

01 August 2022

Lotus Resources Ltd (LOT)

June Quarterly Report: Restart DFS Expected This Month

Financial Position: LOT finished the June quarter with \$4.9m cash, a decline of \$3.6m compared to the prior quarter. Expenditure during the quarter included \$1.5m on exploration, \$1.5m on care and maintenance activities, \$700k on staff and overheads, and \$390k on PP&E. With the release of the restart DFS anticipated during this month (August 2022), expenditure in the current quarter should moderate as the company's focus shifts towards negotiating the Mine Development Agreement with the Malawian Government, potential grid electricity supplies with ESCOM, potential offtake agreements and potential project finance solutions.

Restart DFS, What To Expect: The looming release of the Kayelekera definitive feasibility study (DFS) represents a potentially very significant de-risking milestone for LOT. While inflationary pressures are increasing project costs globally and supply chain issues are causing delays in the ability to access almost all categories of industrial equipment, Kayelekera is in the fortunate position of being a brownfield operation with refurbishment activities predominantly reliant on the provision of labour. Indicative revised capex of US\$75m has been flagged, as well as unit production costs (C1) of ~US\$30/lb. We anticipate given the well flagged key metrics and strong underlying uranium market prices, the DFS should be well received by the market and provide improved confidence in the development pathway for the project to confirm a restart. We note that the capex looks manageable in the context of LOT's current ~A\$280m market capitalisation.

Next Areas of Focus: LOT management have advanced discussions with the Malawian Government regarding the potential restart at Kayelekera with LOT commentary indicating that the Malawian Government has indicated a supportive stance to get the mine back into production "as early as possible". This includes the negotiation of an updated Mine Development Agreement which establishes the fiscal terms under operation. Ongoing discussions with ESCOM (Malawi Electricity Utility) to discuss potential grid connection to the Kayelekera site is also a significant potential catalyst, with ESCOM indicating ~4MW availability from Karonga which in conjunction with 2.5MW from a steam turbine fitted to the on-site acid plant is expected to cover the required power demand. Grid access is potentially very beneficial in Malawi given the predominance of hydro generation which is both an ESG positive as well as very attractive from a cost perspective, particularly compared to the cost of diesel gensets utilised under the historical operational activities at the mine.

Valuation & Recommendation: LOT provides investors exposure to a known uranium asset with a significant operating track record, short lead time and modest capex to restart. We expect the forthcoming feasibility study to outline an economic project at current uranium prices. We include a risk discount of 15% to our Kayelekera valuation to reflect the significant uncertainty around the potential restart, primarily uranium price uncertainty. The shares are trading at a significant discount to our valuation of 55c/share and as such we apply a Buy rating. Key risks include the availability of funding, uranium prices, geopolitical issues and operational issues.

Recommendation	BUY
Target Price (AUD)	55.0c
Share Price (AUD)	23.5c
Forecast Capital Return	134%
Forecast Dividend Yield	0%
Total Shareholder Return	134%
Market Cap	A\$284m
Net Cash (Debt)*	A\$4.9m
Enterprise Value	A\$279m
Shares On Issue	1207m
Share Options On Issue	46m

Daniel Seeneey | Senior Analyst

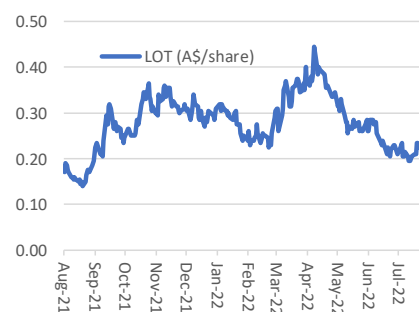
*Excludes US\$10m restricted cash (env. bond)

Key Executives

Chairman	Michael Bowden
CEO	Keith Bowes
Non Exec Director	Grant Davey
Non Exec Director	Mark Hanlon

Catalysts

Kayelekera Restart DFS	Aug-22
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FINANCIAL SUMMARY Lotus Resources Limited (LOT)

Share Price	A\$/sh	0.24	Rating	BUY
Shares on Issue	m	1,207	Target Price	0.55
Market Cap (A\$m)	A\$m	284	Upside / (Downside)	134%
Net Debt / (Cash) (A\$m)	A\$m	(4.9)	Dividend Yield	0%
Enterprise Value (A\$m)	A\$m	279	Total Return Forecast	134%

Profit & Loss	Units	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
Sales	A\$m	-	-	-	-	355
Expenses	A\$m	(17)	(6)	(6)	(6)	(132)
EBITDA	A\$m	(17)	(6)	(6)	(6)	223
D&A	A\$m	-	-	-	-	(18)
EBIT	A\$m	(17)	(6)	(6)	(6)	206
Interest	A\$m	0	0	1	0	(0)
Tax	A\$m	-	-	-	-	(51)
NPAT	A\$m	(17)	(6)	(5)	(6)	154

Cashflow	Units	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
Cash From Operations	A\$m	(4)	(7)	(2)	(6)	223
Interest	A\$m	(0)	0	(0)	0	(0)
Tax	A\$m	-	-	-	-	-
Working Capital	A\$m	-	-	-	-	(33)
Net Cash From Operations	A\$m	(4)	(7)	(2)	(6)	190
Capex & Exploration	A\$m	(1)	(1)	(9)	(100)	(18)
Investments	A\$m	11	-	(1)	(4)	-
Free Cash Flow	A\$m	6	(8)	(12)	(110)	172
Equity	A\$m	10	21	-	93	-
Borrowings	A\$m	(0)	(0)	-	40	(20)
Dividend	A\$m	-	-	-	-	-
Net Increase / (Decrease) in Cash	A\$m	16	13	(12)	24	152

Balance Sheet	Units	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
Cash*	A\$m	16	28	16	40	192
Receivables	A\$m	-	-	-	-	29
Inventory	A\$m	-	-	-	-	35
PP&E & Exploration	A\$m	65	60	69	169	169
Other	A\$m	1	1	1	1	1
Assets	A\$m	82	89	86	210	427
Creditors	A\$m	1	1	-	-	18
Debt	A\$m	-	-	-	40	20
Provisions	A\$m	61	56	56	56	56
Tax Liabilities	A\$m	9	10	10	10	10
Liabilities	A\$m	72	67	66	106	104
Net Assets	A\$m	10	22	20	104	323

Liquidity & Leverage	Units	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
Net Debt / (Cash)	A\$m	(16)	(28)	(16)	0	(172)
Net Debt / Equity	%	-157%	-127%	-81%	0%	-53%

Per Share Data	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
Shares Out (m)	672	955	1,253	1,574	1,574
EPS (¢)	(4.58¢)	(0.72¢)	(0.46¢)	(0.38¢)	9.38¢
Growth (%)	n/a	n/a	n/a	n/a	n/a
Dividend (¢)	-	-	-	-	-
Payout Ratio (%)	0%	0%	0%	0%	0%
Net Tangible Assets (A\$)	0.02	0.02	0.02	0.07	0.21
Book Value (A\$)	0.02	0.02	0.02	0.07	0.21
Free Cash Flow (A\$)	0.01	(0.01)	(0.01)	(0.07)	0.11

Valuation Metrics	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
EV / Sales	n/a	n/a	n/a	n/a	0.8x
EV / EBITDA	n/a	n/a	n/a	n/a	1.2x
EV / EBIT	n/a	n/a	n/a	n/a	1.4x
P/E (x)	n/a	n/a	n/a	n/a	2.5x
Dividend Yield (%)	n/a	n/a	n/a	n/a	0.0%

Operating Metrics (%)	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
EBITDA Margin	n/a	n/a	n/a	n/a	63%
EBIT Margin	n/a	n/a	n/a	n/a	58%
Net Profit Margin	n/a	n/a	n/a	n/a	43%
Return on Assets	n/a	n/a	n/a	n/a	36%
Return on Equity	n/a	n/a	n/a	n/a	48%
Effective Tax Rate	n/a	n/a	n/a	n/a	25%

Key Assumptions	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
Uranium Price (US\$/lb)	27.4	30.3	47.2	89.3	91.5
AUDUSD	0.67	0.74	0.75	0.75	0.75
Uranium Production (mlbs)	-	-	-	-	2.9

Valuation	US\$m	Equity	Risk	A\$/share
Kayelekera	801	85%	85%	0.49
Exploration & Investments	80	100%	100%	0.07
Corporate Costs	(15)	100%	100%	(0.01)
Net Cash (Debt)	4	100%	100%	0.00
Total	869			0.55
WACC				10%
AUDUSD				0.75
Fully Diluted SOI (m)				1,574

*Cash includes US\$10m cash backed environmental performance bond which is restricted cash and cannot be used to fund operations

Directors & Management

Michael Bowen – Non-Executive Chairman

Mr Bowen, appointed director in February 2021, is a partner of the national law firm Thomson Geer. He practices primarily corporate, commercial and securities law with an emphasis on mergers, acquisitions, capital raisings and resources.

Mr Bowen is also a Non-Executive Director of ASX listed company Omni Bridgeway Limited, where he is chair of the remuneration committee and a member of the audit and risk, corporate governance and nomination committees.

Mr Bowen holds a Bachelor of Laws, Jurisprudence and Commerce from the University of Western Australia. He has been admitted as a barrister and solicitor of the Supreme Court of Western Australia since 1979 and is also admitted as a solicitor of the High Court of Australia. He is a Certified Public Accountant and member of the Australian Society of Accountants.

Keith Bowes – Managing Director

Mr Bowes has over 25 years' experience in metallurgy, project development, capital markets and operations. Mr Bowes was part of the original due diligence team that was involved in the acquisition of the Company's Kayelekera Uranium Project, located in Malawi. He has recently been responsible for all site activities and has led the technical work completed on the project since the acquisition. Prior to joining the Company, Mr Bowes was the technical lead for the Honeymoon Uranium Project, taking it through the various study and technical development stages that resulted in the delivery of the feasibility study in early 2020. Mr Bowes has been involved in a number of projects in Africa, including Tanzania, Malawi and Namibia. Mr Bowes has also worked for Anglo American, BHP and Vale across a range of technical and operational roles in Africa, Australia and South America.

During the past decade, Mr Bowes has worked in director and senior executive positions for a number of ASX listed mining development companies. Mr Bowes holds a BSc. Chemical Engineering from the University of Natal in South Africa.

Grant Davey – Non Executive Director

Mr Davey is an entrepreneur with 30 years of senior management and operational experience in the development, construction and operation of precious metals, base metals, uranium and bulk commodities throughout the world.

More recently, he has been involved in venture capital investments in several exploration and mining projects and has been instrumental in the acquisition and development of the Honeymoon uranium mine in South Australia, the Panda Hill niobium project in Tanzania, the Superior Lake zinc project in Ontario, the Cape Ray gold project in Newfoundland and recently the acquisition of the Kayelekera Uranium mine in Malawi from Paladin.

Mr Davey is currently a Company Director for Cradle Resources Limited (CXX), Superior Lake Resources (SUP) and is a member of the Australian Institute of Company Directors (AICD).

Mark Hanlon – Non Executive Director

Mr Hanlon, appointed director in February 2021, has over fifteen years of experience in the resources and resource services sector, as well as over ten years' experience in commercial and merchant banking. He has a broad background of senior executive experience across a wide range of industries including mining, mining services, electricity distribution, electronics contract manufacturing, paper and packaging and insurance.

Mr Hanlon is currently a Non-Executive Director with ASX listed company Red River Resources Limited where he also chairs the audit and risk committee. He is also Non-Executive Chair of ASX listed company, Copper Strike Limited.

Risks

The following risks are important factors for investors to be mindful of when considering an investment in shares of the company. This list is by no means exhaustive and should be read carefully in conjunction with the body of the report.

Metal Prices & Exchange Rates

The expected cash flows from mining operations are significantly affected by fluctuations in metal prices and exchange rates. For Lotus this includes uranium, & AUD:USD. Metal prices and exchange rates can be volatile and projections are subject to significant uncertainty. The anticipated demand uplift for uranium from net new reactor growth may not materialise if renewable technologies become cheaper or more reliable. Metal prices are quoted in US\$ and changes in exchange rates can have a material impact on revenue and profitability as revenues are priced in US\$, and Lotus financial statements are denominated in AUD\$.

Interest Rates & Availability of Funding

Project financing is likely to incorporate a component of debt which will incur interest expense. This may include a fixed and floating interest rate component, various covenants. Interest rates are currently at historical lows and market expectations are that they will move higher over the medium term. Fluctuations in interest rates and the availability of credit can have a material impact on profitability of the company and the ability of the company to continue as a going concern. If any covenants are breached creditors may recall credit facilities or amend the terms materially which may place significant financial strain on the ability of the company to continue to fund the operations in the future. Changes in the availability of credit/debt could lead to equity raisings at a point of significant uncertainty which could materially dilute existing shareholders. The project capex associated with the Keyelekera is substantial in the context of the current market capitalisation of the company, and there is no guarantee that new or existing shareholders will provide the equity funding required to finance the project.

Operational

Mining operations are subject to a range of operational uncertainties which can vary depending on the geographic location, nature of the operation, labour relations and reliability of critical infrastructure such as electricity & water supply, as well as transportation routes. All mining operations are inherently challenging and material unforeseen issues can and do occur regardless of the preparation and expertise of capable management teams.

Costs

Cost estimates are conducted as part of the feasibility study and will be refined in the feasibility work currently underway. These estimates are based on numerous assumptions and may be materially different to the actual cost required for the operation. This includes both the capital cost of bringing the operation into production as well as operating costs. Operating costs can change based on various uncertainties including general economic conditions, unemployment rates (particularly in the local area), commodity prices and exchange rates, and disruptions or limitations to the supply of key equipment or inputs. If unit costs escalate materially the profitability of the operation may be reduced either temporarily or permanently.

Political

Lotus's primary asset, the Kayelekera Uranium Mine is situated in the African Nation of Malawi. Political conditions can change unfavourably for a range of reasons.

Environmental

Mining operations must adhere to environmental regulations which vary depending on the location. Increased community and political focus on environmental matters has led to environment related regulatory reviews becoming increasingly costly, lengthy and complex. Obtaining these approvals can cause significant delays to the expected timeline of mining operations both in terms of commencement and closure as decommissioning activities can be prolonged. Potential unforeseen changes in regulations can make it difficult to accurately anticipate closure costs related to remediation and rehabilitation of the disturbed mining area.

Reserve & Resource Estimates

The presence and measurement of Reserves & Resources are subject to various estimations and limitations. Actual orebody size, shape and grade can vary significantly from that estimated by the geological work conducted. While variances can be both positive and negative, negative outcomes versus expectations can lead to higher operating costs and material revisions to the amount of economic reserves, and hence potential changes to the mine life.

Equity

If the share price is unfavourable, which can manifest due to a range of reasons both within and outside the company's control (e.g. global economic conditions/confidence), a capital raise to fund the equity portion of the project funding may not be possible. Equity funding to support development may require much higher than expected dilution to secure an adequate financing package.

Company Description

Lotus Resources Limited (LOT) owns a 85% interest in the high-grade Kayelekera Uranium Project in Malawi, Africa.

The Kayelekera Uranium Project is a large 157km² tenement package with excellent exploration potential and hosts a high-grade resource with an existing open pit mine and demonstrated excellent metallurgical recoveries. On 24 June 2019 the Company announced it had entered into an agreement to acquire a 65% interest in the Project from Paladin Energy Limited (ASX: PDN). The remaining interest in the Project is held 15% by the Government of Malawi and 20% by Lotus's joint venture partner Lily Resources (formerly Lotus Resources).

History of Kayelekera Mine:

Year	Event
1982	The Central Electricity Generating Board of Great Britain (CEGB) discovered the Kayelekera sandstone uranium deposit in 1982
1992	The project was abandoned in 1992 due largely to the poor uranium outlook, as well as privatisation of CEGB and resultant pressure to return to its core business
1998	In 1998, Paladin acquired a 90% interest in Kayelekera through a joint venture with Balmain Resources Pty Ltd, which then held exploration rights over the Project area
2005	In July 2005, Paladin acquired the remaining 10% interest in Kayelekera held by Balmain
2005	Paladin announced the go-ahead of a Bankable Feasibility Study (BFS) as a result of improved economics shown by the pre-feasibility work
2007	After completing the Development Agreement with the Malawi Government, the BFS and a full Environmental Impact Assessment, the Mining Licence (ML 152) covering 5,550 hectares, was granted in April 2007 for a period of 15 years
2008	Open pit mining commenced in June 2008 to develop initial stockpiles
2009	Commissioning began in January 2009, with first production achieved in April 2009
2010	KM continued to ramp-up its production volumes and commercial production was declared from 1 July 2010
2012	Paladin made substantial positive steps towards design capacity of 3.3Mlbpa through a programme of plant upgrades aimed at addressing bottlenecks. The focus at KM turned to production optimisation (nano-filtration technology) representing a key element
2013	The plant achieved record annual production totaling 2.963Mlb for FY2013
2014	Continuing low uranium prices resulted in a decision to place the Project in care and maintenance in February 2014

Source: Company Reports

APPENDIX 1

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