

SPROTT PHYSICAL URANIUM TRUST

Key Takeaways from Non-Deal Roadshow

EVENT

Earlier this week we hosted the Sprott Physical Uranium Trust on a two-day virtual non-deal roadshow. It comprised 1x1s and a group meeting covering over twenty institutional accounts and investment managers in total across the entire spectrum of investment strategies, AUMs, and geographies.

BOTTOM LINE

Positive – Interest in the uranium sector is accelerating and the size of investment managers looking at the Sprott Physical Uranium Trust is growing and diversifying rapidly. Nuclear power, and by extension, uranium, is increasingly being grouped into the Green Energy, Clean Tech, Decarbonization, Energy Transition, and ESG investment categories.

FOCUS POINTS

- Key Takeaways from Non-Deal Roadshow**
 - 1) The spot market is exceptionally tight and trying to find “the next” 20 MMLb U₃O₈ will be a lot harder than “the first” 20 MMLb. This is highly supportive of spot prices.
 - 2) The documents to list on the NYSE will be submitted to the SEC in the next 1-2 weeks. This puts a NYSE listing on target for H2/22.
 - 3) Kazatomprom’s (KAP-LSE, Not Covered) deliveries to U.U are scheduled for this quarter and are not at risk, however, expect supply chain issues to affect Kazakhstan uranium production over the next 6-9 months, maybe longer.
 - 4) Activity in the term market is picking up and expect this to be a major theme in 2022.
- Maintaining Buy Rating and Price Target** – Based on 1.2x NAVPU, and our near-term uranium price forecast of \$60/lb U₃O₈, we are maintaining our Buy rating and \$18.50/C\$23.00 price target on the Sprott Physical Uranium Trust.

Recommendation:

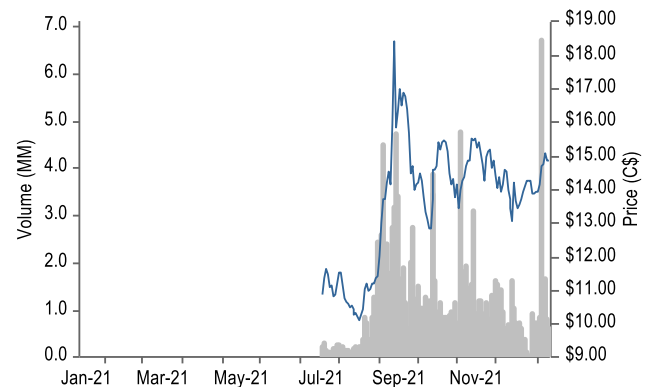
BUY

Symbol/Exchange: U.U-TSX/U.UN-TSX
Sector: Metals & Mining
All dollar values in US\$ unless otherwise noted.
Current price: \$11.83/C\$14.87
One year target: \$18.50/C\$23.00
Return to target: 56.4%

Financial Summary:

Units O/S (MM)	172.7	52-week range	C\$9.65 - C\$18.50
Market cap (MM)	C\$2,568	Avg. vol. (MM)	1.180
Market float (MM)	C\$2,568	Fiscal year-end	31-Dec
Inventory (lb)	Quantity (MM)	Mkt Price (\$)	Mkt Value (MM\$)
U3O8	43.4	\$45.88	\$1,992.6
Reported Net Working Capital			\$35.7
Reported Net Asset Value			\$2,021.0
Reported NAVPU			C\$14.72
Current Premium/Discount to Market NAV			1.0%

Source: Company Reports and Cantor Fitzgerald Canada Estimates



Company profile: Sprott Physical Uranium Trust is a closed-end trust that acquires and stores physical stock of U₃O₈ and UF₆ for investment purposes.

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

KEY TAKEAWAYS FROM NON-DEAL ROADSHOW

Earlier this week we hosted the Sprott Physical Uranium Trust on a two-day virtual non-deal roadshow. The NDR comprised 1x1s and a group meeting covering over twenty institutional accounts and investment managers in total across the entire spectrum of investment strategies, AUMs, and geographies (United States, Canada, UK, Europe, Australia). What has become increasingly obvious to us over this two-day NDR and our four-day NDR in October 2021 is that interest in the uranium sector is accelerating and the size of investment managers looking at the Sprott Physical Uranium Trust is growing and diversifying rapidly. Nuclear power, and by extension, uranium, is increasingly being grouped into the Green Energy, Clean Tech, De-carbonization, Energy Transition, and ESG investment categories. Below are the most commonly asked questions, key takeaways, and main themes from the NDR we hosted this week:

► **Have you had any communication with Kazatomprom since the violent protests?**

This was evolving over the two-day roadshow. As of Monday afternoon, Sprott management had been unable to contact any Kazakhstan-based KAP employees over the previous 4-5 days. The Trust did have communication with KAP's Switzerland office over this period, but all phone and email correspondence was cut-off from the Kazakhstan operations, offices, and employees. Email and phone contact was restored on Monday evening. The Sprott Trust was notified that its deliveries from Kazatomprom due in Q1/22 have already been processed and so it can expect to receive the material on time and as planned.

► **What do you expect the impact of the recent unrest in Kazakhstan will be on the uranium supply/demand/price?**

This situation is also evolving. Following the violent protests and turmoil over the last ~1.5 weeks, there is now a COVID outbreak in the country, so expect supply chain issues (sulphuric acid shipment impact, non-essential employees working from home, transportation delays, etc.) to affect Kazakhstan uranium production over the next 6-9 months (Cantor estimate) and potentially longer. As a reminder, Kazakhstan produces over 40% of the world's uranium oxide. In virtually every investor meeting over the two-day NDR, there was a lot of discussion along the lines of "*will this unrest in Kazakhstan spark fear-of-missing-out (FOMO) among the large utilities, particularly in the United States, that have been heavily reliant on cheap Kazakh material?*" The consensus view was a resounding "yes" and that the recent turmoil in Kazakhstan will be yet another catalyst that drives the forthcoming cycle of renewed contracting in size in the term market. We expect this to be a major theme in 2022 and act as a significant positive catalyst for the related uranium equities, not just the physical commodity investment vehicles, but also the producers and developers.

► **What is the timing on a NYSE listing?**

Late last year the Trust was up listed from the U.S. over-the-counter (OTC) pink sheets to OTCQX and is currently in the process of being elevated to the OTCQB. The documents to list on the NYSE will be submitted to the SEC in the next 1-2 weeks and have gone through 3-4 drafts already. This puts a NYSE listing on target for H2/22 (Q3/22 likely at the earliest). Sprott notes that this process will be challenging and considered "novel" as the SEC has never approved a uranium trust before. That said, its other metals trusts

(gold, silver, platinum and palladium) all have NYSE listings, and this is where the vast majority of trading volume occurs.

▶ **What is the current state of the spot market?**

The spot market is exceptionally tight and Sprott expects that finding “the next” 20 MMLb U₃O₈ will be a lot harder than “the first” 20 MMLb U₃O₈. This is highly supportive of spot prices. Sprott management noted that there was virtually no activity in the spot market in November or December (year-end, holidays, etc.) on the buy or sell side, and it was encouraging/interesting to see that even in that environment, spot prices really did not move much, consolidating from ~\$46/lb U₃O₈ to ~\$42.50/lb U₃O₈. January has been exceptional out of the gate with the Trust already raising +\$100 MM on its ATM and purchasing +2.1 MMLb U₃O₈ in the spot market.

▶ **Where do you see the next resistance level in spot? (at what price level do you think more material in size becomes available?)**

Sprott management noted that when prices ran up to the \$50/lb U₃O₈ level in September 2021, they started to get a lot of inbounds from potential sellers, mostly financial players, who had been sitting on that inventory for years (note that \$50/lb U₃O₈ price level was a nine-year high at the time). The Trust expects there will likely be more material to buy at that level again, but how much is uncertain. In any case, \$50/lb U₃O₈ is likely the next resistance level.

▶ **In the event of a spot price drop, where do you see the support level?**

Likely the low \$40's/lb U₃O₈. Sprott thinks the days of \$30-handle spot uranium are gone (Cantor agrees).

▶ **What are the main differentiating factors between the Sprott Trust and Yellow Cake (YCA-LSE, Buy - £4.75 target)?**

The Sprott Uranium Trust does not buy any material on the forward curve and has tended to only purchase material set for delivery inside of a 30-day or 60-day (max) window. Since inception, the Trust has purchased material from over 20 different counterparties, including Kazatomprom. The ATM feature of the Trust has allowed it to scale (acquire more uranium) at a much faster pace, effectively grabbing market share. The Trust offers better transparency (daily NAVPU and inventory reported) and trading liquidity.

▶ **Where does Sprott store the material it buys?**

Four separate conversion/refining facilities, two located in Canada operated by Cameco (CCJ-NYSE/CCO-TSX, Buy - \$32.00/C\$40.00 target), one located in the United States operated by ConverDyn (private), and one located in France operated by Orano (private).

▶ **Who is Sprott buying from?**

To date the Trust has purchased uranium from over 20 counterparties across the spectrum, including financial players, institutional uranium investors, traders, intermediaries, producers, and one uranium developer. It has trading arrangements in place across over 20 platforms/counterparties. The Trust has never purchased any material from Japanese utilities.

▶ **What will the Trust's impact be on utilities restarting long-term contracting in a more significant way?**

Cantor: The industry needs long-term prices at the +\$65/lb U₃O₈ price level for supply to consistently meet demand over the near-term and +\$75/lb U₃O₈ to meet the growing demand longer-term. With spot prices seemingly supported in the mid-\$40/lb U₃O₈ level, now only ~30% below the “incentive” price level to re-start shut-in production (McArthur River +

curtailed Kazakh output), we expect long-term contracting will pick up considerably in the coming months, with the recent unrest in Kazakhstan acting as the accelerator. We believe a new cycle of long-term uranium contracts will be the major theme in the sector in 2022. According to several industry sources, given the sharp move higher in spot prices, utilities have all but vanished from the spot market. If this in fact proves true, utilities have only one place left to go, the term market, and this will clearly have a positive impact on price direction, both spot and term. Industry bellwether Cameco was very clear on this point during its most recent earnings call (note [here](#)).

► **How has the investor mix changed over the last six months?**

Investor interest has migrated from the early-stage identifiers at the Trust's outset (July/August) such as family offices, commodity funds, and uranium-dedicated funds to larger, more generalist, macro and long-only institutional investors. More recently, the mix of investor meetings has shifted to ~50% large cap generalists and ~50% Green Energy, Clean Tech, De-carbonization, Energy Transition, and ESG investors. The shareholder base currently approximates 70% institutional and 30% retail, and Sprott notes that many shareholders of its Physical Silver Trust (PSLV-NYSE, Not Covered) in particular, have recently become shareholders of the Physical Uranium Trust.

► **How does the supply/demand picture look?**

Cantor: 180 MMLb U₃O₈ of demand per year, 444 reactors operating globally, against primary supply of ~135 MMLb U₃O₈ per year. The uranium market has been in a significant primary supply deficit for 3+ years. The largest consumer is the U.S. at ~50 MMLb U₃O₈/year and the biggest question is will the U.S. reactors get extensions to continue operating? This is looking increasingly likely. New reactors are being built, mostly in China, India, and the Middle East. Japan is actively restarting its nuclear reactor fleet. It is our view that "shut-in" production from Kazatomprom and Cameco totaling ~30 MMLb U₃O₈ would likely come back if +\$65/lb long-term contracts were secured. To bring on any "new build" uranium operations will likely take +\$75/lb U₃O₈ long-term contracts.

► **Thoughts on the pending EU decision to label nuclear as green/sustainable?**

Technical advisors have until January 21 (pushed back by one week) to provide feedback on the draft proposal released on January 1 (link [here](#)) that would add nuclear power investments to the European Union's taxonomy and qualify the industry for potentially billions of euros in government grants and subsidies. In the event nuclear power is added to the taxonomy classification system in Europe it would clearly be a material positive catalyst on the uranium demand side, how much though is still highly uncertain.

► **Forthcoming Global X Uranium ETF inclusion? (URA-NYSE, Not Covered)**

The Global X Uranium ETF recently revised its guidelines to allow it to include Physical Uranium Trusts (links [here](#) and [here](#)), capped at a 10% weighting. In our view, there would be no reason for URA to revise its guidelines and then not include U.U in its upcoming rebalancing. It is our understanding that the official Selection Day is January 17, and the Adjustment Day is January 31. Based on our "back-of-the-envelope" math, at a 5% weighting, URA may be looking to buy up to ~5 MM units of U.U (~\$60 MM worth) in the coming weeks. At a 10% weighting, that increases to ~10 MM U.U unites (~\$120 MM worth).

Exhibit 1. U.U NAV Based on Current U₃O₈ Prices

U.UN, U.U-TSX			Spot Price	Spot Price	Market Value
Unit	Inventory		\$	C\$	(C\$'000)
U3O8	lb	43,430,707	\$45.88	C\$57.44	C\$2,494,493
	Inventory				C\$2,494,493
	Net Working Capital				C\$44,692
	Net Asset Value				C\$2,539,185
	Net Asset Value Per Unit (C\$)				C\$14.72
	Net Asset Value Per Unit				\$11.70
	P/NAVPU				1.01x

Source: FactSet, Cantor Fitzgerald Estimates, Sprott Physical Uranium Trust

MAINTAINING BUY RATING AND TARGET

Based on 1.2x NAVPU, and our near-term uranium price forecast of \$60/lb U₃O₈, we are maintaining our Buy rating and \$18.50/C\$23.00 price target on the Sprott Physical Uranium Trust.

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The analyst responsible for this report *has* visited the material operations of Sprott Physical Uranium Trust. including the Toronto head office. No payment or reimbursement was received for the related travel costs.

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BUY: The stock is attractively priced relative to the company’s fundamentals and we expect it to appreciate significantly from the current price over the next 6 to 12 months.

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

HOLD: The stock is fairly valued, lacks a near term catalyst, or its execution risk is such that we expect it to trade within a narrow range of the current price in the next 6 to 12 months. The longer term fundamental value of the company may be materially higher, but certain milestones/catalysts have yet to be fully realized.

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.

TENDER: We believe the offer price by the acquirer is fair and thus recommend investors tender their shares to the offer.

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