July 4, 2017
Company Update

Equity Research

NEXGEN ENERGY LTD.

2nd Financing Package Adds Even More Debt

EVENT

NexGen Energy has announced that it has entered into a binding term sheet with CEF Holdings Ltd. ("CEF") for a second financing package totaling US$110M.

BOTTOM LINE

Negative – While NXE will have an excellent cash position of about $200M after this transaction along with an exceptionally strong voting alignment agreement with CEF, we are not enamored with the strapping on of additional debt for an exploration company that does not generate revenue. The timing and terms of the deal perplexes us since the PEA is expected in the near term and if positive, could provide a basis for improved terms or alternative financing for development. Moreover, the project has advanced since the first deal with CEF was struck a year ago that would justify improved terms for this round.

FOCUS POINTS

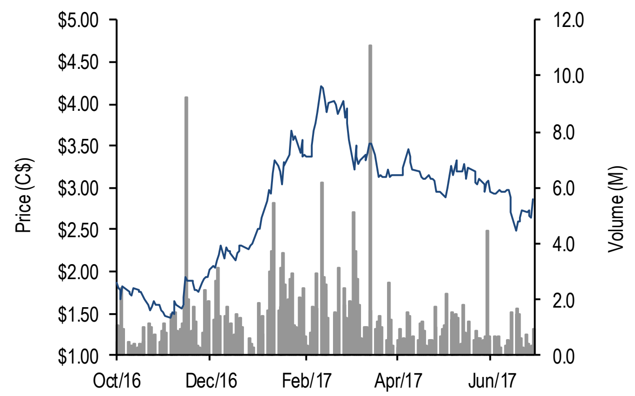
- **Financing package details –** The total financing package involves US$50M in common shares of NexGen along with a US$ 60M aggregate principal amount of unsecured convertible debentures, the terms being the same as the initial CEF debenture announced in June 2016.
- **Borrow cash now, give some back later –** In total, NXE has borrowed US$120M from CEF and will pay US$33M back in interest payments at a 5% interest rate over the total lives of both tranches. This translates into 28% of the amount borrowed that will be returned.
- **Advancements not recognized –** Since the first deal with CEF, NXE has increased the resource estimate to 301M lbs U_3O_8, listed on the NYSEMKT and a PEA is due shortly. However, the second deal is similar to the first.

Recommendation:	**BUY**
Symbol/Exchange:	NXE/TSX
Sector:	Metals & Mining
All dollar values in C$ unless otherwise noted.	
Last close price:	$2.87
One-year target:	$4.85↓
Return Target:	69%
Cash on hand	$197M

Financial summary

Shares O/S (M)	330.6	52-week range	$1.44 - $4.21
Market cap ($M)	$949.0	Avg. weekly vol. (M)	5.93
Market float ($M)	$819.8	Fiscal year-end	31-Dec

Arrow	**U3O8 Grade**	**Attrib. Resource**	**Tonnage**
Indicated Resource	6.88%	179M lbs	1.18Mt
Inferred Resource	1.30%	122M lbs	4.25Mt
Global Resource	2.51%	301M lbs	5.43Mt



Company profile: NexGen Energy Ltd. is an Athabasca Basin focused uranium exploration company drilling to advance the Rook 1 Project. Other portfolio assets include the Radio and Thorburn Lake Projects.

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See disclosure and a description of our recommendation structure at the end of this report.

ADDITIONAL US$110M FINANCING

The total financing package involves US$50M in common shares of NexGen (24.1M shares) along with a US$60M aggregate principal amount of unsecured convertible debentures. The new debentures have a five-year term and carry an interest of 7.5%, just like the previously announced issue. They are convertible at US$2.69 (or $3.52 at an exchange rate of 1.3060). This amounts to a conversion premium of 30% to the 20 day VWAP (just as in the previous financing) and 33% to the last close. The US$50M placement will result in the issuance of approximately 24.1M placement shares at a price of $2.70 (US$ 2.07 at an exchange rate of 1.3060) per placement share representing the 20 day VWAP of the common shares.

The existing debentures, placement shares and new debentures are expected to be held by CEF Limited and holding companies controlled by Li Ka Shing and his son, Victor Li. CEF is expected to hold US$20 million principal amount of existing debentures, US$25 million of the placement shares and US$20 million principal amount of new debentures and the holding companies controlled by Li Ka Shing and Victor Li will hold the balance. Post-financing, the Li's will hold an aggregate of 13.9M shares in NXE, which represents 4.2% of the company. This represents the fifth-largest publicly disclosed holding in NXE as per Bloomberg. Upon full exercise of all debentures, the collective investment group would own 18.5% of NXE. In this report we will refer to this collective group as "CEF".

In light of Friday's announcement, NexGen and CEF have agreed to extend the maturity date of the existing US$60M principal amount of unsecured convertible debentures to match that of the new debentures.

NexGen will be entitled, on or after the third anniversary date of the issuance of the new debentures, at anytime that the 20-day VWAP exceeds 130% of the conversion price, to redeem the new debentures at par plus accrued and unpaid interest. The forced conversion threshold would be US$3.50/share ($4.57/share) Two-thirds of the interest (5%) is payable in cash while the remaining third (2.5%) is payable in common shares at a price equal to the 20-day VWAP.

After the financing, NXE will have about $200M in cash. As of its Q1/17 financials the company had $53.5M in cash.

<u>Strong Voting Alignment Agreement</u>

Along with the financing, NexGen secured a strong voter alignment agreement that its advisors and legal counsel believe is the strongest around. We would tend to agree that the agreement appears very supportive of management and concede that the duplicating the terms of the debenture financing on behalf of CEF for the second round may have been a result of providing such support. Indeed, Rook I appears to be unencumbered from a takeout perspective by these investments by CEF.

The investor rights agreement with CEF will provides for the following:

- For so long as CEF holds at least 10% of the Common Shares (on a partially diluted basis) it agrees:
  - Not to tender or agree to tender (or convert) the New Debentures or the Existing Debentures or any Common Shares they hold to an unsolicited takeover bid

- To exercise the votes attached to all Common Shares they hold in respect of any change of control transaction, and deposit or tender such Common Shares, in accordance with the recommendation of the Company's Board of Directors
- To withhold votes in respect of any Common Shares they hold in respect of the election of individuals to the Board who are not nominees of management
- In respect of non-change of control matters, not to exercise the votes attached to any Common Shares they hold contrary to the recommendation of the Board

- For so long as CEF holds at least 10% of the Common Shares (on a partially diluted basis), it agrees to a standstill whereby it will, among other things, not acquire any securities of NXE or solicit proxies or otherwise attempt to influence the conduct of security holders of the Company
- For so long as CEF holds at least 10% of the Common Shares (on a partially diluted basis), it will be subject to restrictions on disposition applicable to any Common Shares it holds, consisting of giving prior notice to the Company of any proposed disposition of more than 0.5% of the number of Common Shares then outstanding and either: (i) disposing of such Common Shares to specific willing investors identified by the Company within a 7-day period; or (ii) disposing of such Common Shares either through a broad distribution on the public markets or in a private transaction or block trade to anyone other than specific investors identified by the Company within the 7-day period.
- For so long as CEF holds at least 15% of the Common Shares (on a partially diluted basis), it will have the right to nominate one director to the Board.

INCREASING DEBT FOR AN EXPLORATION COMPANY IS RISKY

The US$60M portion of the announced financing package brings the total debt load for NXE to US$120M for a term of five years at an aggregate interest rate of 7.5% comprised of 5% in cash payments and 2.5% in equity issuances.

Since NXE is not expected to generate cash flow any time soon (we estimate first production by 2026), it will likely need to set aside some of the cash it borrowed to service the interest payments. We calculate that the total cash payments for the combined two debenture packages to be US$33M or 28% of the amount received – leaving US$87M to be used. In addition, equity issuances equating to 2.5% interest are also payable. At the current share price, the total dilution on a go forward basis is approximately 5M shares, or about 1.5% of the post financing share count.

While we believe the uranium market will be in significantly better shape in five years, NXE places itself in a situation where it needs to deal with repaying or refinancing US$120M in five years time when it is unlikely to be generating cash flow from any of its current assets. If the uranium market continues to be weak at that time, the debt could place NXE in a very tough situation. The same argument could have been made last year when the initial US$60M deal was struck. However we note that last year's transaction brought on a strong investment group in to the fold that is backed by Li Ka Shing in a tough equity raising environment with no equity dilution. While the equity markets are not any better now, doubling the debt to US$120M has made the interest service requirements larger (US$33M from US$15M prior) and created a larger issue to deal with when it matures in five years (US$120 vs. US$60M).

TIMING AND TERMS

With $53.5M in the bank as of Q1/17 financials, NXE is well financed for several seasons of exploration work. An additional US$110M injection at this point appears to be too much too soon. NXE management notes that it has a plan based on the upcoming PEA. If management plans to proceed directly into development after the PEA we can see how such a large financing fits into its plans. However it appears that Arrow still has plenty of room to grow and we would expect to see more drilling to better ascertain what they have at this world-class asset. As such, we would have thought it would be too early to go in to development. What we would prefer to see is the consolidation of Rook I with Fission Uranium's (FCU-TSX, BUY, Target: $1.20) Patterson Lake South project to consolidate the region.

The terms of the second financing on the debenture side are identical to what was negotiated a year ago. With the PEA coming out within a few months and combined with the positive developments at Arrow since the first deal, we would think that better terms could have been had in the second round since the project has advanced. A strong PEA would further de-risk the project relative to a year ago. In a similar vein, the latest resource update has Arrow with an impressive 179M lbs Indicated (6.88% U_3O_8) along with 122M lbs Inferred (1.30% U_3O_8) with 89% of last year's inferred maiden global resource of 201.9M lbs converted into the indicated resource category. On top of that the company was recently listed on the NYSEMKT, which improves its distribution to a much larger US investor audience. Combined with encouraging exploration results (particularly at the southwest gap) we believe there is justification for better terms from this investment group or elsewhere.

RECOMMENDATION AND TARGET PRICE

We continue to see Arrow as a once-in-a-generation type of deposit. We are maintaining our BUY recommendation and are reducing our target price to $4.85/share from $5.20, or by 7% to reflect the impact of this financing announcement. Our target price is derived from a 1.0x multiple to our net asset valuation of $4.86/share using a 10% discount rate.

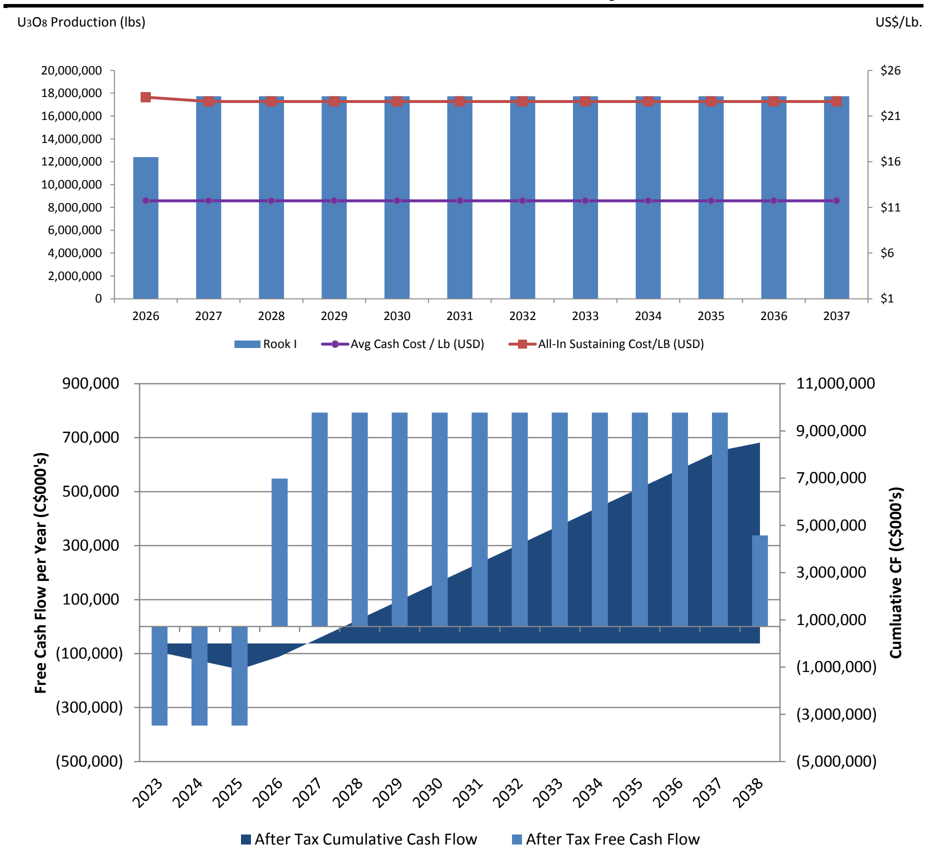
Exhibit 1. Net Asset Value

Asset	Value ($M)	Per share	Ownership	Notes
Development Projects				
Rook I	$1,720.1	$4.65	100%	NPV @ 10%, US$80/lb, US$0.90/CAD
Other				
Present Value of Debenture	($127.6)	($0.35)		10% discount rate at current exchange rate
Working Capital Net of Cash	$9.4	$0.03		As of Q1/17 Financials
Cash + Proceeds from In-the-Money Options and Warrants	$235.2	$0.64		As of Q1/17 Financials + US$110M at 0.766 USD/CAD
NPV of Corporate G&A	($38.8)	($0.10)		NPV of corporate costs at 10%
Valuation in CAD	**$1,798.3**	**$4.86**		in CAD

Source: Cantor Fitzgerald Canada Research

Our NAV decreased on the back of the increased share count by 24.1M shares as a result of the placement, and increased present value of the debenture that grew to US$120M from US$60M. This was partially offset by an increase in cash of US$110M. We also added the NPV of forecast corporate G&A costs.

Exhibit 2. Production, Costs and Cash Flow Projections



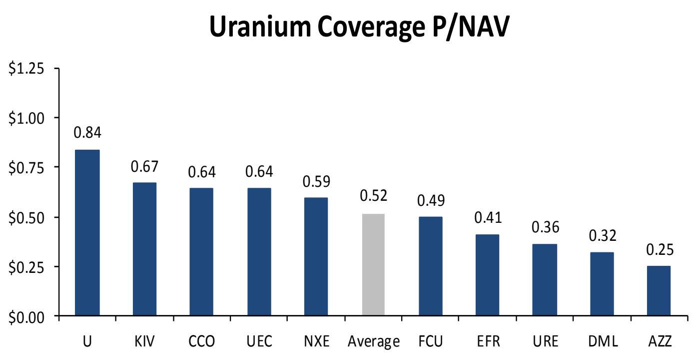
Source: Cantor Fitzgerald Canada Research

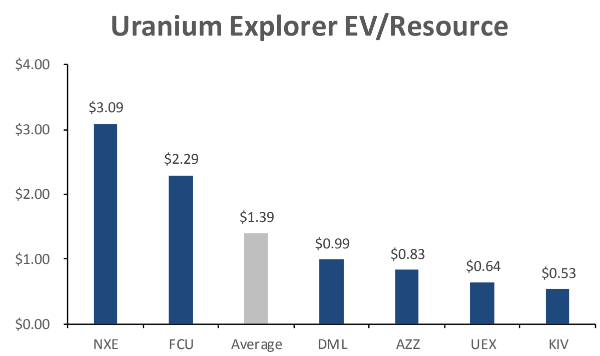
Exhibit 3. Uranium Comps

Uranium Producer Company Name	Stage	Stock Price (Local $)	Market Cap ($'000)	Enterprise Value ($'000)	NI43-101 Resources/JORC (M lbs) Avg Grade	P&P	M&I	Inferred	Total	MKT / LB	EV / LB
Cameco Corporation (TSX:CCO)	Production	11.81	4,674,312.2	5,923,933.2	6.089%	416.7	471.2	243.4	1,131.3	$4.13	$5.24
Energy Fuels Inc. (TSX:EFR)	Production	2.06	145,121.6	133,105.6	0.076%	0.0	110.3	61.9	172.2	$0.84	$0.77
Paladin Energy Ltd (ASX:PDN)*	Production	0.05	79,381.0	410,556.8	0.080%	130.0	226.3	150.4	506.6	$0.16	$0.81
Peninsula Energy Ltd. (ASX:PEN)*	Production	0.34	76,972.6	108,599.6	0.050%	0.0	17.2	30.2	47.4	$1.62	$2.29
Uranium Energy Corp. (NYSE:UEC)*	Production	1.59	285,949.0	277,694.9	0.062%	0.0	32.4	36.3	68.7	$4.16	$4.04
UR-Energy Inc. (TSX:URE)	Production	0.82	119,616.6	106,604.6	0.080%	0.0	34.5	10.3	44.9	$2.66	$2.37
Producer Average			**$896,892.2**	**$1,160,082.4**		**91.1**	**148.6**	**88.8**	**328.5**	**$2.26**	**$2.59**

*Market Cap and Enterprise value for PDN, PEN and UEC. has been converted to $CAD at the prevailing $AUD/$CAD or $USD/$CAD market exchange rates, P/NAV for PDN & PEN is from Bloomberg

Uranium Explorer/Developer Company Name	Stage	Stock Price ($Local)	Market Cap (C$'000)	Enterprise Value (C$'000)	NI43-101/JORC Resources (M lbs) Avg Grade	M&I	Inferred	Total	MKT / LB	EV / LB
Hathor Exploration (Acquired)	Exploration	4.70	654,240.0	581,240.0	8.63%	17.2	40.7	57.9	$11.29	$10.03
Denison Mines (TSX:DML)	Exploration	0.56	313,087.3	197,853.0	2.29%	102.0	97.6	199.7	$1.57	$0.99
Fission Uranium Corp. (TSX:FCU)	Exploration	0.59	285,924.6	241,332.6	1.51%	79.6	25.9	105.5	$2.71	$2.29
NexGen Energy (TSX:NXE)	Exploration	2.87	898,235.7	931,129.7	2.54%	179.5	122.1	301.6	$2.98	$3.09
Kivalliq Energy Corp. (TSXV:KIV)	Exploration	0.11	25,934.7	23,020.7	0.69%	0.0	43.3	43.3	$0.60	$0.53
UEX Corp. (TSX:UEX)	Exploration	0.20	62,251.6	54,041.1	0.84%	68.2	16.5	84.7	$0.73	$0.64
Azarga Uranium (TSX:AZZ)	Development	0.29	21,856.4	19,667.1	0.17%	18.1	5.7	23.8	$0.92	$0.83
Average			**$323,075.7**	**$292,612.0**		**66.4**	**50.3**	**116.7**	**$2.97**	**$2.63**





Source: Cantor Fitzgerald Canada

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BUY (Speculative): The stock is attractively priced relative to the company's fundamentals, however investment in the security carries a higher degree of risk.

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SELL: The stock is overpriced relative to the company's fundamentals, and we expect it to decline from the current price over the next 6 to 12 months.

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