



Azarga Uranium Corp.

(AZZ-T)

SECTOR: Metals & Mining

STOCK PRICE	\$0.62
RATING	TENDER
TARGET PRICE	N/A
Previous	BUY / \$0.65

PROPOSED ACQUISITION BY ENCORE ENERGY

enCore Provides Encore to Azarga's Performance

OUR TAKE: Yesterday, Azarga Uranium entered into a plan of arrangement with enCore Energy (EU-V, not rated) to be acquired in an all share transaction valuing AZZ at \$198.7M on a fully-diluted in-the-money basis using closing prices of both companies' shares on Friday, September 3rd. We have repeatedly [highlighted Azarga's attractiveness as an M&A tuck-in candidate](#) as it continues to advance its flagship Dewey Burdock ISR uranium project, de-risking it with Federal-level permitting and augmenting it by delivering preliminary economics of the [potential satellite operation, with the Gas Hills project PEA](#). Azarga shares had been lagging sector peers at mid-year (+7.1% YTD at June 30th, vs U.S. peers, +52%) until waking up a bit in mid-July just in time to meet the hurdles for inclusion in the Global X Uranium ETF (URA-US, not rated). Since June 30th, AZZ shares are up ~143% (vs U.S. peers, +20%), getting another shot in the arm yesterday with the all-share acquisition joint announcement from AZZ and enCore Energy (EU-V, not rated), which represented a 31% premium to AZZ's prior close. **With deal-implied value at announcement very close to our prior \$0.65/share formal 12-month target price (1.0x NAV), and our view that the combination of enCore and Azarga create a stronger, more diversified platform for growth in the US. With this report, we withdraw our formal target and estimates and assign a "Tender" rating in favour of the transaction.**

KEY HIGHLIGHTS

- ◆ **Deal Points.** enCore will pay 0.375* EU shares per AZZ share for a total of ~\$198.7M on a fully-diluted in-the-money basis at closing prices of both stocks on Friday, Sept. 3rd (AZZ, \$0.54, EU, \$1.89). *The deal has some embedded protection for AZZ shareholders against downside in EU-V share price. At, or below EU price of ~\$1.44, and down to ~\$1.102 (on a 15-day VWAP basis), AZZ shareholders will receive a minimum of \$0.54 equivalent in EU shares (equal to Friday's close) based on a dynamic exchange ratio, to a maximum of 0.49 EU/AZZ.
- ◆ **Deal Premium.** The enCore offer represented a 31.3% premium to last close of AZZ prior to announcement - the 0.375 Exchange Ratio values AZZ at \$0.71/share, or \$198.7M on a fully-diluted basis. With AZZ shares rapidly appreciating in recent sessions, we note that the deal at announcement reflected a premium of 97% to AZZ's 15-day VWAP.
- ◆ **Deal Metrics:** The enCore Offer represents ~1.1x Haywood NAV at announcement.
- ◆ **Other Notes:** Close of the deal is expected in November and is contingent on 66-2/3% Azarga shareholder approval. Azarga expects to hold a Special Meeting for the vote in Oct. or Nov. The deal contains a \$4M termination fee payable to enCore in certain circumstances.
- ◆ **Joint Investor Webcast Thursday, September 9th:** investors seeking more information should join the joint EU/AZZ [investor webcast September 9, 2021 at 10:00 AM EDT / 7:00 AM PDT](#)

OUTLOOK & RECOMMENDED ACTION

We Recommend AZZ shareholders Tender to the proposed transaction with EU

- ◆ **enCore Energy offer aims to create a robust and diversified US-focused, multi-stage growth platform.** As outlined in the announcement, the combined companies would boast ~100 Mlb U₃O₈ of NI 43-101 compliant resources (~90% M&I), plus 68.4 Mlb U₃O₈ of 'historic' resources, reflecting optionality and future definition potential. The combined business would control two licensed uranium ISR facilities in South Texas, with a robust supporting land package, along with the Federally-permitted Dewey-Burdock project in South Dakota and the potential satellite feeder, Gas Hills, in Wyoming. **We believe the combined companies create a more robust, diversified platform, and recommend AZZ shareholders Tender to the offer.**

CATALYSTS

1. **October / November 2021** – Azarga Special Meeting and shareholder vote on proposed plan of arrangement with enCore Energy (EU-V).
2. **2021 onward** – Continued uranium price and sector momentum.

RISK FACTOR

Very High

KEY STATISTICS AND METRICS

52-Week High/Low	\$0.68 / \$0.16
YTD Performance	158.3%
Dividend Yield	NA
Shares O/S	236.1M
Market Capitalization	\$149.4M
Cash	\$1.9M
Debt	\$0.1M
Enterprise Value	\$144.5M
Daily Volume (3 mos.)	550,720
Currency	C\$ unless noted

HAYWOOD ESTIMATES (CAD)

Our prior estimates and valuation basis are no longer applicable based on the proposed transaction and our recommendation for shareholders to tender to the agreement.

IMPORTANT CONFLICTS OF INTEREST DISCLOSURE

Haywood Securities Inc. is engaged as a financial advisor on the subject transaction and will receive fees if the transaction successfully concludes. Haywood has also provided a positive fairness opinion in respect of the transaction and will be paid a fee for its professional opinion.

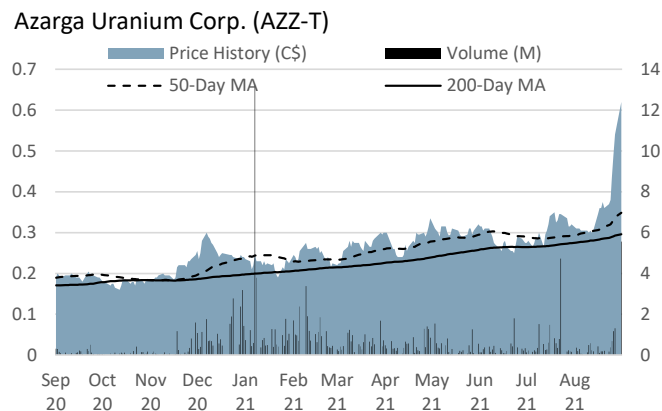
VALUATION

Our formal valuation is withdrawn. We assign a Tender rating with this report.

INVESTMENT THESIS

- Making the Grade.** Average resource grades of 0.11% U₃O₈ (Measured at 0.132%) at Dewey Burdock, and 0.101% U₃O₈ at Gas Hills position these projects **among the highest grade undeveloped ISR uranium project in the U.S.**, and well above some existing producers. Although many factors determine the successful extraction of uranium in an ISR operation, higher concentrations of uranium will help to reduce sustaining capex in the form of well-field development costs per pound of production, on a relative basis, and could prove to be a sustainable advantage. We believe the advanced-stage Dewey Burdock uranium project could reach production by 2023, coincident with a time when uranium prices are forecast to have increased significantly from current levels.
- Azarga Uranium** completed a merger with URZ Energy in July 2018, creating a U.S.-based uranium junior developer with a diversified asset base with combined all-categories NI 43-101 uranium resources of over 46 Mlb U₃O₈ (87% Meas.&Ind.) within South Dakota, Wyoming and Colorado.
- Azarga Poised to Deliver Further Stock-Catalyzing News Flow in 2021:** Azarga has now delivered on a key 2021 catalyst with the Gas Hills PEA, which it has rapidly advanced and now demonstrated strong potential economics in a future production scenario. The Gas Hills satellite potential compliments that the 2019 Dewey Burdock Preliminary Economic Assessment (PEA) which indicated significant improvement in all core metrics for that project, which positions as a 1.0Mlbp U₃O₈ mine, with a 16 year life, cash costs <US\$11/lb and all-in production costs <\$29/lb. The Dewey Burdock project has received all key Federal-level permits, and is now awaiting State-level permits, which would further de-risk the stock.

SCENARIO ANALYSIS



Source: Capital IQ, and Haywood Securities

KEY RISKS

- Licensing / Permitting:** While AZZ has an NRC Source Materials License and final EPA permits for the flagship Dewey Burdock project, there remains State-level permitting risk as these permits are required to further advance the project toward production.
- Financial:** Azarga is a pre-revenue, development-stage company, and will almost certainly rely on external funding source in the form of future equity dilution or debt capital.
- Commodity Price:** Our forecasts include a substantial increase in uranium price from current market prices. Failure for this to materialize would negatively impact our valuation.

Company Website

www.azargauranium.com

Key Management

Blake Steele (President & CEO)



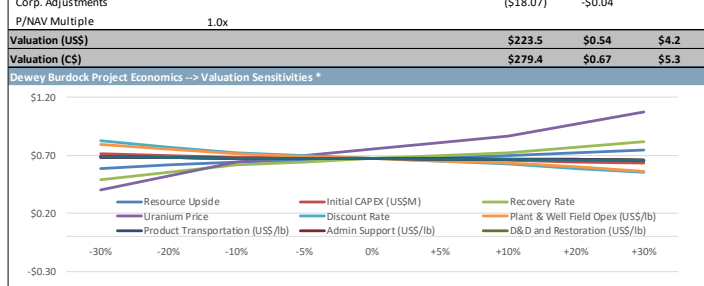
Azarga Uranium (AZZ-T)

Azarga Uranium Corp. TSX:AZZ Price: \$0.620 Shares O/S (M) 236.1 Rating: Tender
 September 7, 2021 MCap (C\$ M) \$146 Target (C\$): N/A Return: N/A

Investment Highlights
 Azarga is a junior uranium development company with a U.S.-based suite of assets.
Catalysts:
October / November 2021 – Azarga Special Meeting and shareholder vote on proposed plan of arrangement with enCore Energy (EU-V).
2021 onward – Continued uranium price and sector momentum.

Financials & Model Assumptions *	2020	2021	2022	2023	2024	2025
	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25
Spot Uranium Price (US\$/lb U3O8)	\$39	\$39	\$47	\$55	\$65	\$65
LT Uranium Price (US\$/lb U3O8)	\$46	\$46	\$55	\$63	\$65	\$65
USD/CAD	1.34	1.25	1.25	1.25	1.25	1.25
Revenue (US\$)	\$0.0	\$0.0	\$0.0	\$0.6	\$4.2	\$6.0
Total Project Costs (US\$)	\$0.0	\$0.0	\$0.0	\$2.3	\$20.0	\$28.5
Corporate G&A (US\$)	\$1.6	\$1.6	\$1.6	\$1.7	\$1.7	\$1.7
EBITDA (US\$)	(\$1.6)	(\$1.6)	(\$1.7)	(\$3.4)	(\$17.5)	(\$24.3)
Weighted Avg. S/O (Basic)	232	236	236	245	259	260
Weighted Avg. S/O (Diluted)	275	279	279	288	303	303
Earnings (US\$M)	(\$2.1)	(\$1.6)	(\$1.7)	(\$3.5)	(\$25.5)	(\$35.4)
EPS (US\$)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.10)	(\$0.14)
Free Cash Flow (US\$M)	(\$2.10)	(\$15.76)	(\$7.45)	(\$9.06)	(\$29.77)	(\$25.82)

Sum-of-Parts Valuation *	Project	Location	M&I Resource (lbs)	Forecast Resource	Valuation	Per Share	EV/lb
	Dewey Burdock	S. Dakota, USA	18.39	24.22	\$174.5	\$0.42	\$7.2
	Gas Hills	Wyoming, USA	10.77	10.77	\$49.3	\$0.12	\$4.6
	Aladdin	Wyoming, USA	1.04	1.04	\$1.0	\$0.00	\$1.0
	Juniper Ridge	Wyoming, USA	6.12	6.12	\$6.1	\$0.01	\$1.0
	Shirley Basin	Wyoming, USA	0.00	0.00	\$0.0	\$0.00	NM
	Dewey Terrace	Wyoming, USA	0.00	0.00	\$0.0	\$0.00	NM
	Savageton	Wyoming, USA	0.00	0.00	\$0.0	\$0.00	NM
	Centennial	Colorado, USA	10.61	10.61	\$10.6	\$0.03	\$1.0
	Kyzyl Ompul (70%)	Kazakhstan	0.00	0.00	\$0.0	\$0.00	NM
Total			46.9	52.8	\$241.6	\$0.58	\$4.6
Corp. Adjustments					(\$18.07)	-\$0.04	
P/NAV Multiple	1.0x						
Valuation (US\$)					\$223.5	\$0.54	\$4.2
Valuation (C\$)					\$279.4	\$0.67	\$5.3

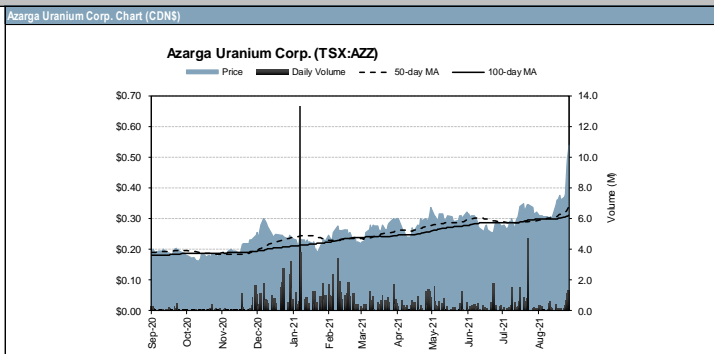


Comparable Companies	Name	Share Price	Cons. Target	Return	Market Cap (M)	EV (M)	EV/lb	P/NAV
	Denison Mines (DML-T)	\$1.88	\$2.33	24%	\$1,515	\$1,115	1.1x	
	Energy Fuels (UUUU-US)	\$8.31	\$8.97	8%	\$1,236	\$905	1.3x	
	Uranium Energy (UEC-US)	\$3.95	\$5.26	33%	\$922	\$693	0.9x	
	Ur-Energy Inc. (URE-T)	\$1.93	\$2.35	22%	\$378	\$290	0.9x	
	Peninsula Energy (PEN-AU)	\$0.19	\$0.28	48%	\$191	\$142	0.6x	
	Azarga Uranium (AZZ-T)	\$0.62	\$0.65*	5%	\$147.0	\$145.2	\$2.75	0.92x
	Group Avg. (Ex-AZZ)						0.9x	

Dewey Burdock Production Profile	2023	2024	2025	2026	2027	2028
Total Uranium Production (lbs)	176,145	1,233,018	1,761,455	1,761,455	1,761,455	1,761,455
Reserve Profile (lbs)	19,203,308	17,994,467	16,267,551	14,540,635	12,813,718	11,086,802

Gas Hills Production Profile	2030	2031	2032	2033	2034	2035
Total Uranium Production (lbs)	464,786	929,571	929,571	929,571	929,571	929,571
Reserve Profile (lbs)	6,051,328	5,139,983	4,228,639	3,317,294	2,405,950	1,494,605

* Based on prior Haywood Estimates



Trading Statistics (C\$): Capital Structure	52 Week High/Low		Average Daily Volume	
	\$0.68	\$0.16	550,720	
Ownership (M)	Insider / Institutional			
Shares	43,935,104	41,987,048		
% O/S	18.5%	17.7%		
Last Financings	December 31, 2020: Closed bought deal prospectus offering, issuing a total of 30,000,000 units at a price of C\$0.20 per Unit for gross proceeds of C\$6,000,000.			
Shares O/S (M) - Basic/Diluted	236	280		
Cash (as of Dec. 31, 2020)	Av Strike (C\$)	Units (M)	ITM Units (M)	Proceeds (C\$)
Options	\$0.20	16.21	13.12	\$2
Warrants	\$0.27	26.99	5.44	\$1
Total Cash & ITM	\$0.24	43.20	18.56	\$6

Target Price Sensitivities *	Valuation/Shr	Base	-30%	-20%	-10%	-5%	+5%	+10%	+20%
Dewey Burdock Model Input									
Resource Upside	\$0.67	\$0.59	\$0.62	\$0.65	\$0.66	\$0.69	\$0.70	\$0.73	
Initial CAPEX (US\$M)	\$0.67	\$0.71	\$0.70	\$0.69	\$0.68	\$0.67	\$0.66	\$0.65	
Recovery Rate	\$0.67	\$0.49	\$0.56	\$0.62	\$0.65	\$0.70	\$0.73	\$0.78	
Uranium Price	\$0.75	\$0.40	\$0.52	\$0.64	\$0.70	\$0.81	\$0.86	\$0.97	
Discount Rate	\$0.67	\$0.83	\$0.77	\$0.72	\$0.70	\$0.65	\$0.63	\$0.59	
P/NAV Multiple	\$0.67	\$0.67	\$0.67	\$0.67	\$0.67	\$0.67	\$0.67	\$0.67	
Leverage	\$0.67	\$0.66	\$0.66	\$0.67	\$0.67	\$0.68	\$0.68	\$0.69	
Interest Rate	\$0.67	\$0.69	\$0.68	\$0.68	\$0.68	\$0.67	\$0.67	\$0.67	
Equity Issue Price	\$0.67	\$0.67	\$0.67	\$0.67	\$0.67	\$0.67	\$0.67	\$0.67	
USD/CAD	\$0.67	\$0.67	\$0.67	\$0.67	\$0.67	\$0.67	\$0.67	\$0.67	
Surface Royalties	\$0.67	\$0.68	\$0.68	\$0.68	\$0.67	\$0.67	\$0.67	\$0.67	
Average	\$0.68	Min	\$0.40	Max	\$0.97	Std. Dev	7.0%		

Dewey Burdock Resource & Haywood Mining Concept	Current Resource (M&I)	Current Resource (Total)	Forecast Resource	Grade	Recovery	Dilution	Process Yield
	18,387,184	19,214,666	24,220,000	0.2%	80%	2%	100%
	CAPEX/OPEX		Other Model Assumptions				
Initial CAPEX (US\$M)	\$30	Steady State Annual Production (M lbs)					1.76
LoM Sustaining CAPEX (US\$M)	\$146	LoM Production (M lbs)					19.02
LoM Cash Operating Cost (US\$/lb)	\$17	Mine Life (Y)					11.00
LoM Total Cash Opex & Capex (US\$/lb)	\$27	LoM Gross Revenue (US\$M)					\$1,237
		LoM Operating CF (US\$M)					\$779

Gas Hills Resource & Haywood Mining Concept	Current Resource (M&I)	Current Resource (Total)	Forecast Resource	Grade	Recovery	Dilution	Process Yield
	10,765,191	11,255,263		0.07%	80%	2%	100%
	CAPEX/OPEX		Other Model Assumptions				
Initial CAPEX (US\$M)	\$26	Steady State Annual Production (M lbs)					0.93
LoM Sustaining CAPEX (US\$M)	\$59	LoM Production (M lbs)					6.51
LoM Cash Operating Cost (US\$/lb)	\$11	Mine Life (Y)					7.00
LoM Total Cash Opex & Capex (US\$/lb)	\$24	LoM Gross Revenue (US\$M)					\$423
		LoM Operating CF (US\$M)					\$322

Corporate Contact
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Source: Bloomberg, Capital IQ, Company Reports, and Haywood Securities



Important Information and Legal Disclosures

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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

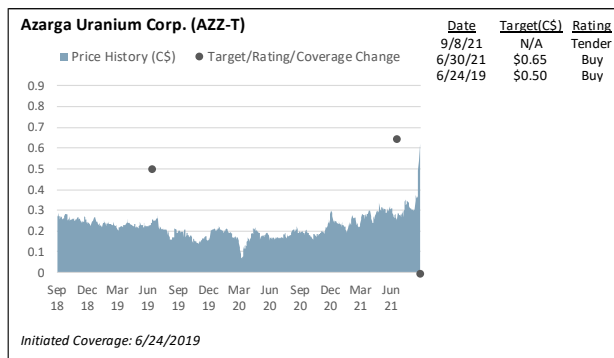
Of the companies included in the report the following Important Disclosures apply:

- ◆ 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), Denison Mines Corp. (DML-T), Energy Fuels Inc. (UUUU-US) and a portion of the expenses for this travel may have been reimbursed by the issuer.
- ◆ Haywood Securities Inc. or one of its subsidiaries has managed or co-managed or participated as selling group in a public offering of securities for Azarga Uranium Corp (AZZ-T), Denison Mines Corp. (DML-T) in the last 12 months.
- ◆ Haywood Securities, Inc. or one of its subsidiaries has received compensation for investment banking services from Denison Mines Corp. (DML-T) in the past 12 months.
- ◆ Haywood Securities, Inc. or one of its subsidiaries has received compensation for investment banking services from Azarga Uranium Corp (AZZ-T) in the past 24 months.
- ◆ Haywood Securities Inc. is engaged as a financial advisor on the subject transaction and will receive fees if the transaction successfully concludes. Haywood has also provided a positive fairness opinion in respect of the transaction and will be paid a fee for its professional opinion.

Distribution of Ratings (as of September 8, 2021)

	%	#	IB Clients (TTM)
Buy	83.2%	79	90.2%
Hold	7.4%	7	7.3%
Sell	0.0%	0	0.0%
Tender	1.1%	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)	8.4%	8	2.4%

Price Chart, Rating and Target Price History (as of September 8, 2021)



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>

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