

Azarga Uranium Corp.

(AZZ-T: C\$0.30)

BUY

Target: C\$0.45

April 7, 2021

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Gas Hills Resource Update: ISR Satellite Optionality

| AZZ-T | New | Last |
|------------------------------------|-------|---------|
| Rating | -- | BUY |
| Target (C\$) | -- | 0.45 |
| Projected Return | -- | 53% |
| Target/NAV multiple | -- | 0.8x |
| Corporate DCF (C\$) | 0.42 | ▼ 0.44 |
| Cash & Investments (C\$) | -- | 0.01 |
| Debt (C\$) | -- | 0.00 |
| Exploration & Unmodelled Resources | 0.13 | ▲ 0.10 |
| Total NAV | 0.56 | ▲ 0.54 |
| P/NAV | 0.53x | ▲ 0.29x |

| Company Data | | | | |
|------------------------------------|----------|-------|----------|------|
| Last Price | | | C\$ 0.30 | |
| 52-week Range | C\$ 0.14 | - | C\$ 0.31 | |
| Market Cap (C\$MM) | | | C\$ 68.5 | |
| Enterprise Value (\$MM) | | | \$52.3 | |
| Shares Outstanding - Basic (MM) | | | 232.2 | |
| Shares Outstanding - FD (MM) | | | 274.9 | |
| Avg Volume - 100d (000 shares/day) | | | 958.8 | |
| Cash (\$MM) | | | \$2.40 | |
| Debt (\$MM) | | | \$0.10 | |
| Working Capital (\$MM) | | | \$1.82 | |
| Forecast | 2020A | 2021E | 2022E | LT |
| Spot (US\$/lb) | 29.8 | 32.0 | 35.0 | 50.0 |
| Term (US\$/lb) | 32.0 | 35.0 | 40.0 | 50.0 |

All Figures in US\$ Unless Otherwise Noted

Source: FactSet, Company Reports, Eight Capital

AZZ-T: Price/Volume Chart



Source: FactSet

Company Description

Azarga Uranium is developing five low cost ISR uranium properties in South Dakota and Wyoming. An updated PEA on its flagship Dewey-Burdock project indicates a pre-tax 8% NPV of \$171 MM and IRR of 55% using a \$55/lb U3O8 price. Second project Gas Hills is just over 200 miles from Dewey-Burdock and hosts an ISR amenable M&I resource of 7.7MMlbs grading 0.101%.

We maintain a BUY recommendation for Azarga Uranium and a 12-month target of C\$0.45/sh based on a 0.8x multiple applied to a 10% DCF model.

Azarga's resource update for its secondary Gas Hill project in Wyoming ([link to PR](#)) more than doubled its M&I resources to 10.77MMlbs U3O8 (from 4.73MM lbs) after incorporating additional mineralization previously disclosed by the company. And more importantly, 72% of this M&I component was deemed by hydrological work to be amenable to low-cost ISR mining. This ISR amenable portion of the M&I resource amounts to 7.71MMlbs grading 0.101%, which is just slightly below the M&I grade (0.116%) for AZZ's flagship Dewey-Burdock ISR project in South Dakota just over 200 miles away, which offers optionality and makes things even more interesting. A PEA will be undertaken to evaluate trade-offs between developing GH as a satellite deposit to the DB ISR project, or as a standalone, low-cost ISR project. The overall M&I+I resource also increased by 55% to 11.3MMlbs, with overall grade falling slightly to 0.076% (from 0.083%). The stock reacted positively to this news, rising to 30 cents from 26 cents since the announcement. Meanwhile, the uranium sector has recently experienced clean energy driven multiples expansion ([see uranium sector note](#)), which should bode well for Azarga as it advances through final permitting milestones, closer to production.

Gas Hills ISR offers optionality to an already strong project. This ISR amenable portion of GH resource creates the opportunity to truck loaded mining solution from GH to DB's ISR plant, which could extend LOM and improve the economics of the low capex, low opex DB ISR project. This trucking to an ISR satellite concept is not dissimilar to Ur-Energy's (URE-T, BUY, C\$2.45 TP) planned trucking of loaded ISR solution from its Shirley Basin deposit to its Lost Creek ISR facilities, which are a slightly lesser 175 miles apart, and which a 2015 PEA deemed economic. That said, ISR plants are relatively low-cost (total capex for DB including ISR plant is expected to be just over \$30MM), so it's possible a standalone plant at GH will end up being preferred.

Board hearings for remaining key permits anticipated this summer. Dewey-Burdock already received final EPA approval for ISR mining in November ([see note](#)), which followed the clearing of the NRC Source and Byproduct Materials Licence before it in October. The only major step remaining is for the State of SD to issue the Mine Permit it has already recommended. We expect board hearings to take place this summer to finalize the key state permits, which are expected to culminate to a briefing schedule by around fall that outlines the public hearing process. The public hearings are expected to be completed over a 7-day period and could lead to state permit approval by YE, re-rating of the stock, and possibly even AZZ being taken out by operators of neighbouring ISR plants Cameco (CCO-T, NEUTRAL, C\$22 TP, covered by R. Profiti), Energy Fuels (EFR-T, BUY, C\$10.50 TP), Peninsula Energy (Not Rated), Uranium 1 (Not Rated), or URE.

We now assume GH's 7.1MM lbs ISR resources are pipelined to DB to extend LOM by four years. While this additional production at DB beyond the planned 16-year LOM did not move the needle much after our assumed \$15MM capex at GH (largely for wellfields), and was largely offset by pushing our first production at DB out by one year to 2023, it did help boost our NAVPS by 2 cents to C\$0.56. Azarga trades at 0.53x P/NAV vs. our uranium developer peer avg. of 0.56x.

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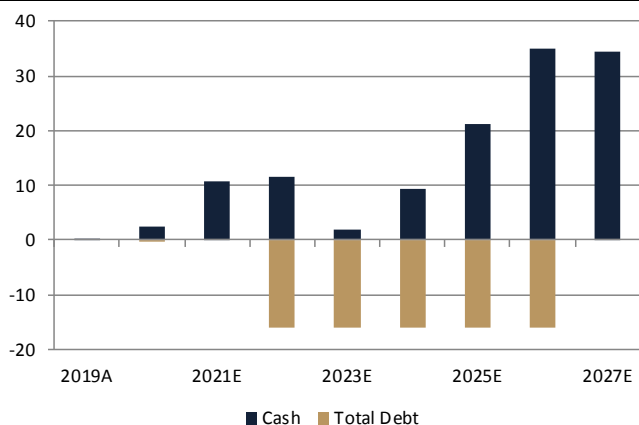
Azarga Uranium Corp.

Net Asset Valuation at Eight Capital Price Deck (C\$)

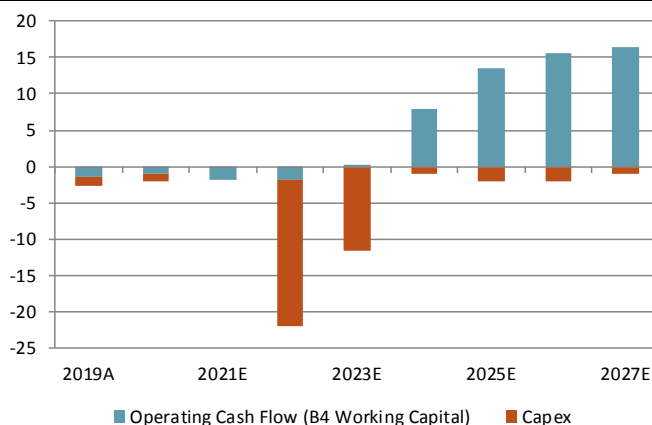
| | Target Setting NAV | | | NAV at Various Discount Rates | | | | | |
|------------------------------------|--------------------|-------------|---------------|-------------------------------|--------------|-------------|--------------|------------|--------------|
| | Discount Rate | (\$MM) | (\$/Share) | 0% | | 5% | | 15% | |
| | | | | (\$MM) | (\$/Share) | (\$MM) | (\$/Share) | (\$MM) | (\$/Share) |
| Uranium Assets | | | | | | | | | |
| Dewey Burdock (100%) | 10% | 118 | 0.47 | 310 | 1.24 | 188 | 0.75 | 75 | 0.30 |
| Gas Hills (100%) | 10% | 33 | 0.13 | 136 | 0.54 | 66 | 0.26 | 17 | 0.07 |
| Total Uranium Assets | | 151 | 0.60 | 446 | 1.78 | 254 | 1.02 | 93 | 0.37 |
| Other Assets & Expenses | | | | | | | | | |
| Cash | | 2 | 0.01 | 2 | 0.01 | 2 | 0.01 | 2 | 0.01 |
| Debt | | (0) | (0.00) | (0) | -0.00 | (0) | (0) | (0) | (0.00) |
| Resources | | 33 | 0.13 | 33 | 0.13 | 33 | 0.13 | 33 | 0.13 |
| Exploration, G&A, Other | 10% | (47) | (0.19) | (162) | -0.65 | (88) | (0) | (22) | (0.09) |
| Net Other Assets | | (12) | (0.05) | (127) | -0.51 | (53) | (0) | 12 | 0.05 |
| Net Asset Value | | 139 | 0.56 | 319 | 1.27 | 201 | 0.80 | 105 | 0.42 |
| Share Price | | | 0.30 | | 0.30 | | 0.30 | | 0.30 |
| P/NAV | | | 0.53x | | 0.23x | | 0.37x | | 0.70x |

Financial Forecasts at Eight Capital Deck (MM US\$)

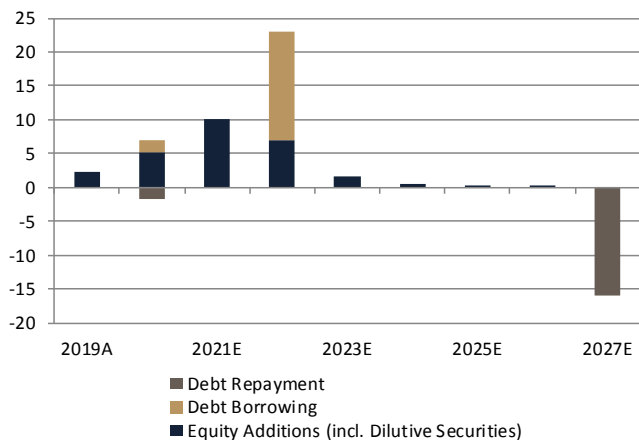
Cash and Debt



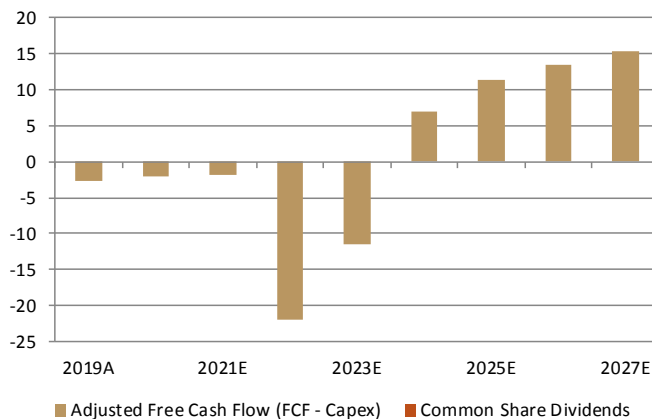
Operating Cash Flow and Capital Spending



Changes in Debt and Equity



Free Cash Flow and Common Share Dividends



Source: Company Reports, Eight Capital

| Azarga Uranium Corp. (AZZ-T) | | | | | |
|--|-----|-----------------|--------|----------------------------------|----------|
| Rating | BUY | C\$ Target | \$0.45 | Shares O/S (MM) | 232.2 |
| | | C\$ Close | \$0.30 | Fully Diluted Shares (MM) | 274.9 |
| Mitch Vanderydt, P.Eng, Mining Research Analyst | | 12-month return | 53% | Basic Mkt. Capitalization (\$MM) | C\$ 68.5 |
| mvanderydt@viiicapital.com | | | | Enterprise Value (\$MM) | C\$ 65.6 |

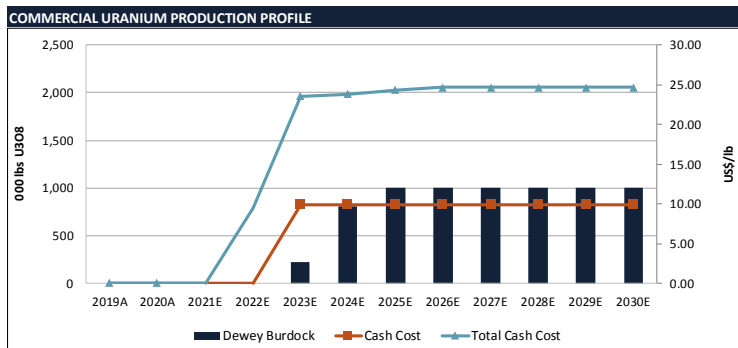
| PRODUCTION ESTIMATES (000 lbs) | | | | | |
|--------------------------------|----------|----------|----------|----------|----------|
| Year-End December | 2018A | 2019A | 2020A | 2021E | 2022E |
| Dewey Burdock | 0 | 0 | 0 | 0 | 0 |
| TOTAL | 0 | 0 | 0 | 0 | 0 |

| TOTAL CASH COST ESTIMATES (excl. non-cash, incl. wellfield expenditures) (US\$/lb) | | | | | |
|--|------------|-------------|-------------|-------------|-------------|
| Year-End December | 2018A | 2019A | 2020A | 2021E | 2022E |
| Dewey Burdock | 0.0 | 0.0 | 0.0 | 0.0 | 9.6 |
| Wt. Avg. Total Cash Costs | 0.0 | 49.2 | 30.5 | 29.3 | 23.0 |

| URANIUM RESERVES & RESOURCES | | | | | |
|---|-----------|--------------|-----------------|----------------------------------|--------------|
| | Ownership | Tons MM t | Grade % U3O8 | Cont U3O8 (MM lbs) 100% Basis | PWE Share |
| Proven and Probable Reserves | | | | | |
| *The company has no NI 43-101 reserves at this time | | | | | |
| Total Reserves | | 0.00 | 0.00% | 0.00 | 0.00 |
| Measured and Indicated Resources | | | | | |
| Dewey Burdock | 100% | 8.49 | 0.11% | 18.39 | 18.39 |
| Centennial | 100% | 6.87 | 0.09% | 10.37 | 10.37 |
| Aladdin | 100% | 0.47 | 0.11% | 1.04 | 1.04 |
| Gas Hills / Juniper Ridge | 100% | 12.2 | 0.07% | 16.8 | 16.8 |
| Total Measured and Indicated Resources | | 27.99 | 0.09% | 46.57 | 46.57 |
| Inferred Resources | | | | | |
| Dewey Burdock | 100% | 0.76 | 0.05% | 0.83 | 0.83 |
| Centennial | 100% | 1.36 | 0.09% | 2.33 | 2.33 |
| Aladdin | 100% | 0.04 | 0.12% | 0.10 | 0.10 |
| Gas Hills / Juniper Ridge | 100% | 0.62 | 0.05% | 0.67 | 0.67 |
| Total Inferred Resources | | 2.79 | 0.07% | 3.93 | 3.93 |
| TOTAL RESOURCES | | 30.78 | 0.09% | 50.49 | 50.49 |
| Current Per Pound Metrics | | | | | |
| EV/lb (US\$) | AZZ | 1.04 | Dev. Peers | 1.99 | Prem./Disc. |
| | | | | | (48%) |

| NET ASSET VALUE (C\$) - 10% | | | |
|--|--------------|-------------|--------------|
| | NAV (\$ MM) | /Share | % NAV |
| Assets: | | | |
| Dewey Burdock + Gas Hills (100%) | 151.2 | 0.60 | 108% |
| Unmined Resources | 33.1 | 0.13 | 24% |
| Balance Sheet & Other Items: | | | |
| Cash & Investments | 1.9 | 0.01 | 1% |
| Debt | (0.1) | (0.00) | (0%) |
| Exploration, G&A, and Other | (46.7) | (0.19) | (33%) |
| Total | 139.4 | 0.56 | 100% |
| Eight Capital DCF Target Multiple | | | 0.80x |
| Share Price Target | | | 0.45 |

| Long Term Uranium Price Assumption (US\$/lb) | | | | | |
|--|------|------|------|------|------|
| Target (C\$/share) | 30 | 40 | 50 | 60 | 70 |
| 0% Discount | 0.22 | 0.65 | 1.07 | 1.50 | 1.93 |
| 5% Discount | 0.18 | 0.44 | 0.69 | 0.94 | 1.20 |
| 10% Discount | 0.16 | 0.33 | 0.49 | 0.65 | 0.81 |
| 15% Discount | 0.16 | 0.26 | 0.37 | 0.48 | 0.59 |



| BALANCE SHEET (US\$ MM) | | | | |
|---------------------------------|--------------|--------------|--------------|--------------|
| Year-End December | 2019A | 2020A | 2021E | 2022E |
| Assets: | | | | |
| Cash & ST Investments | 0.18 | 2.40 | 10.60 | 11.60 |
| Other Current Assets | 0.02 | 0.06 | 0.06 | 0.06 |
| Current Assets | 0.21 | 2.46 | 10.66 | 11.66 |
| Mineral Properties | 41.51 | 42.69 | 42.69 | 62.69 |
| Other Non-Current Assets | 0.13 | 1.03 | 1.03 | 1.03 |
| Total Assets | 41.85 | 46.17 | 54.37 | 75.38 |
| Liabilities: | | | | |
| Current Liabilities | 0.84 | 0.64 | 0.54 | 0.54 |
| Long-Term Debt | 0.00 | 0.00 | 0.00 | 16.00 |
| Other Non-Current Liabilities | 3.77 | 5.62 | 5.73 | 6.53 |
| Total Liabilities | 4.61 | 6.27 | 6.27 | 23.07 |
| Capital Stock | 64.23 | 69.04 | 79.04 | 85.94 |
| Retained Earnings | (27.0) | (29.1) | (30.9) | (33.6) |
| Total Shareholder Equity | 37.24 | 39.91 | 48.11 | 52.31 |

| INCOME STATEMENT (US\$ MM) | | | | |
|------------------------------|---------------|---------------|---------------|---------------|
| Year-End December | 2019A | 2020A | 2021E | 2022E |
| Total Revenue: | 0.0 | 0.0 | 0.0 | 0.0 |
| % Uranium | 0% | 0% | 0% | 0% |
| % Other | 100% | 100% | 100% | 100% |
| Operating Costs | 0.0 | 0.0 | 0.0 | 0.0 |
| G&A | 1.9 | 1.6 | 1.9 | 1.9 |
| Exploration | 0.0 | 0.0 | 0.0 | 0.0 |
| Depreciation | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 2.2 | 0.4 | (0.1) | 0.8 |
| EBITDA | (4.1) | (2.0) | (1.8) | (2.7) |
| EBIT | (4.1) | (2.0) | (1.8) | (2.7) |
| Interest Expense | 0.0 | 0.1 | 0.0 | 0.8 |
| EBT | (4.1) | (1.9) | (1.8) | (1.9) |
| Taxes | -0.1 | 0.2 | 0.0 | 0.0 |
| Equity Earnings | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | -3.8 | 0.0 | 0.0 | 0.0 |
| Net Income (Reported) | (8.0) | (1.7) | (1.8) | (1.9) |
| Net Income (Adjusted) | (8.0) | (1.7) | (1.8) | (1.9) |
| EPS (Reported) \$/sh | (0.04) | (0.01) | (0.01) | (0.01) |
| EPS (Adjusted) \$/sh | (0.04) | (0.01) | (0.01) | (0.01) |
| Average Shares (MM) | 185.5 | 195.7 | 250.2 | 283.8 |

| CASH FLOW STATEMENT (US\$ MM) | | | | |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Year-End December | 2019A | 2020A | 2021E | 2022E |
| Net Income (Reported) | (8.0) | (1.7) | (1.8) | (1.9) |
| Depreciation | 0.0 | 0.0 | 0.0 | 0.0 |
| Working Capital Changes | (0.3) | (0.3) | 0.0 | 0.0 |
| Other | 6.8 | 1.1 | 0.0 | 0.0 |
| Operating Cash Flow | (1.4) | (1.0) | (1.8) | (1.9) |
| Operating Cash Flow/sh (\$/sh) | (0.01) | (0.01) | (0.01) | (0.01) |
| Capital Expenditures | (1.3) | (1.2) | 0.0 | (20.0) |
| Acquisitions | 0.1 | 0.0 | 0.0 | 0.0 |
| Other | 0.0 | (0.9) | 0.0 | 0.0 |
| Investing Cash Flow | (1.2) | (2.1) | 0.0 | (20.0) |
| Common Share Dividends | 0.0 | 0.0 | 0.0 | 0.0 |
| Equity Financing | 2.2 | 5.3 | 10.0 | 6.9 |
| Debt Issue | 0.0 | 1.7 | 0.0 | 16.0 |
| Debt Repayment | 0.0 | (1.8) | 0.0 | 0.0 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing Cash Flow | 2.2 | 5.3 | 10.0 | 22.9 |
| Net Change in Cash | (0.2) | 2.2 | 8.2 | 1.0 |
| Cash Balance | 0.2 | 2.4 | 10.6 | 11.6 |
| Free Cash Flow | (2.8) | (2.1) | (1.8) | (21.9) |

| VALUATION DATA | | | | |
|-------------------|-------|-------|-------|-------|
| Year-End December | 2019A | 2020A | 2021E | 2022E |
| P/E | -- | -- | -- | -- |
| P/CF | -- | -- | -- | -- |
| EV/EBITDA | -- | -- | -- | -- |
| FCF Yield | -- | -- | -- | -- |

| INPUT PRICES | | | | |
|--------------------------------------|-------|-------|-------|-------|
| | 2019A | 2020A | 2021E | 2022E |
| Eight Capital Spot Uranium (US\$/lb) | 25.7 | 29.8 | 32.0 | 35.0 |
| Uranium Realized Price (US\$/lb) | 0.0 | 0.0 | 0.0 | 0.0 |
| Exchange (US\$/C\$) | 0.75 | 0.73 | 0.78 | 0.81 |

Source: Company Reports, FactSet, Eight Capital

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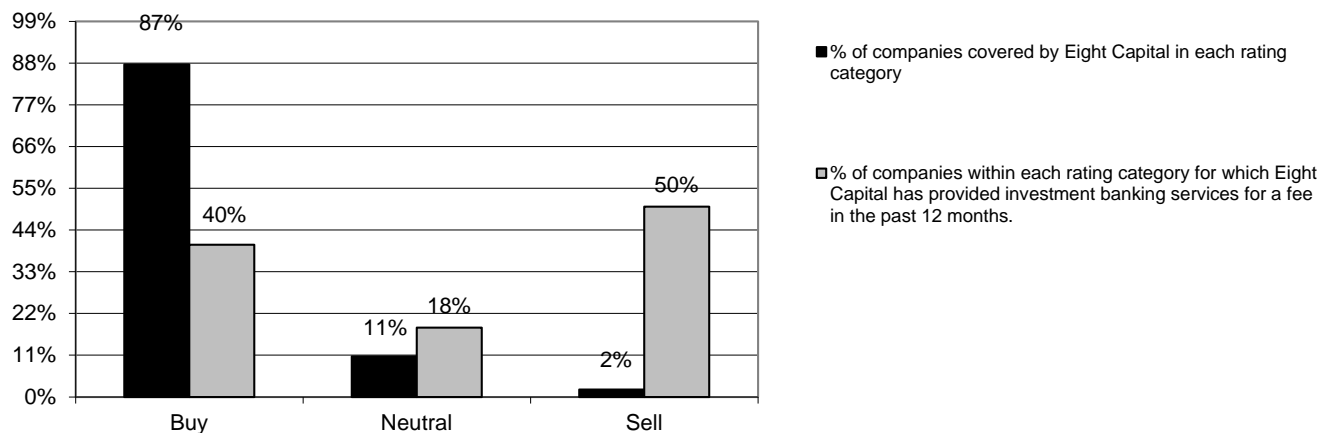
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Source: Eight Capital