

Skyharbour Resources Ltd.
(TSXV: SYH / OTCQB: SYHBF)

BUY

Current Price: C\$0.18

Fair Value: C\$0.53

Risk: 5

Catalysts Expected From Multiple Uranium Projects

Sector / Industry: Junior Mining

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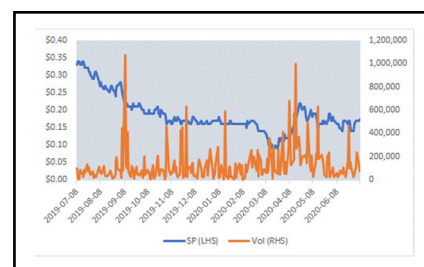
Highlights

- Skyharbour Resources Ltd. (“company”, “SYH”) recently completed a **2,328 m / six hole drill program** on its flagship Moore uranium project in the Athabasca basin, located 39 km south of Cameco’s (TSX: CCO) McArthur River mine.
- The drill program was primarily focused on an area (the Maverick East zone) which had returned an attractive intercept of 0.62% U₃O₈ over 12.0 m, with a high-grade basement hosted intercept of 2.5 m at 2.31% in a 2019 drill program. This is one of the broadest zones of uranium mineralization intersected on the property to date.
- All three holes drilled on the East zone in the recent drill program returned encouraging values. **Hole 20-04, drilled 50 m east of the previously defined Maverick East zone, intercepted 4.5 m of 0.38%U₃O₈, including 0.5 m of 1.43%, on a discrete basement hosted zone, and extended the known strike from 50 m to 100 m.**
- Historical high-grade results from the property include 20.8% U₃O₈ over 1.5 m at 264 m, 9.12% over 1.4 m at 278 m, and 5.29% over 2.5 m at 279 m.
- Option partners, Azincourt Energy Corp. (TSXV: AAZ) and Orano (previously AREVA), are actively exploring their properties
- SYH is in a **healthy cash position** after having completed a \$1.68 million financing in April 2020.
- The **recent spike in uranium prices** has brought interest back into the sector.
- We have a **positive outlook on uranium prices** considering that we expect global uranium production in 2020 will be down 16% - 22% YoY. This is due to the supply disruptions announced by major producers worldwide due to COVID-19. Electricity demand (which accounts for 90% of uranium demand is expected to be down 3% YoY.
- As work is ongoing at all of its core properties, we expect **a number of catalysts** for SYH’s share price this year.

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

Yi (Delvin) Xie, CFA

Price Performance (1-year)



	YTD	12M
Ret.	3%	-47%
TSXV	11%	11%

Company Data

52 Week Range	C\$0.08 - C\$0.35
Shares O/S	85,579,452
Market Cap.	C\$15.40 million
Yield (forward)	N/A
P/E (forward)	N/A
P/B	1.2x

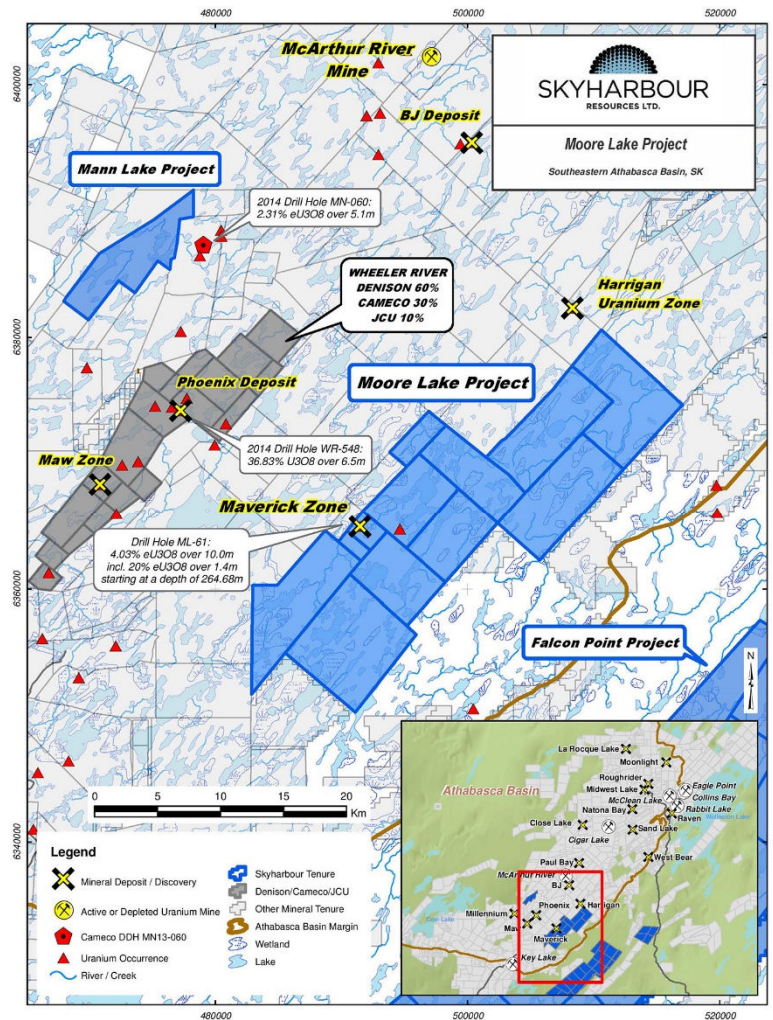
Key Financial Data (FYE - Mar 31)		
(C\$)	2019	2020 (9M)
Cash	\$1,352,374	\$1,611,053
Working Capital	\$1,166,180	\$1,724,022
Mineral Assets	\$9,620,935	\$9,816,719
Total Assets	\$11,101,657	\$11,614,477
Net Income (Loss)	-\$1,666,196	-\$1,029,112
EPS	-\$0.03	-\$0.02

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

Winter Drilling at the Flagship Moore Uranium Project Extends Known Mineralization

The company recently completed a winter diamond drill program (2,328 m / six holes) at its flagship Moore uranium project. As shown in the map below, the project is located in the southeastern portion of the Athabasca Basin, 42 km northeast of the Key Lake mill, 15 km east of the Wheeler River project, and 39 km south of Cameco's McArthur River mine.

Moore Uranium Project



Source: Company

The main deposit type that is being explored for are unconformity and basement-rock related, structurally controlled deposits, similar to the McArthur River, Cigar Lake and Key Lake Deposits. SYH is focused on **the relatively untested** basement rocks underlying the Maverick corridor. The company has so far only systematically drilled 2 km of the 4 km long Maverick corridor. Several recently discovered large undeveloped uranium deposits in the Athabasca Basin are hosted

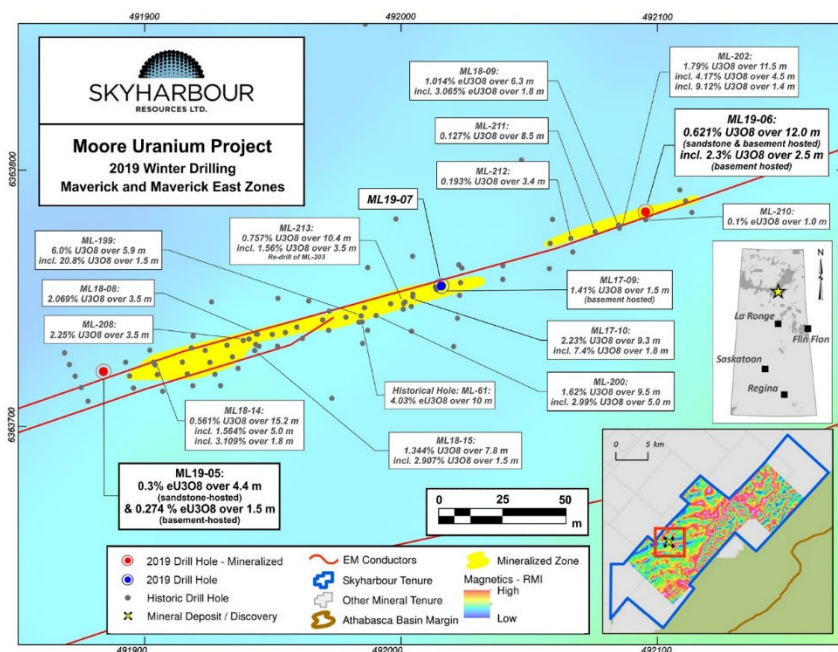
2020 drilling followed up on successful 2019 intercepts

within basement rocks – examples include NexGen’s (TSX: NXE) Arrow deposit, Fission Uranium’s (TSX: FCU) Triple R deposit, Denison’s (TSX: DML) Gryphon deposit, to name a few.

The 2020 drill program was a follow up to the 2019 drill program which included seven holes totaling 2,783 m. The 2019 program focused on four areas – the Main Maverick zone (two holes), the Maverick East zone (1 hole), the Otter zone (three holes) and the Nutanaa conductive corridor (one hole). Best intercepts were from the East and Main zones, as listed below:

One of the broadest zones of mineralization intersected to date

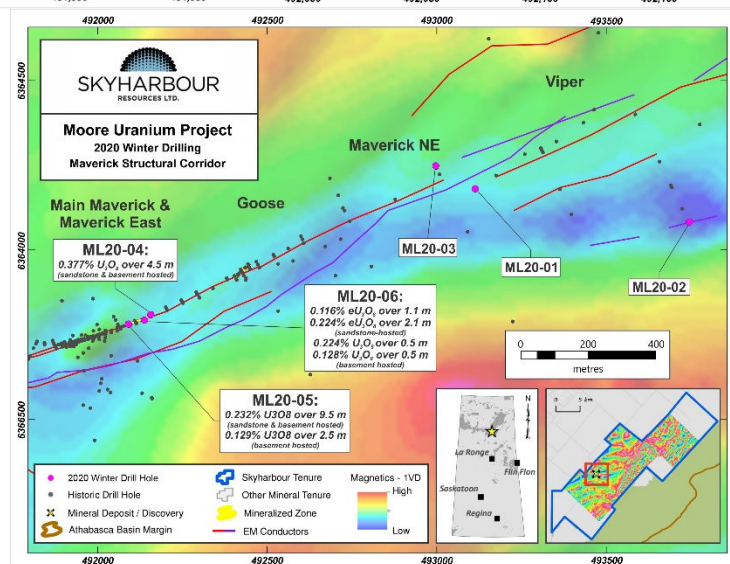
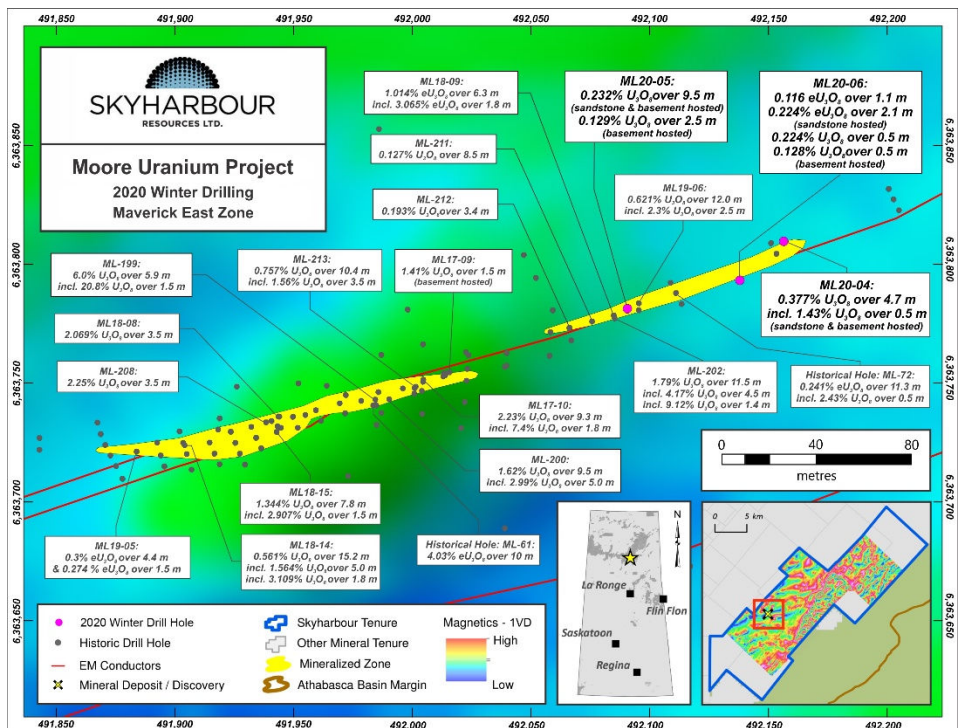
- **Maverick East zone** - 0.62% U3O8 over 12.0 m (from 273 to 285 m), with a high-grade basement hosted intercept of 2.5 m at 2.31%. See ML 19-06 in the image below. This is one of the broadest zones of uranium mineralization intersected on the property to date. In addition, the basement hosted intercept reflects a high probability for a discovery below the unconformity.
- **Main Maverick zone** - 0.30% U3O8 over 4.4 m (264.7 to 269.1 m) and 0.27% U3O8 over 1.5 m (274.7 to 276.2 m) below the unconformity. See ML 19-05 in the image below.



Source: Company

The 2020 drill program focused on the high-grade mineralization discovered at the Maverick East zone, and the relatively untested Viper area (see image on the next page for location)

2020 drilling doubles strike of the East zone to 100 m



Source: Company

Of the six holes drilled in 2020, we were particularly encouraged by all three holes on the East zone. Key results follow:

- Drill hole ML20-04 returned 4.5 m of 0.38% U_3O_8 , including 0.5 m of 1.43% U_3O_8 (basement-hosted), and doubled the known strike of the East zone from 50 m to 100 m.
- Hole ML20-05 (drilled within the central portion of the east zone) returned 0.23% U_3O_8 over 9.5 m along the unconformity, and 0.13% U_3O_8 over 2.5 m, below the unconformity.

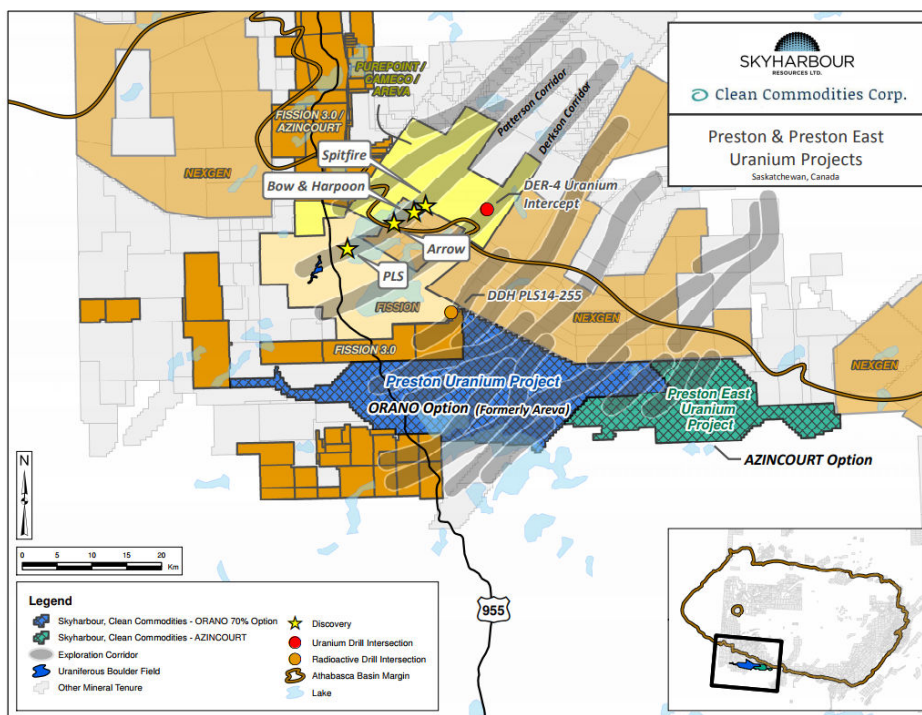
- Hole ML20-06 (also within the central portion) intersected 0.12% U₃O₈ over 1.1 m, and 0.22% U₃O₈ over 2.1 m.

SYH is planning a 2,500 m summer drill program to follow up on these results. The company aims to complete an initial resource by Q1-2021.

Ongoing Work by Option Partners

In April 2020, SYH extended the deadline for the remaining obligations due from partner Azincourt Energy to March 2021. SYH and Dixie Gold Inc. (TSXV: DG) currently hold a 50:50 interest in the East Preston uranium project, and AAZ can earn a 70% interest by paying another \$0.40 million in cash and incurring \$0.15 million in exploration. SYH and Dixie received 2.5 million shares each of AAZ (valued at \$0.10 million) for this extension.

Option partner AAZ is actively drilling



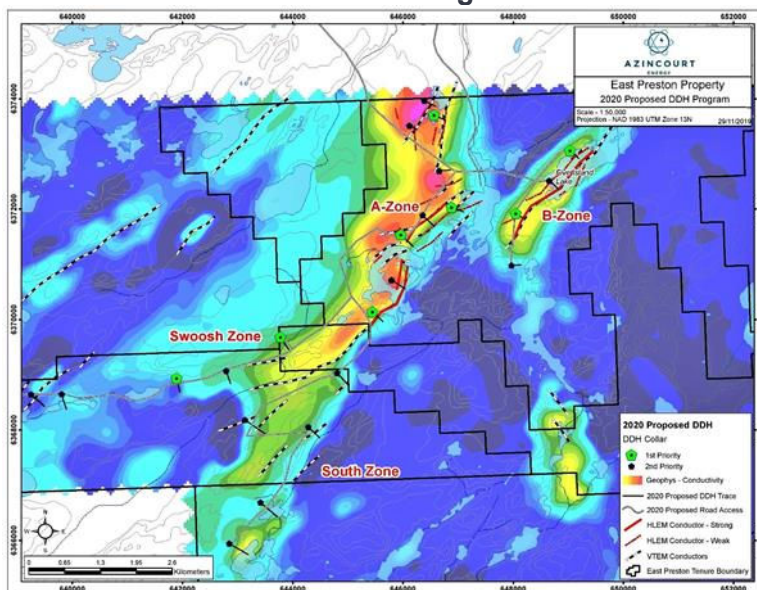
Source: Company

In 2019, a three hole / 552 m drill program was completed. In 2020, AAZ completed a 2,431 m / nine hole drill program. AAZ had completed a \$1.4 million financing to fund this program. This program primarily tested the A-zone and B-zone conductor corridors shown in the image below. The program also tested the Swoosh zone, located approximately 5 km along strike southwest of the A-zone.

Although the program did not result in a discovery, we were pleased to see potential for REE (rare earth elements) mineralization. The project holds multiple untested

conductive corridors for additional drilling. AAZ is planning a ground geophysical targeting program to refine drill targets.

2020 Drilling



Source: Company

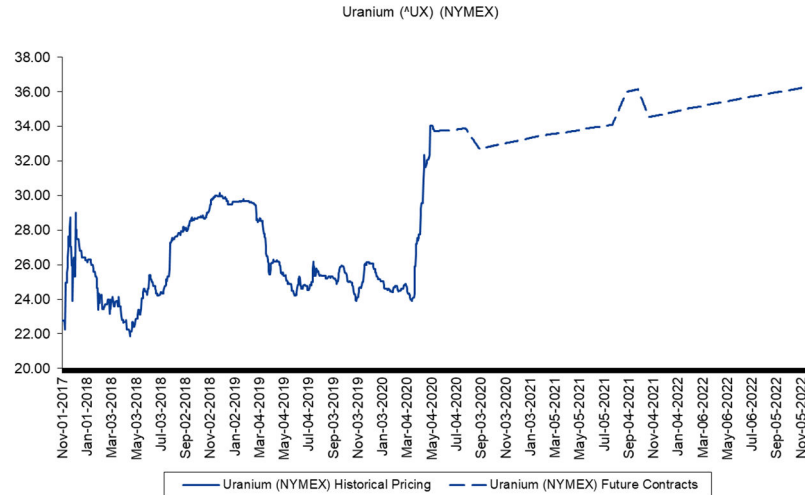
In March 2020, **option partner Orano Canada** commenced an exploration program at the Preston uranium project. Skyharbour and Dixie hold a 50:50 interest in the property. Orano can earn up to a 70% interest for \$8 million in project consideration over six years, including \$7.30 million in exploration expenditures (approximately \$4 million spent) and \$0.70 million (\$0.20 million paid) in cash payments. The project is located 30 km south of Fission Uranium's Patterson Lake South Triple R deposit, and 35 km from NexGen Energy's Arrow uranium deposit. The current program includes geophysics and groundwork to identify drill targets.

Outlook on Uranium

Uranium prices are up 38%, from US\$24 / lb on March 23, 2020, to the current price of US\$33 / lb.

Uranium prices up
38%

Spot and Futures Prices



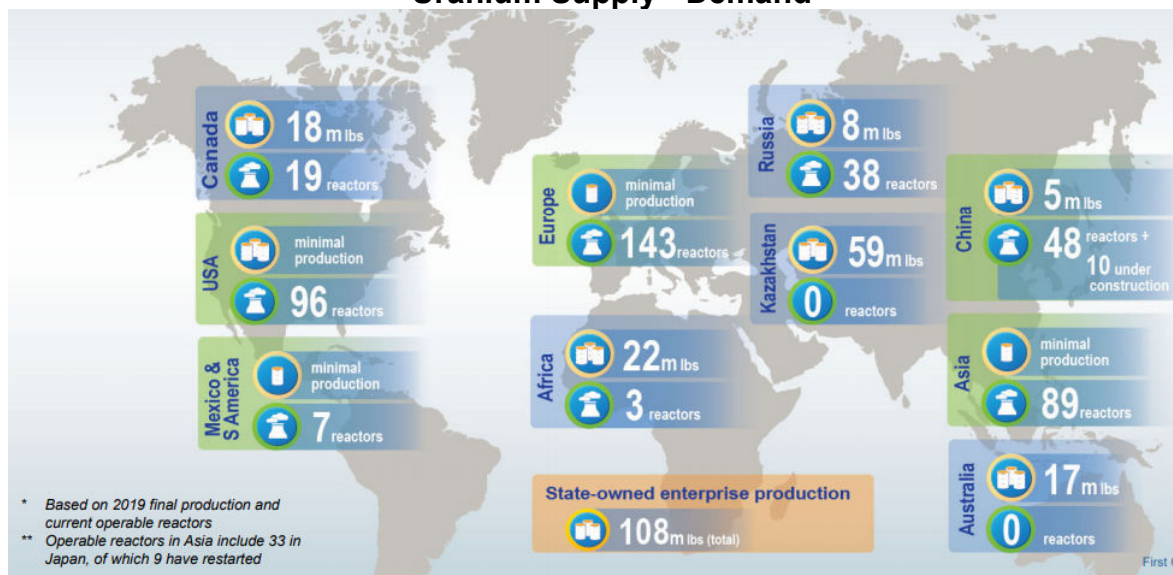
Source: S&P Capital IQ

The significant run in price was primarily due to the following key supply disruptions announced by major uranium producers due to COVID-19.

- Cameco / TSX: CCO (the second largest producer in the world) decided to suspend operations at its Cigar Lake uranium mine on March 23, 2020. Cigar Lake accounts for 100% of Canada’s production.
- Two major producing countries in Africa, South Africa and Namibia, also paused their production in March.
- Kazatomprom (the largest producer in the world) lowered its 2020 guidance from 50 MIbs to 42 MIbs.
- Production at BHP’s (ASX: BHP) Olympic Dam project (which accounted for 6% of global production in 2019) is expected to decline 11% YoY in 2020

The following image shows global production by region. Canada and Africa (where production is completely suspended) had accounted for 33% of global uranium production in 2019.

Uranium Supply - Demand



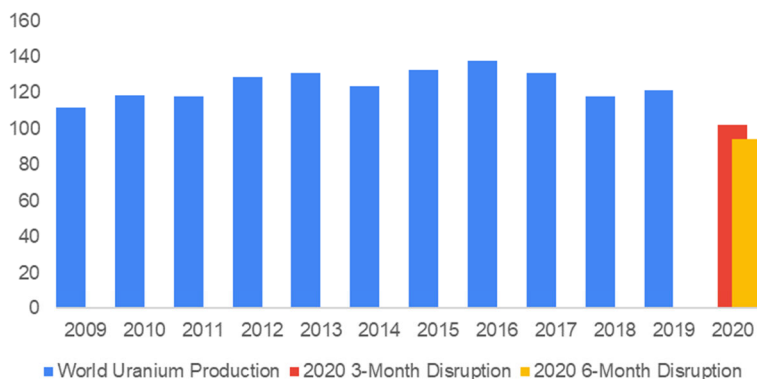
Source: Cameco

We are expecting a 16% - 22% YoY decline in global production in 2020

We estimate that 2020 production will be down 16% - 22% YoY, based on the assumption that operations across the world will be disrupted for three to six months in 2020.

Primary Production of Uranium

World Uranium Production in MIbs



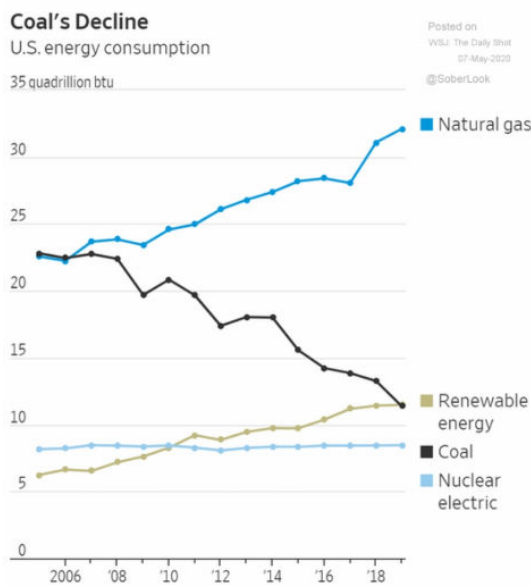
Country	2019	2020E		2020E		2021E		
	Productions (MIbs)	(production impacted for 3 mo)	% change from 2019	(production impacted for 6 mo)	% change from 2019	(MIbs)	% change from 2019	% Change from 2020
Canada	18.0	13.5	-25%	9.0	-50%	18.2	1%	35%
Africa	23.0	19.5	-15%	17.3	-25%	20.8	-9%	7%
Kazakhstan	50.3	42.4	-16%	42.4	-16%	51.4	2%	21%
Australia	14.6	13.1	-10%	13.1	-10%	14.0	-4%	7%
Others	15.4	13.9	-10%	12.3	-20%	15.4	0%	11%
Total	121.3	102.5	-16%	94.1	-22%	119.8	-1%	17%

Source: FRC, Cameco, Kazatomprom, BHP, WNA

On the demand side, power generation accounts for 90% of the global demand for uranium. At the end of 2019, 450 nuclear power reactors were in operation worldwide, totaling 398.9 GW(e) in net installed capacity, up 0.6% YoY. Uranium mine production satisfied 83% of the world demand (143 Mlbs) in 2019; the remaining were met by stockpiles.

As a result of the pandemic, the demand for uranium will be impacted by lower demand for electricity. The U.S. Energy Information Administration (“EIA”) estimates power generation in the U.S. will decline 3% YoY in 2020. Most of the reduction is expected to come from coal-fueled power plants. Nuclear power generation is expected to drop 1.6%. Nuclear power in the U.S. is currently facing competition from natural gas, which is currently at historic low prices, and from renewable sources.

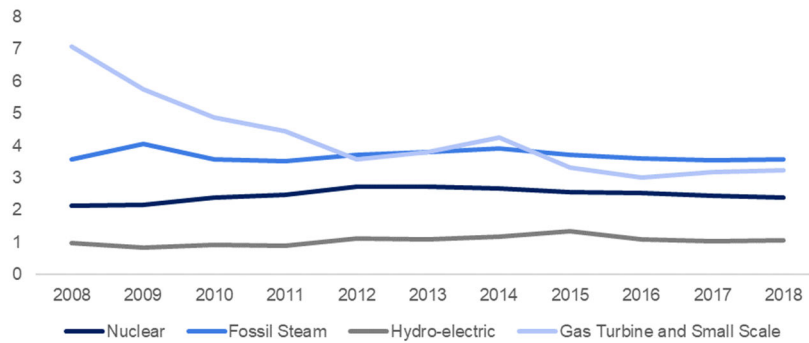
EIA estimates 3% decline in electricity consumption in 2020



Source: EIA

However, nuclear power continues to grow in the developing world as a base load, carbon-free source and due to its low operating cost (see chart below).

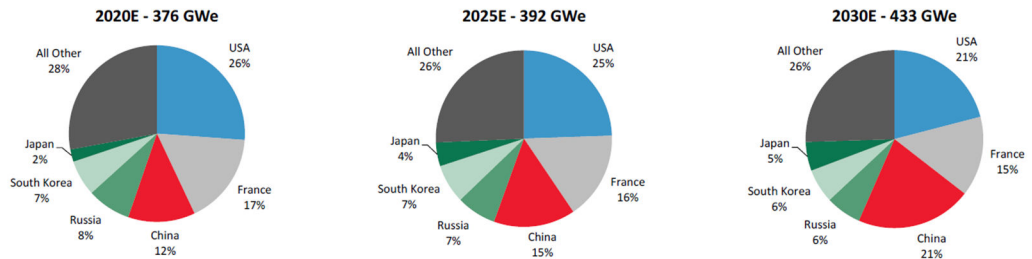
Average Power Plant Operating Costs (Cents per kWh)



Source: EIA, FRC

As shown in the chart below, the U.S.'s share of global nuclear power is expected to decline from the current 26% to 21% by 2030.

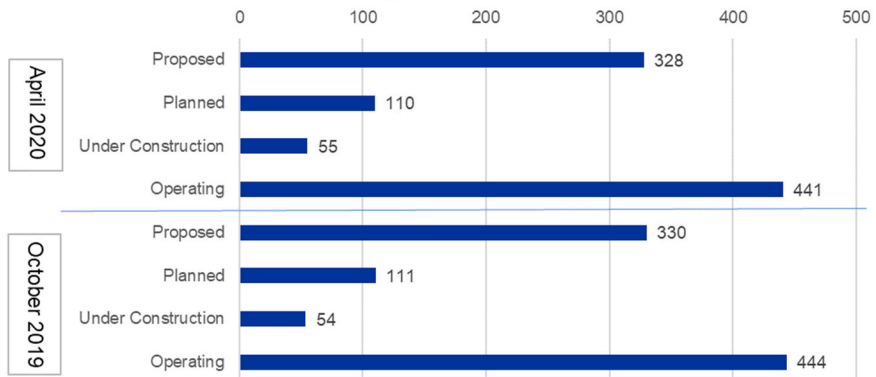
Nuclear Power Generation Capacity by Country



Source: UxC, Scotiabank

As per the International Energy Agency's policies, nuclear power generation capacity growth is expected to grow 25% from 2015 to 2040. The planned and under-construction reactors will bring the total number of existing reactors to 606, a 36.5% increase. More than half of the reactors under construction are expected to come online in two years.

Number of Reactors in April 2020 versus in October 2019



Source: WNA, FRC

2020 to have a primary supply deficit of 37 Mlbs

Based on the above, we are expecting a 37 Mlbs primary supply deficit in 2020, up from 22 Mlbs in 2019. Taking the secondary supplies in to consideration, the total supply will likely turn from a 9 Mlbs surplus in 2019, to a 6 Mlbs deficit in 2020.

	2019	2020*	% Change from 2019	2021	% Change from 2019	% Change from 2020
Uranium Demand	143	140	-2%	153	7%	10%
Primary Production	121	102	-16%	120	-1%	17%
Secondary Production	31	31		31		
Primary Production as % of Demand	85%	73%		78%		
Primary Supply Surplus (Deficit)	-22	-37		-33		
Primary + Secondary Supply Surplus (Deficit)	9	-6		-2		
All Supply as % of Demand	106%	96%		98%		

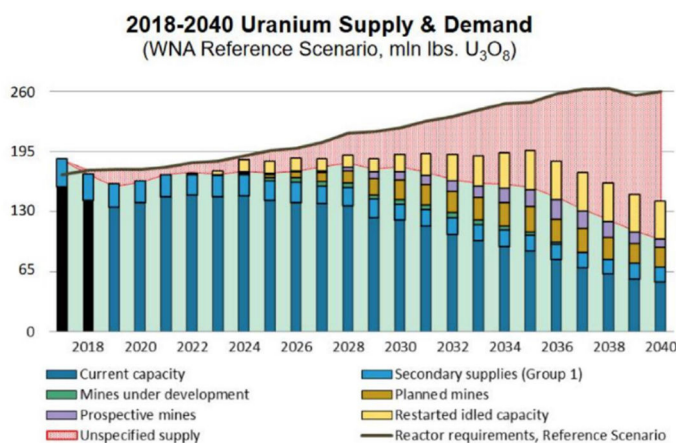
* Assuming markets normalize post June 30, 2020

* Secondary sources, such as civil stockpiles, military warheads, recycled uranium, etc., is expected to last another 18 years.

Secondary sources, such as civil stockpiles, military warheads, recycled uranium, etc., are expected to last another 18 years.

Source: FRC

Based on the current supply and demand projections, the market is estimated to be in a deficit over the long-term.



Source: Cameco, UxC, GoviEx, WNA

We maintain our positive long-term outlook on uranium prices based on the following key factors:

- Nuclear energy is a dependable and clean power source.
- Uranium has no direct substitute for use in nuclear power plants.
- A major concern regarding the supply of uranium is that it typically takes over 10 years from discovery to production for a uranium mine.
- Significant decline in exploration / development spending.
- Although capital costs of nuclear power plants are high, nuclear plants tend to have lower operating cost per unit of electricity produced (compared to other plants).
- Prices need to be much higher in order to incentivize idled and new projects to come online. The following table shows a list of some of the advanced

Favorable short-term and long-term outlook

stage projects – the average uranium price used for their economic studies was US\$57 /lb. The break-even price, we estimate, is US\$33 / lb.

Uranium Price Assumptions from Technical Reports

Company	Project	Location	Base Case Uranium Price (US\$/lb)	Price for NPV Break-Even (US\$/lb)
Fission Uranum Corp.	Patterson Lake South	Athabasca Basin, CAN	\$50	\$35
Denison Mines Corp.	Wheeler River	Athabasca Basin, CAN	\$30 - \$50	n/a
NextGen Energy Ltd.	Arrow	Athabasca Basin, CAN	\$50	\$15
Laramide Resources	Westmoreland	U.S.	\$65	\$35
GoviEx	Mutanga	Africa	\$58	\$46
	Madaouela	Africa	\$70	\$49
Ur-Energy	Lost Creek	U.S.	\$66	\$25
	Shirley Basin	U.S.	\$63	\$28
Average			\$57	\$33

Source: FRC, Various Companies' Technical Reports

Financials

At the end of Q3-FY2020 (December 2019), SYH had cash and working capital of \$1.61 million and \$1.72 million, respectively. We estimate the company had a burn rate (G&A) of \$109k per month in the first nine months of FY2020. The following table summarizes the company's liquidity position.

Financial Position

(in C\$)	2019	2020 (9M)
Cash	\$1,352,374	\$1,611,053
Working Capital	\$1,166,180	\$1,724,022
Current Ratio	4.72	24.65
LT Debt / Assets	-	-
Monthly Burn Rate (incl.G&A)	-\$110,240	-\$109,060
Investing Activities (exploration and development)	-\$2,638,010	-\$315,563
Cash from Financing Activities	\$3,809,375	\$1,782,738

Source: FRC / Company

In April 2020, SYH **completed a \$1.68 million financing** at \$0.15 per unit, and \$0.18 per flow-through unit. Each unit consisted of a common share and one full warrant (exercise price of \$0.22 for three years).

Stock Options and Warrants - We estimate the company currently has 3.89 million options (weighted average exercise price of \$0.38 per share) and 40.69 million warrants (weighted average exercise price of \$0.29 per share) outstanding. None of the options / warrants are currently in-the-money.

Valuation

The following table shows the Enterprise Value ("EV") to resource ratios of uranium juniors. As shown below, the average EV of Canadian juniors is \$1.91 / lb versus \$3.5 / lb at the time of our previous report in October 2018. The global average (introduced in this report) is \$1.71 / lb.

Healthy cash position

Key Junior Uranium Companies

	Location	M&I (Mlbs)	Grade	Inferred (Mlbs)	Grade	Net Resource (Mlbs)	EV (\$M)	EV / Resource (\$ / lb)
Ur-Energy	U.S.	22	0.13%	6	0.04%	25	\$124	\$4.90
NexGen Energy Ltd.	Athabasca Basin, Canada	257	4.03%	92	0.86%	302	\$801	\$2.65
Peninsula Energy	U.S.	16	0.49%	38	0.48%	35	\$70	\$2.01
Denison Mines Corp.	Athabasca Basin, Canada	144	2.77%	13	0.92%	151	\$300	\$1.99
Fission Uranium Corp	Athabasca Basin, Canada	102	2.10%	33	1.22%	119	\$131	\$1.10
Azarga Uranium	U.S.	41	0.10%	6	0.07%	44	\$34	\$0.78
GoviEx	Africa	111	0.14%	28	0.13%	125	\$92	\$0.74
Laramide Resources	U.S.	36	0.09%	67	0.08%	69	\$44	\$0.63
Global Atomic	Africa	102	0.18%	88	0.18%	145	\$85	\$0.58
Average (Global)								\$1.71
Average (Canada)								\$1.91

- Net Resource = 100% Measured and Indicated and 50% Inferred Resources
Source: Various Companies / S&P Capital IQ / FRC

Based on a multiple of \$1.91 per lb, our revised fair value on SYH is \$0.53 per share (previously \$1.01 per share). Our valuation dropped due to the lower average EV / lb ratio of uranium juniors, and 37% share dilution since our previous report.

Valuation Summary	
Fair Value (\$M) / Moore + Falcon + Option Payments	\$42.92
Working Capital (\$M)	\$2.67
Fair Value of SYH (\$M)	\$45.58
Shares (treasury stock method) - millions	85.58
Fair Value (\$ per share)	\$0.53

Source: FRC

Risks

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

- SYH's ability to advance its projects depends heavily on uranium prices.
- Exploration and development risks.
- The flagship project has yet to have a NI43-101 compliant resource estimate completed.
- Access to capital and share dilution.

As with most junior exploration companies, we rate SYH 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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