

Azarga Uranium Corp.

(AZZ-TSX: C\$0.27)

May 7, 2018

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NEUTRAL

Target: C\$0.30

Merger Adds Development, Production, Market Expertise

AZZ-T	New	Last
Rating	--	Neutral
Target	--	0.30
Projected Return	--	11%
Target/NAV multiple	--	0.80x
Corporate DCF	0.34 ▼	0.38
Cash & Investments	--	0.00
Debt	(0.01) ▼	0.00
Exploration & Unmodelled Resources	0.05 ▲	0.02
Total NAV	0.37 ▼	0.41
P/NAV	0.72x ▲	0.71x

Company Data		
Last Price		C\$ 0.27
52-week Range	C\$ 0.18 -	C\$ 0.32
Market Cap (\$MM)		C\$ 22.9
Enterprise Value (\$MM)		C\$ 24.3
Shares Outstanding - Basic (MM)		84.9
Shares Outstanding - FD (MM)		108.7
Avg Volume - 100d (000 shares/day)		54.8
Cash (\$MM)(31-Dec-17)		US\$ 0.4
Debt (\$MM)(31-Dec-17)		US\$ 1.8
Working Capital (\$MM)		(US\$ 1.2)

Forecast	2015A	2016A	2017A	LT
Spot (US\$/lb)	36.8	27.9	23.2	60.0
Term (US\$/lb)	46.6	41.1	32.0	60.0
Revenue (\$MM)	0.00	0.00	0.00	
EPS	(\$0.06)	(\$0.05)	(\$0.07)	
EBITDA (\$MM)	(\$2.83)	(\$1.47)	(\$7.89)	
EV/EBITDA	n/a	n/a	n/a	
Capex (\$MM)	(\$1.22)	\$0.00	(\$0.30)	
FCF (\$MM)	(\$3.88)	(\$1.95)	(\$1.12)	

All Figures in C\$ 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. An updated PEA on its flagship Dewey-Burdock project indicates a project IRR of 67% using \$65/lb U3O8 long term. Azarga is finalizing its permits and licenses.

We have a NEUTRAL recommendation for Azarga Uranium and maintain a price target of C\$0.30/sh based on a 0.8x multiple applied to our 10% DCF model after incorporating ~13 MM lbs U3O8 in resources pending a positive merger outcome. A merger in the US ISR space was announced this morning as Azarga Energy and URZ Energy (URZ-V, Not Rated) have decided to meld companies. Such a deal doesn't come as a surprise as some firms are worried about survival and attention from investors during this period of low uranium prices. We do not cover URZ Energy, but know management and Board members very well as it is backed by the Uranerz Energy team such as Glenn Catchpole and Dennis Higgs that sold out to Energy Fuels (EFR-T, BUY, C\$3.75 target) a couple years ago. Of the US ISR stocks, Azarga has had the most permitting difficulties despite the fact that its South Dakota based Dewey Burdock project might be one of the best US projects. While it might not be a bad time to defer production given low uranium prices, development difficulties are not great for the stock, plus management is Hong Kong based.

Enter URZ Energy... this merger should help put both firms on the map. Combined resources provide critical mass (30.7 MM lbs M&I, 8.7 MM lbs inferred). For Azarga, the deal might be less about the acquisition of U3O8 projects and more about intangible assets: essentially acquiring financing, marketing, development and production experience. This expertise should help advance Dewey Burdock and nearby satellite deposits. URZ provides an asset pipeline and stronger platform suitable for further consolidation.

35% offer premium for URZ shareholders. Plan of Arrangement terms would see URZ shareholders receive two Azarga shares for each URZ share. These two shares imply an acquisition price of \$0.54 per URZ share or a 35% premium on Friday's close. This suggests a \$14.1 MM deal (\$19.6 MM f/s). The court-approved Plan of Arrangement is subject to approval by >66 2/3% of URZ shareholders. Azarga Uranium shareholder approval is also required with close due likely towards July. The deal is also subject to conversion of AZZ liabilities including a US\$1.8 MM shareholder loan at C\$0.25/share. Other regulatory approvals and customary closing conditions also apply. Within five days of signing, URZ has agreed to advance Azarga Uranium US\$465,000. Break fee on the deal at US\$825,000.

- **Azarga's Dewey Burdock flagship, SD.** This is one of the best undeveloped US ISR deposits in the US in our view. Plans are to produce 9.7MM lbs over 11 years at US\$18.86/lb total cash cost (US\$29.92/lb including well-field costs). Pre-tax 8% NPV of US\$149MM, 67% IRR, based on US\$65/lb. Initial Capex would be low at US\$27MM as a result; deferring US\$28 MM as toll milling at one of many nearby plants is being contemplated. Dewey Terrance and other projects provide satellite production potential.
- **URZ's Gas Hills and Juniper Ridge projects, WY.** These projects host 10.725 MM lbs U3O8 indicated and 2.711 MM lbs inferred combined. It also owns the Shirley Basin project and uranium stockpiles in Utah.

Dewey Burdock delays. While Dewey Burdock NRC permits are in hand, a dispute is proceeding within the NRC bureaucracy and in US Court of Appeals, District of Columbia. A Rapid City journal article dated 21-Mar-18 suggested the NRC issued a letter proposing a process for a cultural resource survey and only then would publish a final supplemental analysis to the FSEIS in late May 2019. This could hold up development for another year. Despite URZ management having considerable permitting expertise, this issue will likely need to play its course.

Azarga Uranium Corp. (AZZ-T)					
Rating	NEUTRAL	C\$ Target	\$0.30	Shares O/S (MM)	84.9
		C\$ Close	\$0.27	Fully Diluted Shares (MM)	108.7
David A. Talbot, Director, Mining Research		12-month return	11%	Basic Mkt. Capitalization (\$MM)	C\$ 22.9
dtalbot@viiicapital.com				Enterprise Value (\$MM)	C\$ 24.3

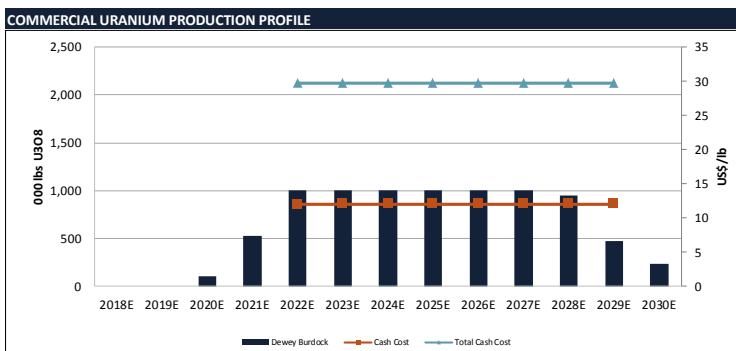
PRODUCTION ESTIMATES (000 lbs)					
Year-end December	2018E	2019E	2020E	2021E	2022E
Dewey Burdock	0	0	105	531	1,000
TOTAL	0	0	105	531	1,000

TOTAL CASH COST ESTIMATES (excl. non-cash, incl. wellfield expenditures) (US\$/lb)					
Year-end December	2018E	2019E	2020E	2021E	2022E
Dewey Burdock	0.0	0.0	28.3	29.1	29.8
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%	1.55	0.25%	8.58	8.58
Centennial	100%	6.87	0.09%	10.37	10.37
Aladdin	100%	0.47	0.11%	1.04	1.04
Total Measured and Indicated Resources		8.89	0.12%	19.99	19.99
Inferred Resources					
Dewey Burdock	100%	0.59	0.05%	3.53	3.53
Centennial	100%	1.36	0.09%	2.33	2.33
Aladdin	100%	0.04	0.12%	0.10	0.10
Kyzyl Ompul	70%	15.13	0.02%	7.51	5.26
Total Inferred Resources		17.12	0.03%	13.46	11.21
TOTAL RESOURCES		26.01	0.06%	33.46	31.20
Current Per Pound Metrics					
		PWE	Dev. Peers	Prem./Disc.	
EV/lb (US\$)		\$0.62	0.73	(14%)	
Mkt Cap/lb (US\$)		\$0.50	0.49	3%	

NET ASSET VALUE (C\$) - 10%			
	NAV (\$ MM)	/Share	% NAV
Assets:			
Dewey Burdock (100%)	29.3	0.38	101%
Un-Mined Resources & Equity Investments	3.9	0.05	14%
Balance Sheet & Other Items:			
Cash & Investments	0.0	0.00	0%
Debt	(1.0)	(0.01)	(3%)
Exploration, G&A, and Other	(3.2)	(0.04)	(11%)
Total	29	0.37	100%
Eight Capital DCF Target Multiple		0.80x	
Share Price Target		0.30	

Long Term Uranium Price Assumption (US\$/lb)					
Target (C\$/share)	40	50	60	70	80
0% Discount	0.20	0.48	0.75	1.02	1.29
5% Discount	0.14	0.35	0.54	0.73	0.93
10% Discount	0.11	0.26	0.41	0.55	0.69
15% Discount	0.09	0.21	0.31	0.42	0.53



BALANCE SHEET (US\$ MM)				
Year-end December	2015A	2016A	2017A	Q4/17A
Assets:				
Cash & ST Investments	0.24	0.94	0.43	0.43
Other Current Assets	2.79	0.10	0.12	0.12
Current Assets	3.03	1.04	0.56	0.56
Mineral Properties	37.29	38.39	33.00	33.00
Other non-current Assets	0.04	0.04	0.14	0.14
Total Assets	40.35	39.47	33.70	33.70
Liabilities:				
Current Liabilities	2.72	2.97	1.85	1.74
Long-term Debt	1.86	0.04	1.78	1.78
Other non-current Liabilities	6.51	7.32	4.45	6.69
Total Liabilities	11.09	10.33	8.08	10.21
Capital Stock	39.04	39.76	41.29	43.24
Retained Earnings	(9.8)	(10.6)	(15.7)	(20.1)
Total Shareholder Equity	29.27	29.14	25.61	23.16

INCOME STATEMENT (US\$ MM)				
Year-end December	2015A	2016A	2017A	2018E
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	2.8	1.6	1.7	3.0
Exploration	0.0	0.0	0.0	0.4
Depreciation	0.0	0.0	0.0	0.0
Other	0.5	0.1	6.4	0.0
EBITDA	(3.3)	(1.7)	(8.1)	(3.4)
EBIT	(3.3)	(1.7)	(8.1)	(3.4)
Interest Expense	0.5	0.2	0.2	0.0
EBT	(2.8)	(1.5)	(7.9)	(3.4)
Taxes	0.4	0.3	-2.2	0.0
Equity Earnings	0.0	-1.2	0.0	0.0
Other	0	0	1	0
Net Income (Reported)	(2.4)	(2.4)	(9.5)	(3.4)
Net Income (Adjusted)	(2.4)	(2.4)	(9.5)	(3.4)
EPS (Reported) \$/sh	(0.06)	(0.05)	(0.07)	(0.02)
EPS (Adjusted) \$/sh	(0.1)	(0.1)	(0.1)	(0.0)
Average Shares (MM)	60.3	65.3	77.5	169.9

CASH FLOW STATEMENT (US\$ MM)				
Year-end December	2015A	2016A	2017A	2018E
Net Income (Reported)	(2.4)	(2.4)	(9.5)	(3.4)
Depreciation	(0.0)	0.0	0.0	0.0
Working Capital Changes	(0.1)	(1.3)	0.0	0.0
Other	(0.1)	1.8	8.7	0.0
Operating Cash Flow	(2.7)	(1.9)	(0.8)	(3.4)
Operating Cash Flow/sh (\$/sh)	(0.04)	(0.03)	(0.01)	(0.02)
Capital Expenditures	(1.2)	0.0	(0.3)	(0.3)
Acquisitions	(0.1)	(0.7)	(1.2)	0.0
Other	1.0	1.7	0.5	0.4
Investing Cash Flow	(0.3)	1.1	(0.9)	0.1
Common Share Dividends	0.0	0.0	0.0	0.0
Equity Financing	0.0	1.7	1.4	0.0
Debt Issue	0.0	0.0	0.0	0.0
Debt Repayment	(0.1)	(0.1)	(0.1)	0.0
Other	0.0	0.0	(0.1)	0.0
Financing Cash Flow	(0.1)	1.6	1.2	0.0
Net Change in Cash	(3.0)	0.7	(0.5)	(3.3)
Cash Balance	0.2	0.9	0.4	(2.9)
Free Cash Flow	(3.9)	(1.9)	(1.1)	(3.7)

VALUATION DATA				
Year-end December	2015A	2016A	2017A	2018E
P/E	--	--	--	--
P/CF	--	--	--	--
EV/EBITDA	--	--	--	--
FCF Yield	--	--	--	--

INPUT PRICES				
	2015A	2016A	2017A	2018E
Eight Capital Spot Uranium (US\$/l)	36.8	27.9	23.2	29.0
Uranium Realized Price (US\$/lb)	0.0	0.0	0.0	0.0
Exchange (US\$/C\$)	0.78	0.77	0.75	0.78

Source: Company reports, FactSet, Eight Capital

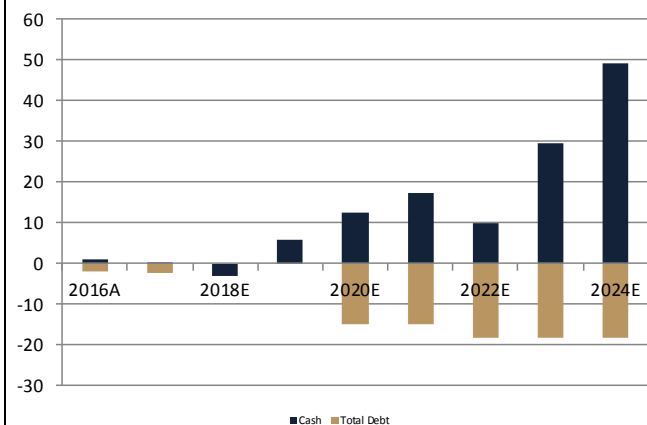
Azarga Uranium Corp.

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

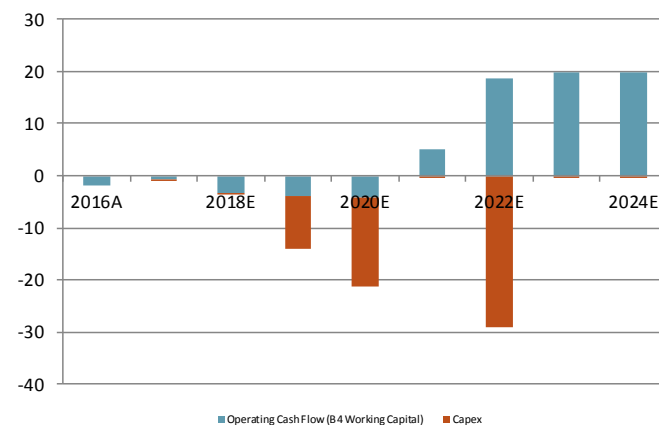
	Target Setting NAV			NAV at Various Discount Rates					
	Discount Rate	(\$MM)	(\$/Share)	0%		5%		15%	
				(\$MM)	(\$/Share)	(\$MM)	(\$/Share)	(\$MM)	(\$/Share)
Uranium Assets									
Dewey Burdock (100%)	10%	29	0.38	161	2.08	46	0.59	19	0.24
Total Uranium Assets		29	0.38	161	2.08	46	0.59	19	0.24
Other Assets & Expenses									
Cash		0	0.00	0	0.00	0	0.00	0	0.00
Debt		(1)	(0.01)	(1)	(0)	(1)	(0)	(1)	(0.01)
Resources		4	0.05	4	0.05	4	0.05	4	0.05
Exploration, G&A, Other	10%	(3)	(0.04)	(113)	-1.46	(11)	(0)	2	0.02
Net Other Assets		(0)	(0.00)	(110)	-1.42	(8)	(0)	5	0.06
Net Asset Value		29	0.37	51	0.65	38	0.48	23	0.30
Share Price			0.27		0.27		0.27		0.27
P/NAV			0.72x		0.41x		0.56x		0.90x

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

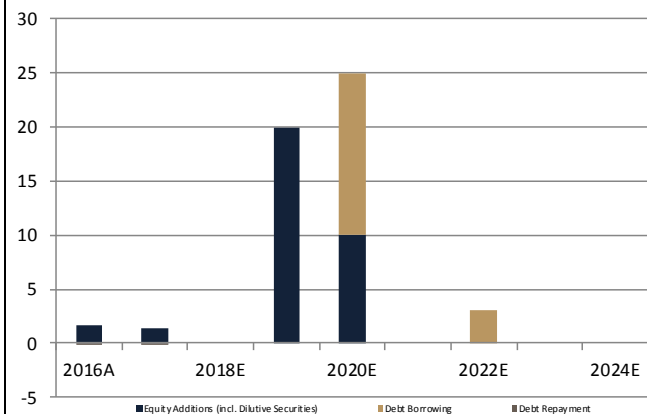
Cash and Debt



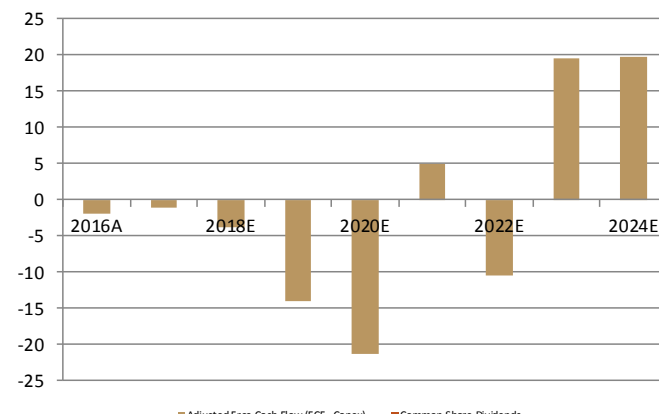
Operating Cash Flow and Capital Spending



Changes in Debt and Equity



Free Cash Flow and Common Share Dividends



Source: Company reports, FactSet, Eight Capital

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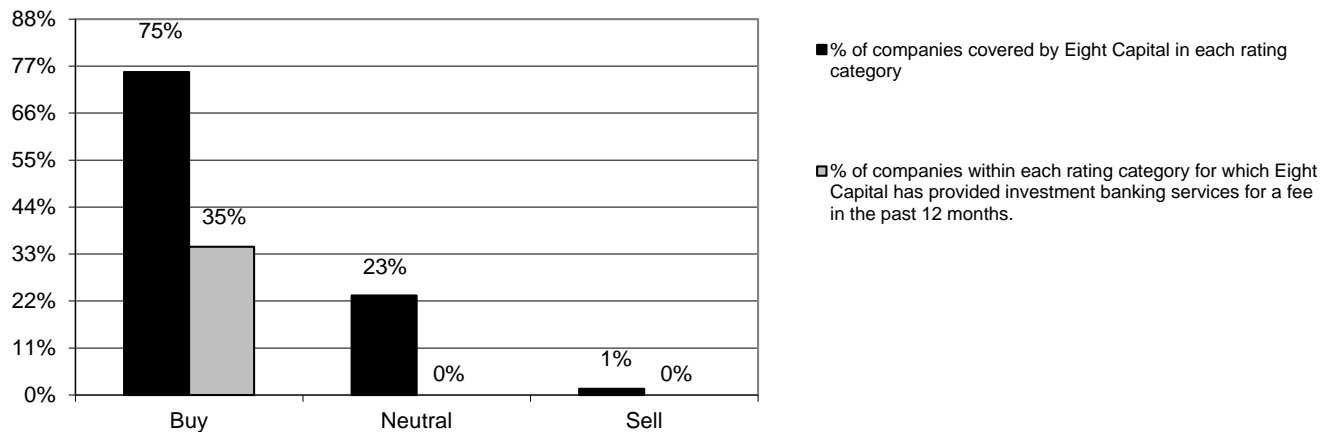
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