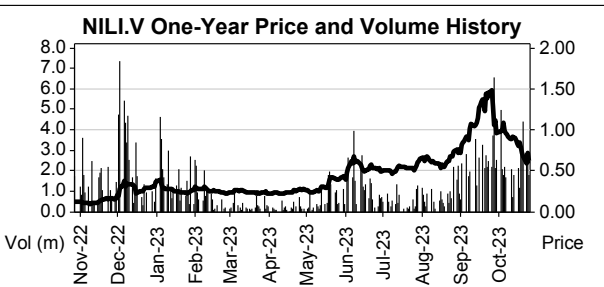


Resources: Metals & Mining
Initiation of Coverage
Surge Battery Metals Inc. | NILI.V - C\$0.61 - TSXV | Buy

Stock Data			
52-Week Low - High	C\$0.08 - C\$1.55		
Shares Out. (mil)	148.61		
Mkt. Cap.(mil)	C\$90.65		
3-Mo. Avg. Vol.	1,758,563		
12-Mo.Price Target	C\$3.00		
Cash (mil)	C\$9.6		
Tot. Debt (mil)	\$0.0		
Cash (mil): Cash includes short-term investments.			
Rev (\$M)			
Yr Dec	—2022—	—2023E—	—2024E—
		Curr	Curr
1Q	0.0A	0.0A	-
2Q	0.0A	0.0A	-
3Q	0.0A	0.0E	-
4Q	0.0A	0.0E	-
YEAR	0.0A	0.0E	0.0E
EPS C\$			
Yr Dec	—2022—	—2023E—	—2024E—
		Curr	Curr
1Q	(0.01)A	(0.01)A	-
2Q	(0.00)A	(0.01)A	-
3Q	(0.00)A	(0.01)E	-
4Q	(0.02)A	(0.01)E	-
YEAR	(0.03)A	(0.04)E	(0.04)E



NILI.V: The Next Big Nevada Lithium Project; Initiate with Buy

We are initiating coverage of NILI.V with a Buy rating and C\$3.00 price target. We believe Surge is in the early innings of outlining a significant lithium resource in Nevada. Additionally, we believe the company has a number of strategic advantages, including strong local infrastructure.

Nevada North showing signs of Thacker Pass-like scale. Based on our initial assessment of Nevada North, we believe it has the potential to host a deposit of similar scale to the reserves portion of the Thacker Pass project. Ultimately, there is also potential for the resource to be expanded beyond our initial assessment, in our opinion. We note that clay-based lithium deposits of this scale are rare and thus, should attract a premium valuation and significant investor interest.

Nevada North benefits from local infrastructure. Scale alone does not make a project, in our view. We note that many of the larger lithium projects in the world are located in remote areas or in countries with significantly higher political risk than the United States. We also note that the Nevada North project has key infrastructure nearby including paved roads, power, and rail, which should make the project more economically viable relative to more remote projects.

Initiating with Buy rating and C\$3.00 price target. Based on an initial resource expectation of 2.6 million tonnes LCE, we value the Nevada North Lithium Project at US\$470 million. We believe the market undervalues the asset due to the fact that the company has not yet released an initial resource estimate. Given our expectation that the company should release an initial resource estimate in early-2024, we are initiating coverage with a Buy rating and C\$3.00 price target.

SUMMARY

We are initiating coverage of Surge Battery Metals Inc. with a Buy rating and C\$3.00 price target. We are highly encouraged by the potential for Surge to define a significant lithium resource at its Nevada North Lithium Project. Additionally, we believe the asset benefits from existing infrastructure in the region. We also believe there is significant exploration potential beyond our initial resource expectations that could provide further upside to our valuation in the longer term.

PROJECTS OVERVIEW

Surge’s flagship asset is the Nevada North Lithium Project located northeast of Elko, Nevada (Exhibit 1). The project consists of 725 mineral claims covering an area of over 14,000 acres. In 2022, the company completed an initial eight-hole drill program targeting high-grade lithium soil samples. The program identified a potentially significant high-grade lithium clay deposit. In 2023, the company began to follow up on and expand upon the 2022 drill program, outlining a larger potential resource, in our view.

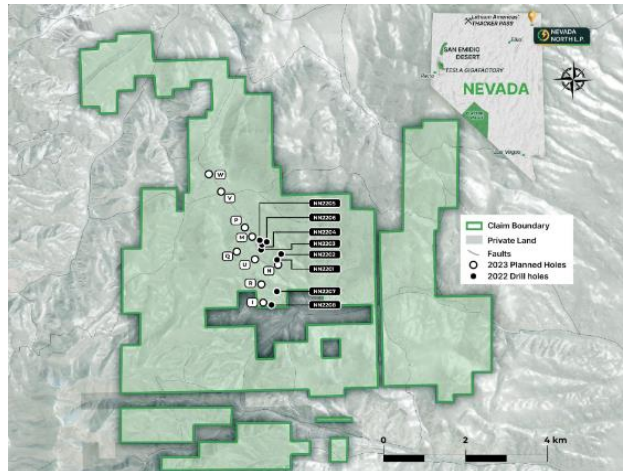
Exhibit 1: Project Location



Source: Surge Company Presentation October 2023.

As noted above, Surge completed eight drill holes in 2022. The company plans to drill an additional 12 sonic holes in 2023, of which it has released assays for the first four holes. Management has also stated that the company plans to switch from sonic drilling to core drilling in the future, which should provide more precise assay and geological data. Exhibit 2 below shows the locations of the 2022 drill holes and the planned locations of the 2023 drill holes.

Exhibit 2: Drill Map



Source: <https://surgebatterymetals.com/nevada-north-lithium-project/>

Initial resource anticipated in early-2024.

We anticipate Surge will continue to release the results of assays from the 2023 drill program in the coming months. Once the company receives the results from the remaining eight holes, we believe it will move quickly to release an initial resource estimate for the project in early-2024. We believe the release of an initial resource estimate should likely serve as a significant positive catalyst for Surge and should also provide a basis for valuation by investors. Given this outlook, we have calculated a potential initial resource estimate based on drilling to date.

We note that the 12 holes completed to date have an average total intercept of 44.3 meters and an average grade of 3,614 ppm Li. Assuming the company can demonstrate the deposit extends to drill pad W in Exhibit 2, we estimate a total surface area of 4.0 km by 1.0 km. We then assume a specific gravity of 1.5 and a pit shell factor of 50% to account for pit slope and other cutting factors to arrive at an estimated deposit size of 132.8 million tonnes. Based on the weighted average grade in assays to date of 3,614 ppm Li and a conversion factor of 5.323 for LCE, this results in a potential resource of 2.6 million tonnes LCE. We note this would be a relatively similar scale to the reserves of the Thacker Pass project owned by Lithium Americas (LAC-NC).

Following the initial resource estimate, we anticipate management would move quickly to complete a PEA. Additionally, we anticipate Surge would likely conduct additional exploration drilling to bring the resource into the M&I category, while also looking to expand the resource. We estimate a total cost of C\$25 million to upgrade the initial resource to M&I. We also note that one specific area of potential resource expansion would be the “donut hole” shown on the map in Exhibit 2, which is privately-held land. We note that Surge recently purchased approximately 25% of the mineral rights underlying this land but will need to negotiate the purchase of surface rights and additional mineral rights before it can conduct exploration work on the property. Thus, we left this area as potential upside to our valuation.

Other assets likely to be optioned.

In addition to the Nevada North Lithium Project, Surge has two other projects of note. The first is a nickel project in British Columbia, Canada, while the second is the Galt Project, an early-stage lithium project in Nevada. Ultimately, we believe the best course of action for the company would be to option these projects to other exploration companies and in doing so reduce corporate expenses. For modeling purposes, we assume these projects have a value equal to their respective holding costs. However, we note optioning these projects could provide upside to this modeling approach in the future.

SITE VISIT

On August 28, 2023, ROTH MKM attended a site tour to Surge’s Nevada North Lithium Project. Based on our observations on the site tour, we believe the project has a rare combination of scale and strategic benefits. We note that the project is located near paved highway (35 miles from the project) and has a major rail line nearby. Additionally, there are power lines nearby (approximately 10 miles away), but these would likely need to be upgraded for a large-scale operation. The images that follow are from our site visit.

Exhibit 3: Camp Tent



Source: ROTH MKM

Exhibit 4: Core From 2023 Drilling



Source: ROTH MKM

Exhibit 5: Sonic Drill Rig



Source: ROTH MKM

FUNDING ANALYSIS

As of June 30, 2023, Surge had \$8.6 million in cash, \$1.0 million in short-term investments, and no debt. While we estimate the company has enough cash and investments to fund itself through year-end 2024, we also believe management will look to raise additional capital at some point in 2024. This would enable the company to maintain a stronger financial position while also allowing it to be more aggressive with its exploration plans at Nevada North, in our view.

MANAGEMENT

Greg Raimer (CEO): Mr. Raimer was an Executive at one of Canada's largest utilities and has held senior government roles in British Columbia, Canada. He served as Executive VP of Transmission for BC Hydro.

Graham Harris (Chairman): Mr. Harris was the founder and chairman of Millennial Lithium Corp., which was acquired by Lithium Americas for \$490 million. He has also held several corporate positions across a range of battery material companies and is currently Senior VP Capital Markets for Millennial Potash Corporation.

Braden Jensen, C.A. (CFO): Mr. Jensen began his formal accounting training with KPMG LLP, working in the public practice industry for six years. He then transitioned to the resources sector where he has held several corporate finance roles. Mr. Jensen is currently CFO of District Copper Corporation.

VALUATION

We base our valuation of Surge on a forecasted resource basis. We estimate Surge can outline a resource of at least 132.8 million tonnes at an average grade of 3,614 ppm lithium for a contained resource of 2.6 million tonnes of LCE. Based on our long-term price forecast of \$23,000 per tonne LCE, we assign a value of US \$470 million to Nevada North (0.8% of in-situ value). After adjusting for a US\$ to C\$ exchange rate of 1.36 we arrive at a value of C\$639 million. We adjust for estimated year-end 2023 cash of \$6.8 million to arrive at a total value of C\$646.1 million or C\$3.05 per fully diluted share (211.5 million). We round this down to reach our C\$3.00 price target, and we are initiating coverage with a Buy rating.

Factors that could impede Surge from reaching our price target include, but are not limited to: unanticipated capital raises, poor exploration results, unfavorable regulatory decisions, permitting delays, unfavorable resource estimates compared to our expectations, and 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. Surge has similar political risk to other Nevada-based exploration companies.

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 regard to input costs and substitute goods. Surge's biggest commodity risk is to the price of lithium.

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. Surge has similar operational and technical risk to other early-stage exploration companies.

Pre-revenue risk. Surge is a pre-revenue company. As such, it is likely it will need to raise additional capital to continue to support operations. Additionally, no guarantee can be made that the company will ever generate revenue or that doing so will generate positive cash flow.

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. Surge has similar market risk to other lithium exploration companies.

Cautionary note to U.S. Investors: Surge does not have any resources currently, but would likely report resources under NI 43-101 if/when it establishes one.

COMPANY DESCRIPTION

Surge Battery Metals Inc. is a Canada-based mineral exploration company. The company is engaged in the acquisition, exploration and development of mineral properties. The company is focused on exploration for battery metals that will advance the adoption of electric vehicles (EVs). The company owns a 100% interest in approximately 243 mineral claims located in Elko County, Nevada. The Nevada North Lithium Project is in the Granite Range approximately 40 kilometers (kms) southeast of Jackpot, and approximately 73 kms north-northeast of Wells, Nevada. The Surge Nickel Project consists of two non-contiguous mineral claims groups consisting of approximately six mineral claims in the Mount Sidney Williams area covering approximately 1863 hectares and the Mitchell Range area covering approximately 8659 hectares. Its San Emidio Desert Lithium Project is located approximately 60 km Northeast of Reno in the San Emidio Desert, Washoe County, Nevada that covers over 5,525 acres. Refinitiv Eikon as of 10/19/2023

NILI.V Key Estimates

Amounts in CAD\$ million	1Q 2022A	2Q 2022A	3Q 2022A	4Q 2022A	2022A	1Q 2023A	2Q 2023A	3Q 2023E	4Q 2023E	2023E	2024E
Revenue	-	-	-	-	-	-	-	-	-	-	-
Operating Expenses	0.8	0.3	0.2	1.4	2.7	1.3	1.6	1.5	1.5	5.9	6.0
Operating Income	(0.8)	(0.3)	(0.2)	(1.4)	(2.7)	(1.3)	(1.6)	(1.5)	(1.5)	(5.9)	(6.0)
Other Expenses	(0.0)	(0.0)	0.0	0.3	0.3	0.0	0.0	-	-	0.0	-
Pretax Income	(0.8)	(0.3)	(0.2)	(1.7)	(3.0)	(1.3)	(1.6)	(1.5)	(1.5)	(5.9)	(6.0)
Taxes	-	-	-	-	-	-	-	-	-	-	-
Net Income	(0.8)	(0.3)	(0.2)	(1.7)	(3.0)	(1.3)	(1.6)	(1.5)	(1.5)	(5.9)	(6.0)
Basic Shares	94.6	95.7	95.7	98.7	96.1	105.9	121.7	147.6	156.1	132.8	156.1
FD Shares	94.6	95.7	95.7	98.7	96.1	105.9	121.7	211.5	211.5	153.9	211.5
Basic EPS	(\$0.01)	(\$0.00)	(\$0.00)	(\$0.02)	(\$0.03)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.04)	(\$0.04)
FD EPS	(\$0.01)	(\$0.00)	(\$0.00)	(\$0.02)	(\$0.03)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.04)	(\$0.04)

Source: SEDAR Filings, ROTH MKM estimates

Note: NILI.V reports under IFRS

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Disclosures:



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 11/06/23	
			Count	Percent
Buy [B]	357	74.38	218	61.06
Neutral [N]	83	17.29	29	34.94
Sell [S]	2	0.42	1	50.00
Under Review [UR]	31	6.46	3	9.68

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 MKM 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 MKM does not publish research or have an opinion about this security.

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