

**Resources: Metals & Mining**
**Company Update**
**Lake Resources NL | LKE.AX - AUD0.61 - ASX | Buy**
**Stock Data**

52-Week Low - High	AUD0.05 - AUD0.68
Shares Out. (mil)	1,123.73
Mkt. Cap.(mil)	AUD685.47
3-Mo. Avg. Vol.	12,983,430
12-Mo.Price Target	AUD1.10
Cash (mil)	AUD2.0
Tot. Debt (mil)	AUD0.0

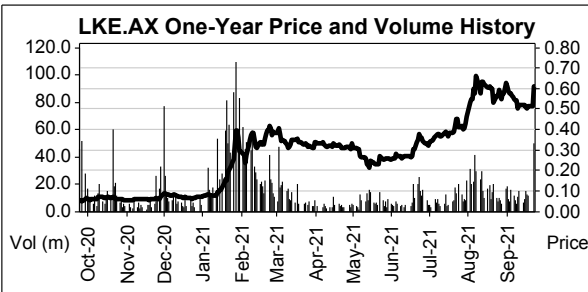
Cash (mil): Cash is as of last reported semi-annual period and does not include subsequent equity transactions or expenditures.

**Revenue (\$AUD millions)**

Yr Jun	—2020—	—2021E—	—2022E—
		Curr	Curr
1Half	0.0A	0.0A	0.0E
2Half	0.0A	0.0E	0.0E
YEAR	0.0A	0.0E	0.0E

**EPS \$AUD**

Yr Jun	—2020—	—2021E—	—2022E—
		Curr	Curr
1Half	0.00A	0.00A	0.00E
2Half	0.00A	0.00E	0.00E
YEAR	(0.01)A	0.00E	0.00E



## LKE: Lilac JV Reduces Financing Risk

On September 22, 2021, LKE announced it had entered into an earn-in agreement with Lilac that would allow Lilac to earn up to 25% of the Kachi project by achieving certain milestones and providing a portion of funding for development. We see this as a derisking event for LKE and as such, we are reiterating our Buy rating and AUD\$1.10 price target.

**Lake enters into earn-in JV with Lilac.** On September 22, 2021, Lake Resources announced it had entered into an agreement with Lilac Solutions that would allow Lilac to earn-in up to 25% of the Kachi project in Argentina. Under the terms of the agreement, Lilac can earn 10% by providing its technology and funding an on-site demonstration plant. Lilac can earn an additional 10% by achieving testing results that satisfy certain criteria, and finally an additional 5% for providing samples that become qualified by a potential off-take partner. Once Lilac has earned 25%, it will be responsible for its share of equity capital or approximately USD\$50 million. We view this as a positive development for LKE as it reduces future financing risk and near-term capital expenditures. We also believe it may allow the company to advance one or more of its other projects while Lilac focuses on the demonstration plant at Kachi.

**DFS and ESIA on deck.** We believe the next series of catalysts for LKE should come from the completion of a DFS and an ESIA. We note Lake is targeting to complete these in Q2 2022. Additionally, results from the demonstration plant could provide further catalysts in the coming quarters, but the timing of these results is less clear, in our view.

**Reiterating rating and target.** While we view this announcement as a significant positive for LKE, we note it does reduce the company's ownership in the Kachi project. These factors essentially offset in our valuation of LKE. Thus, we are reiterating our Buy rating and AUD\$1.10 price target.

## VALUATION

We base our valuation of LKE on a sum of the parts analysis. Ultimately, we anticipate shifting our valuation to a DCF model once the company provides a DFS and updates its anticipated timeline to production. For our sum of the parts analysis, we assume a value of 75% of the PFS NPV of Kachi at \$1,300 per tonne of LCE or AUD\$1.2 billion. This reflects our expectation that LKE will ultimately own 75% of the project. To this we add an estimated cash balance of AUD\$60 million following the exercise of options in October 2021, LKE's share of Lilac's future equity contribution, and add AUD\$100 million for LKE's other projects and exploration potential. Thus, we arrive at a total valuation of AUD\$1.37 billion or AUD\$1.05 per fully diluted share (1.3 billion). We round this up to reach our AUD\$1.10 price target, and we are reiterating our Buy rating.

Factors that could impede LKE from reaching our price target include, but are not limited to: unanticipated capital raises, project delays, capital overruns, underperformance of the lithium price, disappointing financial studies, or other unforeseeable events.

## RISKS

**Political risk.** Natural resource companies are subject to significant political risk. Although most mining jurisdictions have known laws, potential exists for these laws to change. LKE has similar political risk to other companies in the lithium triangle in Argentina.

**Commodity price risk.** All natural resource companies have some form of commodity price risk. This risk is not only related to final products, but can also be in regards to input costs and substitute goods. LKE's most significant commodity price risk is to that of lithium, but the company is also likely to have other commodity price risks like to that of the price of energy.

**Operational and technical risk.** Natural resources companies have significant operational and technical risks. Despite completing NI 43-101 compliant (or similar) resource estimates, deposits can still vary significantly compared to expectations. Additionally, numerous unforeseeable issues can occur with operations and exploration activities. LKE has similar operational and technical risks to other direct extraction technology companies.

**Pre-revenue risk.** Currently, LKE is a pre-revenue company. There can be no guarantee that LKE will ever produce revenue or reach cash flow positive. As such, it is likely the company will need to raise additional capital.

**Market risk.** Although most natural resource companies are more closely tied to individual commodity price performance, large business cycle forces or economic crises can impact a company's valuation significantly. LKE has similar market risk to other lithium development companies.

Cautionary Note to US Investors: Estimates of Measured, Indicated and Inferred Resources

"Measured Mineral Resources" and "Indicated Mineral Resources." US investors are advised that although these terms are required by Canadian regulations, the US Securities and Exchange Commission (SEC) does not recognize them, and describes the equivalent as "Mineralized Material." US investors are cautioned not to assume that these terms are any form of guarantee.

"Inferred Mineral Resources." US Investors are advised that while this term is required by Canadian regulations, the SEC does not recognize it. "Inferred Mineral Resources" are not delineated with a great deal of certainty and should not be considered likely to be brought into production in whole or in part.

## COMPANY DESCRIPTION

Lake Resources NL is an exploration and development company focused on developing its three lithium brine projects and one hard rock lithium project in the Lithium Triangle in Argentina. Lake holds a lithium lease which covers 180,000 hectares, which is 100% owned. The Company's project includes Olaroz - Cauchari and Paso Lithium Brine Projects, Kachi Lithium Brine Project and Catamarca Lithium Pegmatite Project. In Olaroz - Cauchari and Paso Lithium Brine Projects Lake holds mining leases over 45,000 hectares in two areas in Jujuy Province, in North West Argentina. The Kachi Project is a consolidated package of 54,000 hectares of mining leases owned 100% by Lake. The Kachi Lithium Brine Project is located in Catamarca province. Catamarca Lithium Pegmatite Project holds 72,000 hectares of potential lithium bearing pegmatites in Ancasti, Catamarca Province. *Source: Refinitiv as of 2/16/21*

## LKE Key Estimates

Amounts in AUD million	H1 2020A	H2 2020A	2020A	H1 2021A	H2 2021E	2021E	H1 2022E	H2 2022E	2022E
Revenue	-	-	-	-	-	-	-	-	-
Operating Expenses	2.2	2.2	4.4	1.5	1.7	3.2	1.5	1.5	3.0
Operating Income	(2.2)	(2.2)	(4.4)	(1.5)	(1.7)	(3.2)	(1.5)	(1.5)	(3.0)
Other Expenses	0.1	0.4	0.5	0.0	-	0.0	-	-	-
Pretax Income	(2.3)	(2.6)	(4.9)	(1.5)	(1.7)	(3.2)	(1.5)	(1.5)	(3.0)
Taxes	0.0	0.0	0.0	-	-	-	-	-	-
Net Income	(2.3)	(2.6)	(4.9)	(1.5)	(1.7)	(3.2)	(1.5)	(1.5)	(3.0)
Basic Shares	508.3	620.3	564.3	762.7	1,089.3	926.0	1,105.0	1,105.0	1,105.0
FD shares	508.3	620.3	564.3	762.7	1,185.3	974.0	1,302.6	1,302.6	1,302.6
Basic EPS	(\$0.00)	(\$0.00)	(\$0.01)	(\$0.00)	(\$0.00)	(\$0.00)	(\$0.00)	(\$0.00)	(\$0.00)
FD EPS	(\$0.00)	(\$0.00)	(\$0.01)	(\$0.00)	(\$0.00)	(\$0.00)	(\$0.00)	(\$0.00)	(\$0.00)

Source: LKE annual and semi-annual reports, ROTH Capital Partners estimates

Note: LKE reports under AASB and under a June Fiscal year.

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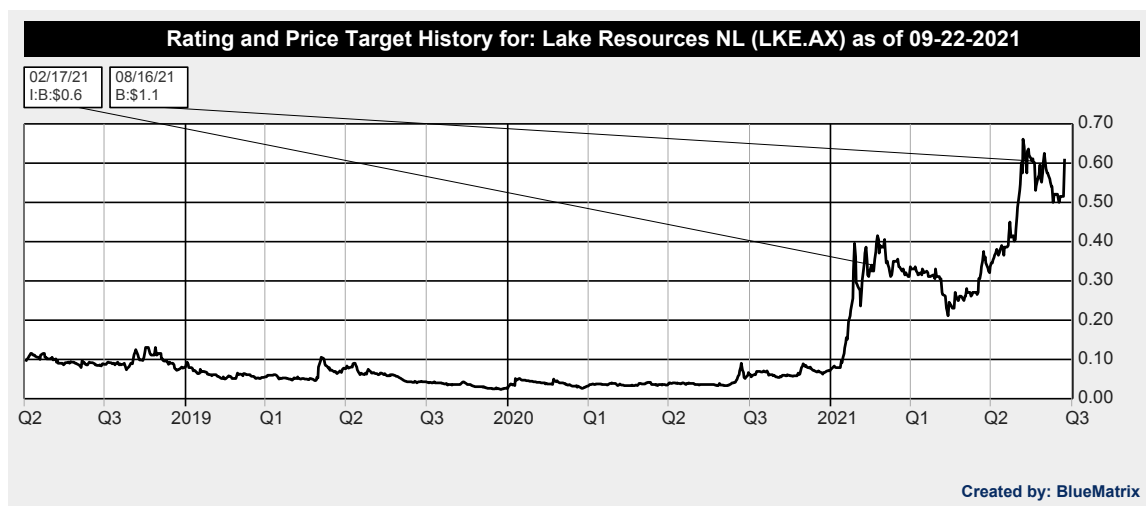
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Each box on the Rating and Price Target History chart above represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first note written during the past three years. **Distribution Ratings/IB Services** shows the number of companies in each rating category from which Roth or an affiliate received compensation for investment banking services in the past 12 month.

### Distribution of IB Services Firmwide

Rating	Count	Percent	IB Serv./Past 12 Mos. as of 09/23/21	
			Count	Percent
Buy [B]	308	76.62	210	68.18
Neutral [N]	51	12.69	27	52.94
Sell [S]	1	0.25	1	100.00
Under Review [UR]	39	9.70	26	66.67

Our rating system attempts to incorporate industry, company and/or overall market risk and volatility. Consequently, at any given point in time, our investment rating on a stock and its implied price movement may not correspond to the stated 12-month price target.

Ratings System Definitions - ROTH employs a rating system based on the following:

**Buy:** A rating, which at the time it is instituted and or reiterated, that indicates an expectation of a total return of at least 10% over the next 12 months.

**Neutral:** A rating, which at the time it is instituted and or reiterated, that indicates an expectation of a total return between negative 10% and 10% over the next 12 months.

**Sell:** A rating, which at the time it is instituted and or reiterated, that indicates an expectation that the price will depreciate by more than 10% over the next 12 months.

**Under Review [UR]:** A rating, which at the time it is instituted and or reiterated, indicates the temporary removal of the prior rating, price target and estimates for the security. Prior rating, price target and estimates should no longer be relied upon for UR-rated securities.

**Not Covered [NC]:** ROTH does not publish research or have an opinion about this security.

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