Speculative

See key risks on page 8, and early stage company risk warning on page 11.
Speculative securities may not be suitable for Retail clients.

11 April 2022

Analyst
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Authorisation
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Lake Resources Ltd (LKE)

Kachi offtake MoUs in place

Recommendation
Buy (unchanged)
Price
$1.99
Valuation
$2.83 (previously $1.82)
Risk
Speculative

GICS Sector

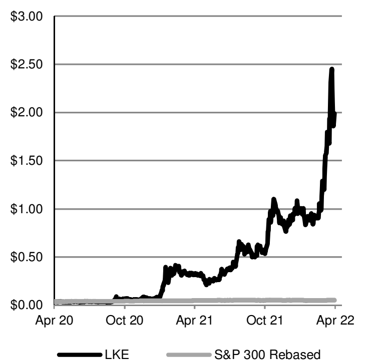
Materials

Expected Return	
Capital growth	42%
Dividend yield	0%
Total expected return	42%
Company Data & Ratios	
Enterprise value	$2,432m
Market cap	$2,542m
Issued capital	1,278m
Free float	100%
Avg. daily val. (52wk)	$11.5m
12 month price range	$0.205-$2.65

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	1.01	1.09	0.34
Absolute (%)	98.0	83.4	494.0
Rel market (%)	90.8	84.9	485.2

Absolute Price



SOURCE: IRESS

Non-binding offtake MoUs: Hanwa & now with Ford

LKE has now announced two non-binding Memorandum of Understandings covering all of the proposed 50ktpa initial lithium product offtake from its Kachi Project (LKE 75%). The Hanwa Co., Ltd non-binding MoU (announced 29 March 2022) for 25ktpa will potentially align LKE with Japanese battery and auto manufacturers. Today's announced non-binding MoU with Ford Motor Corporation covering 25ktpa adds a further highly credible potential counterparty with a focus on North American markets. The agreements and the counterparties add support to ongoing financing and pre-development activities for Kachi. They also highlight auto manufacturers' increased interest in participating further up the battery minerals supply chain and with an eye to the ESG credentials of raw materials providers.

Next steps: Formalising offtake & funding; DFS & ESIA

LKE will aim to formalise the MoUs to full-form conditional offtake agreements in parallel with ongoing lender engagement and completion of the Kachi Definitive Feasibility Study and Environmental and Social Impact Assessment. We expect the DFS to be completed in the September 2022 quarter and be the major catalyst to debt financing the project and a Final Investment Decision.

Investment view: Buy (Speculative), Valuation $2.83/sh

LKE's key project is the 50ktpa lithium carbonate Kachi Lithium Brine Project in Argentina. This project is expected to employ direct lithium extraction technology which has enormous ESG benefits compared with incumbent brine and hard rock lithium production methods. With this development project, uncommitted product offtake and an independent share register, LKE has significant strategic appeal. In this report we have upgraded our valuation to $2.83/sh (previously $1.82/sh) through a reduction in risk discount.

LKE is a project development company with prospective operations and cash flows. Our Speculative risk rating recognises this higher level of risk and volatility of returns.

Earnings Forecast

Year end 30 June	2022e	2023e	2024e	2025e
Sales (A$m)	-	-	191	1,184
EBITDA (A$m)	(7)	(4)	135	954
NPAT (reported) (A$m)	(7)	(1)	57	536
NPAT (adjusted) (A$m)	(7)	(1)	57	536
EPS (adjusted) (¢ps)	(0.6)	(0.1)	4.2	39.0
EPS growth (%)	na	na	na	820%
PER (x)	-339.3x	-2282.9x	47.0x	5.1x
FCF Yield (%)	-1%	-23%	-15%	23%
EV/EBITDA (x)	-362.5x	-608.0x	18.1x	2.5x
Dividend (¢ps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	-	-	-	-
ROE (%)	-9%	0%	13%	73%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Valuation & methodology

Valuation summary: $2.83/sh (risked)

Key components of our valuation include:

- **Kachi (LKE diluting to 75%) 50ktpa lithium carbonate:** Modelled with parameters consistent with LKE's March 2021 refreshed PFS, adjusted for the increased project scale of 50ktpa production (compared with PFS at 25.5ktpa). Risk discount of 30% applied for project stage.
- **Other projects (100% LKE):** LKE's other projects include exploration licences in Argentina prospective for lithium brine Resources (Couchari, Olaroz and Paso) and spodumene bearing pegmatites (Catamarca).
- **Corporate overhead allowance:** $31m representing the present value of $2.5m in annual corporate overheads not captured as part of our Kachi modelling.
- **Cash:** At 31 December 2021, LKE had cash of $71m and no debt. In March 2022, LKE issued 40m shares at $0.975/sh to raise a further $39m, taking pro forma cash to $110m.
- **Diluted capital base:** Assumed conversion of all in the money options.

Table 1 - Sum of parts valuation

Projects LKE equity (unrisked)	100% US$m	100% A$m	LKE equity %	LKE equity A$m	Risk discount	LKE equity (risked) A$m
Kachi @ 50ktpa LCE	**5,434**	**7,328**	**75%**	**5,496**	**30%**	**3,847**
Other projects		150	100%	150		150
Total projects				**5,646**		**3,997**
Corporate overheads						-31
Enterprise value						**3,966**
Net debt						-110
Options						-35
Equity value (diluted)						**4,111**
Diluted shares m						**1,452**
Equity value (diluted) $/sh						**2.83**

SOURCE: BELL POTTER SECURITIES ESTIMATES

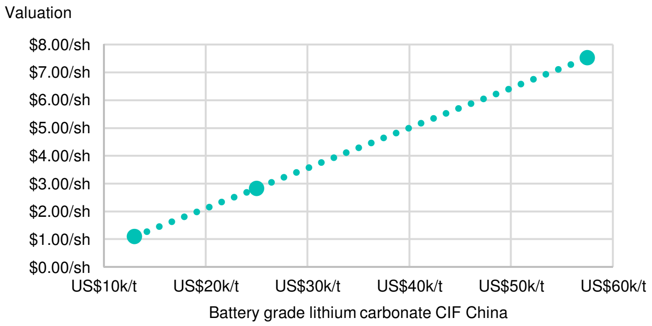
Valuation sensitivity to long term lithium price assumptions

Table 2 - LKE valuation sensitivity to lithium carbonate prices

	Scenario 1 Consensus	Scenario 2 Bell Potter	Scenario 3 Spot
Lithium carbonate reference price CIF	**US$13k/t**	**US$25k/t**	**US$58k/t**
Kachi @ 50ktpa LCE (75%, risked) A$m	1,333	3,847	10,657
Other A$m	119	119	119
EV (risked) A$m	**$1,452m**	**$3,966m**	**$10,776m**
Diluted net debt/(cash) A$m	-145	-145	-145
Equity value (diluted) A$m	**$1,597m**	**$4,111m**	**$10,921m**
Diluted shares on issue m	1,452		
Equity value (diluted) $/sh	**$1.10/sh**	**$2.83/sh**	**$7.52/sh**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Figure 1 - LKE valuation sensitivity to LC prices*



SOURCE: BELL POTTER SECURITIES ESTIMATES * LC - LITHIUM CARBONATE

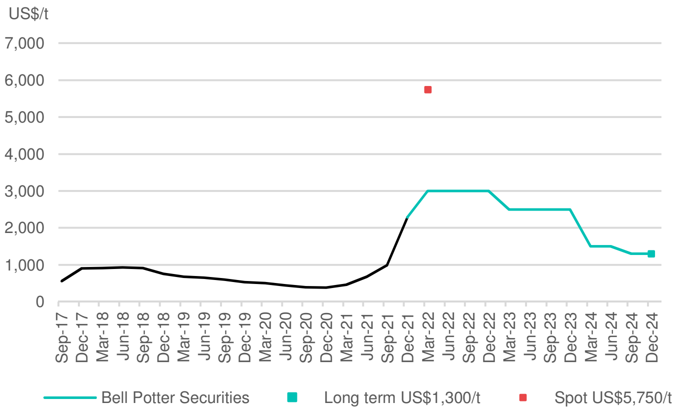
Bell Potter Securities lithium commodity price outlook

Table 3 - Lithium commodity price upgrades

	2020a	2021a	2022e	2023e	LTe
Spodumene	431	1,102	3,000	2,500	1,300
Lithium carbonate	7,641	16,155	50,000	40,000	25,000
Lithium hydroxide	9,625	17,221	52,000	42,000	29,000

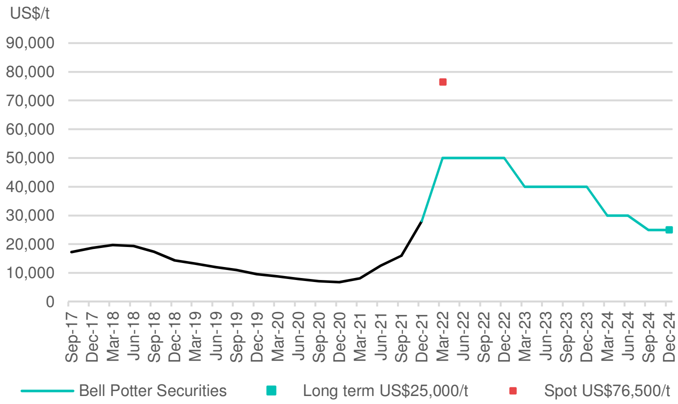
SOURCE: FASTMARKETS & BELL POTTER SECURITIES

Figure 2 - Spodumene concentrate (SC6) QUARTERLY



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 3 - Lithium carbonate (battery grade) QUARTERLY



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Near-term news flow & value catalysts

- Kachi maiden Mineral Resource estimate – November 2018. ✓
- Kachi PFS – April 2020. ✓
- Kachi high-quality product defined from pilot plant – October 2020 to March 2021. ✓
- Kachi refreshed PFS – March 2021. ✓
- Lilac Solutions 25% earn-in – September 2021. ✓
- **Ongoing – Funding arrangements –** Further expressions of interest and more developed agreements with Export Credit Agencies and other potential debt financiers with respect to Kachi capital cost financing.
- **Ongoing – Product offtake arrangements –** Details of conditional offtake agreements with end-users including indicative volumes and tenor.
- **June 2022 quarter** – Updated Kachi Mineral Resource (November 2018 estimate 4.4Mt LCE) and Initial Mineral Reserve.
- **Mid- to late-2022:**
    1. Kachi DFS and expansion studies.
    2. Kachi Environmental and Social Impact Assessment (ESIA).
    3. LKE Board Kachi Project Final Investment Decision.

Kachi Lithium Project

Kachi (75% LKE): Risked discounted cash flow

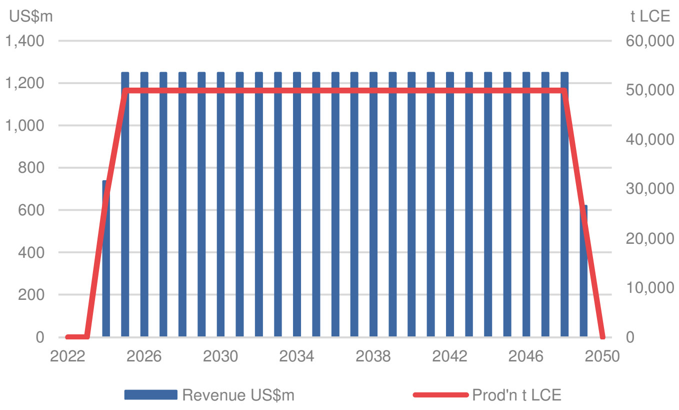
We have modelled Kachi project development and operational assumptions as follows:

- Capital cost of US$1,032m (including 15% inflation for owners costs);
- Battery grade lithium carbonate production of 50ktpa;
- Project life of 25 years;
- Discount rate of 8%;
- C1 cash operating costs of US$3,550/t lithium carbonate; and
- Risk discount of 30% to account for the project's stage of development (pre DFS).

Kachi production & cash flow outlook

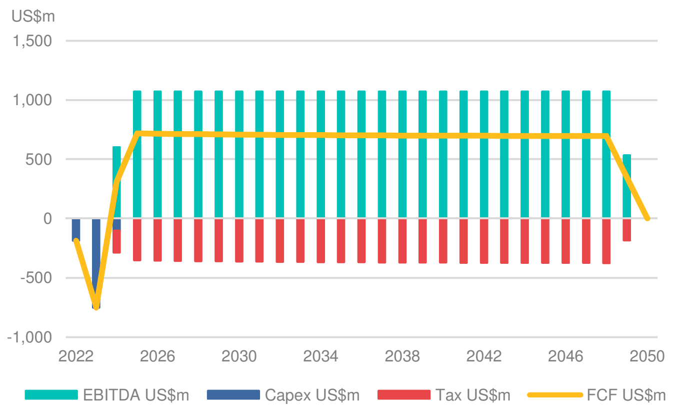
The following financial estimates assume LKE achieve battery grade pricing for its lithium carbonate production.

Figure 4 - Production & revenue (100%)



SOURCE: BELL POTTER SECURITIES ESTIMATES

Figure 5 - Earnings & free cash flow (100%)



SOURCE: BELL POTTER SECURITIES ESTIMATES

ASX-listed lithium sector

Resource, Reserve & production comparisons

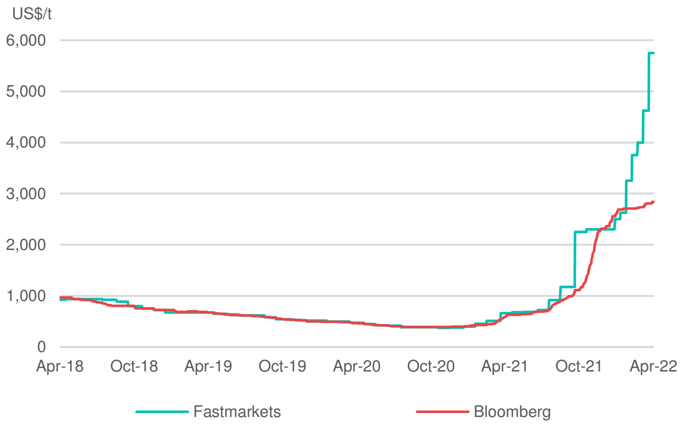
Table 4 - Resource, Reserve & production comparisons

Company name	EV ($m)	Total LCE Resource (Mt)	Total LCE Reserve (Mt)	EV /Resource ($/t)	EV /Reserve ($/t)	Expected annual LCE production* (kt)	EV to production ($'000/t)
Pilbara Minerals (PLS)	9,190	8.2	4.7	1,126	1,956	63	146
Allkem (AKE)	8,230	26.2	3.1	314	2,618	137	60
AVZ Minerals (AVZ)	3,647	8.3	2.7	437	1,351	53	69
Liontown Resources (LTR)	3,233	5.8	2.5	561	1,319	76	43
Lake Resources (LKE)	2,432	3.3	0.0	749	na	19	129
Sayona Mining (SYA)	2,122	2.7	0.4	799	5,906	24	87
Core Lithium (CXO)	2,056	0.5	0.2	4,296	8,490	29	71
Ioneer (INR)	1,336	0.6	0.3	2,137	4,605	10	138
Vulcan Energy Resources (VUL)	1,095	14.0	1.1	78	978	35	31
Argosy Minerals (AGY)	626	0.2	0.0	2,838	na	11	58
Galan Lithium (GLN)	555	3.0	0.0	188	na	34	16
Piedmont Lithium (PLL)	383	2.5	0.5	151	774	35	11
Lithium Power International (LPI)	266	1.5	0.4	179	699	10	26
Jindalee Resources (JRL)	239	10.1	0.0	24	na	na	na
Green Technology Metals (GT1)	173	0.1	0.0	1,160	na	na	na
Mean				**1,002**	**2,870**		**68**
Median				**561**	**1,653**		**60**

SOURCE: COMPANY DATA, IRESS, BELL POTTER SECURITIES ESTIMATES
NOTE: * EXPECTED PRODUCTON FROM EXISTING OPERATIONS OR PROJECT BEING DEVELOPED

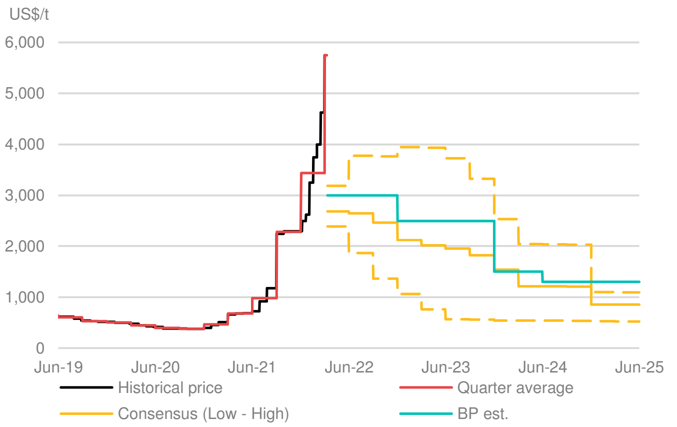
Lithium commodity price charts & outlook

Figure 6 - Spodumene price (min. 5-6%), CIF China



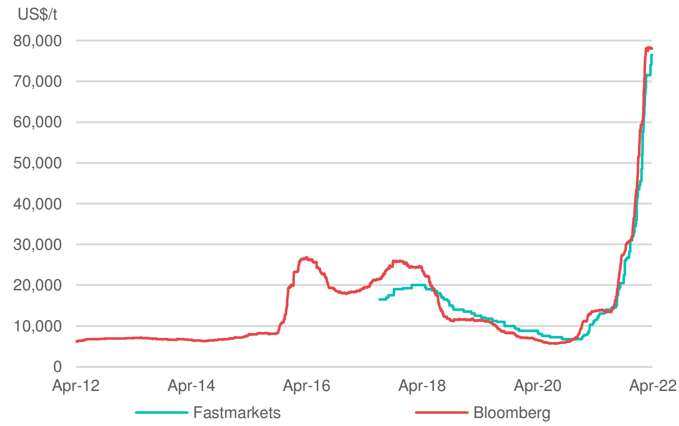
SOURCE: FASTMARKETS (MB-LI-0012) & BLOOMBERG (LICNSPDU INDEX)

Figure 7 - Historical & expected spodumene price, CIF China



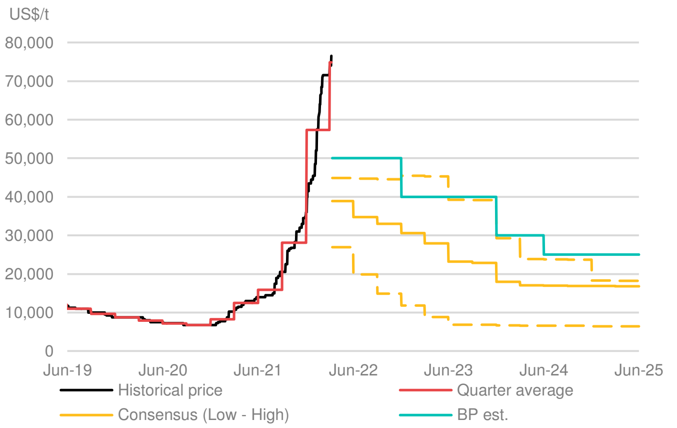
SOURCE: FASTMARKETS (MB-LI-0012) & CONSENSUS ECONOMICS

Figure 8 - Lithium carbonate price (battery grade), CIF NE Asia



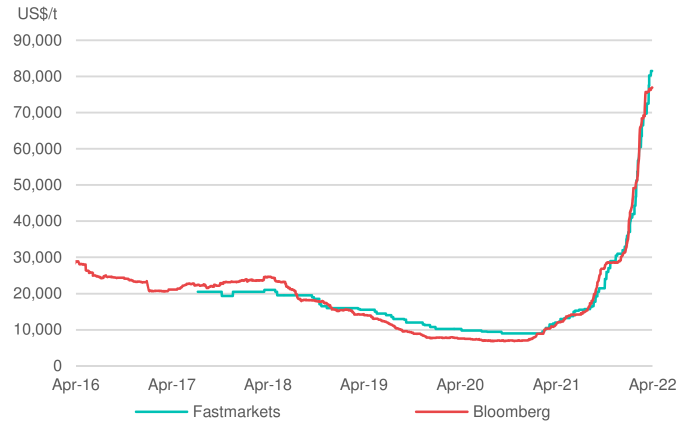
SOURCE: FASTMARKETS (MB-LI-0029) & BLOOMBERG (L4CNMJGO AMTL INDEX)

Figure 9 - Historical & expected Li carbonate price, CIF NE Asia



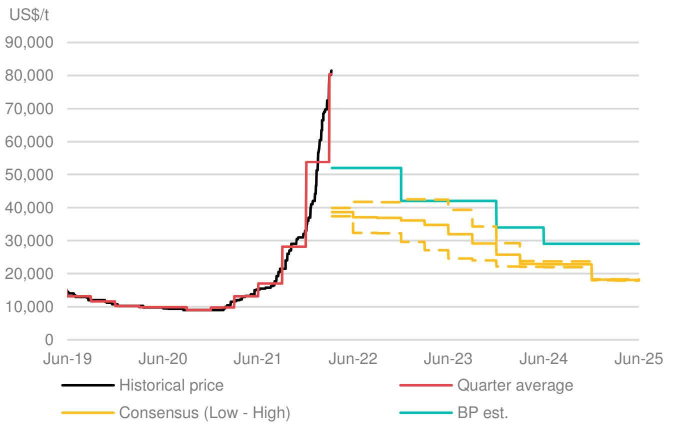
SOURCE: FASTMARKETS (MB-LI-0029) & CONSENSUS ECONOMICS

Figure 10 - Lithium hydroxide price (battery grade), CIF NE Asia



SOURCE: FASTMARKETS (MB-LI-0033) & BLOOMBERG (L6CNVRAT AMTL INDEX)

Figure 11 - Historical & expected Li hydroxide price, CIF NE Asia



SOURCE: FASTMARKETS (MB-LI-0033) & CONSENSUS ECONOMICS

Lake Resources Ltd (LKE)

Company description

LKE's Kachi (Argentina) lithium brine project has the potential to produce 50ktpa of high purity lithium carbonate ramping up from 2024 using direct lithium extraction technology. A DFS is due by mid-2022. Kachi's direct lithium extraction process is based on ion exchange developed by technology partner Lilac Solutions. Lilac is strategically aligned with LKE through a 25% project earn-in. An April 2020 Kachi PFS (and a subsequent March 2021 update) outlined a 25.5ktpa lithium carbonate project with a capital cost of US$544m and unit costs of US$4,178/t. LKE estimated annual project EBITDA of $260m at the PFS assumed production rate of 25.5ktpa lithium carbonate and price of US$15,500/t (CIF Asia).

Investment view: Buy (Speculative), Valuation $2.83/sh

LKE's key project is the 50ktpa lithium carbonate Kachi Lithium Brine Project in Argentina. This project is expected to employ direction lithium extraction technology which has enormous ESG benefits compared with incumbent brine and hard rock lithium production methods. With this development project, uncommitted product offtake and an independent share register, LKE has significant strategic appeal. In this report we have upgraded our valuation to $2.83/sh (previously $1.82/sh) through a reduction in risk discount.

LKE is a project development company with prospective operations and cash flows. Our Speculative risk rating recognises this higher level of risk and volatility of returns.

Valuation methodology

Our LKE valuation is supported by:

- Risked discounted cash flow valuations of the Kachi project ramping up to produce 50ktpa lithium carbonate;
- Valuations for LKE's earlier stage lithium projects in Argentina;
- Allowances for corporate overheads; and
- Dilution from options on issue.

Investment risks

Risks include, but are not limited to:

- **Commodity price and exchange rate fluctuations**. The future earnings and valuations of exploration, development and operating resources companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates.
- **Infrastructure access.** Commodity producers are reliant upon access to transport and energy infrastructure. Access to infrastructure is often subject to contractual agreements, permits, and capacity allocations. Agreements are typically long-term in nature (+10 years). Infrastructure can be subject to outages as a result of weather events or the actions of third party providers.
- **Operating and capital cost fluctuations.** Markets for exploration, project development and processing inputs can fluctuate widely and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to energy, reagents and labour markets.
- **Resource growth and project life extensions.** Future earnings forecasts and valuations may rely upon Resource and Reserve growth to extend mine lives.
- **Sovereign risks.** Mining companies' assets are subject to the sovereign risks associated with the countries within which they operate.
- **Regulatory changes risks.** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuation of mining companies.
- **Environmental risks.** Resources companies are exposed to risks associated with environmental degradation as a result of their exploration and development processes.
- **Operating and development risks.** Resources companies' assets are subject to risks associated with their operation and development. Risks for each company can be heightened depending on method of operation (e.g. underground versus open pit mining) or whether it is a single operation company. Development assets can be subject to approvals timelines or weather events, causing delays to commissioning and commercial production.
- **Occupational health and safety risks.** Resources companies are particularly exposed to OH&S risks given the physical nature and human resource intensity of operating assets.
- **Funding and capital management risks.** Funding and capital management risks can include access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments, and managing debt repayments.
- **Merger/acquisition risks.** Risks associated with value transferred during merger and acquisition activity.
- **COVID-19 risks:** Resources companies' rely on freedom of movement of workforces, functioning transport routes, reliable logistics services including road, rail, aviation and ports in order to maintain operations and get their products to market. They also rely on liquid, functioning markets to sell their products. Measures being put in place to combat the COVID-19 pandemic are posing risks to these conditions.

Lake Resources Ltd
as at 11 April 2022

Recommendation	Buy, Speculative
Price	$1.99
Valuation	$2.83

Table 5 - Financial summary

Date		11/04/22
Price	A$/sh	1.99
Valuation	A$/sh	2.83

Bell Potter Securities
Stuart Howe (showe@bellpotter.com.au, +61 3 9235 1856)

PROFIT AND LOSS

Year ending 30 June	Unit	2021a	2022e	2023e	2024e	2025e
Revenue	$m	-	-	-	191	1,184
Expenses	$m	(3)	(7)	(4)	(57)	(230)
EBITDA	**$m**	**(3)**	**(7)**	**(4)**	**135**	**954**
Depreciation & amortisation	$m	(0)	(0)	-	(26)	(98)
EBIT	$m	(3)	(7)	(4)	109	856
Net interest expense	$m	-	(0)	3	(18)	(32)
Profit before tax	$m	(3)	(7)	(1)	91	825
Tax expense	$m	-	-	-	(34)	(289)
NPAT (reported)	**$m**	**(3)**	**(7)**	**(1)**	**57**	**536**
NPAT (adjusted)	**$m**	**(3)**	**(7)**	**(1)**	**57**	**536**

CASH FLOW STATEMENT

Year ending 30 June	Unit	2021a	2022e	2023e	2024e	2025e
OPERATING CASH FLOW						
Receipts from customers	$m	-	-	-	191	1,184
Payments to suppliers and employees	$m	(2)	(7)	(4)	(57)	(230)
Tax paid	$m	-	-	-	(34)	(289)
Net interest	$m	-	-	3	(18)	(32)
Other	$m	-	-	-	-	-
Operating cash flow	**$m**	**(2)**	**(7)**	**(1)**	**83**	**634**
INVESTING CASH FLOW						
Capex	$m	(5)	(6)	(578)	(484)	(9)
Other	$m	-	(0)	-	-	-
Investing cash flow	**$m**	**(5)**	**(7)**	**(578)**	**(484)**	**(9)**
FINANCING CASH FLOW						
Debt proceeds/(repayments)	$m	0	-	483	241	-
Dividends paid	$m	-	-	-	-	-
Proceeds share issues (net, incl. options)	$m	33	65	296	-	22
Other	$m	-	-	-	-	-
Financing cash flow	**$m**	**33**	**65**	**779**	**241**	**22**
Change in cash	**$m**	**26**	**51**	**199**	**(160)**	**647**
Free cash flow	$m	(7)	(14)	(580)	(401)	625

BALANCE SHEET

Year ending 30 June	Unit	2021a	2022e	2023e	2024e	2025e
ASSETS						
Cash	$m	26	77	276	116	763
Receivables	$m	0	1	1	1	1
Inventories	$m	-	-	-	-	-
Capital assets	$m	22	30	608	1,067	978
Other assets	$m	0	0	0	0	0
Total assets	**$m**	**48**	**107**	**885**	**1,184**	**1,741**
LIABILITIES						
Creditors	$m	1	1	1	1	1
Borrowings	$m	-	-	483	724	724
Provisions	$m	0	0	0	0	0
Other liabilities	$m	-	-	-	-	-
Total liabilities	**$m**	**1**	**1**	**484**	**725**	**725**
NET ASSETS	**$m**					
Share capital	$m	66	128	425	425	446
Reserves	$m	3	2	1	58	594
Accumulated losses	$m	(22)	(24)	(24)	(24)	(24)
Non-controlling interest	$m	-	-	-	-	-
SHAREHOLDER EQUITY	**$m**	**47**	**106**	**401**	**459**	**1,016**
Weighted average shares	m	822	1,144	1,267	1,350	1,375

FINANCIAL RATIOS

Year ending 30 June	Unit	2021a	2022e	2023e	2024e	2025e
VALUATION						
EPS (adjusted)	Ac/sh	(0.4)	(0.6)	(0.1)	4.2	39.0
EPS growth (Acps)	%	na	na	na	na	820%
PER	x	(565.2)	(339.3)	(2,282.9)	47.0	5.1
DPS	Ac/sh	-	-	-	-	-
Franking	%	0%	0%	0%	0%	0%
Yield	%	0%	0%	0%	0%	0%
FCF/share	Ac/sh	(0.9)	(1.2)	(45.7)	(29.7)	45.4
FCF yield	%	0%	-1%	-23%	-15%	23%
EV/EBITDA	x	-938.2x	-362.5x	-608.0x	18.1x	2.5x
LIQUIDITY & LEVERAGE						
Net debt / (cash)	$m	(25.7)	(76.8)	206.5	607.9	(38.9)
Net debt / Equity	%	-55%	-72%	51%	133%	-4%
Net debt / Net debt + Equity	%	-121%	-261%	34%	57%	-4%
Net debt / EBITDA	x	9.9x	11.4x	-51.6x	4.5x	0.0x
EBITDA /net int expense	x	0.0x	-4224.2x	1.4x	7.6x	30.1x
PROFITABILITY RATIOS						
EBITDA margin	%	0%	0%	0%	70%	81%
EBIT margin	%	0%	0%	0%	57%	72%
Return on assets	%	-9%	-9%	0%	6%	37%
Return on equity	%	-9%	-9%	0%	13%	73%

ASSUMPTIONS - Prices (nominal)

Year ending 30 June	Unit	2021a	2022e	2023e	2024e	2025e
Spodumene concentrate (6% basis)	US$/t	478	2,317	2,750	2,000	1,300
Lithium Carbonate (battery grade)	US$/t	8,641	35,996	45,000	35,000	25,000
Lithium Hydroxide (battery grade)	US$/t	10,510	37,303	47,000	38,000	29,000
AUD:USD	US$/A$	0.75	0.73	0.73	0.73	0.74

LCE sales

Year ending 30 June	Unit	2021a	2022e	2023e	2024e	2025e
Kachi (100%)	kt LCE	-	-	-	6	47
Kachi (LKE equity share)	kt LCE	-	-	-	5	35

VALUATION

Shares on issue	m	1,278				
Options	m	174				
Diluted shares on issue	m	1,452				
Discount rate: 8.0%	**100%**	**100%**	**LKE**	**Unrisked**	**Risk**	**Risked**
Projects LKE equity (unrisked)	**US$m**	**A$m**	**equity %**	**A$m**	**discount**	**A$m**
Kachi @ 50ktpa LCE	**5,434**	**7,328**	**75%**	**5,496**	**30%**	**3,847**
Other projects		150	100%	150		150
Total projects				**5,646**		**3,997**
Corporate overheads						(31)
Enterprise value						**3,966**
Net debt / (cash)						(110)
Options in the money						(35)
Equity value (diluted)						**4,111**
Equity value (diluted) $/sh						**2.83**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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