INVESTMENT RESEARCH

BW EQUITIES

31 July 2023

Lotus Resources Ltd (LOT)

Merger with A-Cap: Expanded Project Pipeline

Enhancing Project Optionality: LOT has agreed to a merger with A-Cap Energy, developer of the Letlhakane Uranium Project, a large (269Mt at 321ppm U3O8) uranium deposit in Botswana. Based on the transaction metrics (3.54 A-Cap shares per LOT share) A-Cap shareholders will own 21% of LOT once the transaction is completed. Letlhakane provides LOT with a growth project to solidify the development and production pipeline in the longer-term as well as diversify the company's operational exposure. Letlhakane's current resource includes 190mlbs of contained uranium close to established infrastructure with the benefit of an established mining licence and soft free-dig material (relatively low mining cost). The project was subject to a technical study (see ASX 11-Sep-15) which contemplated a 9mtpa heap-leach operation producing 2.4mlbs/year over an 18-year operation life.

Strategic Benefits: In addition to operational diversification, the addition of Letlhakane provides a very long-term potential production horizon which is advantageous for supply negotiations with potential offtakers, typically utilities with multi-decade requirements. LOT's technical expertise and experience in optimising Kayelekera is also likely to enhance the development strategy for Letlhakane. More broadly, the increased scale of the merged group, as well as the addition of an asset in Botswana which is regarded as a highly attractive mining jurisdiction in Africa (2022 Fraser PPI survey rating of 2 and consistent top 3 African ranking over the last 5 years) may enhance financing flexibility to support access to development funding for the restart of Kayelekera.

Next Steps: Once the transaction is completed LOT will commence optimisation studies to update the historical studies completed at Letlhakane with a potential PFS to commence towards the end of CY 2024. At Kayelekera the near-term focus remains on finalising the Mine Development Agreement, confirming offtake agreements with utilities and advancing discussions with ESCOM regarding power supply for the project.

Revisions: We have pushed back first production at Kayelekera to FY26 in line with recent commentary, as well as rolled forward our DCF valuation and removed the risk discount on the project to reflect the advanced stage of development and scale benefits post the merger with A-Cap that are likely to support offtake and project financing outcomes. We have applied EV/Resource analysis to value Letlhakane based on a review of listed comparable companies which determines a valuation of US$200m. As a result our target price increases to 48¢/share (32¢/share prior).

Valuation & Recommendation: LOT provides investors exposure to a known uranium asset with a significant operating track record, potential short lead time of 15 months from FID to first production 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$56/lb (spot & contract). The shares are trading at a discount to our valuation of 48¢/share (US$85/lb real uranium, 10% discount rate) and as such we retain a Buy rating. Key risks include the availability of funding, uranium prices, geopolitical issues and operational issues.

Rating	**BUY**
Target Price (AUD)	48.0¢
Share Price (AUD)	21.0¢
Forecast Capital Return	129%
Forecast Dividend Yield	0%
Total Shareholder Return	**129%**
Market Cap	A$282m
Net Cash (Debt)*	A$16m
Shares On Issue	1344m
Share Options On Issue	31m

Daniel Seeney | Senior Analyst

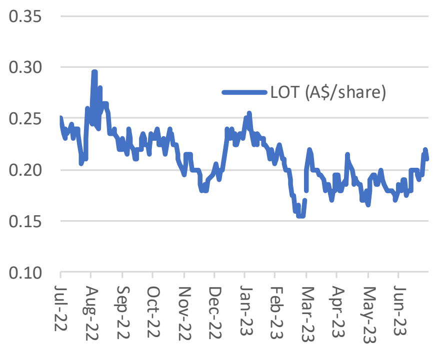
*Excludes US$10m restricted cash (env. bond)

Key Executives	
Chairman	Michael Bowen
MD	Keith Bowes
Non Exec Director	Grant Davey
Non Exec Director	Mark Hanlon
Non Exec Director	Dixie Marshall

Catalysts

Secure Mine Development Agreement
Confirm Uranium Offtake Agreements
Conclude Financing Negotiations
Secure ESCOM Agreement for Grid Power
Complete project finance package
FID

Share Price Performance



Level 30, 360 Collins Street
Melbourne, Victoria, 3000
+61 (0) 3 9601 4800

FINANCIAL SUMMARY — Lotus Resources Limited (LOT)

Share Price	A$/sh	0.21
Shares on Issue	m	1,344
Market Cap (A$m)	A$m	282
Net Cash / (Debt) (A$m)	A$m	16
Enterprise Value (A$m)	A$m	267

Rating	**BUY**
Target Price	0.48
Upside / (Downside)	129%
Dividend Yield	0%
Total Return Forecast	129%

Profit & Loss	Units	Jun-23e	Jun-24e	Jun-25e
Sales	A$m	-	-	-
Expenses	A$m	(7)	(7)	(7)
EBITDA	A$m	**(7)**	**(7)**	**(7)**
D&A	A$m	(0)	(0)	(0)
EBIT	A$m	**(7)**	**(7)**	**(7)**
Interest	A$m	0	0	0
Tax	A$m	-	-	-
NPAT	A$m	**(6)**	**(6)**	**(6)**

Per Share Data	Jun-23e	Jun-24e	Jun-25e
Shares Out (m)	1,344	1,701	2,085
EPS (¢)	(0.5¢)	(0.4¢)	(0.3¢)
Growth (%)	n/a	n/a	n/a
Dividend (¢)	-	-	-
Payout Ratio (%)	0%	0%	0%
Net Tangible Assets (A$)	0.02	0.01	0.06
Book Value (A$)	0.02	0.01	0.06
Free Cash Flow (A$)	(0.01)	(0.00)	(0.07)

Cashflow	Units	Jun-23e	Jun-24e	Jun-25e
Cash From Operations	A$m	(7)	(7)	(7)
Interest	A$m	0	0	0
Tax	A$m	-	-	-
Working Capital	A$m	-	-	-
Net Cash From Operations	A$m	**(6)**	**(6)**	**(6)**
Capex & Exploration	A$m	-	-	(146)
Investments	A$m	(4)	-	-
Free Cash Flow	A$m	**(10)**	**(6)**	**(152)**
Equity	A$m	24	-	106
Borrowings	A$m	-	-	96
Dividend	A$m	-	-	-
Net Increase / (Decrease) in Cash	A$m	**13**	**(6)**	**49**

Valuation Metrics	Jun-23e	Jun-24e	Jun-25e
EV / Sales	n/a	n/a	n/a
EV / EBITDA	n/a	n/a	n/a
EV / EBIT	n/a	n/a	n/a
P/E (x)	n/a	n/a	n/a
Dividend Yield (%)	n/a	n/a	n/a

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

Balance Sheet	Units	Jun-23e	Jun-24e	Jun-25e
Cash*	A$m	18	12	61
Receivables	A$m	-	-	-
Inventory	A$m	-	-	-
PP&E & Exploration	A$m	46	46	192
Other	A$m	15	15	15
Assets	A$m	**80**	**74**	**269**
Creditors	A$m	-	-	-
Debt	A$m	-	-	96
Provisions	A$m	43	43	43
Tax Liabilities	A$m	7	7	7
Liabilities	A$m	**50**	**50**	**146**
Net Assets	A$m	**30**	**24**	**123**

Key Assumptions	Jun-23e	Jun-24e	Jun-25e
Uranium Price (US$/lb)	55.0	75.0	91.5
AUDUSD	0.68	0.68	0.68
Uranium Production (mlbs)	-	-	-

Valuation	US$M	Equity	Risk	A$/share
Kayelekera	345	85%	100%	0.21
Letlhakane	200	100%	n/a	0.14
Tax Losses	168	85%	100%	0.10
Exploration & Investments	50	100%	100%	0.04
Corporate Costs	(20)	100%	100%	(0.01)
Net Cash (Debt)	15	100%	100%	0.01
Total	**757**			**0.48**
WACC				10%
AUDUSD				0.68
Fully Diluted SOI (m)				2,085

Liquidity & Leverage	Units	Jun-23e	Jun-24e	Jun-25e
Net Debt / (Cash)	A$m	(18)	(12)	34
Net Debt / Equity	%	-61%	-51%	28%

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

Level 30, 360 Collins Street
Melbourne, Victoria, 3000
+61 (0) 3 9601 4800

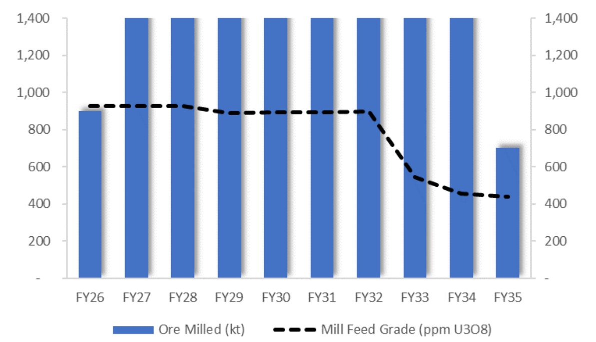
Valuation Summary & Risks

Our price target of AUD 48¢/share is based on sum-of-the-parts valuation which utilises Discounted Cash Flow (DCF) methodology as a primary valuation framework for Kayelekera, and a blended DCF and EV/Resource framework for Letlhakane given the earlier stage nature of the project. Key financial assumptions include a long-term real uranium price of US$85/lb, AUDUSD of 0.68 and discount rate of 10%.

KAYELEKERA

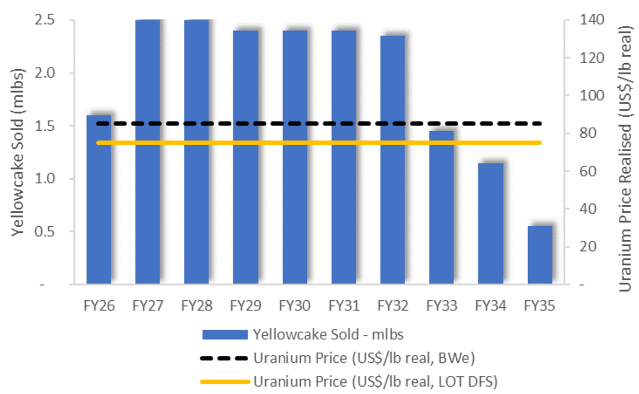
Our DCF for Kayelekera is based on the technical and operational assumptions published in the DFS released in Aug-22, which incorporated mill throughput of 1.4mtpa (vs original design capacity of 1.5mtpa) and an average mill feed grade of >900ppm for the first 7 years of operation before the treatment of stockpiles commences. The schedule defined is expected to produce an average of 2.4mlbs uranium per annum over the initial 7 years of operation, and a total operation life of 10 years once stockpiles are processed and depleted.

Figure 1: Plant Throughput & Head Grade



Source: Company Reports, BW Equities

Figure 2: Yellowcake Production & Realised Price



Source: Company Reports, BW Equities

Economic assumptions applied are broadly in line with DFS estimates which include:

- Capital expenditure of US$88m & working capital of US$20m
- Other pre-production costs of US$11.5m (primarily labour onboarding & reagent inventories)
- Life-of-mine AISC of US$38/lb (real)
- DFS discount rate of 8% (real) vs BWe of 10% nominal (2.5% inflation)

The key distinction between our unrisked valuation of Kayelekera (US$345m post-tax) and that derived in the DFS (US$193m post-tax) is the uranium price assumed: BW applies a long-term real realised uranium price of US$85/lb vs US$75/lb utilised in the DFS.

No cash corporate tax is expected to be paid over the 10-year mine life at Kayelekera given the substantial accumulated tax losses presently held within Paladin Africa (US$350-$400m). As such we derive a stand-alone value attributable to this benefit of US$168m, which reflects the effective NPV increase which would be realised at the project level should cash tax payments be excluded.

The Kayelekera mine plan as defined in the DFS is based on 96% Ore Reserves and 4% from Inferred Mineral Resources contained in the existing stockpiles. Noting that the Ore Reserve of 15.9mt @ 660ppm (23mlbs contained uranium) is less than half the broader Mineral Resource Inventory at Kayelekera (42.5mt @ 500ppm, 46.3mlbs contained uranium) excluding a further 6.9mt @ 320ppm at Livingstonia, there is potential for increases to the Ore Reserve with further exploration investment overtime, and consequent extensions to the currently defined mine life. While we have not incorporated this into our base case mine plan at Kayelekera, we assume US$50m of exploration value which is intended to capture this potential upside as well as other more minor assets held within the company.

LETLHAKANE

The Letlhakane project in Botswana was subject to a completed scoping study in Feb-13 which was subsequently upgraded to include an updated resource estimate in Oct-15. LOT has indicated that a PFS could commence towards the end of CY 2024.

Letlhakane is a very large uranium resource with 190mlbs contained uranium based on a 200ppm cut-off grade (269mt at 321ppm), however LOT highlights the potential opportunity for a significantly higher-grade core within the existing mineral resource. Increasing the cut-off grade to 300ppm drives an increase in resource grade to 450ppm, with still significant tonnages of 104mt and 103mlbs contained.

Figure 3: Letlhakane Mineral Resource Estimate

Cut-off (U_3O_8 ppm)	Total Indicated			Total Inferred			Global Total		
	Mt	U_3O_8 (ppm)	Contained U_3O_8 (Mlbs)	Mt	U_3O_8 (ppm)	Contained U_3O_8 (Mlbs)	Mt	U_3O_8 (ppm)	Contained U_3O_8 (Mlbs)
100	197.1	197	85.5	625	203	280.1	822.1	202	365.7
200	59.2	323	42.2	209.7	321	148.2	268.9	321	190.4
300	22.2	463	22.7	81.6	446	80.3	103.8	450	102.9

Source: Company Reports, BW Equities

Prior technical studies at Letlhakane contemplated a large scale 2-stage acid leach process based on processing 157mt of feed material grading 191ppm. Potential for a higher-grade project based on the higher-grade core of the existing mineral resource, in conjunction with potential inclusion of ore sorting process technologies have the potential to define a lower operating cost, higher margin project.

Valuation Method 1: Conceptual DCF

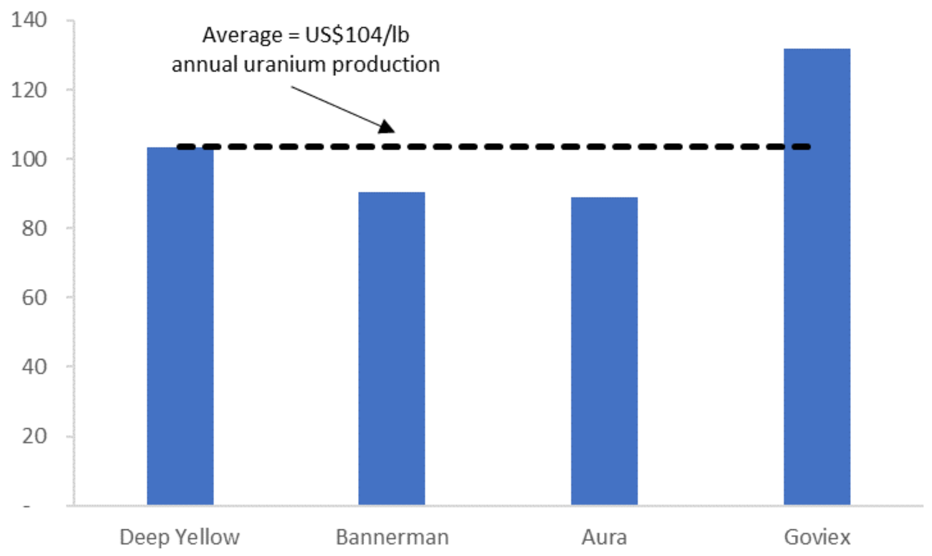
While significant uncertainty remains with regards to the likely project scope at Letlhakane we consider the following smaller scale, higher grade conceptual development scenario:

- 4.5mtpa throughput capacity (half the 2015 scoping study assumption)
- 450ppm feed grade (as per 300ppm cut-off)
- 70% recovery
- 3.1mlbs uranium production over 15 years (46.5mlbs produced vs 102.9mlbs contained in the mineral resource at 300ppm cut-off grade)
- AISC of US$35/lb

Level 30, 360 Collins Street
Melbourne, Victoria, 3000
+61 (0) 3 9601 4800

Based on a review of comparable projects with recently updated feasibility studies, we estimate a capital intensity assumption of ~$100/lb annual uranium production as a benchmark capex estimate. With reference to the scenario outlined above this implies capex of US$310m.

Figure 4: Capital Intensity (US$/lb annual production)



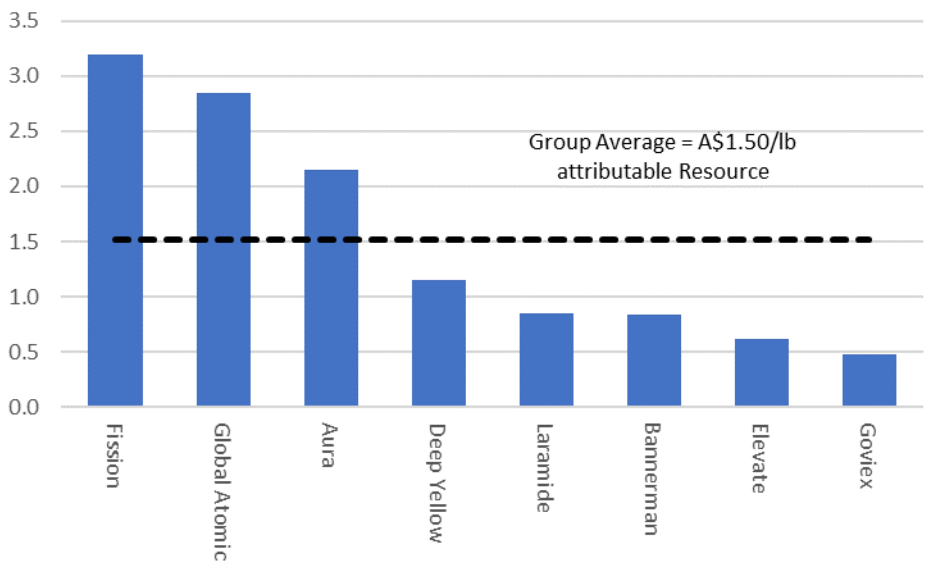
Source: Company Reports, BW Equities

Using the same economic assumptions as Kayelekera (US$85/lb uranium and 10% nominal discount rate) we infer a potential unrisked project valuation for Letlhakane of ~US$300m.

Valuation Method 2: EV/Resource

Based on a review of comparable companies observed EV/Resource multiples, we estimate an EV/Resource valuation multiple of US$1.50/lb as a reasonable benchmark valuation proxy (average of the sector peers).

Figure 5: EV/Resource Metrics of Uranium Sector Peers



Level 30, 360 Collins Street
Melbourne, Victoria, 3000
+61 (0) 3 9601 4800

Source: Company Reports, BW Equities

With reference to the mineral resource at Letlhakane based on the mid-point 200ppm cut-off grade, the current mineral resource contains 190mlbs implying a valuation of ~US$200m.

We adopt this valuation as our base case valuation for Letlhakane as the lower of the 2 valuation frameworks considered.

FINANCING ASSUMPTIONS

We assume that the Kayelekera project is financed with a 40%/60% debt/equity funding solution. Based on a US$120m total funding envelope (US$100m capex and US$20m working capital requirement) this implies ~A$100m of equity funding which we assume is secured via an equity raise at AUD 30.0¢/share. We factor in all current outstanding options into our share dilution.

Successfully obtaining the finance to restart the Kayelekera mine is dependent upon a few remaining steps including securing the MDA and customer offtake agreements.

VALUATION SUMMARY

We set our 12-month target price equal to the DCF valuation derived which arrives at a target price of 48¢/share. A summary table outlining our valuation is shown below:

Figure 6: Valuation Summary

Sum-of-the-Parts	US$M	Equity	Risk	A$M	A$/share
Kayelekera	345	85%	100%	431	0.21
Letlhakane	200	100%	n/a	294	0.14
Tax Losses	168	85%	100%	210	0.10
Exploration and Investments	50	100%	100%	74	0.04
Corporate Costs	(20)	100%	100%	(30)	(0.01)
Net Cash (Debt)	15	100%	100%	21	0.01
Total	**757**			**1,000**	**0.48**
WACC					**10%**
AUDUSD					0.68
FPO Shares (m)					1,701
Options (m)					31
Equity Raising - Project Funding (m)					353
Fully Diluted SOI (m)					**2,085**

Source: BW Equities

Key Risks to Achieving Price Target

- Uranium Prices & Exchange Rates;
- Interest Rates & Availability of Funding;
- Operational Risk;
- Higher than anticipated costs (capex &/or opex);
- Political & Regulatory Risk;
- Environmental Risk;
- Reserve & Resource Uncertainty;
- Capital Raise Risk;
- Demand Risk;

Level 30, 360 Collins Street
Melbourne, Victoria, 3000
+61 (0) 3 9601 4800

APPENDIX 1

Disclaimer

This research was prepared for wholesale investors only as defined by sections 708 and 761 of the Corporations Act. This report was prepared as a private communication to clients and was not intended for public circulation or publication or for the use of any third party, without the approval of BW Equities Pty Ltd (BW Equities). While this report is based on information from sources which BW Equities considers reliable, its accuracy and completeness cannot be guaranteed. Any opinions expressed reflect BW Equities judgment at this date and are subject to change. BW Equities has no obligation to provide revised assessments in the event of changed circumstances.

BW Equities, its directors and employees do not accept any liability for the results of any actions taken or not taken on the basis of information in this report, or for any negligent misstatements, errors or omissions. This report is made without consideration of any specific client's investment objectives, financial situation or needs. Those acting upon such information do so entirely at their own risk. This report does not constitute an offer or invitation to purchase any securities and should not be relied upon in connection with any contract or commitment whatsoever.

DISCLOSURE OF INTEREST

BW Equities and/or its affiliated companies may make markets in the securities discussed. Further, BW Equities and/or its affiliated companies and/or their employees do and from time to time may hold shares, options, rights and/or warrants on any issue included in this report and may, as principal or agent, sell such securities. BW Equities is engaged by LOT to provide corporate advice and acted as lead manager to the February 2021 placement and brokers to the September 2022 placement.

The Directors of BW Equities advise that they and persons associated with them have an interest in the above securities and that they may earn brokerage, commissions, fees and other benefits and advantages, whether pecuniary or not and whether direct or indirect, in connection with the making of a recommendation or a dealing by a client in these securities, and which may reasonably be expected to be capable of having an influence in the making of any recommendation, and that some or all of our Authorised Representatives may be remunerated wholly or partly by way of commission.

ANALYST DISCLOSURE

I, Daniel Seeney, Authorised Representative number 001276035 of BW Equities certify that the views expressed in this report accurately reflect my personal views about the company and no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

The analyst responsible for preparing this research report received compensation based on several factors including BW Equities total revenues, a portion of which are generated by corporate advisory activities.

BW Equities Pty Ltd ABN 66 146 642 462 AFS Licence No. 389353