is underpinned by the fact that transactional activity has continued and strategic players continue to lock up lithium supplies at significant premiums to market valuations. For example, **Tianqi's** acquisition of a 24% stake in SQM for US$4.1bn (a 12% premium to the market price at time of announcement). It has taken some time for the deal to be approved and now the stock trades at US$43/sh while Tianqi are paying US$65/sh. **Albemarle** (**ALB US)** has also announced a US$1.5bn acquisition of 50% of **Mineral Resources (MIN AU)** Wodgina project in Western Australia within days of the Chile regulators inhibiting ALB's current expansion plans in the Atacama.

With drilling now undewrway on LKE's Cauchari projects we revisit 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 c1.58mnt 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 position comparable to that 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. Despite defining robust resources the stock also trades on a cheap valuation of US$7/t, however, although contained resources are comparable to LKE in total this is spread across multiple projects whereas as LKE has one large resource so far.

Although lithium shares have been weak YTD across the board this has largely been driven as a result of weaker off contract market prices which had rallied sharply to all-time highs. The lithium market is, however, primarily driven by long term bulk contracts or offtake agreements and the off-contract "spot" market is not representative of the market pricing accounting for perhaps 5-10%. This price appears to have stabilised which may indicate a bottoming out of the recent weakness and a turnaround in sentiment. Indeed, the **Livent (LTHM US)** IPO (FMC spinout) is up 12% since trading started in October having initially priced below the US$18-20/sh. range.

Supply Struggling to Keep Pace With Demand

The reason, in our view, that strategic investors are prepared to pay significant premiums for long term exposure to lithium is that the supply side developments over the last few months have demonstrated the vulnerability of the supply chain. Disputes in Chile over water usage which have arisen due to the intense demand for water from both copper miners and lithium producers means that a significant portion of **Albemarle's (ALB US)** and **SQM (SQM US)** previously announced growth strategy is now under threat. ALB is also disputing with Chilean regulators the royalty regime. Indeed its expansion programmes have been severely hampered and allocation for ALB production has been capped at 64ktpa LCE over the next 27 years with a proposed 43.5ktpa expansion rejected.

This has prompted ALB to sign a US$1.2bn deal for a 50/50 JV in the Wodgina lithium mine in Western Australia with **Mineral Resources (MIN AU)**. The mine will produce 750ktpa of 6% lithium spodumene concentrate to supply a 50ktpa lithium hydroxide plant. Hard rock spodumene production typically occupies the fourth quartile of the lithium cost curve once conversion costs are incorporated to produce final product and the recent shift towards higher cost production suggests that prices are likely to remain higher for longer.

Aside from longer term fundamentals highlighted by strategic acquisitions the near-term market balance has proven tighter than consensus although in line with our view. SQM having guided to a slight decline in pricing in H2 2018 recently declared broadly flat pricing in Q3 2018 and indicated support for prices in the balance of the year. This was due to strong demand which they expect to be up 25% YoY globally along with supply side disappointments. Having guided towards reaching capacity of 70ktpa by year end (albeit with a production lag) SQM cut guidance to 45kt for 2018, lower even than 48kt in 2017. We view SQM pricing as the sector benchmark currently and the fact that their pricing has remained elevated should highlight to investors that the market remains tight and the outlook firm.

The backdrop to recent supply side setbacks is continually strengthening demand, which with the announcements by Governments such as the UK and France to mandate a switch to EVs by 2040, is legally underwritten. New announcements regarding conventional carmakers transitioning to EVs appear with increasing regularity with the most significant recent statement being that of **VW** committing US$50bn to EV development and plans to build a dedicated plant in North America. **Benchmark Mineral Intelligence** have now identified a pipeline of 60 lithium ion maegafactories an increase to an estimated 1,147.5GWh of capacity by 2028, up from 3 megafactories in 2015, and the list is growing.

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$) (M&I & Inf)	EV/t (US$) (M&I & Inf)
Lithium Americas	LAC CN	340	257	Argentina	85,233	16.45	712	-	-	2.4	33	25
Argosy Minerals	AGY AU	125	121	Argentina	2,572	0.25	325	-	-	n/a	645	626
Millennial Lithium	ML CN	96	50	Argentina	24,718	2.13	445	0.88	469	6.3	32	17
Neo Lithium	NLC CN	68	32	Argentina	35,000	0.75	753	0.75	567	3.9	45	21
Advantage Lithium	AAL CN	68	59	Argentina, US	44,872	-	-	3.02	450	2.5	34	30
Lithium Power International	LPI AU	51	35	Argentina	2,843	1.72	1,143	0.43	1,289	6.5	46	32
Wealth Minerals	WML CN	47	45	Canada, Mexico, Peru, Chile	60,900	-	-	-	-	-	-	-
LSC Lithium	LSC CN	46	39	Argentina	149,732	2.62	387	3.13	-	5.5	8	7
NRG Metals	NRG CN	11	9	Argentina	32,467	-	-	-	-	-	-	-
Pure Energy	PE CN	7	6	US	26,000	-	-	0.22	123	2.9	34	28
AIS Resources	AIS CN	4	4	Argentina	15,980	-	-	-	-	-	-	-
Pepinnini Minerals	PNN AU	3	2	Argentina	7,500	-	-	-	-	-	-	-
Lake Resources	**LKE AU**	**29**	**29**	**Argentina**	**117,000**	**1.01**	**289**	**3.39**	**209**	**4.3**	**7**	**7**
Weighted Average												22

Inclusive of Reserves and a 63% interest **AAL has a 65% interest*LPI has a 51% interest* ***SOURCE:*** *Company data, FactSet, VSA Capital Research.*

Appendix 1: Financial Statements

Profit and Loss (A$), June Year End

Expenses	2018	2017
Depreciation and Amortisation Expense	(135)	-
Administrative expenses	(52,074)	(25,210)
Corporate expenses	(718,575)	(323,245)
Employee benefit expenses	(395,952)	(185,097)
Employee performance incentive expense	(1,314,274)	(467,500)
Consultancy and legal costs	(310,975)	(169,693)
Income Tax Expense	(748,406)	-
Loss after income tax expense attributable to owners of Lake Resources	(3,540,391)	(1,170,745)

SOURCE: *Company data, VSA Capital Research.*

Balance Sheet (A$), June Year End

	2018	2017
Current assets		
Cash and cash equivalents	1,744,467	1,396,825
Trade and other receivables	33,308	34
Other current assets	48,873	13,292
Total current assets	**1,826,648**	**1,410,151**
Non-current assets		
Investments accounted for using the equity method	35	35
Property, Plant & Equipment	1,865	-
Exploration and evaluation	4,901,193	1,887,866
Total non current assets	**4,903,093**	**1,887,901**
Total assets	**6,729,741**	**3,298,052**
Current Liabilities		
Trade and other payables	224,601	69,102
Total current liabilities	**224,601**	**69,102**
Issued Capital	18,342,102	12,346,866
Reserves	1,757,605	936,260
Accumulated losses	(13,594,567)	(10,054,176)
Total equity and liabilities	**6,505,140**	**3,298,052**

SOURCE: *Company data, VSA Capital Research.*

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

	2018	**2017**
Cash flows from operating activities		
Payments to suppliers	(1,480,128)	(646,044)
Net cash used in operating activities	**(1,480,128)**	**(646,044)**
Cash flows from investing activities		
Net of cash acquired on acquisition of subsidiaries	-	2,535
Payments for property, plant & equipment	(2,000)	-
Payments for exploration and evaluation	(3,672,537)	(478,639)
Net cash used in investing activities	**(3,674,537)**	**(476,104)**
Cash flows from financing activities		
Proceeds from issue of shares, net of transaction costs	4,044,239	2,600,763
Proceeds from borrowings	1,665,000	-
Repayment of borrowings	(175,000)	(156,000)
Payment of interest on borrowings	(31,932)	-
Net cash from financing activities	**5,502,307**	**2,444,763**
Net increase / (decrease) in cash and cash equivalents	**347,642**	**1,322,615**
Cash and cash equivalents at the beginning of the financial year	**1,396,825**	**74,210**
Cash and cash equivalents at the end of the financial year	**1,744,467**	**1,396,825**

SOURCE: *Company data, VSA Capital Research.*

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Recommendation and Target Price History

Valuation basis

Our valuation is based on a peer group value weighted enterprise value per tonne of lithium carbonate equivalent contained in declared JORC 2012 resources.

Risks to that valuation

Commodity prices, political risk, execution risk.

This recommendation was first published on 5 July 2018.

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