Canaccord Genuity Capital Markets

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Canaccord Genuity Corp. (Canada)

Katie Lachapelle, CPA| Analyst - 1.416.869.7294
klachapelle@cgf.com

Meaghan Charlebois| Associate - 1.416.687.5270
mcharlebois@cgf.com

Canaccord Genuity (Australia) Ltd.

James Bullen| Analyst - +61.2.9263.2728
jbullen@cgf.com

Canaccord Genuity Ltd (UK)

Alexander Bedwany| Analyst - 44.20.7523.8387
abedwany@cgf.com

Uranium: Japan signals return to nuclear power

Japan announces major policy shift on nuclear power: Prime Minister Fumio Kishida announced Wednesday that Japan will restart more idled nuclear power plants and look at developing next-generation reactors, over a decade after the Fukushima accident.

This represents a major policy shift amid soaring energy costs, a global fuel shortage, and extreme weather. The nation's capital saw two power crunches this year, with one occurring during a significant heat wave. By restarting its reactors, Japan also hopes to curb its reliance on energy imports.

What we know so far:

- Japan aims to restart seven more reactors from next summer onward.
- This would increase the total number of reactors online to 17 out of 33 operable reactors in country (pre-Fukushima).
- Mr. Kishida also said that officials would look at extending the lifespan of existing reactors beyond the current maximum of 60 years.
- The country is also exploring the development and construction of new next-generation reactors.
- Officials have been instructed to come up with concrete measures by year-end.

Our take –Positive: Japan announcing the restart of additional nuclear reactors is clearly positive for nuclear power and our outlook for uranium. While still subject to final approvals, this represents a dramatic shift in both government policy and public perception.

It is clear to us that many countries are revisiting nuclear power as a response to rising energy prices driven by the Ukraine war and as a tool for decarbonization. Some recent examples include Belgium approving a ten-year lifespan extension for two of the country's existing reactors that were planned to shut down, and Germany reconsidering its plan to exit nuclear power (link).

Our uranium top picks: In Canada, our preferred equities include NexGen Energy (NXE-TSX: C$4.83 | SPEC BUY, C$10.75 target) and Denison Mines (DML-TSX: C$1.42 | SPEC BUY, C$3.00 target). In Australia, we prefer Paladin Energy (PDN-ASX: A$0.68 | BUY, A$1.15 target). In the UK, our preferred exposure is Yellow Cake (YCA-AIM: 349p | BUY, 505p target).

For important information, please see the Important Disclosures beginning on page 2 of this document.

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Investment Recommendation

Date and time of first dissemination: August 24, 2022, 10:00 ET

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Target Price / Valuation Methodology:

Denison Mines Corporation - DML

Our target price is based on 1.0x our fully funded NAV, forecast as at Jul 1, 2023.

NexGen Energy Ltd. - NXE

Our valuation is based on 1.0x NAV, forecast as at April 1, 2023

Paladin Energy Ltd - PDN

Our price target for PDN is based on a SOTP valuation. The major component of this valuation is PDN's 75% stake in the Langer Heinrich mine, which we have valued using DCF analysis (WACC 8% and LT uranium price of US$65/lb).

Yellow Cake plc - YCA

We set our target price based on a 1x P/NPV (rounded to the nearest 5p); we also note the difference between the NPV used to set our target price (which incorporates corporate costs, and our view of forward prices), and the spot NAV, which reflects a snapshot in time.

In our current NPV calculation we have also incorporated the company's recent uranium purchases (following the major capital raise in June), including a 2 mlbs acquisition from Kazatomprom at US$32.23/lb, and a smaller 550 klbs acquisition from the spot market at an average price of US$32.35/lb. The acquisitions bring the total physical holdings to ~15.9 mlbs, a ~70% increase in physical holdings since the beginning of 2021.

Risks to achieving Target Price / Valuation:

Denison Mines Corporation - DML

Key risks to our investment thesis include uranium price movements and market sentiment, viability of ISR as the mining method, potential changes to project parameters, permitting and financing risks, and exposure to changes in the CAD:USD exchange rate.

NexGen Energy Ltd. - NXE

Uranium price and market: Our estimates and valuation are extremely sensitive to the price of uranium and we can make no assurances that the future price trajectory of the metal will be in line

with our estimates. If the price of uranium does not improve, NXE could face significant dilution. Furthermore, we acknowledge the risk of another nuclear disaster and the impact this would have on public perception of nuclear power and by extension the uranium market and uranium equities.

Permitting and ESG risk: Our estimates and valuation assume successful permitting of the Arrow project; however, there is no guarantee that NexGen will be able to permit Arrow and potential future projects. Furthermore, the use of an Underground Tailings Management Facility - the first of its kind in the Athabasca Basin – may attract scrutiny in the permitting process and extend permitting timelines. Environmental, social and governance risks will also need to be considered due to heightened social awareness surrounding uranium following several high-profile accidents involving nuclear energy.

Financing risk: As an exploration and development company with no operating cash flow, NexGen is reliant upon the capital markets to remain a going concern. There is no guarantee that NexGen will be able to access capital markets on a going-forward basis as a result of a potential change in market sentiment and pricing.

Currency exposure: NXE's assets are located in Saskatchewan, with the majority of costs expected to be denominated in C$. Given that uranium contracts are routinely denominated in US$, the relative exchange rate could have a significant impact on NXE's future financial performance.

Paladin Energy Ltd - PDN

Financing risks

Our analysis suggests that PDN will require additional capital to fund the development costs for the Langer Heinrich project for which we have risked our valuation. As a pre-cashflow company, PDN is reliant on equity/debt/external capital to fund capital commitments, and there is no guarantee that accessing these markets will be achieved without dilution to shareholders.

Furthermore, accurate estimates of capital costs for the project remain subject to completion of pre-feasibility and feasibility studies, which may see capital requirements exceed our model assumptions. There is no guarantee that studies will result in a positive investment decision for the project.

Operational risks

Once in production, the company will be subject to risks such as plant/equipment breakdowns, metallurgical (noting flowsheet changes to address previous challenges), geological and other technical issues. An increase in operating costs could reduce the profitability and free cash generation from the operating assets and negatively impact valuation.

Further, the yellow cake product specifications may differ from initial test work interpretations which can also materially impact product acceptance by customers and therefore earnings from forecast production.

Implementation risks

We note the compressed development schedule will require concurrent plant commissioning of Stage 1 followed soon after by the installation of Stage 2 equipment. This sequence presents a natural risk that delays in Stage 1 could impact Stage 2 and present downside risk to our cash flow projections.

Market risks

PDN's sales revenue is dependent on being able to secure term contracts for its proposed level of production and priced with the required mechanisms that will enable proactive capital and budgetary management. We note the protracted nature of negotiating uranium product offtake with the potential that timelines could be prolonged to ensure than an acceptable order book is agreed on.

Commodity price and currency fluctuation

The company as a near-term uranium producer is exposed to commodity price and currency fluctuations, often driven by macro-economic forces including inflationary pressure, interest rates and supply and demand of commodities. These factors are external and could reduce the profitability, costing and prospective outlook for the business.

Yellow Cake plc - YCA

The overall key risk is of course the risk of the uranium price not increasing; the largest likely driver of this would be utilities staying out of the contract market for longer than expected, leading to flat uranium pricing outlook.

Distribution of Ratings:

Global Stock Ratings (as of 08/24/22)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	632	66.60%	35.13%
Hold	140	14.75%	16.43%
Sell	12	1.26%	16.67%
Speculative Buy	158	16.65%	37.97%
	949*	100.0%	

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

Risk Qualifier

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

12-Month Recommendation History (as of date same as the **Global Stock Ratings** table)

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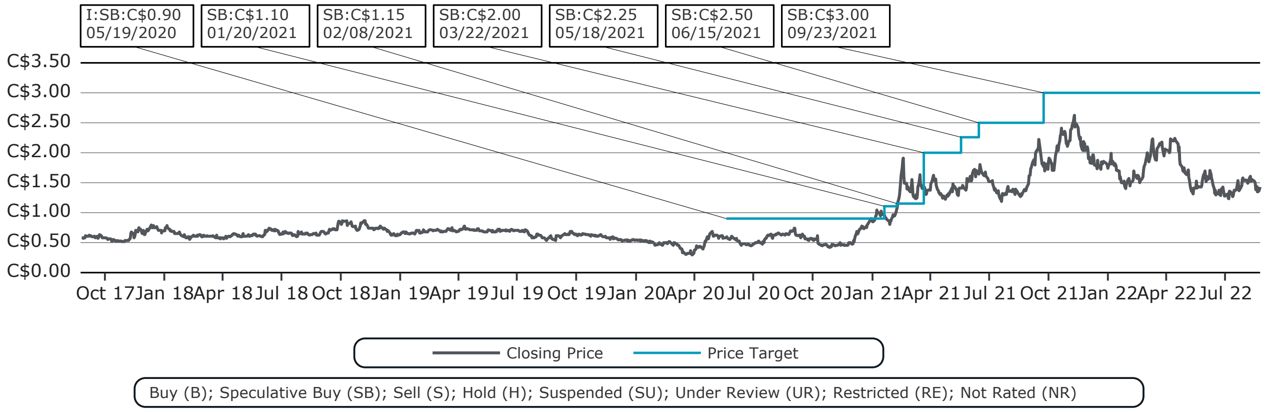
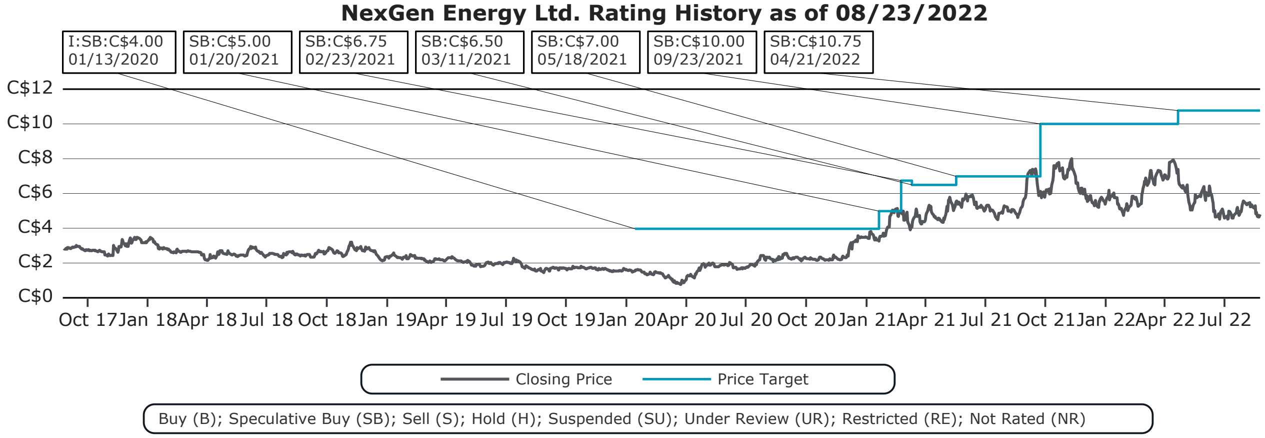
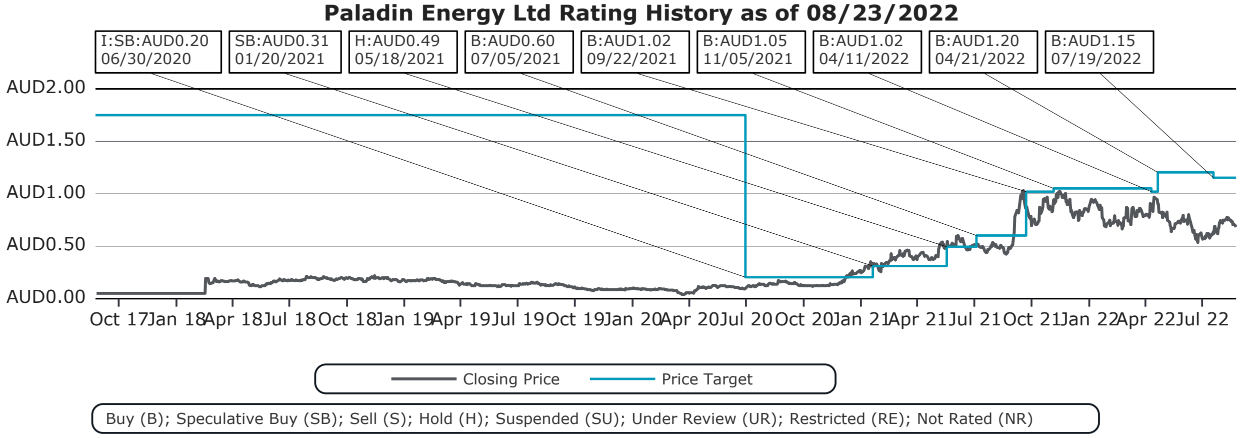


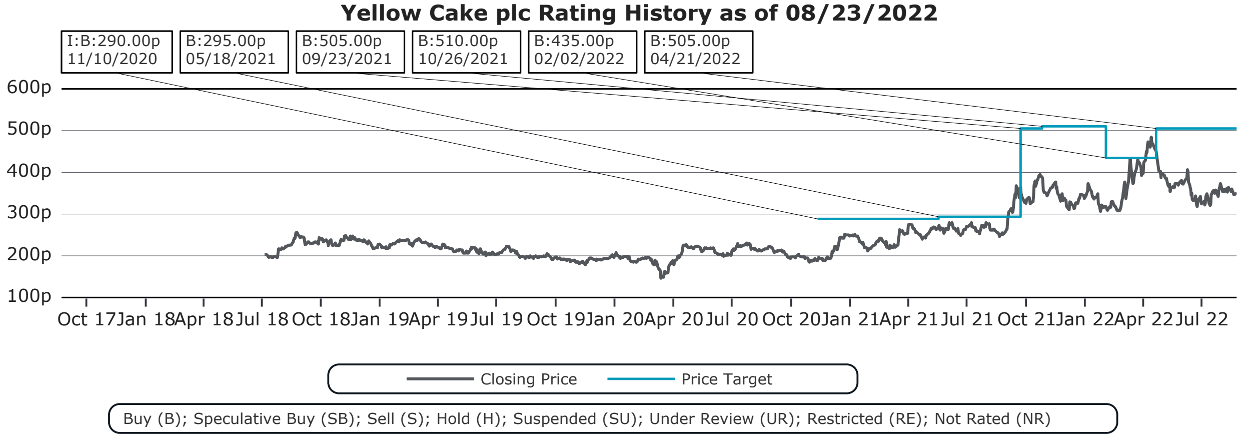
NexGen Energy Ltd. Rating History as of 08/23/2022



Paladin Energy Ltd Rating History as of 08/23/2022



Yellow Cake plc Rating History as of 08/23/2022



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