Canaccord Genuity Capital Markets

Industry Update

Specialty Minerals and Metals

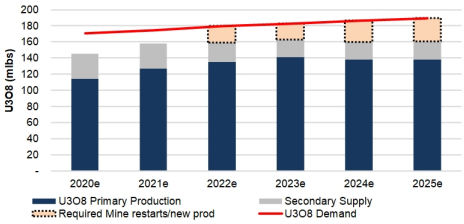
Global Equity Research
8 December 2020

This note has been republished to include our UK preferred pick.

James Bullen | Analyst | Canaccord Genuity (Australia) Ltd. | jbullen@cgf.com | +61.2.9263.2728
Katie Lachapelle, CPA | Associate Analyst | Canaccord Genuity Corp. (Canada) | klachapelle@cgf.com | 1.416.869.7294

Uranium: Is this the bear market breakout? [ERRATUM]

Figure 1: U3O8 supply and demand estimates



Source: Canaccord Genuity estimates

Canaccord Genuity (Australia) Limited has received a fee as Lead Manager to the Boss Resources Limited Capital Raising announced 29 September 2020.

The uranium sector soared on Friday and again on Monday, up 10-15% each day on significant volume. Although slow to develop, it is clear to us that investors are revisiting the sector and the uranium trade is clearly strengthening. Just as global uranium supply has shifted into a record supply deficit (that we expect to continue), the demand outlook for nuclear continues to improve; we continue to expect U3O8 demand to grow to 252Mlbs (+45%) by 2035 on the back of tailwinds from three key megatrends:

Electrification of everything: Major forecasters expect electricity demand to grow an incremental 55% by 2035 as electric vehicle penetration (CGe 14% by 2030) shapes as an emerging influence.

Decarbonisation: With many countries below Paris-ratified targets, we expect there to be a renewal of interest in nuclear as a viable source of emissions-free energy. We note that many nations are now targeting COVID-19 recovery infrastructure funds that include carbon-free sources of energy.

Non-OECD demand growth: We expect China (currently at 4% nuclear) to have a significant nuclear reactor build-out to meet its 2030 clean energy target of 20%.

No-longer just Biden our time

In August the Democrats endorsed nuclear energy for the first time in 48 years as part of its "technology neutral" approach to decarbonising the power sector. This position appears to have been further strengthened by the US Senate Committee on Environment and Public Works passing a bill which approves the establishment of a national uranium strategic reserve.

While this reserve would only add 3-4Mlb of incremental annual U3O8 demand (global demand is ~170Mlb) the fact that it has received bipartisan support is likely, in our view, to encourage US utilities to feel more confident in the political support for the sector and thus start contracting material volumes (inventory levels have dwindled to just ~2.5 years coverage).

Equities moving ahead of pricing

Spot volume was moderate last week, with a total of eight transactions involving 1.0Mlbs U3O8. As a result, spot prices were mostly flat and the Ux weekly spot price is essentially unchanged at $29.50/lb (versus $29.45 last week).

Term market activity was also limited during this period, with no new demand or contracts awarded. Despite this, we understand from industry sources that a few utilities are quietly pursuing off-market discussions and it seems likely to us that some may be evaluating entry into the term market in the early part of next year - a view supported by the recent extension of the Russian Suspension Agreement and an improving outlook for electricity prices.

Preferred picks

In Australia, we prefer Paladin Energy (**PDN-ASX**: A$0.21 | SPECULATIVE BUY, TP A $0.20) (largest leverage to U3O8 pricing) and Boss Resources (**BOE-ASX**: A$0.08 | SPECULATIVE BUY, TP A$0.13) (re-start project in an OECD, Tier 1 mining jurisdiction).

In Canada, our preferred equities include NexGen Energy (**NXE-TSX**: C$3.19 | SPECULATIVE BUY, TP C$4.00), but don't forget physical fund Uranium Participation Corp (**U-TSX**: C$4.36 | BUY, TP C$6.25) for pure-play commodity exposure.

In the UK, our preferred exposure is Yellow Cake (**YCA-AIM**: 224p | BUY, TP 290p | Sam Catalano, Canaccord Genuity Limited (UK)).

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

Appendix: Important Disclosures

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Investment Recommendation

Date and time of first dissemination: December 07, 2020, 23:15 ET

Date and time of production: December 08, 2020, 01:46 ET

Target Price / Valuation Methodology:

Paladin Energy Ltd - PDN

We have based our A$0.20/sh valuation for PDN primarily on a DCF analysis (WACC 10%) of the Langer Heinrich project (LHM), which it has a 75% equity stake in.

Boss Resources Limited - BOE

We have based our A$0.13/sh valuation for BOE on a DCF analysis (WACC 10%) of the Honeymoon project.

NexGen Energy Ltd. - NXE

Our valuation is based on 1.0x NAV, forecast as at Apr 1, 2021

Uranium Participation Corp. - U

Our target price is based on 1.0x our 12-month forward NAVPS estimate.

Risks to achieving Target Price / Valuation:

Boss Resources Limited - BOE

Financing risks

Our analysis suggests that BOE will require additional capital to fund the development costs for the Honeymoon project for which we have risked our valuation. As a pre-cashflow company, BOE 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 from Figure 48 that 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

BOE'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.

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. We present our NAV sensitivity to various changes in our U3O8 price deck in Figure 15 below.

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.

Project risk: The Arrow project is at a PFS level, with work currently being completed in preparation for a Feasibility Study expected in H1 2020. Accordingly, the project is subject to changes in operational parameters including estimates of initial capital and operating costs that could impact our assessed valuation. Given the work done to date and discussions with management, we do not anticipate drastic changes in operational parameters; however, to be conservative we have escalated our capital and operating costs estimates, extended the ramp up period to production, and applied a higher discount rate. U3O8 Px Δ NAVPS -20% -21% -10% -11% 0% 0% 10% 11% 20% 21% NexGen Energy Ltd. Initiation of Coverage Speculative Buy Target Price C$4.00 | 13 January 2020 Specialty Minerals and Metals 13 14 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. We present our estimate of the impact on our NAV from changes in the USD:CAD exchange rate in Figure 16 below.

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.

Uranium Participation Corp. - U

Key risks to our investment thesis include: weaker-than-expected uranium prices, volatility in the CAD:USD exchange rate, and further dilution via capital market transactions.

Uranium price and market risk

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. A weaker-than-expected uranium price could materially impact our valuation for UPC.

Foreign exchange risk

Given that uranium pricing and contracts are routinely denominated in US$, the relative exchange rate will have an impact on UPC's financial performance and net asset value per share.

Financing risk

As a holding company, UPC does not generate operating cash flow and is therefore reliant upon the capital markets to fund operating expenditures and future uranium purchases. We note that the majority of UPC's growth to date has been funded via capital market transactions, and there is no guarantee that UPC will be able to access capital markets on a going-forward basis as a result of potential changes in market sentiment and/or pricing.

Distribution of Ratings:

Global Stock Ratings (as of 12/08/20)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	565	63.48%	56.46%
Hold	160	17.98%	40.62%
Sell	8	0.90%	37.50%
Speculative Buy	137	15.39%	79.56%
	890*	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.

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An analyst has visited the material operations of Boss Resources Limited. No payment was received for the related travel costs.

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Buy (B); Speculative Buy (SB); Sell (S); Hold (H); Suspended (SU); Under Review (UR); Restricted (RE); Not Rated (NR)

NexGen Energy Ltd. Rating History as of 05/28/2020

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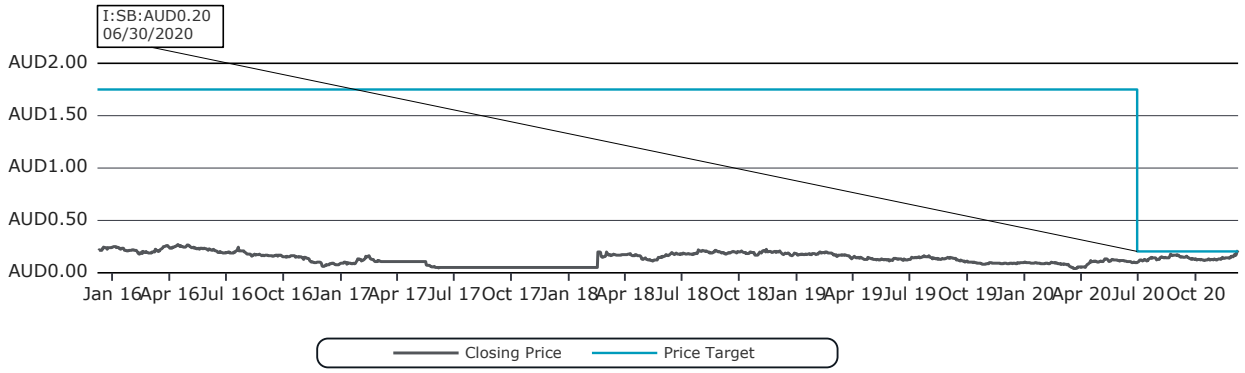
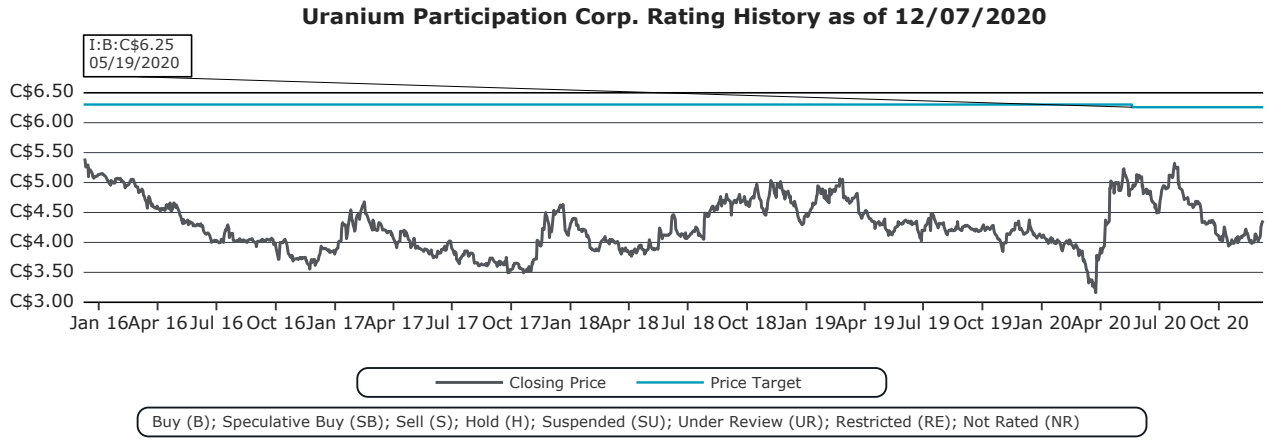
Paladin Energy Ltd Rating History as of 12/07/2020



Buy (B); Speculative Buy (SB); Sell (S); Hold (H); Suspended (SU); Under Review (UR); Restricted (RE); Not Rated (NR)



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