



Azarga Uranium Corp.

(AZZ-T)

SECTOR: Mining

STOCK PRICE
\$0.15
BUY
RATING
TARGET PRICE
\$0.50
RISK
Very High

ADDITIONAL URANIUM MINERALIZATION IN DRILL LOGS

Azarga Identifies Resource Expansion Potential in Drill Logs at Gas Hills

OUR TAKE: Azarga announced that it has identified additional uranium mineralization through the analysis of historic data at its 100%-owned Gas Hills Uranium Project in Wyoming, USA. The potential to add resources at Gas Hills at very low cost through the review of historic drill logs is positive news for the Company and a boost to Azarga's future plans for this potential satellite ISR project to the flagship Dewey Burdock ISR project approximately 250 miles east in South Dakota (Figure 1).

Adding scale (resources) at the Gas Hills project can only increase the chance of successfully evolving into a future ISR mine. Today's results expand the envelope of uranium mineralization at the project and have the potential to report to a future resource estimate. **Azarga remains one of our 'top picks' in the uranium space and we view the current share price as a great entry point in a rising uranium price environment.**

KEY HIGHLIGHTS

- ◆ **Azarga's efforts at Gas Hills have most recently focused on proving up the potential for ISR amenability.** The analysis of the historic data set confirms that mineralization occurs in the sandstone-hosted roll-front deposit setting with resources below the water table. Sufficient hydraulic head and permeability will be important in determining ISR amenability of the new mineralization. Importantly, work to-date on other similarly situated resource areas of Gas Hills suggests that three of the primary deposits are likely to have the required ingredients for success as an ISR mine (located within a confined aquifer with sufficient hydrostatic head, sufficient hydraulic conductivity and permeability). Further technical work (ongoing) is required to fully understand and de-risk the ISR potential of Gas Hills.
- ◆ **Potential to grow resources at Gas Hills.** The most recent Gas Hills' resource estimate includes 7.3 Mlb U₃O₈ (avg. 0.076% U₃O₈, all-categories NI 43-101, June 2017, Table 1). Since the latest resource update, Azarga has carried out hydraulic conductivity and permeability testing at the project with reassuring results that compare very favourably with other successful regional ISR deposits (Table 2). This data adds confidence that certain deposits at the project will prove to be ISR amenable.
- ◆ **A large group of intercepts identified make the cut:** From analysis of historic drill logs, Azarga has identified 147 mineralized drill holes containing 173 intercepts averaging 0.137% U₃O₈ with an average thickness of 5.3 ft., meeting the 0.2 grade-thickness (GT) cut-off and a 0.02% U₃O₈ grade cut-off. These intercepts are contained within the sandstone-hosted roll-fronts located below the water table within the Company's existing mineral leases/permits, meaning there is a higher probability these identified areas will have the technical characteristics necessary for ISR extraction.

RECOMMENDED ACTION

We recommend accumulating shares at current price on improving fundamental picture

- ◆ **Attractive entry point in rising uranium price environment.** Azarga shares have rebounded significantly (+100%) from the late March lows that spared almost no one. We still see significant upside from the current level as short term uranium price indicators continue to move positively. The uranium market was already in primary supply deficit before COVID and the major production cuts which have taken place in response will accelerate the absorption of excess inventory accumulated through years of oversupply. The longer major production centres remain off-line, the more the fundamental supply/demand picture improves. In addition, COVID seems to have interrupted an evolving US-specific political situation. The US Nuclear Fuel Working Group report appeared to be close to public disclosure before the massive impact of COVID became apparent and rightfully shifted resources and focus. This report was expected to contain recommendations that would support a robust domestic uranium mining industry in the U.S. We see Azarga as perfectly positioned to benefit from this potential catalyst.

KEY STATISTICS AND METRICS		HAYWOOD ESTIMATES (USD)			VALUATION		
52-Week High/Low	\$0.28/\$0.07		2019A	2020E	2021E		
YTD Performance	-25%	Revenue (\$M)	\$0.0	\$0.0	\$0.0	Our \$0.50/share target is primarily based on an NPV_{10%} on the Dewey Burdock project, assuming a US\$70/lb uranium price. Including credit for its other projects and corporate adjustments, we apply a 0.6x P/NAV multiple to arrive at our target.	
Dividend Yield	NA	EBITDA (US\$M)	(\$1.9)	(\$3.4)	(\$3.5)		
Shares O/S	186.1m						
Market Capitalization	\$27.9M						
Cash	\$0.2M						
Debt	Nil						
Enterprise Value	\$27.7M						
Daily Volume (3 mos.)	121,780						
Currency	C\$ unless noted						

Table 1. Gas Hills Resource (June 2017 NI 43-101)

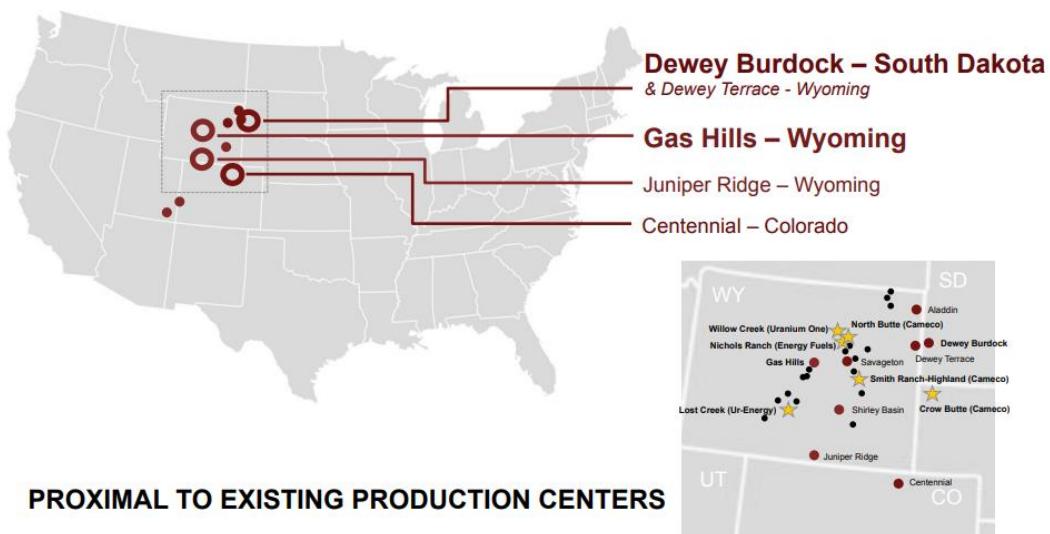
Class	Cut-off	Tons (x1,000) ⁽¹⁾	Weighted Average Grade (% eU ₃ O ₈)	Pounds eU ₃ O ₈ (x1,000) ⁽¹⁾
Indicated	0.10 GT	2,407	0.098	4,729
Inferred	0.10 GT	2,324	0.054	2,529

Source: Azarga Uranium

Table 2. Hydraulic Conductivity and Permeability Testing

Project Name and Owner	Hydraulic Conductivity Range (feet/day)	Permeability Range (darcy)
Gas Hills; Azarga Uranium	1.0 to 5.7	0.8 to 2.7
Gas Hills (Peach); Cameco	0.5 to 6.0	0.3 to 2.89
Lost Creek; Ur-Energy	0.27 to 2.78	0.13 to 1.3

Source: Azarga Uranium

Figure 1. Uranium Project Locations

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Analyst Certification

I, Colin Healey, hereby certify that the views expressed in this report (which includes the rating assigned to the issuer's shares as well as the analytical substance and tone of the report) accurately reflect my/our personal views about the subject securities and the issuer. No part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations.

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- ◆ As of the end of the month immediately preceding this publication either Haywood Securities, Inc., one of its subsidiaries, its officers or directors beneficially owned 1% or more of Azarga Uranium Corp (AZZ-T).
- ◆ Haywood Securities, Inc. has reviewed lead projects of Azarga Uranium Corp (AZZ-T) and a portion of the expenses for this travel have been reimbursed by the issuer.

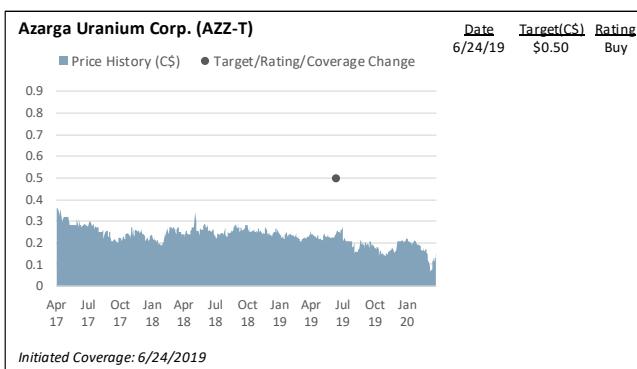
Other material conflict of interest of the research analyst of which the research analyst or Haywood Securities Inc. knows or has reason to know at the time of publication or at the time of public appearance:

- ◆ n/a

Distribution of Ratings (as of April 6, 2020)

	IB Clients (TTM)		
	%	#	
Buy	68.0%	70	93.1%
Hold	18.4%	19	0.0%
Sell	3.9%	4	3.4%
Tender	1.9%	2	3.4%
UR (Buy)	1.0%	1	0.0%
UR (Hold)	0.0%	0	0.0%
UR (Sell)	0.0%	0	0.0%
Dropped (TTM)	6.8%	7	0.0%

Price Chart, Rating and Target Price History (as of April 6, 2020)



B: Buy; H: Hold; S: Sell; T: Tender; UR: Under Review
Source: Capital IQ and Haywood Securities

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