

Resources: Metals & Mining
Company Update

Target Price Changed

Lake Resources NL | LKE.AX - AUD1.84 - ASX | Buy
Stock Data

| | |
|--------------------|-------------------|
| 52-Week Low - High | AUD0.21 - AUD2.65 |
| Shares Out. (mil) | 1,282.65 |
| Mkt. Cap.(mil) | AUD2,360.08 |
| 3-Mo. Avg. Vol. | 17,630,640 |
| 12-Mo.Price Target | AUD2.40 |
| 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 | Prev | Curr | Prev |
| 1Half | 0.00A | 0.00A | 0.00A | (0.00)E | 0.00 E |
| 2Half | 0.00A | (0.00)E | 0.00 E | (0.00)E | 0.00 E |
| YEAR | (0.01)A | (0.00)E | 0.00 E | (0.00)E | 0.00 E |

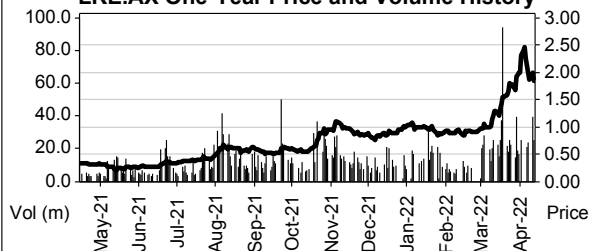
LKE: Offtakes and Pricing Benefit Valuation

In recent weeks, LKE has signed two non-binding MOUs for offtake from its Kachi project. Additionally, we are increasing our long-term lithium price estimate to \$20,000 per tonne from \$15,000 per tonne. As a result of these factors, we are increasing our price target from AUD\$1.10 to AUD\$2.40 and maintaining our Buy rating.

MOUs a significant positive on multiple fronts. On April 11, 2022, LKE announced it had entered into an MOU with Ford Motor Company (F-NC) for approximately 25,000 tonnes per year of lithium offtake from Kachi. This followed an announcement on March 29, 2022, that the company had entered into an MOU for 25,000 tonnes per year of lithium production offtake with Hanwa Co. Ltd. in Japan. We see these MOUs as significantly positive for the company as they reduce risk and provide support for debt financing, in our opinion.

Increasing long-term lithium price assumption. In recent months, the spot price of lithium has increased significantly. There have been numerous reports of spot lithium transactions exceeding \$70,000 per tonne of LCE as battery manufacturers scramble to secure supply. We believe that current pricing is indicative of a short-term supply shortage that is likely to subside by the end of the year. However, we also believe that higher long-term prices are needed to facilitate further production growth in years to come. As a result, we are increasing our long-term lithium carbonate and lithium hydroxide price forecast from \$15,000 per tonne to \$20,000 per tonne. We note this increase has a meaningful impact on our valuations of our covered lithium companies.

Increasing target to AUD\$2.40. As a result of our higher lithium price forecast, we are increasing our price target from AUD\$1.10 to AUD\$2.40. We note that we also included a value for the impact of starting Kachi as a 50,000 tonne per year operation rather than the prior expectation of 25,000 tonnes per year in Phase 1. Additionally, we are maintaining our Buy rating.

LKE.AX One-Year Price and Volume History


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 \$20,000 per tonne of LCE or AUD\$2.5 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\$749.1 million for LKE's other projects, increasing to 50,000 tonnes per year at Kachi, and exploration potential. Thus, we arrive at a total valuation of AUD\$3.4 billion or AUD\$2.42 per fully diluted share (1.4 billion shares). We round this down to reach our AUD\$2.40 price target, and we are maintaining 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 2021A | 2021A | 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 | 1,191.1 | 1,191.1 | 1,191.1 |
| FD shares | 508.3 | 620.3 | 564.3 | 762.7 | 1,185.3 | 974.0 | 1,388.7 | 1,388.7 | 1,388.7 |
| 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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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 04/12/22 | |
|-------------------|-------|---------|---|---------|
| | | | Count | Percent |
| Buy [B] | 349 | 82.51 | 232 | 66.48 |
| Neutral [N] | 47 | 11.11 | 26 | 55.32 |
| Sell [S] | 1 | 0.24 | 1 | 100.00 |
| Under Review [UR] | 26 | 6.15 | 17 | 65.38 |

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.

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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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