



Azarga Uranium Corp.

{AZZ-T}

SECTOR: Mining

STOCK PRICE	\$0.265
RATING	BUY
TARGET PRICE	\$0.50
RISK	Very High

UPDATED RESOURCE ESTIMATE AT GAS HILLS URANIUM PROJECT INCLUDES MAIDEN ISR RESOURCE

Gas Hills, Potential Fuel for Dewey Burdock

OUR TAKE: This morning, Azarga announced an updated resource estimate, including a maiden ISR resource, for its Gas Hills uranium project (Wyoming). The Company also announced that it will initiate a PEA to study the potential economics for Gas Hills to become a satellite feed source to its nearby flagship Dewey Burdock Project (South Dakota). **The resource update for Gas Hills includes a 128% increase in Measured & Indicated Resources to 10.8 Mlb U₃O₈ (11.3Mlb with Inferred), including 7.7 Mlb of in-situ recovery (ISR) M&I resources at an average grade of 0.101% U₃O₈, solidly past the typical grade hurdle for Wyoming ISR economic production.** Based on the scale of the maiden ISR resources at Gas Hills (~7.7 Mlb), it makes sense for Azarga to study the project's potential to augment the economics of the Dewey Burdock project, which was the subject of a positive 2019 PEA and underpins the majority of our valuation. Dewey has completed all Federal permitting, and only requires State permitting (see [Flash dated Nov. 25, 2020](#)). The ISR resources delineated at Gas Hills could significantly increase mine-life or production rate of the Dewey Burdock project (See Fig. 1), with positive implications to combined economics, where the Dewey PEA outlined a 16-year / 1 Mlb per year operation. See highlights below & Table 1. **We view AZZ's current price as a great entry point as it unjustifiably trails its peer group response to sector catalysts and uranium price improvement.**

KEY HIGHLIGHTS

- ◆ **Gas Hills Resource Estimate Highlights (see Table 1):**
 - **Measured and Indicated uranium resources increased to 10.77 million pounds U₃O₈ from 4.73 Mlb (128% increase) with an average grade of 0.077% U₃O₈, with inferred Resources of 0.49 million pounds U₃O₈, for 8.13 Mlb U₃O₈ all-categories resources.**
 - **Measured and Indicated in-situ recovery ("ISR") uranium resources total 7.71 million pounds U₃O₈ (72% of overall Measured and Indicated resources) with an average grade of 0.101% U₃O₈.**
- ◆ **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, with its very low CAPEX hurdle to production, has the potential to evolve into a lower-cost uranium producing operation in the U.S. The project has received its NRC License and the required EPA permits. We expect State-level permits to come fairly quickly, representing a catalyst for the stock. See Figures 1 & 2 for December 2019 PEA highlights.
- ◆ **Pipeline of near-term catalysts position Azarga well as it continues to de-risk its flagship Dewey Burdock project.** As mentioned, the Company is only awaiting the final State-level permits required to take Dewey Burdock into production. State-level permitting was previously paused pending the outcome of federal permitting process and has now resumed. 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, as mentioned above, the Company will also be conducting a PEA to study the economics of the ISR resources of its secondary 'Gas Hills' uranium project in Wyoming as a satellite to Dewey Burdock. We see this possibility as additional 'blue-sky' potential for the stock.

RECOMMENDED ACTION

We recommend accumulating shares at current price on improving fundamental picture, relative valuation & strong catalysts

- ◆ **Attractive entry point in rising uranium price environment.** We 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. At the same time, non-traditional spot market buying by aspiring uranium producers and strategic holders has tightened the spot market. 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 the catalysts. Azarga is currently trading at 0.51x consensus NAV (0.53x Haywood NAV, vs. US more advanced peers at 0.82x NAV).

KEY STATISTICS AND METRICS

52-Week High/Low	\$0.32/\$0.12
YTD Performance	10.4%
Dividend Yield	NA
Shares O/S	231.6m
Market Capitalization	\$61.4M
Cash	\$3.03M
Debt	\$0.23M
Enterprise Value	\$58.4M
Daily Volume (3 mos.)	1,222,640
Currency	C\$ unless noted

HAYWOOD ESTIMATES (USD)

	2019A	2020A	2021E
Revenue (\$M)	\$0.0	\$0.0	\$0.0
EBITDA (US\$M)	(\$1.9)	(\$1.6)	(\$3.5)

VALUATION

Our \$0.50/share target is primarily based on an NPV_{10%} 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.

Table 1: Updated Mineral Resource Estimate - 29 March 2021

Gas Hills Project Mineral Resource estimate at 0.10 GT (inclusive of ISR resources)				
	Measured Resources	Indicated Resources	M + I Resources	Inferred Resources
Tons	993,928	6,031,224	7,025,152	514,393
Average grade (% U ₃ O ₈)	0.103	0.072	0.077	0.048
Average thickness (feet)	5.4	6.1	6.1	6.2
Average grade-thickness ("GT")	0.552	0.443	0.463	0.293
Uranium (pounds)	2,051,065	8,714,126	10,765,191	490,072

Gas Hills Project ISR Mineral Resource estimate at 0.10 GT				
	Measured Resources	Indicated Resources	M + I Resources	Inferred Resources
Tons	993,928	2,835,339	3,829,267	409,330
Average grade (% U ₃ O ₈)	0.103	0.1	0.101	0.052
Average thickness (feet)	5.4	4.9	5.0	5.9
Average grade-thickness ("GT")	0.552	0.491	0.502	0.31
Uranium (pounds)	2,051,065	5,654,545	7,705,610	427,817

Note: Mineral resources that are not mineral reserves do not have demonstrated economic viability.

Both the ISR and non-ISR resources were determined using the GT contour method and met the following criteria:

- 1) 0.02 percent grade cutoff;
- 2) Occur within the same mineral horizon (roll front);
- 3) Fall within the 0.10 GT contour; and
- 4) Extend no farther from the drill hole than the radius of influence specified for each category, i.e., measured, indicated or inferred.

Gas Hills Project ISR Mineral Resource estimate at 0.20 GT*				
	Measured Resources	Indicated Resources	M + I Resources	Inferred Resources
Tons	847,570	2,143,763	2,991,333	260,544
Average grade (% U ₃ O ₈)	0.111	0.114	0.113	0.056
Average thickness (feet)	5.9	5.7	5.8	8.4
Average grade-thickness ("GT")	0.661	0.653	0.653	0.47
Uranium (pounds)	1,887,847	4,872,128	6,759,975	290,007

*ISR resources that fall within the 0.20 GT contour (all other calculation criteria are the same as noted above)

Source: Azarga Uranium



Figure 1: Summary of Dewey Burdock 2019 PEA & Resources

<p>December 2019 PEA Highlights</p> <ul style="list-style-type: none"> • Mine-life: 16 years, including ramp-up • Production: 1 Mlbp a U₃O₈ • Life-of-mine Production: 14.3 Mlb U₃O₈ • Cash OPEX: US\$10.46/lb U₃O₈ • Total Production Cost (pre-tax): US\$28.88/lb U₃O₈ • CAPEX: US\$31.7M • Pre-Tax NPV/IRR (US\$55/lb): US\$171M / 55% • After-Tax NPV/IRR (US\$55/lb): US\$147.5M / 50% 	<p>Dewey Burdock ISR Amenable Resource Estimate (Dec. 2019)</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Mt</th> <th>Avg. GT</th> <th>U₃O₈ (%)</th> <th>U₃O₈ (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>Global</td> <td>8.034</td> <td>0.62</td> <td>0.111%</td> <td>17,834,771</td> </tr> </tbody> </table> <p><i>*At 0.05% U₃O₈ Cut-off & GT Cut-off of 0.5 (M&Ind.) or 0.2 (Inf.)</i></p> <p>Dewey Burdock Non-ISR Resource Estimate (above water table)</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Mt</th> <th>Avg. GT</th> <th>U₃O₈ (%)</th> <th>U₃O₈ (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>Global</td> <td>0.844</td> <td></td> <td>0.057%</td> <td>1,060,000</td> </tr> </tbody> </table> <p><i>*At 0.02% U₃O₈ Cut-off & GT Cut-off of 0.2 (M&Ind.), 0.2 (Inf.)</i></p> <p>Source: Azarga Uranium, Haywood presentation and calculation of "Global"</p>	Category	Mt	Avg. GT	U ₃ O ₈ (%)	U ₃ O ₈ (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	Global	8.034	0.62	0.111%	17,834,771	Category	Mt	Avg. GT	U ₃ O ₈ (%)	U ₃ O ₈ (lb)	Measured	0.844		0.057%	1,060,000	Global	0.844		0.057%	1,060,000
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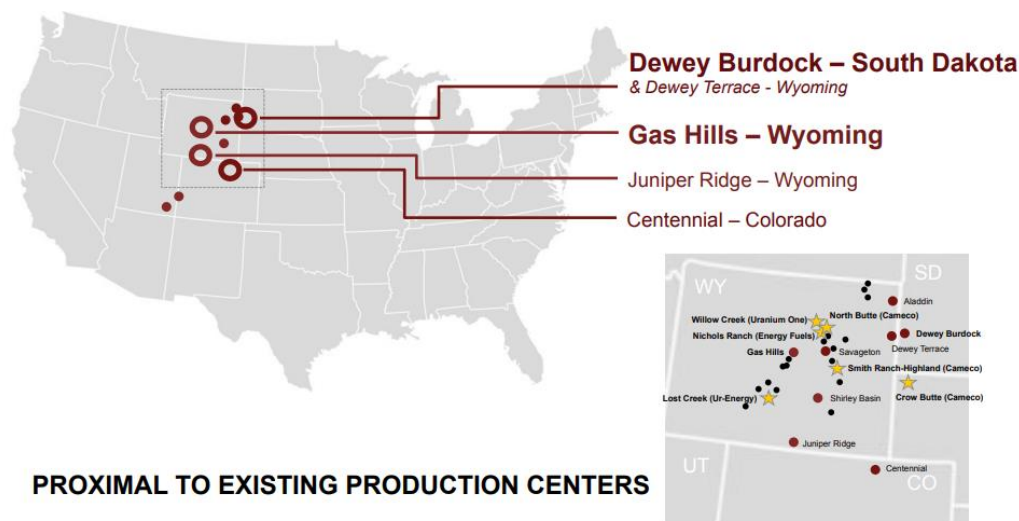
Source: Azarga Uranium, Haywood Securities

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



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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.

Important Disclosures

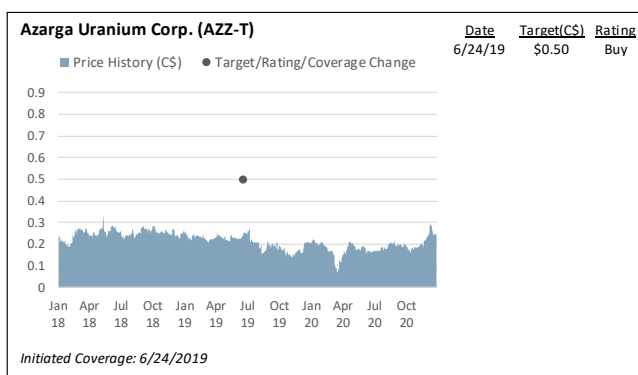
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- ◆ Haywood Securities, Inc. or one of its subsidiaries has received compensation for investment banking services from Azarga Uranium Corp (AZZ-T) in the past 12 months.

Distribution of Ratings (as of March 30, 2021)

	%	#	IB Clients (TTM)
Buy	79.8%	79	93.9%
Hold	6.1%	6	6.1%
Sell	0.0%	0	0.0%
Tender	1.0%	1	0.0%
UR (Buy)	0.0%	0	0.0%
UR (Hold)	0.0%	0	0.0%
UR (Sell)	0.0%	0	0.0%
Dropped (TTM)	13.1%	13	0.0%

Price Chart, Rating and Target Price History (as of March 30, 2021)



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

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