All credit goes to Lake

Lake Resources NL managing director Steve Promnitz hopes backing from two government export credit agencies and a strategic investment from its technology partner will cast aside any lingering doubt over the company's ability to land debt financing for its Kachi lithium brine project in Argentina.

Canadian export credit agency EDC recently joined UK Export Finance (UKEF) in pledging funding support for the development of Kachi, just days after Lake confirmed Lilac Solutions Inc could earn up to 25% of the project under a staged agreement to continue providing its technology, engineering teams and an on-site demonstration plant.

Lake plans to have both agencies working together under a common terms agreement which covers about 70% of the total project funding requirements for Kachi, with EDC potentially providing direct lending to the project of up to $US100 million. OECD fixed commercial interest rates for this type of loan are currently priced at 1.77% with a repayment period of 8.5 years.

The commitments from EDC and UKEF are currently non-binding and remain subject to a series of standard project financing terms and due diligence, including completion of a DFS, finalising offtake and preparing the environmental and social impact assessment (ESIA).

Promnitz said having sovereign support at this stage of project development was a significant de-risking event for Kachi.

"It's pretty remarkable for a start-up company that's moving into first production, and it's pretty remarkable even if you were in production," Promnitz told **Paydirt**.

"What I think this demonstrates is the eagerness of export credit agencies to be involved in this space that they're prepared to take on Argentina risk, as well as lithium sector risk, and support a project which has quite genuine ESG credentials which are orders of magnitude better than others."

Lilac's proprietary direct extraction technology has long been touted as the key to unlocking the processing challenges at Kachi. More than three years of test work has indicated the process is low cost and capable of achieving higher lithium recovery rates (80-90%) than other technologies to produce battery-grade lithium carbonate of 99.97% purity. It has also been widely praised for being an environmentally-friendly process.

Backed by the likes of Bill Gates, Jeff Bezos and Jack Ma, Lilac will earn its 25% stake in Kachi over three stages. The first 10% will be awarded upon committing to funding the remaining testing of its technology, with the next 10% coming after satisfying all agreed criteria using the upcoming on-site demonstration plant. The final 5% is achieved when a refined lithium product meets the agreed qualification standards with potential offtake partners.

After completing its earn-in, Lilac will then be expected to contribute circa $US50 million, equivalent to its pro-rate share of future development costs.

Promnitz said with his company now holding advanced talks with a range of debt providers, Lake's agreement with Lilac needed to be more "fulsome" and "one that could stand the test of time with project financing".

"It's interesting that the concern in the market, particularly the equities market, was still around the technology and would the technology work, would it work at scale, if it works at scale can it continue to deliver the quality of product, and so we decided with Lilac that it might be best if they earn into the project progressively by actually delivering those milestones," Promnitz explained.

"We're quite confident that they can do it, Lilac is quite confident they can do it, but the market still has some concerns around whether those very high purity guidelines and measures can actually be delivered. Offtakers also want to make certain that the product meets all of their specifications, notwithstanding the qualification process can be quite lengthy – up to 12 months in the case of some battery makers – so you want to be doing that now, not in your first 12 months of production.

"By having Lilac working with us, together with the offtakers, we believe we can meet those guidelines that the battery makers want, and we can be selling a high-quality product at an elevated price from day one of production – and that is of real value to shareholders."

Lake expects to deliver both the DFS and ESIA in Q2 next year, with a final investment decision to follow shortly thereafter. First production has been slated for 2024.

An updated PFS published earlier this year envisaged 25,500 tpa lithium carbonate equivalent over 25 years at Kachi, with annual EBITDA of $US260 million, post-tax NPV of $US1.58 billion, based on a capex of $US544 million and operating costs of $US4,170/t.

Drilling is currently ongoing at the project to support an expanded production rate of 51,000 tpa.

"Most of the offtakers we speak to want to buy everything we can produce, but from a risk management perspective, we think it's best to have at least two offtakers, and that's what is driving an expansion case," Promnitz said.

"We've already had indications from export credit agencies that they would be keen to fund the expansion. That's why we've got the rigs on site now drilling more holes and we'll release that data in an appropriate time. It doesn't really move the dial from a market perspective, but it's following a path whereby we can create a reserve for the DFS, we can grow the resource for the expansion, and we can also demonstrate how the production wells are going to be operating.

"When we released our first resource back in late 2018, we also released an exploration target which showed that this could easily be 4-7 times larger because it's open laterally and it's open at depth. So, we've got no real concerns about expanding the resource, because only 20% of it is used in 25 years of production. What we want to do here is upgrade the resource and show it can be expanded as necessary."

– Michael Washbourne

Lake is on track to complete a DFS and ESIA for its Kachi lithium project in Argentina during the first half of 2022