



# Azarga Uranium Corp.

{AZZ-T}

SECTOR: Mining

STOCK PRICE	\$0.19
RATING	BUY
TARGET PRICE	\$0.50
RISK	Very High

## MAJOR MILESTONE PAVES THE WAY FOR STATE PERMITTING

### Final EPA Permits Complete Major Federal Permitting for Dewey Burdock

**OUR TAKE:** Receipt of final EPA permits represents a major de-risking event for Azarga as the final major Federal-level permits for its flagship Dewey Burdock ISR uranium project in South Dakota. With the EPA permits in hand the project has now received all major required Federal permits, having received its NRC Source Materials License previously. With full Federal-level permitting complete Azarga significantly de-risks its position as the next potential U.S. uranium producer and increases its attractiveness as an M&A tuck-in candidate as it puts major impediments and milestones behind it. With its low up-front project CAPEX hurdle of sub US\$32M and low-cost production profile, a 'fully-permitted' Azarga would make a great acquisition target for any of the domestic ISR producers (Fig. 3), looking to expand their near-term production pipeline as Azarga shifts its focus to final State permits. **Azarga remains one of our 'top picks' in the space and we view the current share price as a great entry point in a rising uranium price environment.**

#### KEY HIGHLIGHTS

- ◆ **Azarga has only State-level permitting remaining to complete to advance Dewey Burdock to a construction decision.** To that end the **South Dakota DENR has already recommended the approval of key State permits**, with the final approval stages at the state-level previously put on hold pending the outcome of the NRC and EPA permitting process (which are now in hand). We would expect the final state level permitting process to resume immediately and to be fairly straightforward, relying partly on the conclusions and outcome of the Federal-level process to reassure.
- ◆ **Azarga's Dewey Burdock ISR uranium project in South Dakota is one of the highest-grade undeveloped uranium ISR deposits in the U.S. with average grades well above some current U.S.-based ISR producers.** The December 2019 Preliminary Economic Assessment suggests robust economic potential and supports our thesis that Dewey Burdock has the potential to evolve into a lower-cost, low CAPEX uranium producing operation in the U.S., with a very low CAPEX hurdle to production. The project has now received its NRC License and required EPA permits, which we expect to be quickly followed by required State permits. See Figures 1 & 2 for December 2019 PEA Highlights.
- ◆ **Robust Pipeline of near-term catalysts position Azarga well as it continues to de-risk its flagship Dewey Burdock project.** As mentioned, the Company is now awaiting the final state level permits required to take Dewey Burdock into production that were previously paused pending outcome of federal permitting process. Additionally, the Company's advancement on its flagship project comes amidst the U.S. Government's plans to revive domestic uranium mining industry to maintain energy and defense self-sufficiency. Finally, the Company is also working on proof of ISR amenability of its secondary 'Gas Hills' uranium project in Wyoming which we see as additional 'blue-sky' potential for the stock.

#### RECOMMENDED ACTION

*We recommend accumulating shares at current price on improving fundamental picture & strong catalysts*

- ◆ **Attractive entry point in rising uranium price environment.** Azarga shares have rebounded significantly (+171%) 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 on a multi-week basis. 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, the positive statements within the US Nuclear Fuel Working Group report regarding recommendations that would support a robust domestic uranium mining industry in the U.S., could further lubricate AZZ's path to production. With the final State regulatory agency approval for the Company's Dewey Burdock project in the nearterm pipeline, we see Azarga as ideally positioned to benefit from its potential catalysts.

#### KEY STATISTICS AND METRICS

52-Week High/Low	\$0.25/\$0.07
YTD Performance	-5.0%
Dividend Yield	NA
Shares O/S	200.8m
Market Capitalization	\$38.1M
Cash	\$0.24M
Debt	\$2.04M
Enterprise Value	\$37.9M
Daily Volume (3 mos.)	135,800
Currency	C\$ unless noted

#### HAYWOOD ESTIMATES (USD)

	2019A	2020E	2021E
Revenue (\$M)	\$0.0	\$0.0	\$0.0
EBITDA (US\$M)	(\$1.9)	(\$3.4)	(\$3.5)

#### VALUATION

**Our \$0.50/share target is primarily based on an NPV<sub>10%</sub> on the Dewey Burdock project, assuming a US\$65/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.

Figure 1: Summary of Dewey Burdock 2019 PEA & Resources

<p><b>December 2019 PEA Highlights</b></p> <ul style="list-style-type: none"> <li>• <b>Mine-life:</b> 16 years, including ramp-up</li> <li>• <b>Production:</b> 1 Mlbp<sub>a</sub> U<sub>3</sub>O<sub>8</sub></li> <li>• <b>Life-of-mine Production:</b> 14.3 Mlb U<sub>3</sub>O<sub>8</sub></li> <li>• <b>Cash OPEX:</b> US\$10.46/lb U<sub>3</sub>O<sub>8</sub></li> <li>• <b>Total Production Cost (pre-tax):</b> US\$28.88/lb U<sub>3</sub>O<sub>8</sub></li> <li>• <b>CAPEX:</b> US\$31.7M</li> <li>• <b>Pre-Tax NPV/IRR (US\$55/lb):</b> US\$171M / 55%</li> <li>• <b>After-Tax NPV/IRR (US\$55/lb):</b> US\$147.5M / 50%</li> </ul>	<p><b>Dewey Burdock ISR Amenable Resource Estimate (Dec. 2019)</b></p> <table border="1"> <thead> <tr> <th>Category</th> <th>Mt</th> <th>Avg. GT</th> <th>U<sub>3</sub>O<sub>8</sub> (%)</th> <th>U<sub>3</sub>O<sub>8</sub> (lb)</th> </tr> </thead> <tbody> <tr> <td>Measured</td> <td>5.420</td> <td>0.73</td> <td>0.132%</td> <td>14,285,988</td> </tr> <tr> <td>Indicated</td> <td>1.968</td> <td>0.41</td> <td>0.072%</td> <td>2,836,159</td> </tr> <tr> <td>Inferred</td> <td>0.646</td> <td>0.32</td> <td>0.055%</td> <td>712,624</td> </tr> <tr> <td><b>Global</b></td> <td><b>8.034</b></td> <td><b>0.62</b></td> <td><b>0.111%</b></td> <td><b>17,834,771</b></td> </tr> </tbody> </table> <p><i>*At 0.05% U<sub>3</sub>O<sub>8</sub> Cut-off &amp; GT Cut-off of 0.5 (M&amp;Ind.) or 0.2 (Inf.)</i></p> <p><b>Dewey Burdock Non-ISR Resource Estimate (above water table)</b></p> <table border="1"> <thead> <tr> <th>Category</th> <th>Mt</th> <th>Avg. GT</th> <th>U<sub>3</sub>O<sub>8</sub> (%)</th> <th>U<sub>3</sub>O<sub>8</sub> (lb)</th> </tr> </thead> <tbody> <tr> <td>Measured</td> <td>0.844</td> <td></td> <td>0.057%</td> <td>1,060,000</td> </tr> <tr> <td><b>Global</b></td> <td><b>0.844</b></td> <td></td> <td><b>0.057%</b></td> <td><b>1,060,000</b></td> </tr> </tbody> </table> <p><i>*At 0.02% U<sub>3</sub>O<sub>8</sub> Cut-off &amp; GT Cut-off of 0.2 (M&amp;Ind.), 0.2 (Inf.)</i></p> <p>Source: Azarga Uranium, Haywood presentation and calculation of "Global"</p>	Category	Mt	Avg. GT	U <sub>3</sub> O <sub>8</sub> (%)	U <sub>3</sub> O <sub>8</sub> (lb)	Measured	5.420	0.73	0.132%	14,285,988	Indicated	1.968	0.41	0.072%	2,836,159	Inferred	0.646	0.32	0.055%	712,624	<b>Global</b>	<b>8.034</b>	<b>0.62</b>	<b>0.111%</b>	<b>17,834,771</b>	Category	Mt	Avg. GT	U <sub>3</sub> O <sub>8</sub> (%)	U <sub>3</sub> O <sub>8</sub> (lb)	Measured	0.844		0.057%	1,060,000	<b>Global</b>	<b>0.844</b>		<b>0.057%</b>	<b>1,060,000</b>
Category	Mt	Avg. GT	U <sub>3</sub> O <sub>8</sub> (%)	U <sub>3</sub> O <sub>8</sub> (lb)																																					
Measured	5.420	0.73	0.132%	14,285,988																																					
Indicated	1.968	0.41	0.072%	2,836,159																																					
Inferred	0.646	0.32	0.055%	712,624																																					
<b>Global</b>	<b>8.034</b>	<b>0.62</b>	<b>0.111%</b>	<b>17,834,771</b>																																					
Category	Mt	Avg. GT	U <sub>3</sub> O <sub>8</sub> (%)	U <sub>3</sub> O <sub>8</sub> (lb)																																					
Measured	0.844		0.057%	1,060,000																																					
<b>Global</b>	<b>0.844</b>		<b>0.057%</b>	<b>1,060,000</b>																																					

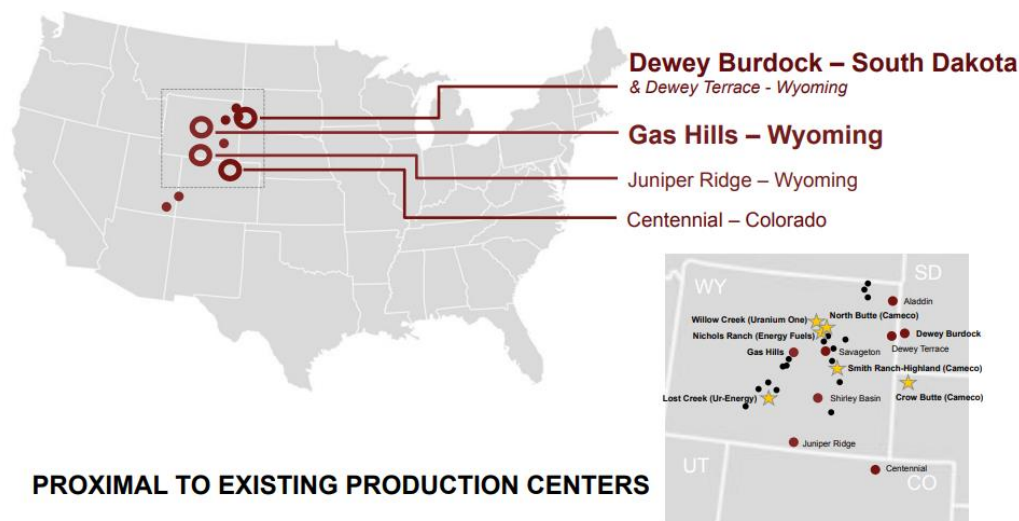
Source: Azarga Uranium, Haywood Securities

Figure 2: December 2019 PEA NPV / IRR sensitivity to Uranium Price

Uranium price scenario	NPV	IRR
US\$35/lb	US\$26.6m	17%
US\$40/lb	US\$62.8m	28%
US\$45/lb	US\$98.9m	37%
US\$50/lb	US\$135.1m	46%
US\$55/lb (base case)	US\$171.3m	55%
US\$60/lb	US\$207.4m	64%
US\$65/lb	US\$243.6m	72%
US\$70/lb	US\$279.7m	80%
US\$75/lb	US\$315.9m	88%

Source: Azarga Uranium

Figure 3. Azarga Uranium Project Locations



Source: Azarga Uranium



## Important Information and Legal Disclosures

This report is intended for institutional investors and may only be distributed to non-institutional US clients in the following states: Alaska, Georgia, Hawaii, Iowa, Idaho, Indiana, Kansas, Maine, Michigan, Minnesota, Missouri, Mississippi, New Hampshire, New Mexico, Oklahoma, South Carolina, South Dakota, Virgin Islands, Vermont, Washington, Wisconsin, and Wyoming. Otherwise, this report may only be distributed into those states with an institutional buyer state securities registration exemption.

### 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.

### Important Disclosures

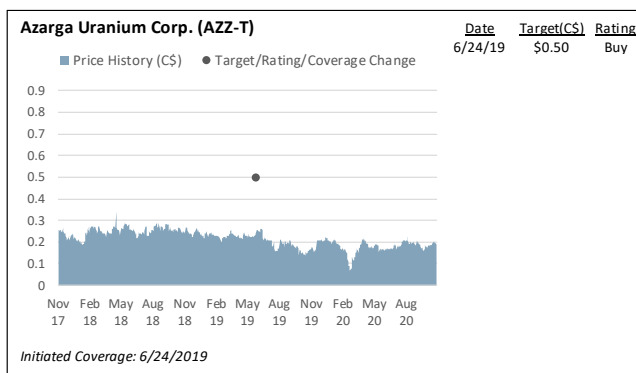
Of the companies included in the report the following Important Disclosures apply:

- ◆ 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.
- ◆ Haywood Securities, Inc. or one of its subsidiaries has received compensation for investment banking services from Azarga Uranium Corp (AZZ-T) in the past 12 months.

### Distribution of Ratings (as of November 25, 2020)

	%	#	IB Clients (TTM)
<b>Buy</b>	75.2%	79	92.6%
<b>Hold</b>	4.8%	5	0.0%
<b>Sell</b>	0.0%	0	0.0%
<b>Tender</b>	0.0%	0	0.0%
<b>UR (Buy)</b>	1.0%	1	0.0%
<b>UR (Hold)</b>	0.0%	0	0.0%
<b>UR (Sell)</b>	0.0%	0	0.0%
<b>Dropped (TTM)</b>	19.0%	20	7.4%

### Price Chart, Rating and Target Price History (as of November 25, 2020)



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

**Link to Research Policy:** <http://haywood.com/what-we-offer/research/research-policy>

**Member of the Canadian Investor Protection Fund**

