

Lomiko Metals Inc. (TSX: LMR / OTC: LMRMF)

Preparing a Maiden Resource Estimate on the Refractory Zone

BUY

Current Price: C\$0.045

Fair Value: C\$0.11

Implied Upside: 144%

Risk: 5

Sector / Industry: Junior Resource

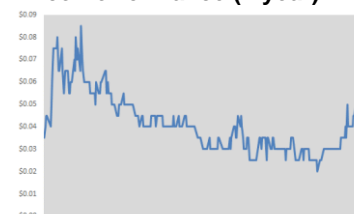
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Investment Highlights

- In 2019, Lomiko Metals Inc. (“company”, “Lomiko”, “LMR”) completed a 21 hole / 2,985 m drill program at the Refractory zone on its La Loutre graphite property in Quebec.
- The program intercepted a few high-grade intercepts (over 10% Cg) over long intervals. The program also indicated a strike length of 900 m for the Refractory zone.
- LMR is currently **preparing a maiden resource estimate** on the Refractory zone, which is one of the three known zones on the property. The other two zones have a resource estimate of 18.4 Mt at 3.19% indicated, and 16.7 Mt at 3.75% inferred with a cut-off grade of 1.5% Cg. The resource is 4.1 Mt at 6.5% indicated, and 6.2 Mt at 6.1% inferred with a cut-off grade of 3% Cg.
- The company is currently in the **process of selling its technology assets** to a related party for \$1.24 million plus \$0.19 million for reimbursement of certain expenses. Management decided to divest these assets to fully focus on La Loutre.
- On an Enterprise Value to Resource basis, we estimate that the company’s shares are trading at **\$4.2/tonne (“t”) versus the comparables’ average of \$7.5/t**. Note that the average was \$17.9/t as of our previous report in April 2018, reflecting the significant weakness in market sentiment towards graphite juniors.

Sid Rajeev, B.Tech CFA, MBA
Head of Research

Price Performance (1-year)



	YTD	12m
Ret.	50.0%	12.5%
TSXV	-3.1%	-7.5%

Company Data (as of Feb 14, 2020)

52 Week Range	\$0.02 - \$0.085
Shares O/S	86,725,191
Market Cap.	\$3.90 million
Current Yield	N/A
P/E (forward)	N/A
P/B	1.2x

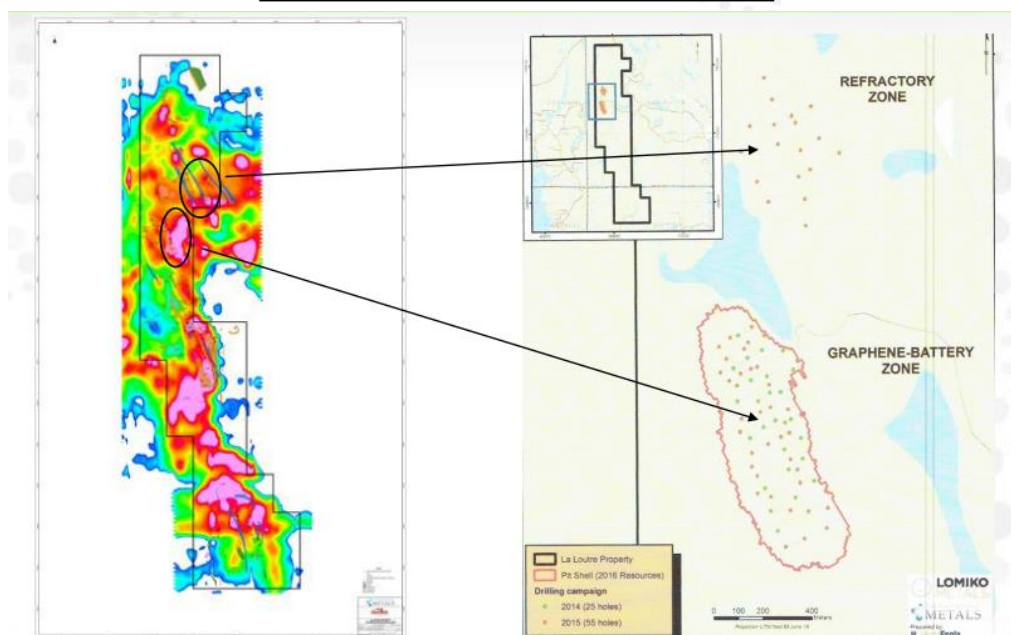
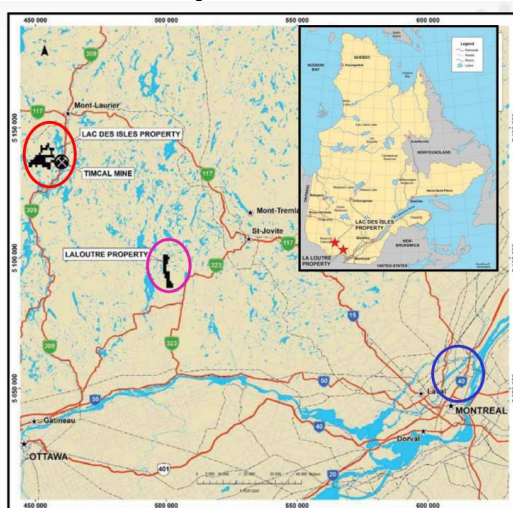
Key Financial Data (FYE - July 31)		
(C \$)	2019	Q1-2020
Cash	\$10,554	\$5,741
Working Capital	-\$93,844	-\$226,008
Investments	\$193,614	\$193,614
Mineral Assets	\$3,499,992	\$3,499,992
Total Assets	\$3,735,194	\$3,749,698
Net Income (Loss)	-\$1,765,708	-\$132,164
EPS	-\$0.03	-\$0.00

*See last page of this report for important disclosures, rating and risk definition. All figures in C\$ unless otherwise specified.

Completed 21 holes / 2,985 m on the Refractory zone in 2019

At the time of our previous report in April 2018, LMR had just received a permit to drill up to 25 holes / 2,000 m on the Refractory zone on the La Loutre property, located 53 km east of Imerys Graphite and Carbon's (formerly Timcal) graphite mine (North America's only operating graphite mine), and 117 km northwest of Montreal. LMR's land package consists of one large contiguous block of 42 mineral claims covering 2,867 hectares. Due to soft market conditions, and the company's focus on technology initiatives, LMR did not conduct any drilling in 2018, but completed a 21 hole / 2,985 m drill program in 2019. The program targeted the Refractory zone, which is one of the three known zones on the property. The other two zones, named the Graphene-Battery Zones, have a resource estimate, calculated in 2016.

Project Location



Source: Company

The 2016 resource estimate, constrained in a pit shell of 1,100m x 350m x 100m, showed 18.4 Mt at 3.19% indicated, and 16.7 Mt at 3.75% inferred, with a cut-off grade of 1.5% Cg. The resource was 4.1 Mt at 6.5% indicated, and 6.2 Mt at 6.1% inferred, with a cut-off grade of 3% Cg. The following table shows the resource estimate at various cut-offs.

2016 Resource Estimate on the Graphene-Battery Zones

Indicated Resource					Inferred Resource				
Zone	Cut-off Cg (%)	Tonnage (metric tonne)	Grade Cg (%)	Graphite (metric tonne)	Zone	Cut-off Cg (%)	Tonnage (metric tonne)	Grade Cg (%)	Graphite (metric tonne)
All Zones	> 3.0	4,137,300	6.50	268,800	All Zones	> 3.0	6,181,000	6.11	377,600
	> 2.5	6,927,500	4.95	342,900		> 2.5	9,699,200	4.86	471,800
	> 2.0	15,181,200	3.49	529,200		> 2.0	15,332,000	3.92	600,300
	> 1.5	18,438,700	3.19	588,400		> 1.5	16,675,100	3.75	624,900
	> 1.0	19,005,400	3.13	595,700		> 1.0	16,927,300	3.71	628,000
	> 0.8	19,137,500	3.12	596,900		> 0.8	17,120,500	3.68	629,700
	> 0.6	19,279,600	3.09	595,300		> 0.6	17,306,700	3.63	628,100
	> 0.5	19,381,900	3.09	598,400		> 0.5	17,400,900	3.63	631,600

Source: Company

2019 drilling returned a few encouraging intercepts with over 10% Cg

2019 drilling at the Refractory zone intercepted a few high-grade intercepts (over 10% Cg) over long intervals. The program also indicated a strike length of 900 m for the Refractory zone.

Key Results

Drill Hole #	Easting (UTM)	Northing (UTM)	Azimuth	Dip	Mineralization			Cg %
					From (m)	To (m)	Interval (m)	
LL-19-04	499567	5098041	65.9	-50	3.00	93.00	90.00	2.75
LL-19-14	499700	5097803	59.7	-50	80.70	99.00	18.30	4.43
LL-19-15	499751	5097832	64.8	-50	51.00	167.90	116.90	4.80
	including				152.70	167.90	15.20	18.04
LL-19-16*	499851	5097829	66.5	-50	4.10	92.00	87.90	7.14
	including				70.50	91.50	21.00	15.48
					132.00	160.50	28.50	3.86
LL-19-17	499894	5097804	78.2	-50	15.00	62.30	47.30	7.56
	including				51.00	62.30	11.30	17.45
					96.00	126.00	30.00	1.96

Source: Company

Upcoming Catalysts

Management’s plans for La Loutre are listed below:

- 1) Complete 100% acquisition of the property - LMR currently owns 80% of the property, and has an option to increase ownership to 100% by issuing another 500k shares to partner and operator, Quebec Precious Metals Inc. (TSXV: QPM), and spending \$1.125 million on the property.
- 2) Metallurgical tests

Maiden resource estimate expected by April 2020

- 3) Complete a maiden resource estimate on the Refractory zone based on the recent drill results, followed by a preliminary economic assessment on the entire project.

Management’s capital budget for 2020 is \$2.2 million.

Divesting Technology Assets

LMR is currently in the process of selling its subsidiary, Lomiko Technologies Inc. (“LTI”), to Promethieus Technologies Inc. for \$1.24 million plus \$0.19 million for reimbursement of certain expenses. Promethieus is a related entity as it has common management / directors as LMR. LTI’s key asset is a 25% interest in **SHD Smart Home Devices Ltd. (“SHD”), a Burnaby, BC based company.** LMR also owns 20% of the shares of Promethieus, which is currently in the process of listing on a stock exchange in Europe. The sale is expected to be completed by June 2020. Management decided to divest these assets to fully focus on La Loutre.

Financials

At the end of Q1-FY2020 (October 31, 2019), the company had cash and working capital of \$6k and -\$0.23 million, respectively. We estimate the company had a burn rate (G&A expenses) of \$44k per month in Q1-FY2020, and spent nil on exploration and development. The following table summarizes the company’s liquidity position:

Financial Position

(in C\$)	2019	Q1-2020
Cash	10,554	5,741
Working Capital	(93,844)	(226,008)
Current Ratio	0.71	0.52
LT Debt / Assets	-	-
Monthly Burn Rate (G&A)	(73,557)	(44,055)
Cash Spent on Properties	(566,474)	-
Cash from Financing Activities	1,337,240	-

Source: FRC / Company

Subsequent to the quarter-end, the company raised \$0.30 million by issuing 6 million units at \$0.05 per unit. Each unit consisted of a common share and half warrant (exercise price of \$0.07 for two years). **LMR’s CEO subscribed to 10% of this offering, and currently holds 7% of the total outstanding shares.**

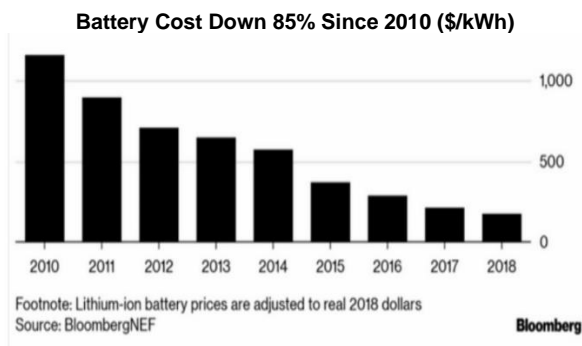
Stock Options and Warrants

The company currently has 7 million options (weighted average exercise price of \$0.05 per share), and 31.47 million warrants (weighted average exercise price of \$0.11 per share) outstanding. **Currently, none of the options or warrants are in the money.**

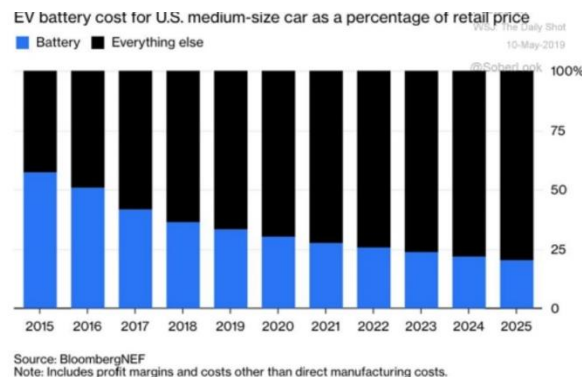
Cash position remains tight

Outlook on Graphite

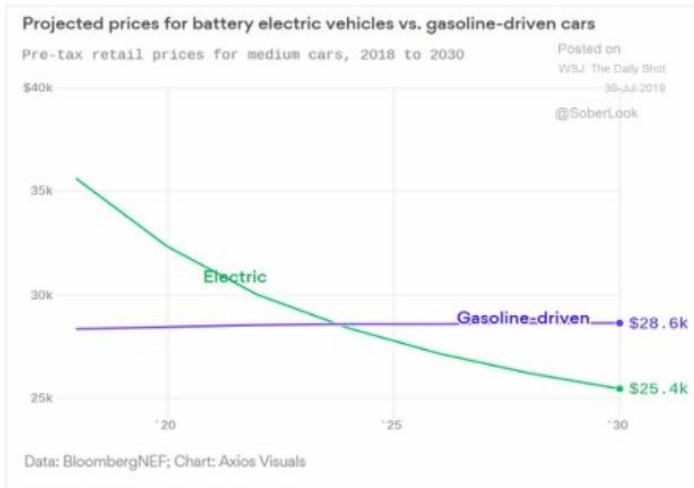
We expect the demand for flake graphite in rechargeable batteries will be the key driver going forward. The growth in Lithium Ion Batteries (“LIBs”) is expected to be primarily driven by electric vehicles (“EV”), as well as consumer electronics, and energy storage solutions. Declining technology costs (as shown by the chart below) are also expected to drive demand for LIBs.



Source: WSJ



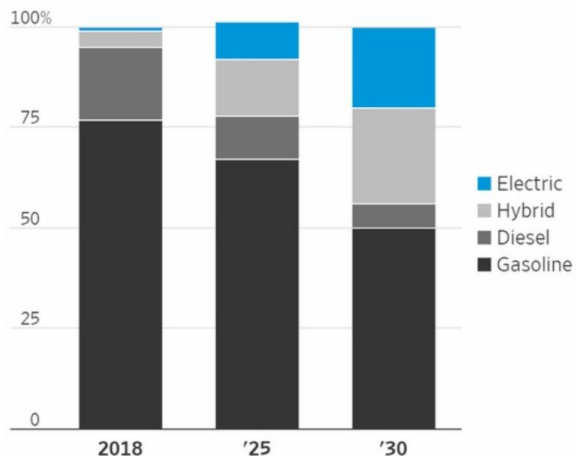
Source: WSJ



Global electric vehicle sales to reach 23 million by 2030

According to the International Energy Agency (“IEA”), in 2018, the global electric car fleet exceeded 5.1 million, up 2 million from the previous year. The IEA expects global electric car sales to reach 23 million by 2030. Roskill expects sales of electric vehicles to reach 17 million units in 2025, and 32 million by 2030.

Expected Market Share



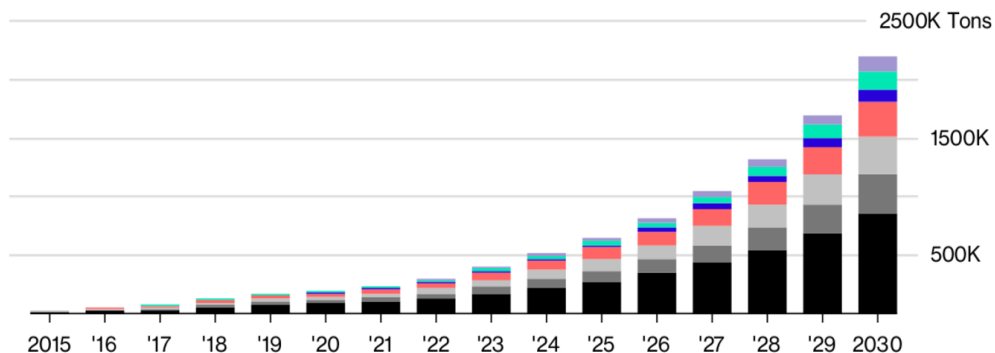
Source: *Alix Partners / WSJ*

Based on a forecast of 23 million vehicles by 2030, and an average of 75 kg of graphite used per vehicle, we estimate new graphite demand of 0.8 – 0.9 million tonnes per year by 2030. This compares to the current demand for graphite from batteries of only 0.2 million tonnes.

Demand Surge

Global metals and materials demand from EV lithium-ion batteries

■ Graphite ■ Nickel ■ Aluminum ■ Copper ■ Lithium ■ Cobalt ■ Manganese

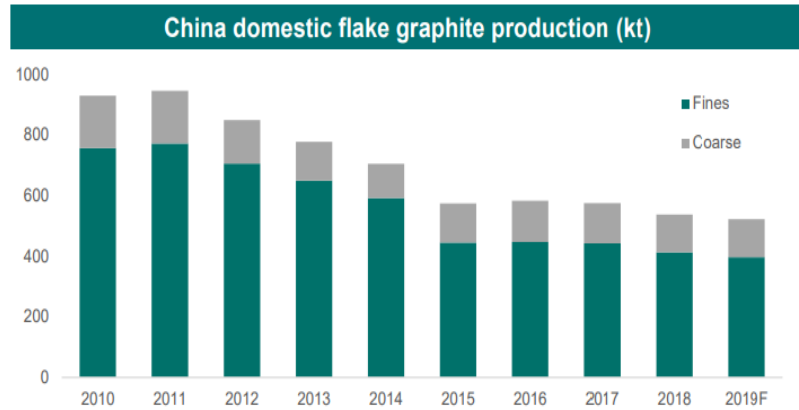


Source: Bloomberg New Energy Finance

Bloomberg

Flake graphite production in China declining

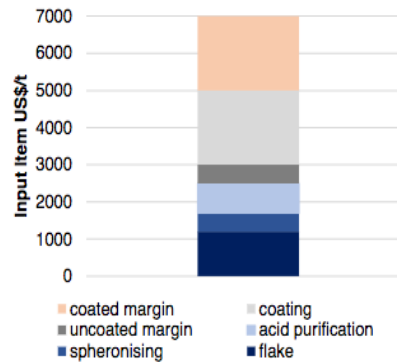
This new demand can be filled by synthetic graphite (1.5 Mt per year market) and flake graphite (0.7 Mt per year market). Flake graphite production in the world's largest producer, China, has been declining as shown in the chart below.



Source: Syrah

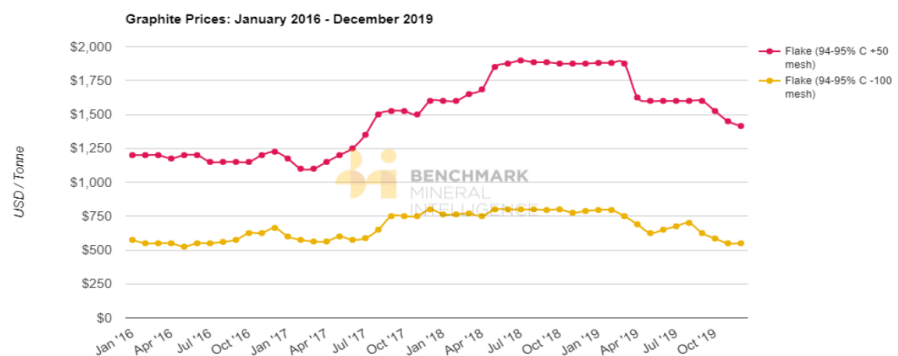
The cost to convert flake graphite to the end products used in batteries (also known as spherical graphite) is approximately US\$6k per tonne, as shown in the chart below. As synthetic graphite is priced at US\$8k – US\$20k per tonne, we believe that flake graphite pricing needs to be approximately US\$2k per tonne or higher for manufacturers to prefer synthetic graphite.

Cost to convert flake to spherical graphite



Source: Company Reports, Canaccord Genuity estimates

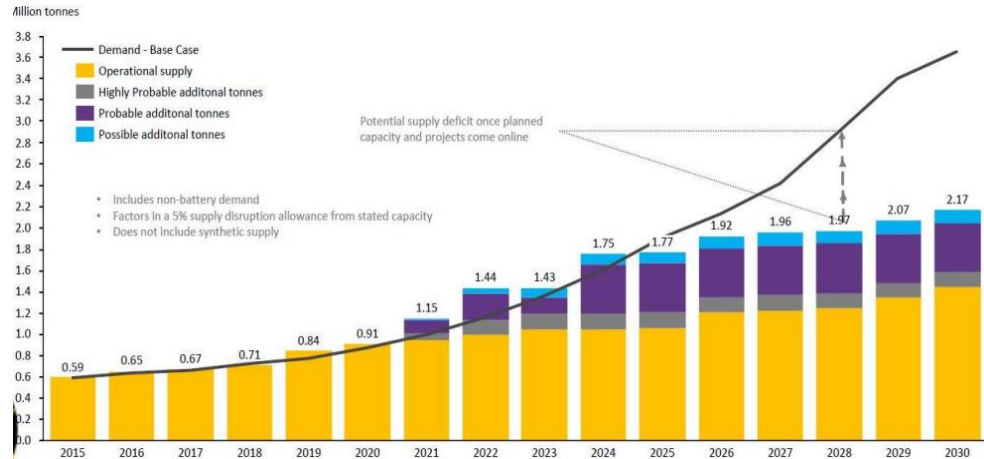
The following charts show flake graphite pricing at different mesh levels.



Source: NGC

The long-term outlook on flake graphite remains positive as the market is expected to be in a supply deficit starting 2025.

Supply-Demand Forecasts for Natural Flake



Source: Benchmark Intelligence

Valuation

The following table shows LMR and comparable junior resource companies focused on graphite projects. **Note that none of the projects are directly comparable as there are significant variations in the characteristics (flake size, distribution, grade, etc.) of each project.** On an Enterprise Value to Resource basis, the company's shares are trading at \$4.2/t versus the average of \$7.5/t. Note that the average was \$17.9/t as of our previous report in April 2018, reflecting the significant weakness in market sentiment towards graphite juniors.

LMR trading at \$4.2/t versus the comparables' average of \$7.5/t

			In-Situ Graphite					
Company	Location	Stage	M&I (Mt)	Inferred (Mt)	Grade	% Large Flake (+80 mesh)	EV / Resource*	
1	ZEN Graphene Solutions	Ontario	PEA	0.97	0.45	3.6%	n/a	\$30.2
2	SRG Mining	Republic of Guinea	FS	1.88	0.16	4.1%	44%	\$19.5
3	Leading Edge Materials	Sweden	Production-Ready	0.72	0.16	9.1%	40%	\$15.1
4	Nouveau Monde Mining	Quebec	Feasibility	4.10	0.59	4.4%	48%	\$13.4
5	Northern Graphite	Ontario	Feasibility	1.21	0.40	1.7%	77%	\$8.1
6	Magnis Resources	Tanzania	Feasibility	6.48	2.86	5.4%	55%	\$7.3
7	Focus Graphite	Quebec	Feasibility	1.77	0.37	14.9%	34%	\$6.4
8	Lomiko Metals	Quebec	Resource	0.59	0.62	3.5%	n/a	\$4.2
9	Graphite One	Alaska	PEA	0.74	4.97	7.1%	59% - 94%	\$4.0
10	South Star	Brazil	PFS	0.34	0.18	2.3%	63%	\$3.6
11	NextSource Materials Inc.	Madagascar	Feasibility	6.29	2.37	6.3%	46%	\$3.6
12	Westwater Resources, Inc.	Alabama, U.S.	PEA	1.88	2.03	2.5%	29%	\$3.1
13	Syrah Resources	Mozambique	Production	28.71	100.00	11.0%	20%	\$1.6
14	Mason Graphite	Quebec	Feasibility	11.29	3.05	17.2%	29%	\$0.2
Average (excl. outliers)				4.14	8.02	6.2%	44%	\$7.5

* Resource = 100% of M&I + 50% of Inferred

Source: FRC / Various Company Websites and Technical Reports

Based on the upcoming maiden resource estimate on the Refractory zone, we are valuing La Loutre using 100% of the current indicated and inferred resource versus our typical approach of using only 50% of the inferred resources for conservatism. **Our revised fair value estimate on LMR is \$0.11 per share versus our previous estimate of \$0.33 per share.** Our valuation dropped due to the 58% drop in the valuation metric (from \$17.9 to \$7.5/t) and a 127% increase in shares outstanding (from 38.22 million to 86.73 million shares) since our previous report in April 2018. **We reiterate our BUY rating on LMR's shares.**

Valuation	\$, Millions	Value per Share
La Loutre (based on \$7.5/t)	\$8.10	\$0.09
Investments	\$1.43	\$0.02
Working Capital	-\$0.12	\$0.00
Fair Value	\$9.41	\$0.11

Source: FRC

Risks

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

- The value of the company is highly dependent on flake graphite prices.
- Exploration and development risks.
- Access to capital and potential share dilution.
- An economic assessment has yet to be completed on La Loutre.

We continue to rate LMR'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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