INVESTMENT RESEARCH

BW EQUITIES

26 October 2023

Lotus Resources Ltd (LOT)

A-Cap Merger Secures Approval

Scheme Meeting Votes in Favour: A-Cap Energy shareholders voted in favour of the proposed merger of LOT and A-Cap at the Scheme Meeting on 20th October, clearing the way for LOT to complete the acquisition of the company. A-Cap is a developer of the Letlhakane Uranium Project, a large (269Mt at 321ppm U3O8) uranium deposit in Botswana, which 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. LOT has indicated that an expected implementation date for the Scheme is currently 7th November 2023.

Uranium Prices Continue to Rise: In recent weeks uranium prices have strengthened significantly with the spot price now trading above US$70/lb, close to levels observed prior to the Fukushima incident in Japan after which uranium prices fell. In recent weeks a coup occurred in Niger, and Cameco reported lower than expected production adding to the upward pressure in market fundamentals. We expect the market to continue to tighten as many governments look to extend the life of existing reactors, and the momentum of potential new reactor developments gathers pace as nuclear generation is increasingly accepted as essential baseload generation required to support decarbonisation objectives. Our valuation of LOT incorporates a uranium price of US$85/lb.

Mine Development Agreement Work Continues: At Kayelekera the near-term focus remains on finalising the Mine Development Agreement (MDA), confirming offtake agreements with utilities and advancing discussions with ESCOM regarding power supply for the project. The Scheme booklet confirmed that negotiations to finalise key items under the MDA continues including submission of a fiscal benchmarking exercise completed by an independent expert. Receipt of the MDA is key to proceed with final investment decision at Kayelekera, as well as other matters including completion of FEED, offtake negotiations and financing.

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)	24.5¢
Forecast Capital Return	96%
Forecast Dividend Yield	0%
Total Shareholder Return	96%
Market Cap	A$421m
Net Cash (Debt)*	A$14m
Shares On Issue	1719m
Share Options On Issue	18m

Daniel Seeney | Senior Analyst

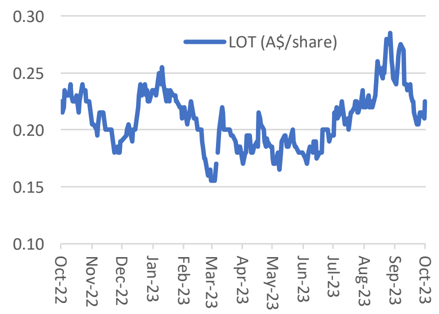
*Excludes US$10m restricted cash (env. bond)

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$/sh	0.25
Shares on Issue	m	1,719
Market Cap (A$m)	A$m	421
Net Cash / (Debt) (A$m)	A$m	14
Enterprise Value (A$m)	A$m	408

Rating	**BUY**
Target Price	0.48
Upside / (Downside)	96%
Dividend Yield	0%
Total Return Forecast	96%

Profit & Loss	**Units**	**Jun-23**	**Jun-24e**	**Jun-25e**
Sales	A$m	-	-	-
Expenses	A$m	(10)	(7)	(7)
EBITDA	A$m	**(10)**	**(7)**	**(7)**
D&A	A$m	(0)	(0)	(0)
EBIT	A$m	**(10)**	**(7)**	**(7)**
Interest	A$m	(0)	0	0
Tax	A$m	(0)	-	-
NPAT	A$m	**(11)**	**(6)**	**(6)**

Per Share Data	**Jun-23**	**Jun-24e**	**Jun-25e**
Shares Out (m)	1,344	1,719	2,090
EPS (¢)	(0.8¢)	(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-23**	**Jun-24e**	**Jun-25e**
Cash From Operations	A$m	(9)	(7)	(7)
Interest	A$m	1	0	0
Tax	A$m	(0)	-	-
Working Capital	A$m	-	-	-
Net Cash From Operations	A$m	**(8)**	**(6)**	**(6)**
Capex & Exploration	A$m	(1)	-	(146)
Investments	A$m	(5)	-	-
Free Cash Flow	A$m	**(13)**	**(6)**	**(152)**
Equity	A$m	24	-	106
Borrowings	A$m	-	-	96
Dividend	A$m	-	-	-
Net Increase / (Decrease) in Cash	A$m	**11**	**(6)**	**49**

Valuation Metrics	**Jun-23**	**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-23**	**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-23**	**Jun-24e**	**Jun-25e**
Cash*	A$m	16	9	59
Receivables	A$m	-	-	-
Inventory	A$m	0	0	0
PP&E & Exploration	A$m	40	40	186
Other	A$m	16	16	16
Assets	A$m	**72**	**66**	**261**
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	**22**	**15**	**115**

Key Assumptions	**Jun-23**	**Jun-24e**	**Jun-25e**
Uranium Price (US$/lb)	51.1	75.0	89.3
AUDUSD	0.67	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	163	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	**752**			**0.48**
WACC				10%
AUDUSD				0.68
Fully Diluted SOI (m)				2,090

Liquidity & Leverage	**Units**	**Jun-23**	**Jun-24e**	**Jun-25e**
Net Debt / (Cash)	A$m	(16)	(9)	37
Net Debt / Equity	%	-72%	-60%	32%

*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%.

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 1: 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