

Lotus Resources Ltd. (ASX:LOT)

Corporate Update

July 13, 2023

**Merger to Acquire One of World's Largest Undeveloped U3O8 Deposits**

**Impact: Very Positive**

A Lotus and A-Cap Energy (ASX:ACB, Not Rated) combination will create a leading African-focused uranium developer, as LOT offers 1 share for every 3.54 ACB shares, representing an offer price of A\$0.052/sh for a 20.7% premium. A-Cap's board unanimously approves the offer, and its largest shareholder at 37.95% is locked up. The deal is subject to ACB shareholder, regulatory and court approvals. **We view this acquisition positively, as it provides Lotus the ability to extend/expand U<sub>3</sub>O<sub>8</sub> production beyond Kayelekera in Malawi. The prize is Letlhakane in Botswana, the top ranked jurisdiction in Africa for political stability. It is another large, free digging deposit also located within Karoo sediments. A combined 241.5M lbs resource ranks Lotus 3<sup>rd</sup> behind Paladin Energy (ASX:PDN, Not Rated) and Deep Yellow (ASX:DYL, Not Rated), for ASX-listed uranium developers in Africa. While past studies target heap leach, we see opportunity for tank leaching, likely improving project economics.** Focus remains on Kayelekera, but this accretive acquisition creates a larger, more liquid, diversified and highly leveraged uranium developer.

- **20.7% premium offer.** A-Cap shareholders will receive 1 LOT share for every 3.54 A-Cap shares. LOT shareholders would then own 79%, with ACB at 21%. LOT management will carry on, while A-Cap exploration, technical and environmental team would transition over.
- **Top 10 undeveloped U<sub>3</sub>O<sub>8</sub> resource.** Resources total 190.4 M lbs at a 200ppm cut-off. The deposit is very sensitive to cut-offs and there is a high-grade core. At 300ppm, resources are 103.1 M lbs U<sub>3</sub>O<sub>8</sub> at 450 ppm. At 100ppm, resources rise to 365.7 M lbs U<sub>3</sub>O<sub>8</sub> at 202 ppm.
- **2016 FS contemplates 3 M lbs pa uranium production.** Initial Capex is estimated at US\$351 M. Opex is US\$35/lb in years 1-5, averaging US\$41/lb. Post-tax NPV at 8% is A\$249 with an IRR of 24%. However, the FS relied on an old resource that didn't recognize a high-grade core.
- **Beneficiation possible.** Radiometric sorting may allow 1.5-2.2x grade improvement. Benefits would be higher feed grade, throughput and production, lower acid and energy consumption, and smaller tailings.
- **Mining license granted and infrastructure in place.** EIS is approved, and the project has provisional surface rights pending a relocation plan. Rail, water, power and highways are all close to site.
- **Kayelekera development continues.** Mine Development Agreement and power discussions continue, FEED optimization is ongoing, off-takes are desired. An investment decision seems more dependent on prices. Restart may be within 15 months of a decision, needing just US\$88 M Capex to mine 2.4 M lbs pa over 10 years at US\$29.10/lb C1.

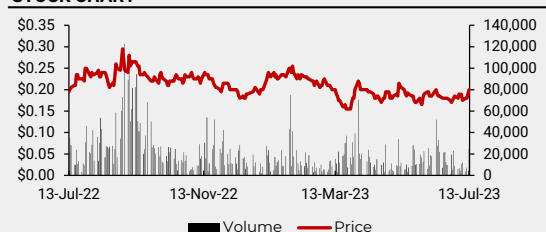
**We maintain a BUY rating, raising our target from A\$0.30 to A\$0.35/sh.**

We anticipate Letlhakane to re-rating inside LOT given its extensive resources, pending resource conversion and flowsheet plans which may improve project economics. We presume 53 M lbs of production over 18 yrs at a reduced Opex as per the 2016 FS, adding the value of the 136 M lbs of un-mined resources at US\$0.60/lb U<sub>3</sub>O<sub>8</sub>. **Upcoming catalysts:** 1) complete merger (Oct/23), 2) Malawi Mine Development Agreement, 3) off-takes and financing (ongoing), 4) Letlhakane resource conversion drilling (2024).

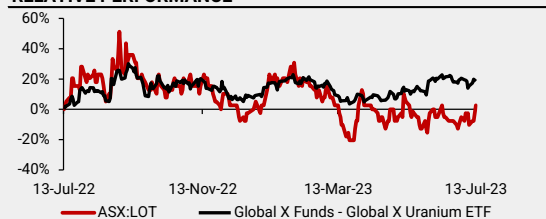
(Currency is A\$ unless noted otherwise)

Closing Price (\$/sh)	\$0.20	
Rating	BUY	
Target (\$/sh)	\$0.35	
Return to Target	75%	
52 Week Low / High	\$0.15 / \$0.30	
<b>CAPITALIZATION</b>	<b>Basic</b>	<b>Diluted</b>
Shares Outstanding (M)	1,344.0	1,375.0
Market Capitalization (\$MM)	\$268.8	
Enterprise Value (\$MM)	250.9	
Cash and Cash Equivalents (\$MM)	\$17.9	
Total Debt (\$MM)	\$0.0	

**STOCK CHART**



**RELATIVE PERFORMANCE**



FYE JUNE 30	2024E	2025E	2026E
Total production (M lb)	0.0	1.8	1.8
Total cash costs (US\$/oz)	0.0	30.5	30.5
EPS (\$/sh)	-0.02	0.02	0.02
CFPS (\$/sh)	-0.02	0.03	0.03
<b>RELATIVE VALUATION</b>	<b>US\$ EV/lb U<sub>3</sub>O<sub>8</sub></b>	<b>P/NAV</b>	
Lotus Resources Ltd.	\$3.13	0.57x	
Peers*	\$3.18	0.60x	

\*Capital IQ Consensus

**MAJOR SHAREHOLDERS (According to IQ)**

, Macquarie Group, Ltd., Banking & Se (5.94%), Sprott Asset Management LP (4.28%)

**DISCLOSURE CODE:** 1,2,3

(Please refer to the disclosures listed on the back page)

Source: RCS, Company Information, Capital IQ

**Company Description**



Lotus Resources Limited engages in the exploration and development of mineral properties in Australia and Malawi. Its flagship property is the 85%-owned Kayelekera uranium project located in northern Malawi, Africa, with current resources of 46.3M U3O8 (M&I&I). The company was formerly known as Hylea Metals Limited and changed its name to Lotus Resources Limited in August 2019. Lotus Resources Limited was incorporated in 2006 and is based in West Perth, Australia.

**Table 1: Timetable - Scheme booklet would be expected to be sent to A-Cap option and shareholders in August 2023.**

Event	Date
A-Cap to lodge Scheme Booklets with ASIC	August 2023
First Court Hearing to convene Scheme Meetings; dispatch Scheme Booklets to shareholders	August 2023
Scheme Meetings	September 2023
Second Court Hearing to approve Schemes	September 2023
Effective Date	September 2023
Record Date	September 2023
Implementation Date	October 2023

Source: Company Reports

**Table 2: Snapshot of the combined Lotus Resources – A-Cap Energy**

 LOTUS RESOURCES	 A-CAP ENERGY	Pro-Forma
\$0.1838	\$0.052	\$0.1838
1,344.0m	1,232.4m	1,700.6m
A\$247.1m	A\$63.9m	A\$312.6m
79.0%	21.0%	-
\$17.9m	\$5.9m	\$23.8m
15.9Mt @ 660ppm U <sub>3</sub> O <sub>8</sub> 23.0Mlbs U <sub>3</sub> O <sub>8</sub>	-	15.9Mt @ 660ppm U <sub>3</sub> O <sub>8</sub> 23Mlbs U <sub>3</sub> O <sub>8</sub>
49.4Mt @ 475ppm U <sub>3</sub> O <sub>8</sub> 51.1Mlbs U <sub>3</sub> O <sub>8</sub>	268.9Mt @ 321ppm U <sub>3</sub> O <sub>8</sub> 190.4Mlbs U <sub>3</sub> O <sub>8</sub>	318.3Mt @ 344ppm U <sub>3</sub> O <sub>8</sub> 241.5Mlbs U <sub>3</sub> O <sub>8</sub>

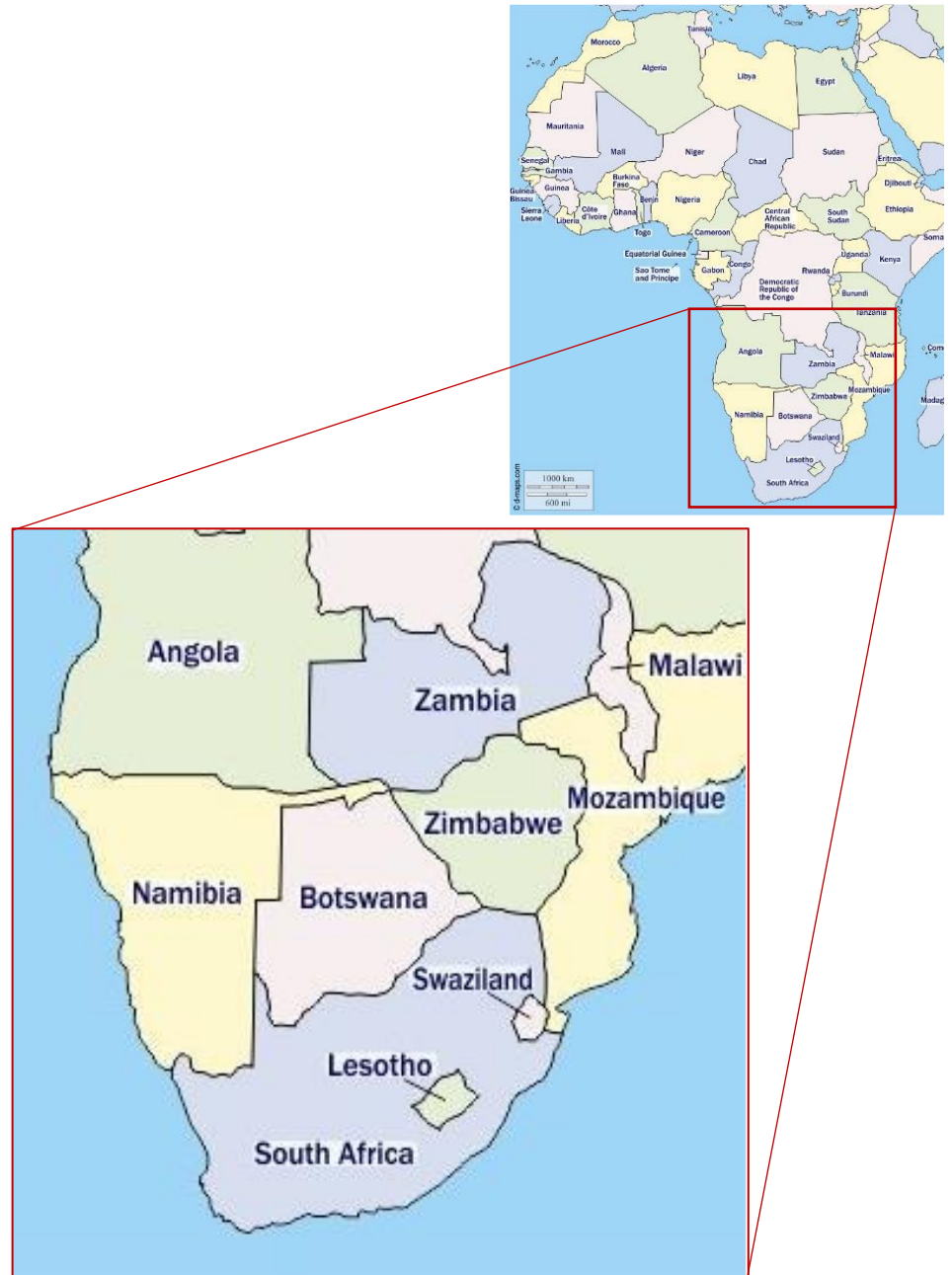
Source: Company Reports

**Table 3: Summary of valuation for LOT post-merger**

Net Asset Value	Method	A\$M	A\$/sh FD
<b>Projects &amp; Interests</b>			
Kayelekera, Malawi (85%)	DCF	8% \$317.1	\$0.16
Lethakane, Botswana (100%)	DCF	8% \$101.8	\$0.05
Wilconia, Australia (55%)	In-situ US\$0.03/lb	\$35.7	\$0.02
Asset NAV		\$454.5	\$0.23
Cash & Cash Equivalents		\$17.9	\$0.01
Debt		-	\$0.00
Sunrise Energy Metals (ASX:SRL)		\$1.89	\$0.00
Additional Resource Value		\$243.0	\$0.12
Exploration upside		\$41.7	\$0.02
Corporate G&A		(\$43.2)	-\$0.02
Corporate NAV		\$715.8	\$0.37
Multiple			0.90x
<b>Target</b>			<b>\$0.35</b>
Lift			94%

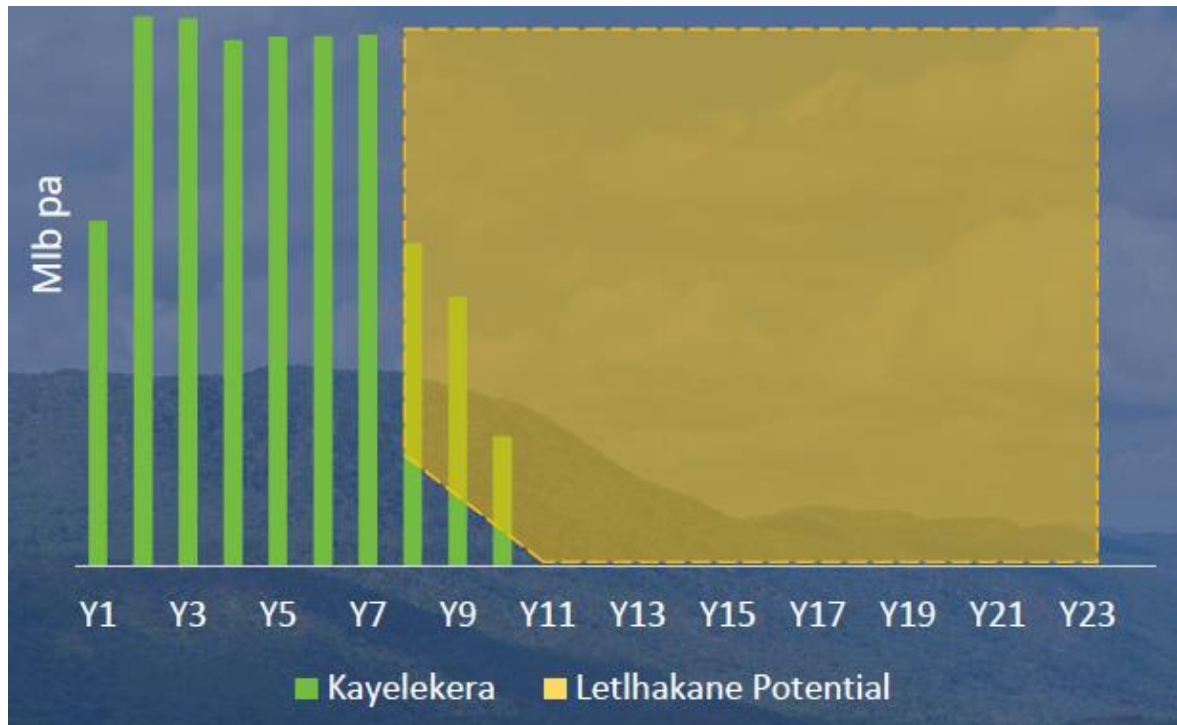
Source: Company Reports

**Figure 1: Two assets in two jurisdictions helps diversify risk. While located in the same host rocks and within the same region, there is opportunity to capture regional synergies and economies of scale, by sharing inventories and consumables.**



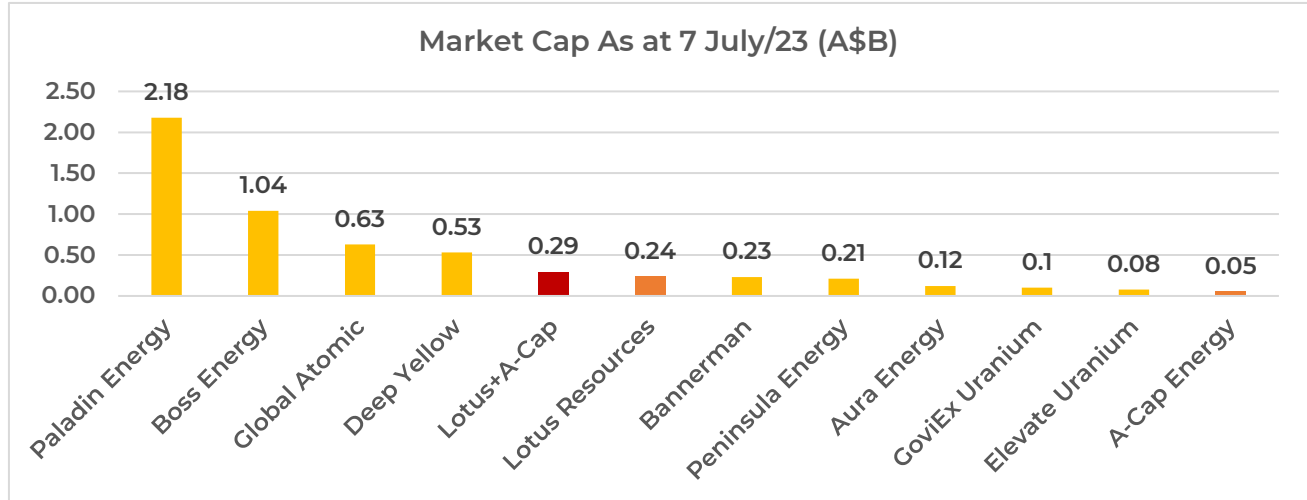
Source: Company Reports

**Figure 2: Letlhakane adds longer term production potential. Two synergistic projects would fall under a single African-focused uranium vehicle, with both located along a similar geological trend within the same region. Letlhakane provides an opportunity to extend Lotus's production profile and / or expand Lotus' production beyond 2.4Mlbpa. Kayelekera DFS currently suggests 7 yrs of production at 2.4 M lbs with a further three years of low production from stockpiles.**



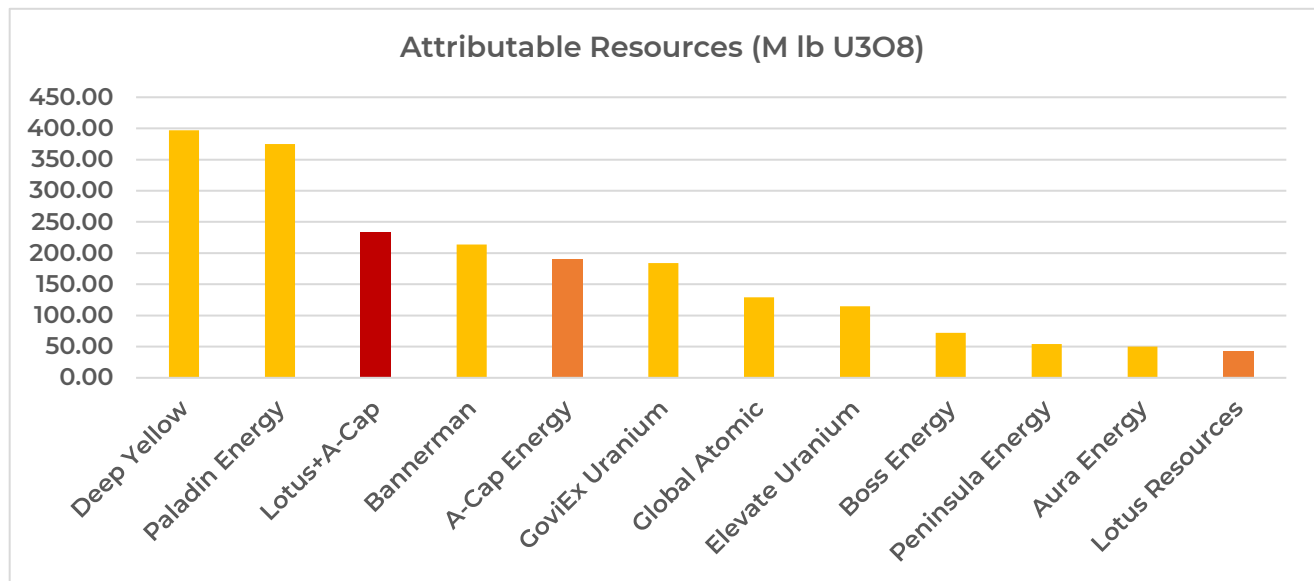
Source: Company Reports

**Figure 3: There is potential to drive value through potential re-rating via the business combination and organic growth at both projects.**



Source: Company Reports

**Figure 4: A combined 234 M lbs attributable mineral resource base across the two projects creates amongst the largest base amongst its ASX listed peers.**



Source: Company Reports

**Figure 5: Peer Comparison of Mineral Resource Estimates in Africa/ASX listed companies.**

Company	Stage	Project	100% Resources (Mlbs)					Attributable Resources (Mlbs)				Information Source	
			Measured	Indicated	Inferred	Total	Grade (ppm U3O8)	Attributable	Measured	Indicated	Inferred		Total
A-Cap Energy	Developer	Lethakane	0	42.2	148.1	190.4	321	100%	0.0	42.2	148.1	190.4	ASX Release 22 Oct 2022 Annual Report
Aura Energy	Developer	Tigris	14	15.6	29.2	58.7	236	85%	11.9	13.3	24.8	49.9	ASX Release 28 April 2023 March Quarterly Report
Bannerman Energy	Developer	Etango	14.3	148.5	62	224.9	197	95%	13.6	141.1	58.9	213.7	ASX Release 20 April 2023 Conference Presentation
Boss Energy	Restart	Honeymoon	7.6	25.5	38.5	71.6	620	100%	7.6	25.5	38.5	71.6	ASX Release 4 May 2023 Conference Presentation
Deep Yellow	Developer	Namibia 100% held	2 28.8	149.7	79.7	258.2	216	100%	28.8	149.7	79.7	258.2	ASX Release 9 May 2023 Investor Presentation
		Ausinas	0	2.7	15.3	18.1	237	85%	0.0	2.3	13.0	15.4	
		Angularli	0	0	32.9	32.9	10,900	100%	0.0	0.0	32.9	32.9	ASX Release 3 July 2023 Angularli Resource Upgrade
		Mulga Rock Combined	12.6	32.8	44.7	90.1	570	100%	12.6	32.8	44.7	90.1	
Elevate Uranium	Developer	Koppies	0	0	20.3	20.3	220	100%	0.0	0.0	20.3	20.3	ASX Release 5 June 2023 Presentation to 121 Mining Investment Event
		Marenica	0	6.4	54.9	61.3	93	75%	0.0	4.8	41.2	46.0	
		Australia owned	0	0	41.7	41.7	850	100%	0.0	0.0	41.7	41.7	
		Australia JV Combined	0	14	26.2	40.2	847	various	0.0	2.9	3.9	6.8	
Global Atomic	Developer	Dasa	0	51.5	109.6	161.1	5014	80%	0.0	41.2	87.7	128.9	Corporate Presentation June 2023
Goviex	Developer	Madaouela	30.1	66.8	19.6	116.5	1286	80%	24.1	53.4	15.7	93.2	Corporate Presentation May 2023
		Muntanga	4.8	10.4	44.9	60	283	100%	4.8	10.4	44.9	60.0	
		Falea	0	17.4	13.4	30.8	892	100%	0.0	17.4	13.4	30.8	
		Combined	34.9	94.6	77.9	207.3			28.9	81.2	74.0	184.0	
Lotus Resources	Restart	Kayelekera	4.2	33.2	13.7	51.1	475	85%	3.6	28.2	11.6	43.4	ASX Release 28 April 2023 March Quarterly Report
Paladin Energy	Restart	Langer Heinrich	100.2	19.5	8.4	128.1	415	75%	75.2	14.6	6.3	96.1	ASX Release 4 May 2023 Conference Presentation
		Canada	38	67.6	22.1	127.7	860	70%	26.6	47.3	15.5	89.4	
		Australia	28.9	97.9	63	189.8	635	100%	28.9	97.9	63.0	189.8	
		Combined	167.1	185	93.5	445.6			130.7	159.8	84.8	375.3	
Peninsula Energy	Restart	Lance	3.7	12.1	37.8	53.7	480	100%	3.7	12.1	37.8	53.7	ASX Release 9 May 2023 Conference Presentation

Source: Company Reports

**Figure 6: Lotus' Kayelekera mine re-start project resources and reserves.**

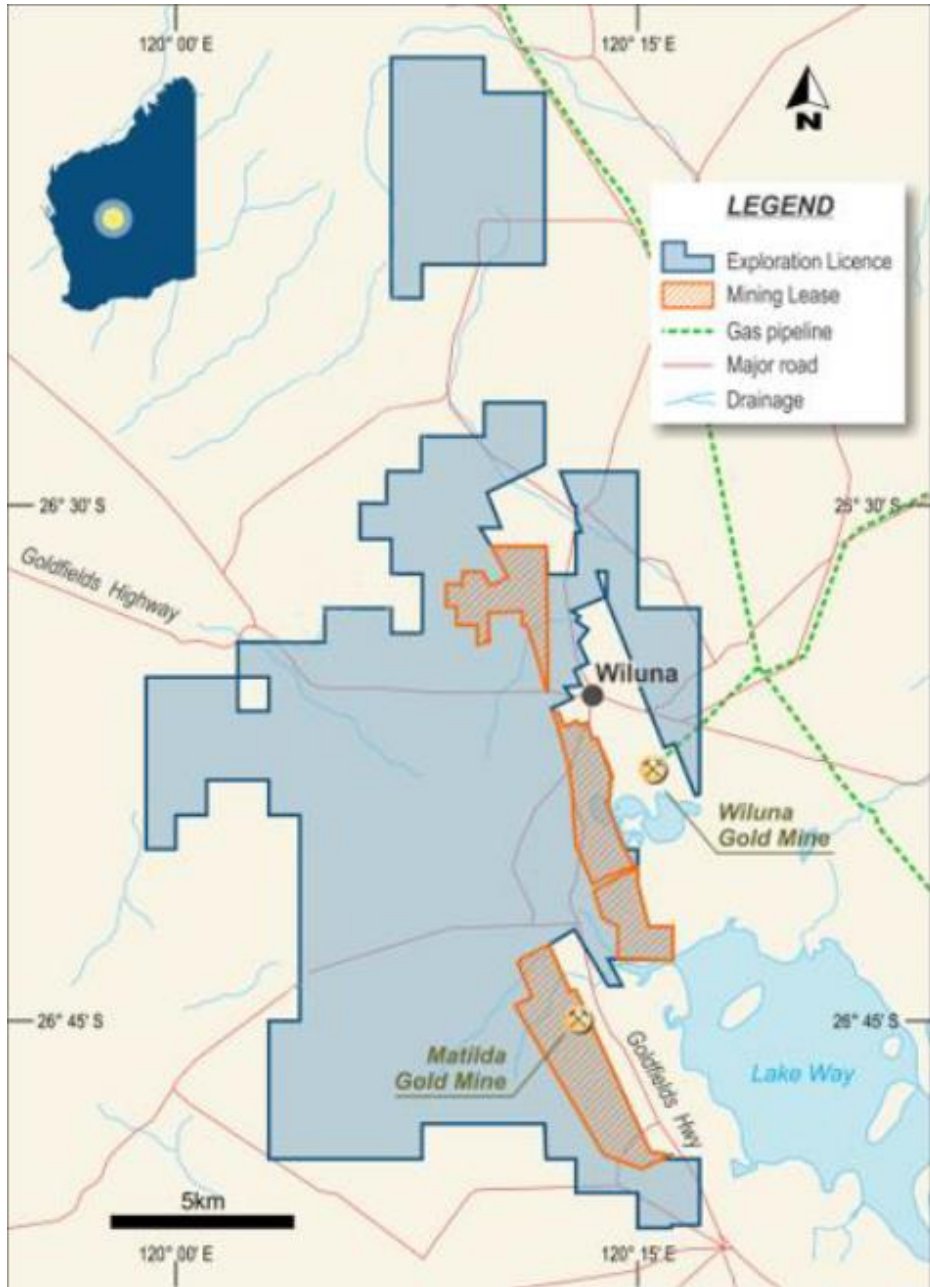
Project	Resource Category	Mt	Grade (U3O8 ppm)	U3O8 (M kg)	U3O8 (M lbs)
Kayelekera	Measured	0.9	830	0.7	1.6
Kayelekera	Measured - RoM Stockpile	1.6	760	1.2	2.6
Kayelekera	Indicated	29.3	510	15.1	33.2
Kayelekera	Inferred	8.3	410	3.4	7.4
Kayelekera	Total	40.1	510	20.4	44.8
Kayelekera	Inferred - LG Stockpiles	2.24	290	0.7	1.5
Kayelekera	Total - Kayelekera	42.5	500	21.1	46.3
Letlhakane	Indicated	59.2	323	19.1	42.2
Letlhakane	Inferred	209.7	321	67.2	148.1
Letlhakane	Total	268.9	321	86.3	190.4
Livingstonia	Inferred	6.9	320	2.2	4.8
Total Resources	All Uranium Resources	318.3	344	109.6	241.5

Project	Reserve Category	Mt	Grade (U3O8 ppm)	U3O8 (M kg)	U3O8 (M lbs)
Kayelekera	Open Pit - Proved	0.6	902	0.5	1.2
Kayelekera	Open Pit - Probable	13.7	637	8.7	19.2
Kayelekera	RoM Stockpile - Proved	1.6	760	1.2	2.6
Kayelekera	Total - Kayelekera	15.9	660	10.4	23

Source: Company Reports



**Figure 7: A-Cap's Wilconi Nickel Cobalt project is located in Western Australia. Currently 55%-owned by A-Cap, the company has the right to grow to 75% by completing a DFS. Wiluna Mining is the junior partner and currently in liquidation. That project hosts 90 Mt at 0.73% Ni and 0.05% Co for 660kt Ni and 46.4kt Co.**



Source: Company Reports

**Figure 8: Botswana is a top ranked mining jurisdiction in Africa. It has the highest GDP per capital in Africa with mining accounting for 21% of its current GDP. Its skilled mining force is English speaking. No development agreements are required, but the Government can acquire up to 15% working interest participation (not free carry). Its mining fiscal regime is supportive and allows deductions for exploration and capital, loss carry forwards, Mining Corporate income tax starting at 22%, and other benefits.**

	2018	2019	2020	2021	2022
Policy Perceptions Index	94.8	83.5	91.2	74.7	97.8
Global ranking	12	22	15	31	2
Africa Ranking	1	2	1	3	1

	Botswana	Malawi	Namibia	Tanzania	Niger	Zambia
Fraser Ranking PPI (global)	2	n/r	26	42	n/r	47
Corruption index	50	99	66	130	159	109
GDP/Capita (US\$000's/person)	16.3	1.6	10	2.8	1.3	3.6
Mining % GDP	21%	1%	12%	5%	n/a	1%

Source: Company Reports

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Disclosure Statement  
 Updated July 12, 2023

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2021-05-14	NA	NA	BUY (S)	25%
2021-07-06	NA	NA	HOLD	1%
2021-07-28	BUY	0.22	TENDER	0%
2021-10-13	BUY	0.40	NA	1%
2021-10-15	BUY	0.40	UNDER REVIEW	1%
2021-10-21	BUY	0.40		
2021-11-23	BUY	0.40		
2022-02-16	BUY	0.40		
2022-02-28	BUY	0.40		
2022-03-03	BUY	0.40		
2022-03-10	BUY	0.40		
2022-06-27	BUY	0.40		
2022-08-12	BUY	0.30		
2023-06-02	BUY	0.30		

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Company Name	Ticker Symbol	Disclosures
Lotus Resources Ltd.	ASX:LOT	1,2,3

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