

Lotus Resources Ltd. (ASX:LOT, OTCQB:LTSRF)

Corporate Update

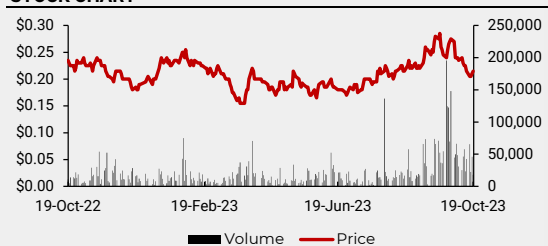
October 19, 2023

**Merger With A-Cap Receives Government Approvals**

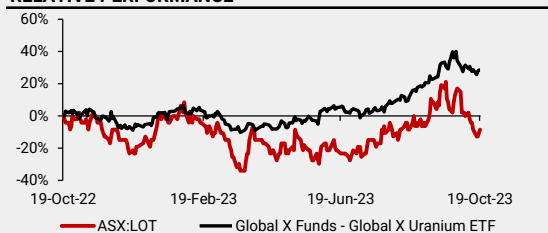
(Currency is A\$ unless noted otherwise)

Closing Price (\$/sh)	\$0.22
Rating	BUY
Target (\$/sh)	\$0.35
Return to Target	63%
52 Week Low / High	\$0.15 / \$0.29
<b>CAPITALIZATION</b>	<b>Basic Diluted</b>
Shares Outstanding (M)	1,344.0 1,375.1
Market Capitalization (\$MM)	\$289.0
Enterprise Value (\$MM)	273.4
Cash and Cash Equivalents (\$MM)	\$15.5
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	29.6	29.6
EPS (\$/sh)	-0.02	0.03	0.03
CFPS (\$/sh)	-0.02	0.03	0.03

RELATIVE VALUATION	US\$ EV/lb U <sub>3</sub> O <sub>8</sub>	P/NAV
Lotus Resources Ltd.	\$3.13	0.61x
Peers*	\$3.18	0.60x

\*Capital IQ Consensus

**MAJOR SHAREHOLDERS (According to IQ)**

Management and Insiders (14.58%), Macquarie Group, Ltd., Banking & Se (5.94%), ALPS Advisors, Inc. (4.29%)

**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.

**Impact: Very Positive**

The previously announced Lotus and A-Cap Energy (ASX:ACB, Not Rated) merger, which will give Lotus access to the 190.4M lbs U3O8 Letlhakane mine in Botswana, has received regulatory approvals from the Botswana Government. The merger was unopposed by Botswana's Minister of Mines and Energy to transferring the Letlhakane Mining License or Prospecting License and was unconditionally approved by the Competitions and Consumer Authority. **We view this merger as positive and had already increased our target price to A\$0.35/sh upon its announcement in July (read more).** While focus remains on the Kayelekera project in Malawi, the accretive business combination creates a larger, more liquid, diversified and highly leveraged uranium developer. Botswana is a top ranked jurisdiction in Africa, with a higher GDP per capita and supportive mining regime. We see re-rating potential via this business combination and organic growth at both projects. Both projects would fall under the same African-focused vehicle and are located along a similar geological trend. Letlhakane is a large, free digging uranium deposit that adds longer term potential for Lotus, with the opportunity to extend its production profile above 2.4M lbs and/or extend its LOM beyond ten years. While prior studies suggest heap leach processing, we see opportunity to improve project economics through tank leaching and beneficiation.

- **Closing due in November.** A-Cap shareholder approval is due 20-Oct-23, followed by a second court date anticipated a week after.
- **LOT to host 3<sup>rd</sup> largest uranium resource on ASX.** In total, Lotus will host ~241.5M lb U3O8. A 2016 FS for Letlhakane contemplates 3M 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 or potential to use radiometric sorting.
- **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. Its investment decision 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. Prices are up 25% from US\$55.40/lb to US\$69/lb U3O8 since the deal was announced in July.

**We maintain a BUY rating and target of A\$0.35/sh.** We anticipate Letlhakane to re-rate inside LOT given potential to improve project economics. We presume 53M lbs of production over 18 yrs at a reduced Opex as per the 2016 FS, adding the value of the 136M lbs of un-mined resources at US\$0.60/lb U<sub>3</sub>O<sub>8</sub>. **Upcoming catalysts:** 1) completion of merger (Oct/23), 2) Malawi Mine Development Agreement, 3) off-takes and financing (ongoing), 4) Letlhakane resource conversion drilling (2024).

**Table 1: Combined 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

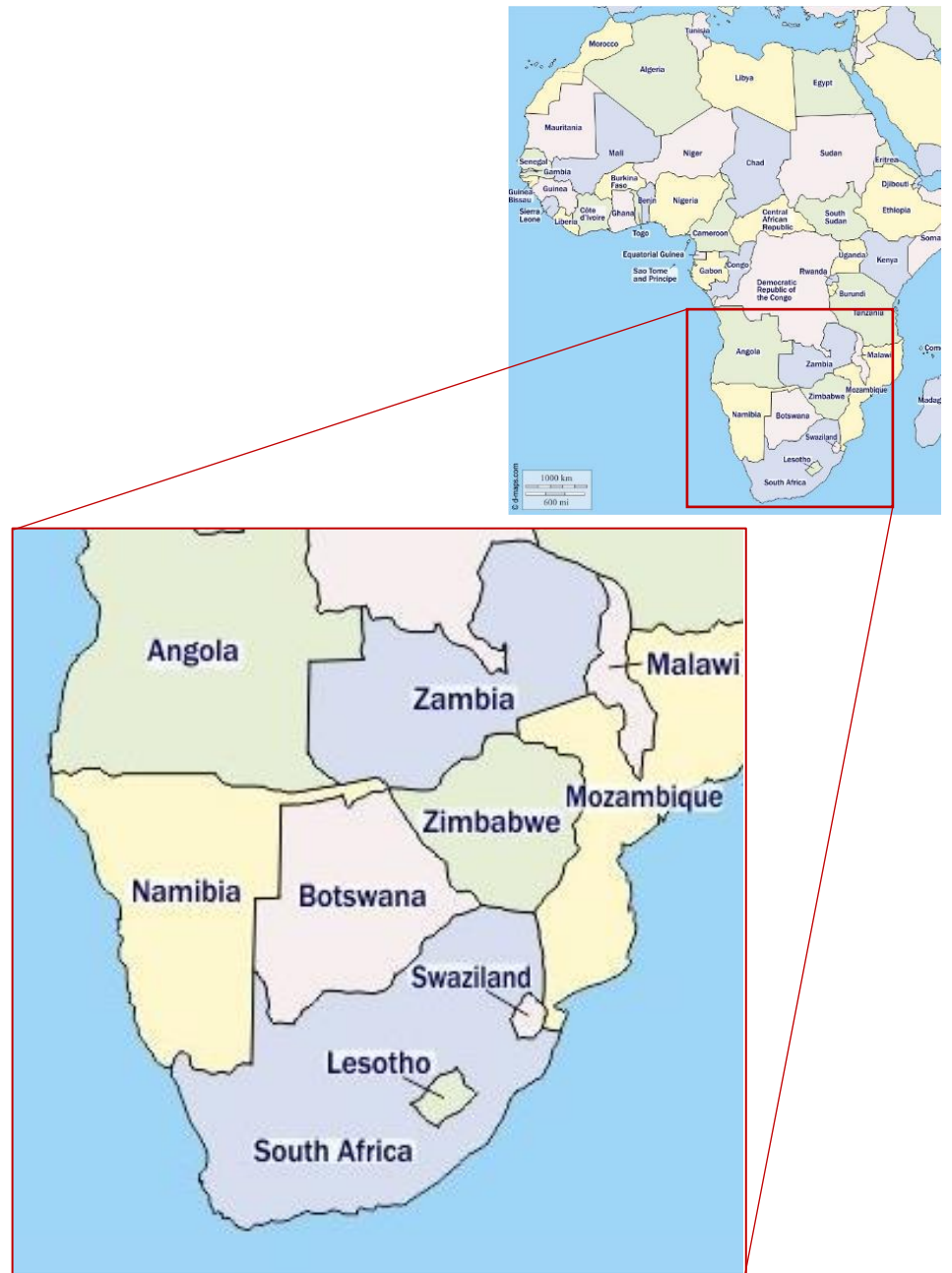
Source: Company Reports

**Table 2: 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%	\$307.4	\$0.16
Letlhakane, Botswana (100%)	DCF	8%	\$101.8	\$0.05
Wilconia, Australia (55%)	In-situ	US\$0.03/lb	\$35.7	\$0.02
Asset NAV			\$444.8	\$0.23
Cash & Cash Equivalents			\$15.5	\$0.01
Debt			-	\$0.00
Sunrise Energy Metals (ASX:SRL)			\$1.89	\$0.00
Additional Resource Value			\$243.0	\$0.13
Exploration upside			\$41.7	\$0.02
Corporate G&A			(\$43.2)	-\$0.02
Corporate NAV			\$703.7	\$0.36
Multiple				0.90x
<b>Target</b>				<b>\$0.35</b>
Lift				67%

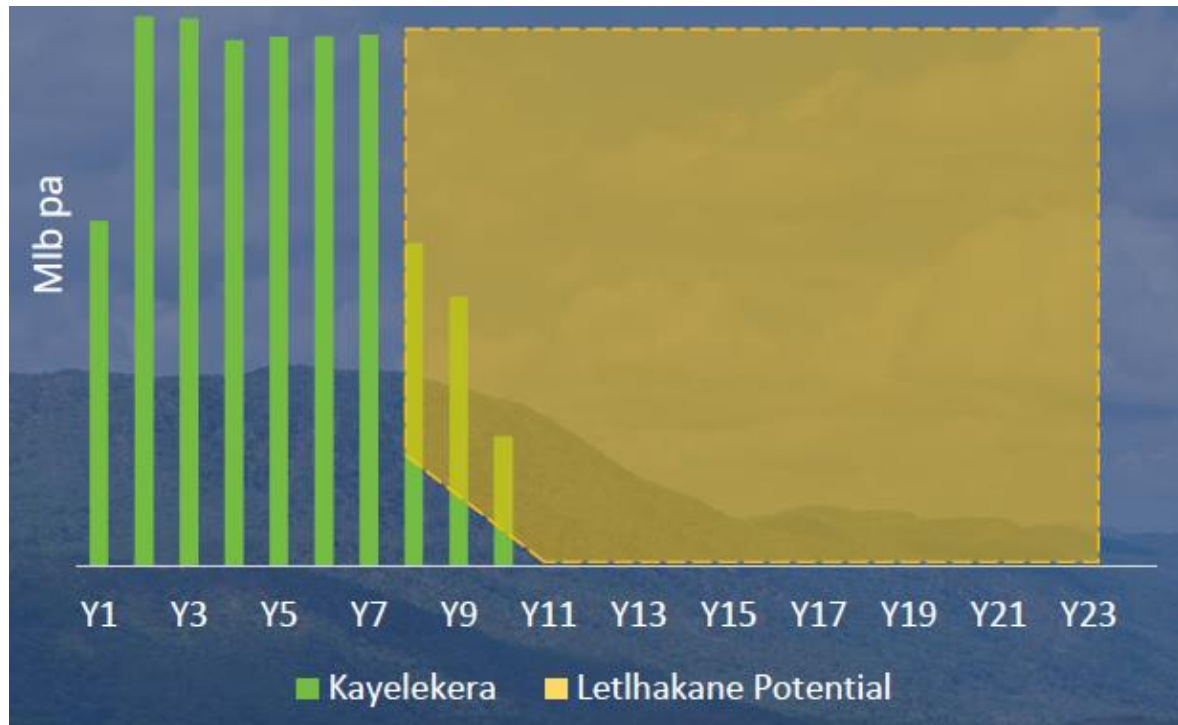
Source: Company Reports

**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.**



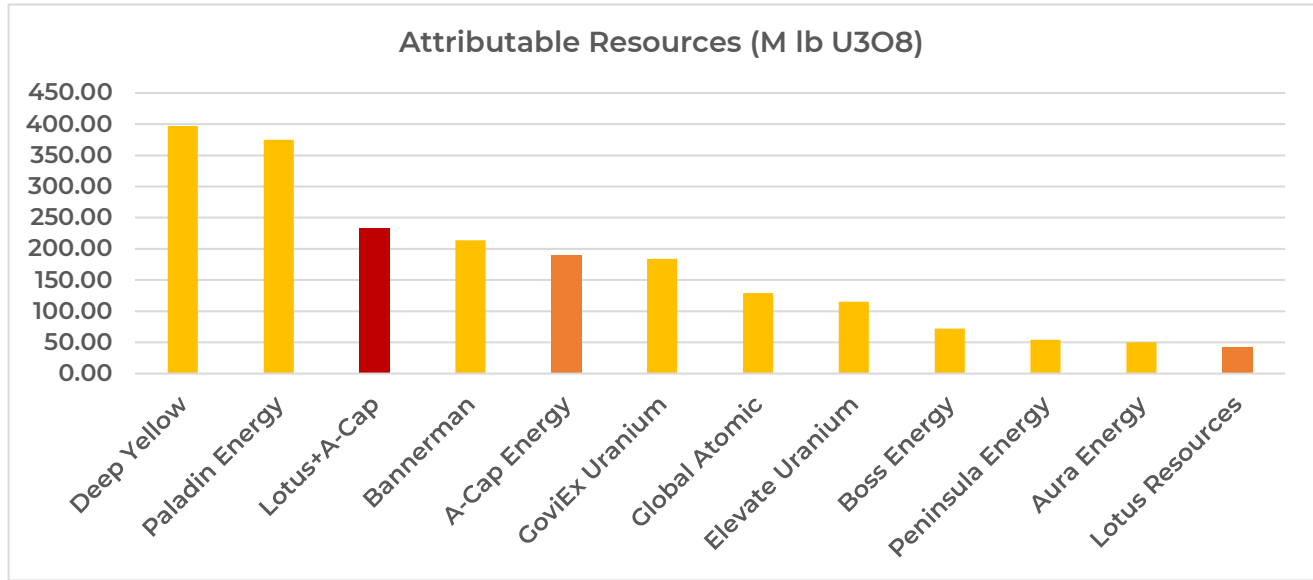
Source: Company Reports

**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: 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

David A. Talbot | MD, Mining Analyst  
Daniel Kozielowicz | Research Associate  
Shikhar Sarpal | Research Associate  
Surya Sankarasubramanian | Research Associate

**Red Cloud Securities Inc.**  
120 Adelaide Street West, Suite 1400  
Toronto ON, M5H 1T1  
[research@redcloudsecurities.com](mailto:research@redcloudsecurities.com)  
[www.redcloudresearch.com](http://www.redcloudresearch.com)

Disclosure Statement  
Updated October 18, 2023

Recommendation / Target Change			Red Cloud Securities has this percentage of its universe assigned as the following:	
Date	Rating	Target	Status	%
2021-03-26	NA	NA	BUY	70%
2021-05-14	NA	NA	BUY (S)	27%
2021-07-06	NA	NA	HOLD	0%
2021-07-28	BUY	0.22	TENDER	0%
2021-10-13	BUY	0.40	NA	2%
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		
2023-07-13	BUY	0.35		

Disclosure Requirement

Red Cloud Securities Inc. is registered as an Investment Dealer and is a member of the Investment Industry Organization of Canada (IIROC). Part of Red Cloud Securities Inc.'s business is to connect mining companies with suitable investors. Red Cloud Securities Inc., its affiliates and their respective officers, directors, representatives, researchers and members of their families may hold positions in the companies mentioned in this document and may buy and/or sell their securities. Additionally, Red Cloud Securities Inc. may have provided in the past, and may provide in the future, certain advisory or corporate finance services and receive financial and other incentives from issuers as consideration for the provision of such services.

Red Cloud Securities Inc. has prepared this document for general information purposes only. This document should not be considered a solicitation to purchase or sell securities or a recommendation to buy or sell securities. The information provided has been derived from sources believed to be accurate but cannot be guaranteed. This document does not take into account the particular investment objectives, financial situations, or needs of individual recipients and other issues (e.g. prohibitions to investments due to law, jurisdiction issues, etc.) which may exist for certain persons. Recipients should rely on their own investigations and take their own professional advice before investment. Red Cloud Securities Inc. will not treat recipients of this document as clients by virtue of having viewed this document.

Red Cloud Securities Inc. takes no responsibility for any errors or omissions contained herein, and accepts no legal responsibility for any errors or omissions contained herein, and accepts no legal responsibility from any losses resulting from investment decisions based on the content of this report.

Company Specific Disclosure Details

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

1. The analyst has visited the head/principal office of the issuer or has viewed its material operations.
2. The issuer paid for or reimbursed the analyst for a portion, or all of the travel expense associated with a visit.
3. In the last 12 months preceding the date of issuance of the research report or recommendation, Red Cloud Securities Inc. has performed investment banking services for the issuer.
4. In the last 12 months, a partner, director or officer of Red Cloud Securities Inc., or an analyst involved in the preparation of the research report has provided services other than in the normal course investment advisory or trade execution services to the issuer for remuneration.
5. An analyst who prepared or participated in the preparation of this research report has an ownership position (long or short) in, or discretion or control over an account holding, the issuer's securities, directly or indirectly.
6. Red Cloud Securities Inc. and its affiliates collectively beneficially own 1% or more of a class of the issuer's equity securities.
7. A partner, director, officer, employee or agent of Red Cloud Securities Inc., serves as a partner, director, officer or employee of (or in an equivalent advisory capacity to) the issuer.
8. Red Cloud Securities Inc. is a market maker in the equity of the issuer.
9. There are material conflicts of interest with Red Cloud Securities Inc. or the analyst who prepared or participated in the preparation of the research report, and the issuer.

Analysts are compensated through a combined base salary and bonus payout system. The bonus payout is determined by revenues generated from various departments including Investment Banking, based on a system that includes the following criteria: reports generated, timeliness, performance of recommendations, knowledge of industry, quality of research and client feedback. Analysts are not directly compensated for specific Investment Banking transactions.

#### **Recommendation Terminology**

Red Cloud Securities Inc. recommendation terminology is as follows:

- BUY – expected to outperform its peer group
- HOLD – expected to perform with its peer group
- SELL – expected to underperform its peer group
- Tender – clients are advised to tender their shares to a takeover bid
- Not Rated or NA – currently restricted from publishing, or we do not yet have a rating
- Under Review – our rating and target are under review pending, prior estimates and rating should be disregarded.

Companies with BUY, HOLD or SELL recommendations may not have target prices associated with a recommendation. Recommendations without a target price are more speculative in nature and may be followed by "(S)" or "(Speculative)" to reflect the higher degree of risk associated with the company. Additionally, our target prices are set based on a 12-month investment horizon.

#### **Dissemination**

Red Cloud Securities Inc. distributes its research products simultaneously, via email, to its authorized client base. All research is then available on [www.redcloudsecurities.com](http://www.redcloudsecurities.com) via login and password.

#### **Analyst Certification**

Any Red Cloud Securities Inc. research analyst named on this report hereby certifies that the recommendations and/or opinions expressed herein accurately reflect such research analyst's personal views about the companies and securities that are the subject of this report. In addition, no part of any research analyst's compensation is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.