INVESTMENT RESEARCH

BW EQUITIES

17 August 2022

Lotus Resources Ltd (LOT)

Kayelekera DFS Release

Restart DFS Sumary: LOT has released the Restart DFS for the Kayelekera uranium mine in Malawi, which has outlined a 10-year mine life (BWe 11 years) with average production of 2.4mlbspa over the first 7 years (BWe 2.7mlbs). Pre-production capex of US$99m has been defined (BWe US$75m). While DFS production estimates were lower and capital expenditure estimates higher compared to our estimates prior to the DFS release, AISC (life-of-mine) estimates were broadly in line and confirmed at US$37.7/lb (BWe US$38.8/lb).

Resource Upside: The DFS is based on a defined Ore Reserve of 15.9mt at a grade of 660ppm (23mlbs contained), which compares to the broader Mineral Resource inventory at Kayelekera of 42.5mt at a grade of 500ppm (including 2.4mt of low-grade stockpiles grading 290ppm) for 46.3mlbs contained uranium. The Livingstonia inferred Mineral Resource contributes a further 6.9mt grading 320ppm (4.8mlbs contained). As such with reference to contained uranium at Kayelekera the Ore Reserve represents 50% of the uranium resource in situ providing further upside over time if any part of the Mineral Resources can be upgraded to Ore Reserves.

Revisions to Estimates: We have made significant changes to our model to align with the DFS results. The most significant change is to LOM production which has been revised to 19.3mlbs (28.1mlbs prior) based on lower LOM feed grade of 12.8mt at 792ppm (15.4mt at 964ppm prior). We also increase our pre-production capex assumption to US$99m vs US$75m prior. Our operating cost assumptions remain largely consistent with prior estimates given DFS assumptions were broadly in line with our expectations. We also push back first production to FY25 (FY24 prior) and incorporate a modest A$10m equity raise at 20¢/share in the current financial year to provide a cash buffer through the current phase of works which shifts focus to negotiations of the Mine Development Agreement with the Malawian Government, potential grid electricity supplies from ESCOM, potential offtake agreements and potential project finance solutions. The overall impact of the changes implemented is a revised valuation of 35¢/share (55¢/share prior).

Valuation & Recommendation: LOT provides investors exposure to a known uranium asset with a significant operating track record, short lead time to from FID to first production of 15 months and US$99m pre-production capex estimate (as per DFS) to restart. Importantly the AISC estimated under the DFS of US$37.7/lb LOM provides strong potential margins at the current uranium prices of US$47.75/lb (spot) and US$51.50/lb (contract). 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 revised valuation of 35¢/share (US$85/lb real uranium, 10% discount rate) 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)	35.0¢
Share Price (AUD)	22.0¢
Forecast Capital Return	59%
Forecast Dividend Yield	0%
Total Shareholder Return	**59%**
Market Cap	A$266m
Net Cash (Debt)*	A$4.9m
Shares On Issue	1207m
Share Options On Issue	46m

Daniel Seeney | Senior Analyst

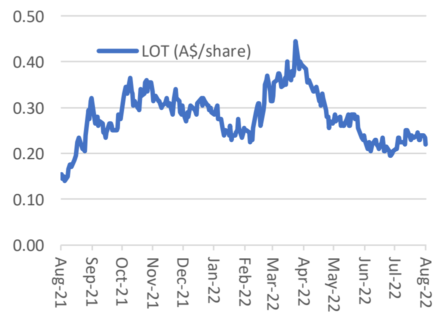
*Excludes US$10m restricted cash (env. bond)

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

Catalysts

Secure Mine Development Agreement
Confirm Uranium Offtake Agreements
Conclude Financing Negotiations
Secure ESCOM Agreement for Grid Power

Share Price Performance



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FINANCIAL SUMMARY — Lotus Resources Limited (LOT)

Share Price	A$/sh	0.22
Shares on Issue	m	1,207
Market Cap (A$m)	A$m	266
Net Debt / (Cash) (A$m)	A$m	(4.9)
Enterprise Value (A$m)	A$m	261

Rating	**BUY**
Target Price	0.35
Upside / (Downside)	59%
Dividend Yield	0%
Total Return Forecast	59%

Profit & Loss	Units	Jun-21	Jun-22e	Jun-23e	Jun-24e	Jun-25e
Sales	A$m	-	-	-	-	195
Expenses	A$m	(6)	(6)	(6)	(6)	(89)
EBITDA	A$m	**(6)**	**(6)**	**(6)**	**(6)**	**106**
D&A	A$m	-	-	-	-	(10)
EBIT	A$m	**(6)**	**(6)**	**(6)**	**(6)**	**96**
Interest	A$m	0	1	0	0	(1)
Tax	A$m	-	-	-	-	(24)
NPAT	A$m	**(6)**	**(5)**	**(6)**	**(6)**	**71**

Per Share Data	Jun-21	Jun-22e	Jun-23e	Jun-24e	Jun-25e
Shares Out (m)	955	1,207	1,257	1,646	1,646
EPS (¢)	(0.7¢)	(0.5¢)	(0.4¢)	(0.4¢)	4.1¢
Growth (%)	n/a	n/a	n/a	n/a	n/a
Dividend (¢)	-	-	-	-	-
Payout Ratio (%)	0%	0%	0%	0%	0%
Net Tangible Assets (A$)	0.02	0.01	0.01	0.05	0.12
Book Value (A$)	0.02	0.01	0.01	0.05	0.12
Free Cash Flow (A$)	(0.01)	(0.01)	(0.01)	(0.10)	0.06

Cashflow	Units	Jun-21	Jun-22e	Jun-23e	Jun-24e	Jun-25e
Cash From Operations	A$m	(7)	(6)	(6)	(6)	106
Interest	A$m	0	(0)	0	0	(1)
Tax	A$m	-	-	-	-	-
Working Capital	A$m	-	-	-	(27)	-
Net Cash From Operations	A$m	**(7)**	**(6)**	**(6)**	**(32)**	**105**
Capex & Exploration	A$m	(1)	(5)	(0)	(134)	(14)
Investments	A$m	-	(1)	(4)	-	-
Free Cash Flow	A$m	**(8)**	**(12)**	**(10)**	**(166)**	**91**
Equity	A$m	21	1	10	93	-
Borrowings	A$m	(0)	-	-	40	-
Dividend	A$m	-	-	-	-	-
Net Increase / (Decrease) in Cash	A$m	**13**	**(10)**	**0**	**(32)**	**91**

Valuation Metrics	Jun-21	Jun-22e	Jun-23e	Jun-24e	Jun-25e
EV / Sales	n/a	n/a	n/a	n/a	1.3x
EV / EBITDA	n/a	n/a	n/a	n/a	2.5x
EV / EBIT	n/a	n/a	n/a	n/a	2.7x
P/E (x)	n/a	n/a	n/a	n/a	5.3x
Dividend Yield (%)	n/a	n/a	n/a	n/a	0.0%

Operating Metrics (%)	Jun-21	Jun-22e	Jun-23e	Jun-24e	Jun-25e
EBITDA Margin	n/a	n/a	n/a	n/a	54%
EBIT Margin	n/a	n/a	n/a	n/a	49%
Net Profit Margin	n/a	n/a	n/a	n/a	37%
Return on Assets	n/a	n/a	n/a	n/a	23%
Return on Equity	n/a	n/a	n/a	n/a	36%
Effective Tax Rate	n/a	n/a	n/a	n/a	25%

Balance Sheet	Units	Jun-21	Jun-22e	Jun-23e	Jun-24e	Jun-25e
Cash*	A$m	28	18	18	(14)	77
Receivables	A$m	-	-	-	-	16
Inventory	A$m	-	-	-	-	19
PP&E & Exploration	A$m	60	65	65	199	203
Other	A$m	1	1	1	1	1
Assets	A$m	**89**	**83**	**84**	**185**	**315**
Creditors	A$m	1	-	-	-	10
Debt	A$m	-	-	-	40	40
Provisions	A$m	56	56	56	56	56
Tax Liabilities	A$m	10	10	10	10	10
Liabilities	A$m	**67**	**66**	**66**	**106**	**116**
Net Assets	A$m	**22**	**18**	**18**	**79**	**200**

Key Assumptions	Jun-21	Jun-22e	Jun-23e	Jun-24e	Jun-25e
Uranium Price (US$/lb)	30.3	45.2	55.0	75.0	91.5
AUDUSD	0.74	0.75	0.75	0.75	0.75
Uranium Production (mlbs)	-	-	-	-	1.6

Valuation	US$M	Equity	Risk	A$/share
Kayelekera	332	85%	85%	0.21
Tax Losses	163	85%	85%	0.10
Exploration & Investments	60	100%	100%	0.05
Corporate Costs	(14)	100%	100%	(0.01)
Net Cash (Debt)	3	100%	100%	0.00
Total	**545**			**0.35**
WACC				10%
AUDUSD				0.70
Fully Diluted SOI (m)				1,646

Liquidity & Leverage	Units	Jun-21	Jun-22e	Jun-23e	Jun-24e	Jun-25e
Net Debt / (Cash)	A$m	(28)	(18)	(18)	54	(37)
Net Debt / Equity	%	-127%	-101%	-100%	69%	-18%

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

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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 Kaylekera 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.

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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.

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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.

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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 regaining 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

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APPENDIX 1

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