

enCore Energy Corp. (TSXV:EU)

Site Visit: Laying Groundwork for Plant Expansion, Resource Growth

Site Visit
February 14, 2022

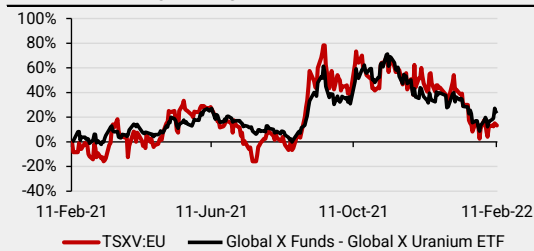
(Currency is CAD\$ unless noted otherwise)

Closing Price (\$/sh)	\$1.36	
Rating	BUY	
Target (\$/sh)	\$2.75	
Return to Target	102%	
52 Week Low / High	\$0.95 / \$2.27	
CAPITALIZATION	Basic	Diluted
Shares Outstanding (M)	297.3	332.1
Market Capitalization (\$MM)	\$404.3	
Enterprise Value (\$MM)	\$393.1	
Cash and Cash Equivalents (\$MM)	\$11.2	
Total Debt (\$MM)	\$0.0	

STOCK CHART



RELATIVE PERFORMANCE



NET ASSET VALUE	C\$M	C\$/sh
Project NAV	\$955.5	\$2.17
Corporate NAV	\$915.3	\$2.08

RELATIVE VALUATION	US\$ EV/lb U ₃ O ₈	P/NAV
enCore Energy Corp.	\$3.11	0.65x
Peers*	\$3.29	0.49x

* S&P Capital IQ Pro

MAJOR SHAREHOLDERS

Management (5.74%), Mirae Asset Global Investments Co., (4.51%), Exchange Traded Concepts, LLC (2.45%)

DISCLOSURE CODE: 1,2,3,4

(Please refer to the disclosures listed on the back page)

Source: RCS, Company Information, Capital IQ

Company Description

enCore Energy Corp. is a U.S. domestic uranium developer focused on becoming a leading in-situ recovery (ISR) uranium producer. The company's portfolio of assets includes two South Texas production facilities (Rosita and Kingsville Dome) and multiple uranium projects located across the United States (South Dakota, New Mexico, Wyoming, Utah and Arizona).

Past-producing Kingsville Dome and Rosita uranium ISR plants in Texas purchased from Westwater Resources (NYSEAM:WWR, Not Rated) were recently visited. They are the basis for near-term production potential, as EnCore Energy (EU) develops its longer-term projects elsewhere. Other development projects including PEA-stage Dewey Burdock SD and Gas Hills WY were also discussed (importantly, Dewey Burdock State permitting may potentially resume by March 2022). Our main concern was in regard to the company's ability to fill the South Texas ISR plants by expanding its local resource base, seemingly the weakest of its various jurisdictions. As we visited its Rosita Extension properties (specifically Cadena) and reviewed Upper Creek (host to Brown and Brevard roll front uranium deposits), our concerns were alleviated. We note that this visit had a completely different aura than past trips (we have previously visited each of these plants). EU brings a fresh perspective, and its actions are about plant refurbishment, potential, resource growth and near-term production growth. While past owners were simply wasting assets, the team now has drill hole databases (Mobil, Chevron) providing thousands of drill holes that past explorers simply did not have. **Overall, EU is about execution, and we believe this strong team now has the right leadership and right tools in place to succeed. We believe enCore has one of the best management and technical teams in the USA, from top to bottom.** Bill Sherriff, Chairman, has executed with EMC (TSXV:ENRG, Not Rated) and its timely sale to UI; BoD has legends such as ISR pioneer Dennis Stover; and Paul Goranson, CEO, has a track record of producing uranium when working for Mesteña, Cameco (TSX:CCO, Not Rated), Uranerz, and Energy Fuels (TSX:EFR, BUY, C\$11.85 target, David A. Talbot).

- **Dual ISR plant optionality, expansion potential.** Kingsville Dome and Rosita each have 800k lb U₃O₈ production capacity but may see expansion to 2M lbs by expanding dryer capacity. Refurbishment of Rosita is on schedule for Q2/22 ([read more](#)).
- **Aggressive exploration plans in TX.** Despite resources of 100M lbs, plus ~ 78M lbs historical, and with TX resources just <2M lbs, we see visibility on ~6M lbs being drilled on Federally permitted land. This includes defining resources for wellfields at Cadena, Tanguma, Upper Spring Creek (Brown and Brevard), Butler Ranch and elsewhere.
- **Further off-take potential, and this may mean plant expansion.** Four fuel buyers from nuclear utilities undertook due diligence on the trip, hinting at additional sales contracts. Two existing contracts in the US\$60/lb or market-related range already cover 3.3M lbs over five years. This covers the current annual production capacity at Rosita.

We maintain our BUY rating and C\$2.75/sh target price and are very confident that resource growth will not only support production, but the potential for plant expansion. This near-term production potential should help support longer development at Dewey Burdock or Gas Hills. **Upcoming catalysts:** 1) Rosita refurbishment (Q2/22); 2) Dewey Burdock permitting (H1/22); 3) Off-take, M&A discussions (ongoing); and 4) Rosita expansion resource growth drilling (ongoing).

Dual ISR plant optionality, expansion potential. Kingsville Dome and Rosita each have 800k lb U3O8 production capacity. Management believes it may increase capacity to 2M lbs each for US\$5M, with minor refurbishment and expanded dryer capacity. Trade-offs are still required, but we see full expansion of at least Rosita, if not both plants. Kingsville Dome is expected to act as a back-up, overflow, or destination for closer wellfields. We remain conservative, assuming TX production of 800k lbs pa over ~10 years. Rosita refurbishment will likely be completed by Q2/22. The extra filter press just arrived from Kingsville Dome and is being installed.

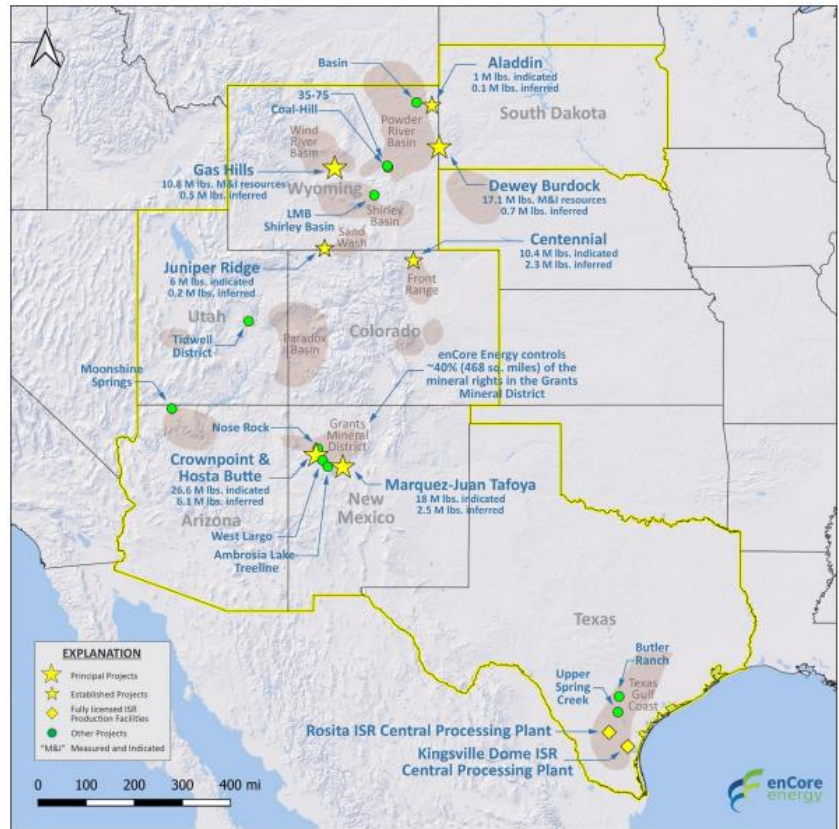
Aggressive exploration plans. EU's total mineral inventory is 178M lbs and far exceeds most firms, but TX resources are low at <2M lbs (Figure 4). We see visibility on ~6M lbs currently being drilled off and close to Rosita (including the nearby Cadena, Tanguma; and Brown, Brevard deposits that are about 50mi from site). Each of these future wellfields are Federally permitted, and State permitting is straightforward and quick. EnCore also seeks additional projects to add to its pipeline. There are 47 deposits with 60M lbs U3O8 within proximity to its existing ISR plants, and the USGS suggests there is over 220M lbs of U3O8 potential within the State.

Dewey Burdock waiting in the wings. We believe this SD project is one of the best ISR projects in the US. It is a high-grade, low Capex and Opex project that shows plenty of upside potential. Annual production is estimated at 1M lbs pa over a 16-year LOM (see Figure 5 & 6). It was acquired with the take-over of Azarga (TSX:AAZ, Not Rated). This project has its Federal aquifer exemption permits, but the State permitting process needs to be resumed (project had draft mine permits). Management is hoping the State process can resume in March, but this completely depends on timing of closing lawsuits against the Federal Government in relation to the licensing process. Azarga itself was not being sued.

Gash Hills may compliment Dewey Burdock. This 8.1M lb U3O8 project occurs within the prolific Gas Hills-Crooks Gap uranium district that produced over 100M lbs between 1957-1989. Most past production was from open pit mining, but Cameco and Azarga (formerly Uranerz and Strathmore) note that various projects in the area should be ISR amenable. This deposit should also demonstrate low capital and operating costs, potentially providing 1M lbs of feed annually to the Dewey Burdock project (Figure 5 & 7).

Economic and resource studies ongoing. enCore Energy has uranium projects in every US ISR jurisdiction except Nebraska. It has 90M lbs M&I, 10M lbs inferred and 68.4M lbs historic (see Figure 4). It recently completed an updated mineral resource estimate and PEA for its Juan Tafoya/Marquez projects in NM. Technical reports have been started for Butler Ranch, Moonshine Springs, and Brown, and are being updated for Crownpoint-Hosta Butte.

Figure 1: Extensive project pipeline emerging. EU has built up an extensive project pipeline including various New Mexican projects



Source: Company investor presentation

Photo 1: Kingsville Dome ISR plant site showing various ion exchange, elution, precipitation and reagent storage tanks, filter press (covered in green wrap) and adjacent dryer building.



Source: Red Cloud Securities Inc.

Photo 2: Kingsville Dome area wellfield satellite IX facility. This plant is one of five existing satellite plants than can easily be relocated to the wellfields currently being developed in the Rosita plant area. Uranium leached from the well fields bond to resins within these ion exchange plants. The resins are trucked to the main Rosita (or potentially Kingsville Dome) processing facilities for final elution, precipitation, drying and drumming of yellowcake.



Source: Red Cloud Securities Inc.

Photo 3: Rotary drill rig carrying out delineation drilling on the Cadena deposit near Rosita. Mineralization can be found within four layers including A Sands (160-170' deep), the Goliad Formation (300-350' deep) and Oakville Formation (>550' deep). Results are better than anticipated now that Mobil Oil's considerable database has been obtained. Exploration holes are being spaced 75' apart in preparation of development.



Source: Red Cloud Securities Inc.

Photo 4: Drill samples from surface at 5' increments from surface. Oxidized sands grade downwards into grey reduced sands, often separated by grey clay layers. The upper mineralized layer in this hole occurs within the orangish samples (samples 7-9) on the bottom row.



Source: Red Cloud Securities Inc.

Photo 5: Rosita ISR processing plant.



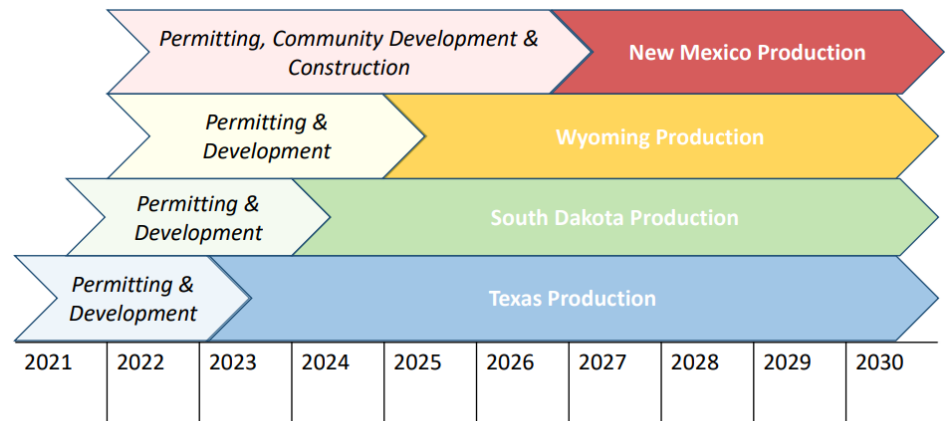
Source: Red Cloud Securities Inc.

Photo 6: Enclosed vacuum drying at the Rosita processing plant. This dryer has seen little uranium production having been installed after producing between 2006-2008. This dryer also has a capacity of ~0.8M lbs U3O8 pa, but installation of another (larger) dryer can expand Rosita production to 2M lbs pa.



Source: Red Cloud Securities Inc.

Figure 2: Potential production profile of its TX, SD, WY and NM assets.



Note: Timelines are estimates and subject to change

Source: Company investor presentation

Figure 3: enCore is preparing to execute on its hub-and-spoke ISR production model in South Texas. Cadena and other deposits are being delineated close to Rosita, and Brown and Brevard a little further afield. Kingsville Dome will likely remain on standby until Rosita capacity has been achieved.



Source: Company investor presentation

Figure 4: Current and historical mineral resources

Current Mineral Resources – Crownpoint and Hosta Butte Project, New Mexico ¹			
Resource Category	Million Tons	Grade eU ₃ O ₈ %	Attributable U ₃ O ₈ (M lbs.*)
Indicated mineral resource	12.68	0.105	26.6
Inferred mineral resource	2.76	0.110	6.1

Marquez-Juan Tafoya Project, New Mexico			
Project	Million Tons	Grade eU ₃ O ₈ %	U ₃ O ₈ (M lbs.*)
Marquez-Juan Tafoya Deposit ²			
Indicated mineral resource (Minimum GxT = 0.60)	7.1	0.127	18.1

Historic Mineral Resources – Significant Projects*			
Project	Million Tons	Grade eU ₃ O ₈ %	U ₃ O ₈ (M lbs.*)
Marquez-Juan Tafoya (New Mexico) Sunshine Deposit ⁶	1.1	0.11	2.48
Nose Rock (New Mexico) ^{7,8}	11.8	0.148	35.0
West Largo (New Mexico) ^{9,10}	2.9	0.300	17.2
Ambrosia Lake (New Mexico) ^{10,11,12}	2.0	0.176	7.1
Moonshine Springs (Arizona) ¹²	1.4	0.165	4.7
Butler Ranch (Texas) ¹³	0.4	0.15	1.3
Rosita (Texas) ¹⁴	0.4	0.082	0.6
Total Historic Mineral Resources			68.4

Source: S&P Capital IQ, S&P Capital IQ Pro and Company Reports

Figure 5: Azarga acquisition uranium resource overview

Project	Million Tons	Grade U ₃ O ₈ %	U ₃ O ₈ (M lbs.)
Dewey Burdock⁽¹⁾			
Measured mineral resource & Indicated mineral resource (ISR)	7.39	0.116%	17.12
Inferred mineral resource (ISR)	0.65	0.055%	0.71
Centennial⁽²⁾			
Indicated mineral resource (ISR)	6.87	0.09%	10.37
Inferred mineral resource (ISR)	1.36	0.09%	2.33
Aladdin⁽³⁾			
Indicated mineral resource	0.47	0.111%	1.04
Inferred mineral resource	0.04	0.119%	0.10
Gas Hills⁽⁴⁾			
Measured mineral resource & Indicated mineral resource (ISR)	3.83	0.101%	7.71
Measured mineral resource & Indicated mineral resource (non-ISR)	3.20	0.048%	3.06
Inferred mineral resource (ISR)	0.41	0.052%	0.43
Inferred mineral resource (non-ISR)	0.11	0.030%	0.06
Juniper Ridge⁽⁵⁾			
Indicated mineral resource (non-ISR)	5.14	0.058%	6.01
Inferred mineral resource (non-ISR)	0.11	0.085%	0.18

Source: S&P Capital IQ, S&P Capital IQ Pro and Company Reports

Figure 6: Dewey Burdock – Updated PEA showing robust economics at US\$55/lb U3O8. This PEA suggests toll-milling at a nearby processing plant, but we assume that enCore’s lower cost of capital would allow a stand-alone operation with a process plant on site. This project should be economic at US\$35/lb according to management.

Mine Life	16 years (incl. 2 year ramp-up)
Annual Production	1.0 Mlbs/yr
LOM Production	14.3 Mlbs
Initial Capital Costs	US\$31.7M (US\$2.22/lb)
Cash Operating Costs	US\$10.46/lb
- Plant and well field operation	US\$7.58/lb
- Restoration / de-commissioning	US\$1.17/lb
- Site management / overhead	US\$1.71/lb
Local Taxes & Royalties	US\$5.15/lb
Sustaining Capital Costs	US\$11.05/lb
Pre / Post Tax NPV8%*	US\$171.3M / US\$147.5M
Pre / Post Tax IRR*	55% / 50%

Source: S&P Capital IQ, S&P Capital IQ Pro and Company Reports

Figure 7: Gas Hills – Initial PEA showing robust economics at US\$55/lb U3O8. It is envisioned this project could potentially provide production of 1M lbs pa as a satellite deposit to Dewey Burdock. This project should be economic at US\$35/lb according to management.

Mine Life	7 years
Annual Production	1.0 Mlbs/yr
LOM Production	6.5 Mlbs
Initial Capital Costs	US\$26.0M (US\$3.99/lb)
Cash Operating Costs	US\$11.52/lb
- Plant and well field operation	US\$5.83/lb
- Resin processing and transport	US\$2.55/lb
- Restoration / de-commissioning	US\$1.38/lb
- Site management / overhead	US\$1.76/lb
Local Taxes & Royalties	US\$3.62/lb
Sustaining Capital Costs	US\$9.07/lb
Pre / Post Tax NPV8%*	US\$120.9M / US\$102.6M
Pre / Post Tax IRR*	116% / 101%

Source: S&P Capital IQ, S&P Capital IQ Pro and Company Reports

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Disclosure Statement

Updated February 13, 2022

Recommendation / Target Change			Red Cloud Securities has this percentage of its universe assigned as the following:	
Date	Rating	Target	Status	%
2021-05-14	NA	NA	BUY	73%
2021-06-25	NA	NA	BUY (S)	23%
2021-09-08	NA	NA	HOLD	0%
2021-10-13	NA	NA	SELL / Tender	0%
2021-10-21	NA	NA	NA	3%
2021-11-17	BUY	2.75	Under Review	1%
2021-11-23	BUY	2.75		
2021-11-24	BUY	2.75		

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Company Name	Ticker Symbol	Disclosures
enCore Energy Corp.	TSXV:EU	1,2,3,4

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- HOLD – expected to perform with its peer group
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- Under Review – our rating and target are under review pending, prior estimates and rating should be disregarded.

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