Uranium Royalty Corp.

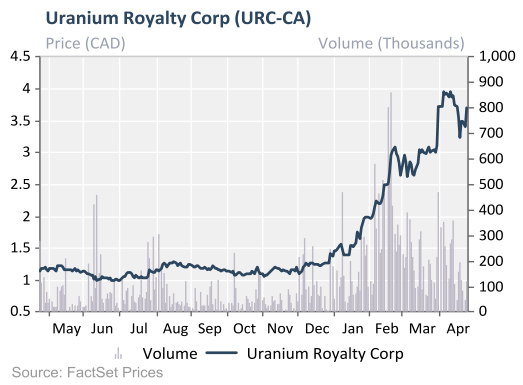
METALS & MINING

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All figures in C$, unless otherwise noted.

Rating: Buy
Initiating Coverage
12-Month Target: $4.75

Price			$3.49
Ticker			URC-T
FYE			30-Apr
Potential ROR (incl. dividend)			36%
Shares O/S	Basic (M)		71.84
	FD (M)		99.34
Market Cap	Basic ($M)		250.70
	FD ($M)		346.70
Net Debt ($M)			(41.09)
Enterprise Value ($M)			209.62
Working Capital/sh (FD)			0.42
NAV/sh			3.13
PCI Est	**FY20**	**FY21e**	**FY22e**
Revenue ($M)	-	2.8	6.8
previously		*na*	*na*
EBITDA ($M)	(2.3)	(0.2)	1.6
previously		*na*	*na*
Adj-EPS ($)	(0.06)	(0.00)	0.02
previously		*na*	*na*
CFPS ($)	(0.04)	(0.00)	0.25
previously		*na*	*na*
EV/EBITDA		nm	133.2x
P/E		nm	146.1x
P/CF		nm	13.8x
Segmented Data	**FY20**	**FY21e**	**FY22e**
Uranium Price US$/lb	25.67	30.90	35.83



Source: FactSet, Company filings, Paradigm Capital Inc.

Company Description: Uranium Royalty Corp. is a uranium-centric company that offers exposure to uranium royalties, streams, debt, equity and physical uranium. The company's strategy recognizes the inherent cyclicality of valuations based on uranium prices, including the availability of capital in different pricing environments.

Big Bet on Uranium Prices

Investment Thesis

Uranium Royalty Corp. (URC) is focused on gaining exposure to expected uranium price escalation by making strategic investments in uranium interests, including royalties, streams, debt and equity in uranium companies, as well as through physical uranium transactions.

Highlights

- **Investment Thesis 1: Experienced Management Team & UEC Support |** URC's management team possess decades of experience in the uranium industry, including senior executive and advisory roles to prominent companies and governments in the sector. CEO Scott Melbye has over 35 years of experience within the nuclear energy industry and has held leadership positions at several Tier 1 uranium mining companies and industry organizations. Also, Amir Adnani (Chairman) is a founder and serves as the President, CEO and a director of Uranium Energy Corp. (UEC-N, NR), a uranium mining and exploration company, and owns ~19% of URC. UEC is a U.S.-based uranium mining and exploration company whose operations are managed by professionals with a recognized profile for excellence in their industry, a profile based on many decades of hands-on experience in the key facets of uranium exploration, development and mining. UEC is well financed with over US$110 million in cash, equity and physical holdings.
- **Investment Thesis 2: URC Offers Torque to a Positive Uranium Outlook |** U_3O_8 prices are at unsustainable lows with a current spot price of ~US$30.00/lb versus an industry average AISC of ~US$31.00/lb. With an annual supply shortfall expected to be ~30Mlb in 2021 and base-line demand expected to grow by 29% to 245Mlb in 2030, significant price appreciation will be required for supply growth to catch up with demand. As several of URC's royalties plan to "flip the switch" once U_3O_8 prices accommodate, we believe these de-risking events will realize significant share price appreciation.
- **Investment Thesis 3: Attractive Valuation with Focus on Safe Jurisdictions |** We use a 5% DCF valuation for royalty and streaming contracts on assets that are either producing or have a clear definitive path to production, including a feasibility or other economic study showing production potential, and book value on the remaining contracts. Our model also includes the market value of the ~7.5-milion shares that URC owns in Yellow Cake plc (YCA-LN) and the ~350Klb of U_3O_8 purchased in Q4/FY21. Additionally, more than 95% of our royalty valuation stems from North American assets and are therefore considered to be in Tier 1 geopolitically safe jurisdictions.

Valuation & Conclusion

We are initiating coverage of Uranium Royalty Corp. with a $4.75 target price (based on 1.5x NAV) and Buy recommendation with a NAV of $3.13/sh. Our target multiple is in line with risk-adjusted, liquidity-adjusted royalty and streaming peer group multiples. Our positive outlook stems from our view of the high growth potential related to URC's portfolio of assets on the verge of initiating or re-initiating production, a focus on the supply-deficient commodity of uranium, and a well-regarded management team with significant experience and connections within the uranium industry.

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Company Background

Uranium Royalty Corp. (URC) completed its $30-million IPO on December 11, 2019 and simultaneously announced the acquisition of three royalties (discussed below). The current portfolio includes royalty interests on producing, past-producing and advanced development uranium projects primarily in North America but also in other jurisdictions. As the only company focused on applying the royalty and streaming business model to the uranium industry, URC has first-mover advantage, and through its investment in Yellow Cake it also indirectly holds physical uranium inventory. Figure 1 highlights the locations of URC's royalty assets — we estimate that over 95% of the royalty portfolio valuation stems from Tier 1 geopolitically safe jurisdictions.

Figure 1: URC Portfolio Location Summary



Source: Company filings

Corporate and major shareholders of URC include:

- Uranium Energy Corp.
- Mega Uranium Ltd.
- Altius Minerals Corp.
- Azvalor Asset Management
- Sachem Cove Partners
- Extract Capital
- Warren Gilman of Queen's Road Capital
- Rick Rule
- Marin Katusa

Investment Thesis 1: Experienced Management Team & UEC Support

URC's management team possess decades of experience in the uranium industry, including senior executive and advisory roles to prominent companies and governments in the sector.

- **Scott Melbye, CEO, President and Director:** Mr. Melbye has been a director of URC since April 2017 and CEO and President since October 2019. He has over 35 years of experience in the nuclear energy industry and has held leadership positions in various uranium mining companies and industry organizations, including Cameco (CCO-T, $16.00 TP, Hold), Uranium Participation (U-T, $5.75 TP, Buy), and Uranium One Inc. (UUU-T, NR). Mr. Melbye has also served in industry leadership positions as the current President of the Uranium Producers of America and former Chairman of the Board of Governors of the World Nuclear Fuel Market.
- **Amir Adnani, Chairman:** Mr. Adnani has been the Chairman and a director of URC since August 2019. He is a founder and serves as the President, CEO and a director of UEC, a uranium mining and exploration company, since 2005. He is also the founder and Chairman of GoldMining Inc., a publicly listed gold acquisition and development company. Mr. Adnani has a Bachelor of Science degree from the University of British Columbia and is a director of the university's Alumni Association.
- **Josephine Man, CFO and Corporate Secretary:** Ms. Man joined URC in September 2018 and was the Vice President, Finance and Control of SAIS Ltd. until November 2018. Recent prior roles include CFO of Jien International Investment Ltd., a private nickel and copper producer, from May 2014 to August 2018; from 2010 to 2013, she was an audit partner with Ernst & Young LLP in Vancouver.
- **Darcy Hirsekorn, CTO:** Mr. Hirsekorn has been the Chief Technical Officer of URC since May 2017 and has over 20 years of experience in uranium mining and exploration. He started working for Cameco Corp. in 1996 and held increasingly senior roles, culminating in the position of District Geologist in 2016. He was part of an exploration group at Cameco that outlined over 250Mlb of uranium resources, including the Millennium, Fox Lake and Tamarack deposits. In 2017, he also joined UEC as the District Geologist for Saskatchewan.
- **Uranium Energy Support:** UEC is a U.S.-based uranium mining and exploration company whose operations are managed by professionals with a recognized profile for excellence in their industry, a profile based on many decades of hands-on experience in the key facets of uranium exploration, development and mining. UEC controls one of the largest databases of historic uranium exploration and development in the U.S. Using this knowledge base, the company has acquired, and is advancing, exploration properties of merit throughout the southwestern U.S. UEC is well financed with over US$110 million of cash, equity and physical holdings to aggressively pursue its key development targets.

Investment Thesis 2: URC Offers Torque to a Positive Uranium Outlook

The fundamentals behind the supply and demand dynamics in the uranium markets continue to skew toward a supply shortfall and bolster our thesis of price appreciation toward our long-term U_3O_8 price of US$45.00/lb beginning in 2023 from today's spot price of ~US$30.00/lb. By way of reference, an estimated 50% of mines currently in operation have an AISC of ~US$31.00/lb. For a more detailed analysis of the current conditions of the uranium market, see Appendix III.

Supply: Several years of oversupply caused prices to decline from a pre-Fukushima 10-year high of ~US$73.00/lb in February 2011 (all-time daily high of ~US$152.00/lb in June 2007) to a low of US$17.75/lb in November 2016. Simultaneously, the number of term contracts began to decline as utilities were hesitant to commit to long-term agreements during a period of declining spot prices, especially as many felt they had been "over contracted" in the previous cycle. Global production peaked at ~160Mlb in 2016 but has since declined to ~130Mlb in 2020 as mining assets have been put on care and maintenance or shut down indefinitely in an effort to preserve long-term value. Although the current production shortfall is partially synthetic, we note that the operating costs for many of these mines require signing long-term uranium price agreements significantly above the current spot price to re-start, and that there is also a significant time-line gap between the decision to re-start an asset and actual start-up owing to the capital and permitting restrictions necessary.

Demand: There are currently ~450 nuclear reactors operating globally with more than 50 under construction, another 100 planned and an additional 300 proposed as climate change concerns have highlighted the importance of nuclear energy. In May 2019, the International Energy Agency released its first nuclear report in 20 years, "Nuclear Power in a Clean Energy System", which stated that a steep decline in nuclear power would threaten energy security and climate change goals and result in billions of tonnes of additional carbon emissions. In October 2019, the International Atomic Energy Agency (IAEA) held its first-ever conference recognizing the critical role for nuclear power in combating climate change (International Conference on Climate Change and the Role of Nuclear Power). The IAEA advocated that it will be difficult to achieve the goal of reducing greenhouse gas emissions without a significant increase in nuclear power.

Accordingly, the U.S. Energy Information Administration forecasts a base-case demand increase of 29% in nuclear power or ~245Mlb of U_3O_8 by 2030 and a high-case increase of 63% or ~310Mlb of U_3O_8 by 2030. As the global leader in uranium consumption, the U.S. generates ~20% of its power from 97 nuclear reactors and there are more than 30 planned for efficiency upgrades or new construction projects — the U.S. consumes ~40Mlb U_3O_8 per year. Of note, long-term contracts for nuclear reactors in the U.S. are currently at an estimated coverage rate of ~90%. As these long-term contracts decrease to ~3% by 2027, there is a clear expectation of contract covering creating a rapid tightening in the spot market.

With the average new uranium mining projects incentive price well above the current spot price, we believe this supports our contention that the current U_3O_8 spot price is unsustainably low. As such, we forecast a U_3O_8 price of US$40.00/lb in calendar 2022 and US$45.00/lb in calendar 2023+, in line with consensus.

Investment Theses 3: Attractive Valuation Within Safe Jurisdictions

We use a 5% DCF valuation for royalty and streaming contracts on assets that are producing or have a clear definitive path to production, including a feasibility or other economic study showing production potential, and book value on the remaining contracts. Our model also includes the market value of the ~7.5-million shares that URC owns in Yellow Cake plc and the ~350Klb of U_3O_8 inventory purchased in Q4/FY21. Additionally, more than 95% of our royalty valuation stems from North American assets and are therefore considered to be in Tier 1 geopolitically safe jurisdictions.

Figure 2: NAV Summary

Assets	US$ M	C$ M	C$/sh
Uranium Royalties (5%)	$120.9	$151.1	$1.52
Remaining Royalty Book Value @ FQ3/21	$14.7	$18.4	$0.19
Uranium Inventory	$10.5	$13.1	$0.13
Investment in Yellow Cake Plc. (YCA-LN)	$25.2	$31.5	$0.32
	$171.4	**$214.3**	**$2.16**
Corporate Assets			
Working Capital (cash = C$11.0 MM)	$33.3	$41.7	$0.42
Cash from Exercise of Options/warrants	$43.9	$54.8	$0.55
Other Investments (Marketable securities)	$0.0	$0.0	$0.00
Total	**$77.2**	**$96.5**	**$0.97**
TOTAL ASSETS	**$248.6**	**$310.8**	**$3.13**
Liabilities			
LT Bank Debt	$0.0	$0.0	$0.00
Environmental	$0.0	$0.0	$0.00
Long term leases	$0.0	$0.0	$0.00
Total	**$0.0**	**$0.0**	**$0.00**
TOTAL LIABILITIES	**$0.0**	**$0.0**	**$0.00**
NET ASSET VALUE	**$248.6**	**$310.7**	**$3.13**

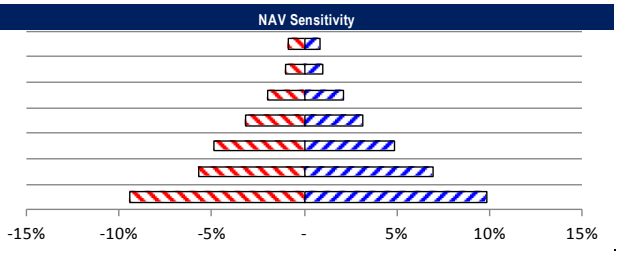
Exchange Rate		Shares Outstanding (M)	
US$1.00 =C$	**1.25**	Basic	**71.8**
		Options/Warrants	27.5
		Fully Diluted	**99.3**

Source: Company filings, Paradigm Capital Inc.

Our valuation is subject to several assumptions including commodity prices and exchange rates. We note that a 10% increase in the uranium price results in a 10% increase in our NAV estimate and a 10% increase in the USD/CAD results in a 7% increase in our NAV estimate.

Figure 3: Sensitivity Analysis

Metric	Δ	% NAV	Δ	% NAV
OPEX	+10%	-1%	-10%	+1%
YCA-LN	-10%	-1%	+10%	+1%
DiscRate	+10%	-2%	-10%	+2%
1yrDelay	+1yr	-3%	-1yr	+3%
Production	-10%	-5%	+10%	+5%
USD/CAD	+10%	-6%	-10%	+7%
U price	-10%	-9%	+10%	+10%



Source: Company filings, Paradigm Capital Inc.

Appendix I: Royalty vs. Streaming Contracts Overview

We believe there are two main benefits of investing in a royalty and streaming company:

1. **Reduced Risk:** Royalty and streaming transactions are generally preferred to owning and operating mining assets because of the removal of direct exposure to operational and capital risks associated with mining activities. Instead, royalty and streaming contracts are typically created such that only the mining company is penalized in the event a contract is unable to be met and the onus is on the mining company to provide for any potential shortfall.
2. **Making 2 + 2 = 5:** In the precious metals industry, silver streaming companies tend to buy the silver from gold companies, thus creating a more pure silver company and a more pure gold company. As a result, both the streamer and the streamee tend to trade at higher multiples than other companies who produce multiple commodities; therefore, value is created for shareholders on both ends of the transaction.

Royalties Contracts Overview

A royalty is a payment by a property owner or an operator of a property to the holder of the contract and is typically based on a percentage of the minerals or other products produced or the revenue or profits generated from the property. Royalty contracts typically involve an upfront payment or conversion of partial ownership of the asset provided to the owner or operator of an asset, in exchange for a future percentage of production. Given that royalties are not typically working interests in a property, the royalty holder is generally not responsible for, and has no obligation to contribute, additional funds, including, but not limited to, operating or capital costs, or environmental or reclamation liabilities. The unique characteristics of royalties may provide royalty holders with special commercial benefits not available to the property owner because the royalty holder may enjoy the upside potential of the property with reduced risk.

Royalty Contract Examples

- **GRR (gross revenue royalties)** and **GOR (gross overriding royalties)** are based on the total revenue stream from the sale of production from the property, which can sometimes include deductions. In the case of McArthur River, the GOR includes the option to take physical uranium “in kind” by giving a 45-day notice.
- **NSR (net smelter return royalties)** are based on the value of production or net proceeds received by the operator after smelter or refinery costs. These proceeds are usually subject to deductions or charges for transportation, insurance, smelting and refining costs, as set out in the royalty agreement. For uranium royalties, the deductions are generally minimal, while for base metal projects the deductions can be much more substantial. This type of royalty generally provides cash flow that is free of any operating or capital costs and environmental liabilities. A smaller percentage NSR royalty in a project can effectively equate to the economic value of a larger percentage profit or working interest in the same project.
- **NPI royalties (net profit interest royalties)** are based on the profit realized after deducting costs related to production. Although the royalty holder is generally not responsible for providing capital, covering operating losses or environmental liabilities, increases in production costs will affect net profits and royalties payable.
- **FR (fixed royalties)** are paid based on a set rate per-tonne mined, produced or processed, or even a minimum for a period of time rather than as a percentage of revenue or profits. These types of royalties are more common for iron ore, coal and industrial minerals and usually do not have exposure to changes in the underlying commodity price.
- **PR (production royalties)** are typically based on metal produced, often at a pre-determined fixed price.

Streaming Contracts

Streaming contracts are metal purchase agreements where, in exchange for an upfront deposit and ongoing payments for metal delivered, the holder of the contract purchases all or a portion of one or more metals being produced at the mine at a contracted price. For uranium, the agreements may provide for the purchase price to be the spot price at the time of delivery with a fixed price per pound payable in cash while the balance is paid by applying an upfront deposit. Once the upfront deposit is fully applied, the purchase price is typically — in the case of streams, which provide for a fixed price per pound as opposed to a percentage of the spot price — the lesser of the fixed price per-pound payable in cash and the spot price at the time of delivery. Uranium streams are well suited to co-product production, providing incentive to the operator to produce uranium on top of the more primary metals. As streams can also be used to finance a project, the stream structure may help maintain the borrowing capacity for the project. Streams can provide higher leverage to commodity price changes as a result of the fixed purchase price per pound. Although URC does not currently hold any streaming interests, part of its strategy includes the potential acquisition of streams on primary uranium and uranium by-product assets.

Appendix II: Royalty Portfolio and Yellow Cake plc

URC's royalty portfolio is summarized in Figure 4.

Figure 4: URC Royalty Summary

Royalty Name	Type	Value	Location	Owner	Stage	Mine Type
Anderson	NSR	1.0%	Arizona	Uranium Energy Corp.	Advanced	OP/UG
Church Rock	NSR	4.0%	New Mex	Laramide Resources Ltd.	Dev	ISR
Cigar Lake	NPI	20.0%	Sask	50% CCO, 37.1% Orano 7.9% Idemitsu, 5.0% TEPCO	Prod	Jet Bore
Dewey-Burdock	NPI	30.0%	S. Dakota	Azarga Uranium Corp.	Dev	ISR
Lance	GRR	4.0%	Wyoming	Peninsula Energy Ltd.	Prod Idled	ISR
Langer Heinrich	PR	A$0.12/kg	Namibia	Paladin 75%, CNNC 25%	Prod Idled	OP
McArthur River	GOR	1.0%	Sask	69.8% CCO, 30.1% Orano	Prod Idled	Bore/Stope
Michelin	GRR	2.0%	Labrador	Paladin 55%, EDF 45%	Dev	OP/UG
Reno Creek	NPI	0.5%	Wyoming	Uranium Energy Corp.	Dev	ISR
Roca Honda	GRR	4.0%	New Mex	Energy Fuels Inc.	Dev	UG
Roughrider	NSR	1.97%	Sask	Rio Tinto plc.	Dev	UG
Slick rock	NSR	1.0%	Colorado	Uranium Energy Corp.	Advanced	UG
Workman Creek	NSR	1.0%	Arizona	Uranium Energy Corp.	Dev	UG

Source: Company filings, Paradigm Capital Inc.

Cigar Lake, Canada

Cigar Lake is the world's highest-grade uranium mine and is located in Northern Saskatchewan, Canada. Since commissioning in 2014, the site has produced a total of 93Mlb (100% basis). Commercial operation began in May 2015. As the operator, Cameco developed an innovative jet-boring technique specifically for this challenging deposit. Cigar Lake's ore is processed 70 kilometres northeast, at the McClean Lake mill, operated by Orano.

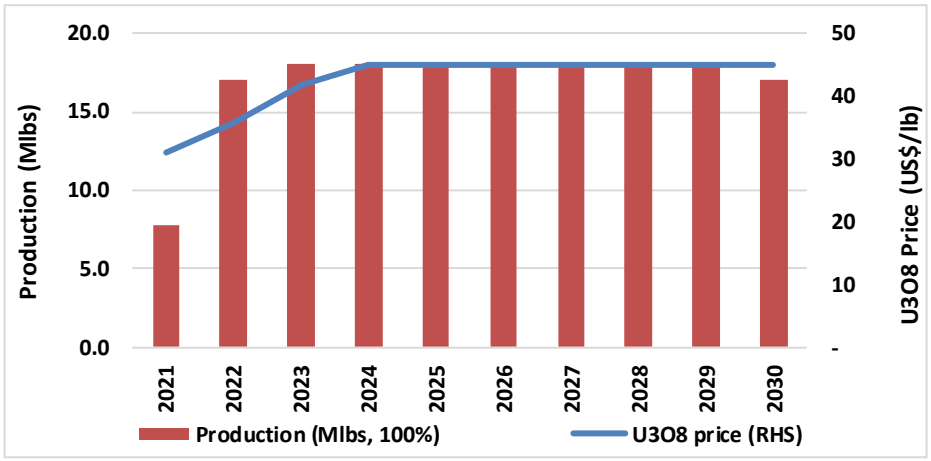
Cameco owns 50% of Cigar Lake (Orano 37%, Idemitsu 8%, TEPCO 5%) and 100% production capacity is currently 18Mlb per year. Although the mine was placed on care and maintenance for several months in early 2021 owing to COVID, Cameco announced in April that production was scheduled to resume by the end of the month. The timing of production re-start and the production rate at Cigar Lake will be dependent on how quickly the company is able to re-mobilize the workforce. Cameco will not be in a position to provide updates to our outlook for 2021 until production has resumed and we understand the rate at which it will be able to sustainably operate the mine. As per our Cameco model, we currently assume production of 2Mlb (100%) in Q2/21 with ramp-up to full production by year-end. URC has a 20% Net Profits Interest (NPI) on a 3.75% share of overall uranium production, derived from Orano's ownership interest (37.1%). The royalty rate adjusts to 10% in the future upon production of 200Mlb from the royalty lands (93Mlb produced to date). Also, as a profit-based interest, this royalty will begin to generate revenue after cumulative expense accounts, including development costs, are exhausted.

Current 2P reserves are:

- 269Kt @ 17.53% for 104Mlb proven
- 203Kt @ 13.78% for 62Mlb probable

Figure 5 shows a summary of our assumptions.

Figure 5: Cigar Lake Production and U_3O_8 Price



Source: Company filings, Paradigm Capital Inc.

McArthur River, Canada

McArthur River/Key Lake, located in Northern Saskatchewan is the world's largest high-grade uranium operation. In July 2018, owing to prolonged market weakness, the operation was placed into safe and sustainable care and maintenance. McArthur River has produced 325Mlb since mining services began in 1999 while using a variety of mining methods, including jet boring and stopes.

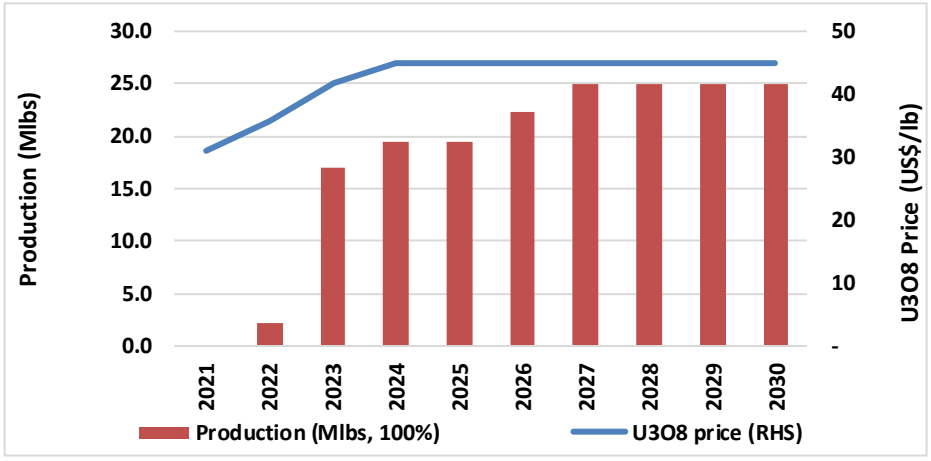
Cameco owns 70% of McArthur River (Orano 30%) and 100% production capacity is 25Mlb. As per our Cameco model, we currently assume production will begin ramping up in 2022 based on our uranium price assumption of US$40.00/lb spot and US$50.00/lb term. URC has a 1% GOR on a ~9% share of uranium production derived from Orano's ownership interest (~30%). Included in the royalty is the option to take physical uranium "in kind" by giving a 45-day notice.

Current 2P reserves are:

- 2,041Kt @ 7.12% for 320Mlb proven
- 540Kt @ 6.02% for 72Mlb probable

Figure 6 shows a summary of our assumptions.

Figure 6: McArthur River Production and U_3O_8 Price



Source: Company filings, Paradigm Capital Inc.

Langer Heinrich, Namibia

The Langer Heinrich mine is located in Namibia, ~40 kilometres southeast of the large-scale, hard-rock Rossing uranium project operated by a subsidiary of Rio Tinto plc. Langer Heinrich was operated by Langer Heinrich Uranium (Pty) Ltd., a company that is 75%-owned by Paladin Energy Ltd.(PDN-A, NR) and 25% by CNNC Overseas Uranium Holding Ltd., a wholly owned subsidiary of the China National Nuclear Corporation.

In April 2005, Paladin filed a resource estimate; in July of that year, the company announced that the Ministry of Mines and Energy in Namibia approved the granting of a mining license covering the Langer Heinrich deposit for a 25-year term. Initial construction at the Langer Heinrich project started in September 2005, staged commissioning of the plant began in August 2006 and the mine's official opening was in March 2007. The mine had its first full year of production in Paladin's fiscal year ended June 30, 2009, subsequent to which Paladin completed two expansion projects, the first being the Stage 2 expansion in fiscal 2010 and the second the Stage 3 expansion in fiscal 2012. In July 2014, Paladin announced it completed the sale of a 25% stake in the Langer Heinrich mining operations to CNNC Overseas Uranium Holding Ltd. On May 25, 2018, Paladin announced that the Langer Heinrich mine was to be placed on care and maintenance and stopped presenting ore to the plant because of persistently low uranium prices.

In its annual report for the year ended June 30, 2019, Paladin announced that in February it had completed a concept study that identified multiple options to reduce operating costs, improve process plant performance and potentially recover a saleable vanadium product. The annual report also disclosed that in March 2019 it commenced a two-stage Pre-feasibility Study (PFS) respecting a potential re-start of mining operations at the Langer Heinrich mine upon a sustained recovery in uranium prices, with the first stage expected to be completed in September 2019 and examining a rapid, low-risk restart of the mine and the second stage expected to be completed in March 2020 involving a more detailed study, including process optimization aimed at lowering costs, recovering vanadium and potentially increasing production in the later stages of the mine life. In the report, Paladin also disclosed that a re-start would be considered only if forecast cash flows from uranium sales provided an appropriate return on investment. On October 14, 2019, Paladin announced the completion of the first stage of its PFS, which included a JORC-compliant mineral resource estimate for the Langer Heinrich mine with:

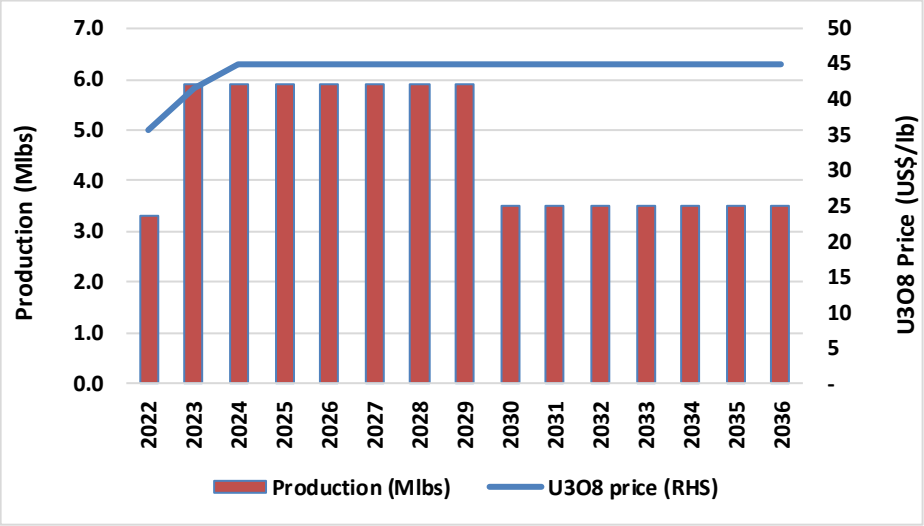
- Measured: 71.87Mlb U_3O_8 (66.2Mt @ 0.049% U_3O_8)
- Indicated: 17.96Mlb U_3O_8 (18.8Mt @ 0.044% U_3O_8)
- Values exclude ROM stockpiles

The Langer Heinrich mine is fully permitted to resume mining operations as well as uranium exports, and the re-start plan is designed for a rapid response to strengthening uranium prices and maximizing asset value. Paladin estimates the cost to re-start operations to be US$81 million with C1 cash costs (C1CC) of US$27.00/lb (vs. US$26.20/lb last reported in 2018 before being placed on care and maintenance). Peak production is targeted at 5.9Mlb per year U_3O_8 for seven years, followed by 3.5Mlb per year as the mill shifts its focus to existing stockpiles — total mine life is 17 years. Optimizations of the PFS include:

- Capital improvements defined to increase plant runtime from 85% to 95%
- Growth options and work packages identified to de-bottleneck plant throughput by 25%
- Management systems and process control improvements to increase process stability
- All key outcomes have been externally reviewed and verified by AMC Consultants and PQ Partners

The Langer Heinrich royalty is a production royalty in which URC will receive A$0.12/kg of U_3O_8 production from the Langer Heinrich mine and sold by Paladin. Paladin has disclosed that it had identified opportunities to significantly debottleneck the operation and increase production to 6.5Mlb per year and reduce all-in sustaining costs (AISC) by ~US$4.50/lb but requires estimated discretionary capital expenditures of US$30 million — we exclude these additional opportunities until further disclosures are provided. Figure 7 shows a summary of our assumptions.

Figure 7: Langer Heinrich Production and U_3O_8 Price



Source: Company filings, Paradigm Capital Inc.

Michelin, Labrador & Newfoundland

The Michelin project is located in Newfoundland and Labrador and is a development-stage conventional uranium asset owned by Aurora Energy Ltd., a 55%-owned subsidiary of Paladin. Paladin has certain rights to increase its interest in the project by 5% per year, beginning May 31, 2018, to 75%.

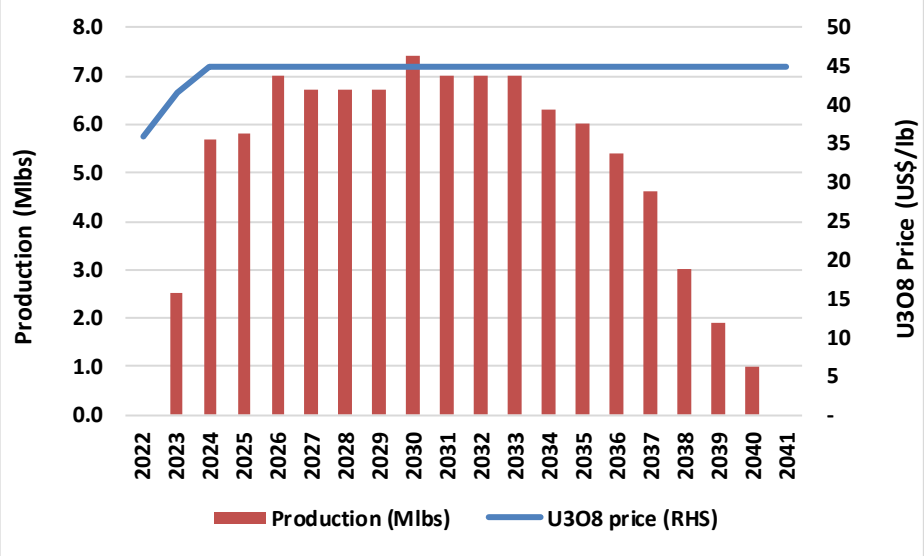
In 2014, Paladin announced the completion of a mineral resource estimate for the Michelin project; in 2017, it announced a JORC-compliant resource estimate for the Michelin project that included:

- Measured & Indicated (M&I) resource of 105.60Mlb U_3O_8 (54.4Mt @ 0.088% U_3O_8)
- Inferred resource of 22.10Mlb U_3O_8 (13.10Mt @ 0.077% U_3O_8).

In June 2018, Paladin disclosed that, as a consequence of the continuing weakness in the uranium spot price, the Michelin project currently operated on minimum activity and expenditure at a level intended to maintain the claims in good standing. It further disclosed that it implemented a mineral license management strategy to ensure that the licenses coincident with the estimated resources at the Michelin project and the most prospective ground are maintained at minimum expense until March 2023.

The Michelin royalty is a 2.0% GRR. The August 2009 technical report highlighted an open-pit mining rate of 1.3Mtpa of ore with a life-of-mine (LoM) strip ratio of 5.8x, plus another 2.4Mtpa of ore from the underground. This equates to mill processing 3.65Mtpa of ore for production of 6–7Mlb per year of U_3O_8. Given that we believe Paladin's priority to be the Langer Heinrich asset, we model Michelin ramping up following establishment of commercial production at that asset. Figure 8 shows a summary of our assumptions.

Figure 8: Michelin Production and U_3O_8 Price



Source: Company filings, Paradigm Capital Inc.

Reno Creek, Wyoming

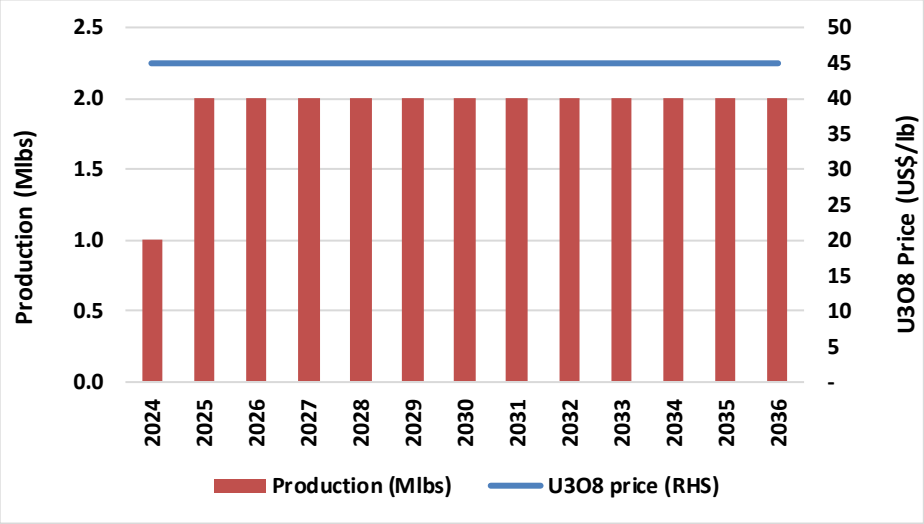
The Reno Creek project is a development-stage ISR uranium project located in the Pumpkin Buttes Uranium District in Campbell County, Wyoming, in the south-central portion of the Powder River Basin, and is owned by Uranium Energy Corp. Reno Creek obtained its Wyoming DEQ Permit to Mine in July 2015, its Aquifer Exemption from the EPA Region 8 in October 2015, and its Source and By-Product Materials License from the NRC in February 2017. The fully permitted portion of the project has 23.97M tons grading 0.04% U_3O_8 containing 18.71Mlb.

Resources were last reported as

- M&I resource of 32M tons @ 0.041% U_3O_8 containing 26Mlb
- Inferred resource of 1.92M tons @ 0.039% U_3O_8 containing 1.49Mlb

The Reno Creek royalty is a 0.5% NPI on the development-stage ISR uranium project located in Wyoming. The Reno Creek project is fully permitted up to an annual production rate of 2Mlb U_3O_8. The consideration paid by URC to acquire its royalty on the Reno Creek project was US$225,000, paid in cash to certain funds managed by Pacific Road Capital being the vendors of the royalty.

Figure 9: Reno Creek Production and U_3O_8 Price



Source: Company filings, Paradigm Capital Inc.

Roughrider, Saskatchewan

The Roughrider project is a development-stage, conventional uranium project located in the eastern Athabasca Basin of Northern Saskatchewan and is ~7 kilometres north of Points North Landing. The property covers an area of ~598 hectares and is 100%-owned by a wholly owned subsidiary of Rio Tinto plc. The Roughrider Royalty also applies to the Russell Lake and Russell Lake South projects, which are considered to be early exploration stage, located in the southeastern rim of the Athabasca Basin.

Historically, Hathor Exploration Ltd. explored the Roughrider project, its flagship asset, and completed an initial mineral resource estimate on a portion of the project in 2009. Hathor continued to develop the Roughrider project, filing the Historic Roughrider Technical Report, which included the Roughrider East and West zones, in October 2011. The report also included a preliminary economic assessment (PEA) for the project (which Hathor announced the completion of in September 2011)

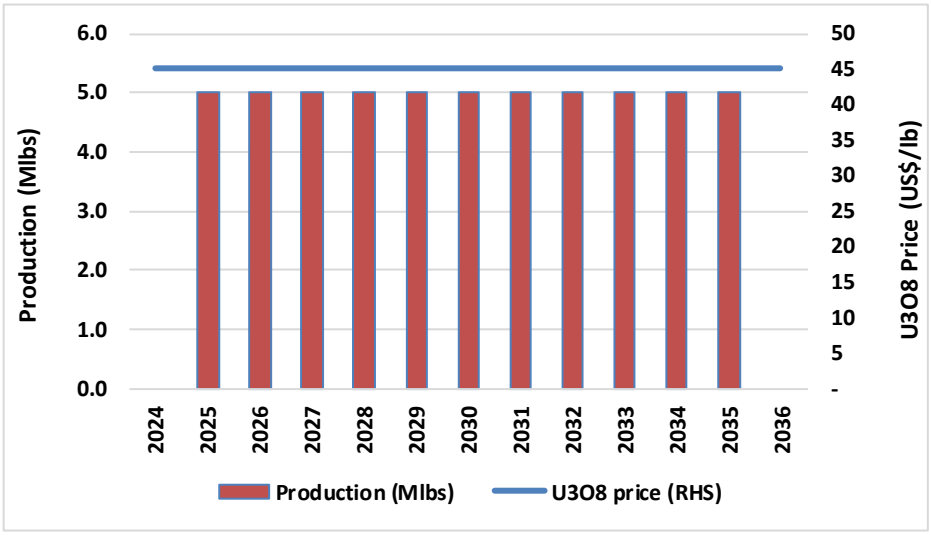
Rio Tinto acquired the Roughrider project for US$550 million between 2011 and 2012, pursuant to a competitive takeover bid that included a bid from Cameco Corp. After acquiring the Roughrider project, Rio Tinto continued to advance it; however, in August 2017, the company announced that it had fully impaired the Roughrider asset. Since acquiring Roughrider, Rio Tinto has not disclosed any resource or reserve estimates for the project.

Historic resources, for which a qualified person has not done sufficient work to classify as current NI-43-101 mineral resources, were last reported as:

- **Roughrider West Zone**
  - **Indicated**: 0.39Mt @ 1.98% U_3O_8 for 17.21Mlb U_3O_8
  - **Inferred**: 0.04Mt @ 11.03% U_3O_8 for 10.60Mlb U_3O_8
- **Roughrider East Zone**
  - **Inferred** 0.12Mt @ 11.58% U_3O_8 for 30.13Mlb U_3O_8

The Roughrider royalty is a 1.9701% NSR payable pursuant to the interest that Rio Tinto Canada Uranium Corp. or any of its subsidiaries, assignees or successors holds from time to time in the underlying property. Our valuation for the Roughrider royalty is based on the 2011 PEA completed by Hathor. The study highlighted a mill processing 70.3Ktpa of ore at an average grade of 3.3% U_3O_8 and recovery of 97.7%, for annual production of 5Mlb.

Figure 10: Roughrider Production and U_3O_8 Price



Source: Company filings, Paradigm Capital Inc.

Yellow Cake PLC Investment

URC owns 7.5-million shares of Yellow Cake plc, or ~5.9% of the shares outstanding. Yellow Cake is a U_3O_8 inventory holding company that completed a US$200-million IPO in July 2018 and offers investors direct exposure to uranium with no exposure to the risks associated with exploration, development, mining or processing that are inherent in the mining industry. YCA has a Framework Agreement with KazAtomProm to purchase up to US$100 million of U_3O_8 each year from 2019 to 2027 at the prevailing spot price, versus a current inventory level of 12.96Mlb at an average price of US$30.85/lb, and stored at Cameco's Port Hope/Blind River facility in Ontario, Canada. Yellow Cake shares were acquired as part of URC's US$19.25-million cornerstone strategic investment in Yellow Cake. URC utilized part of the proceeds from its $30-million IPO to fully repay and retire a $12.8-million (US$9.7 million) senior secured credit facility that had been used to finance its acquisition of Yellow Cake shares. An element of the strategic partnership with Yellow Cake gives URC the option to acquire up to US$31.25 million of physical uranium (1.2Mlb @ US$26.00/lb) under Yellow Cake's long-term supply agreement with KazAtomProm, which is based in Kazakhstan and is the world's largest uranium producer with ~40% of global supply.

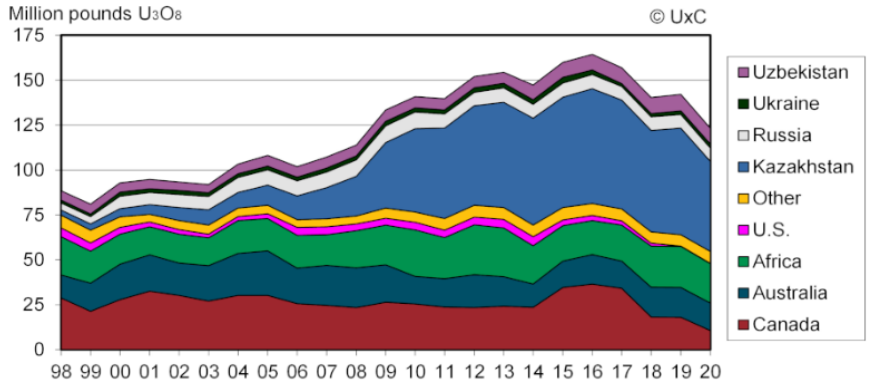
Appendix III: Uranium Market Overview

The fundamentals behind the supply and demand dynamics in the uranium markets continue to build upon the current supply shortfall and bolster our thesis of price appreciation toward our long-term U_3O_8 price of US$45.00/lb beginning in 2023 from today's spot price of ~US$30.00/lb.

Supply

Following the Fukushima disaster in March 2011, nuclear reactor projects around the globe were delayed while several others were cancelled. In the interim, global supply continued to increase as many advanced-stage projects were supported by higher-priced term contracts. As such, global production peaked at ~160Mlb in 2016 but has since declined to ~130Mlb in 2020 as mining assets have been put on care and maintenance or shut down indefinitely in an effort to preserve long-term value. By way of reference, an estimated 50% of mines currently in operation have an AISC of ~US$31.00/lb versus a spot price of ~US$30.00/lb. Mines that have shut down or were placed care and maintenance since 2016 are highlighted in Figure 11.

Figure 11: Uranium Production by Country 1998–2020e



Source: UxC

Several years of oversupply caused prices to decline from a pre-Fukushima 10-year high of ~US$73.00/lb in February 2011 (all-time daily high of ~US$152.00/lb in June 2007) to a low of US$17.75/lb in November 2016. Simultaneously, the number of term contracts began to decline as utilities were hesitant to commit to long-term agreements during a period of declining spot prices, especially as many felt they had been "over contracted" in the previous cycle. Although the current production shortfall is partially synthetic, we note that the operating costs for many of these mines require signing long-term uranium price agreements significantly above the current spot price to re-start, and that there is also a significant time-line gap between the decision to re-start an asset and actual start-up owing to the capital and permitting restrictions necessary to ramp up production.

Demand

There are currently ~450 nuclear reactors operating globally with:

- 97 in the U.S. (29% of global demand)
- 58 in France (15% of global demand)
- 47 in China (13% of global demand)
- 36 in Russia (8% of global demand)
- 24 in South Korea (7% of global demand)

There are also more than 50 nuclear reactors under construction, another 100 planned and an additional 300 proposed. This is further broken down as follows:

- China: 11 reactors under construction, 43 planned
- India: 7 reactors under construction, 14 planned
- Russia: 6 reactors under construction, 24 planned
- S. Korea: 4 reactors under construction, 2 planned
- UAE: 4 reactors under construction, Barakah 1 commissioning in 2020 (5.6 GW capacity)

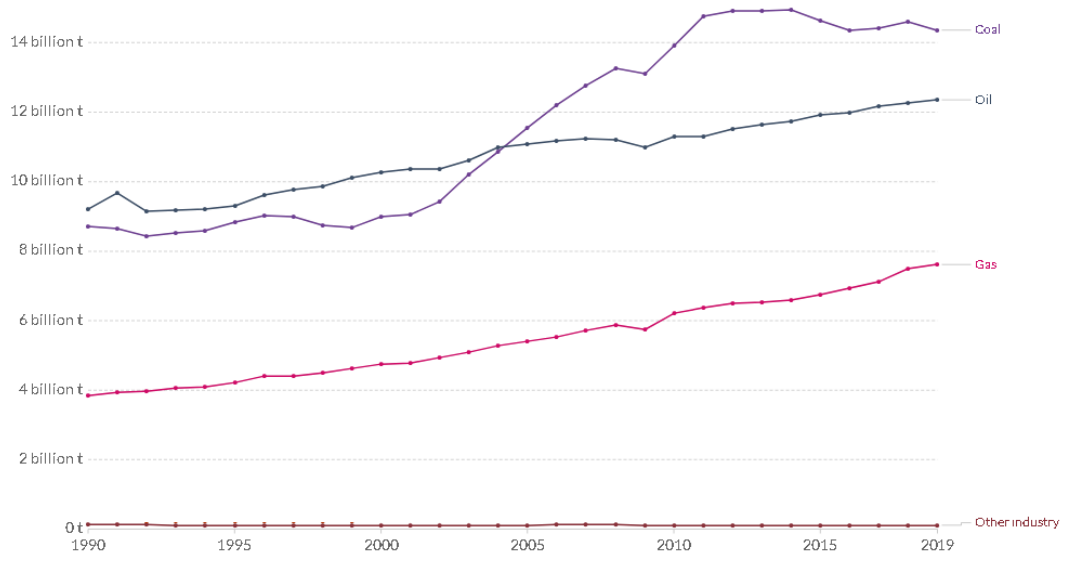
The U.S. currently generates ~20% of its power from 97 nuclear reactors and has more than 30 planned for efficiency upgrades or new construction projects — the U.S. consumes ~40Mlb per year. Given that, several bi-partisan legislative successes and initiatives have been introduced, including:

- The Nuclear Energy Renewal Act targeted at preserving the existing fleet of nuclear reactors;
- The American Nuclear Infrastructure Act targeted at revitalizing nuclear infrastructure; and
- The National Strategic Uranium Reserve that commits US$1.5 billion toward building an inventory of uranium over the next 10 years (~50Mlb @ US$30.00/lb).

Accordingly, the U.S. Energy Information Administration forecasts a base-case increase of 29% in nuclear power or ~245Mlb U_3O_8 by 2030 and a high-case increase of 63% or ~310Mlb U_3O_8 by 2030. With the average new uranium mining projects incentive price well above the current spot price, we believe this supports our contention that the current U_3O_8 spot price is unsustainably low.

Climate change concerns have also highlighted the importance of nuclear energy. In May 2019, the International Energy Agency released its first nuclear report in 20 years, "Nuclear Power in a Clean Energy System", which highlighted that a steep decline in nuclear power would threaten energy security and climate change goals and result in billions of tonnes of additional carbon emissions. By way of reference, more than 30% of global electricity is sourced from coal burning, the highest greenhouse gas polluter, whereas nuclear power generates ~10% of global electricity with "net zero" greenhouse gas emissions. In October 2019, the International Atomic Energy Agency (IAEA) held its first-ever conference recognizing the critical role for nuclear power in combating climate change (International Conference on Climate Change and the Role of Nuclear Power). The IAEA advocated that it will be difficult to achieve the goal of reducing greenhouse gas emissions without a significant increase in nuclear power. Figure 12 shows global CO_2 emissions by fuel.

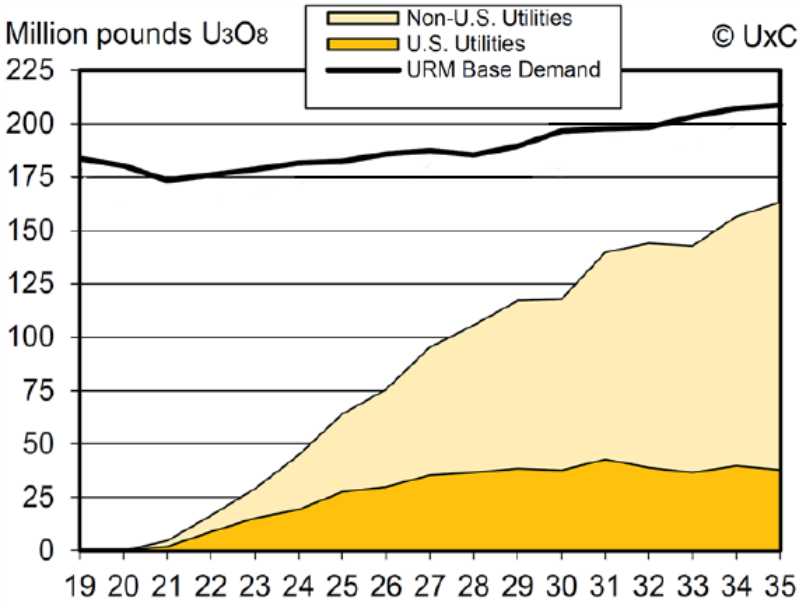
Figure 12: CO_2 Emissions by Fuel, World



Source: ourworldindata.org

Of note, long-term contracts for nuclear reactors in the U.S. are currently at an estimated coverage rate of ~90%. As these long-term contracts decrease to ~3% by 2027, there is a clear expectation of contract covering creating a rapid tightening in the spot market. It is worth highlighting that Cameco recently stated conversations with its best and largest customers and interest in long-term contracts are now at a level not seen since before 2011 when quarterly U_3O_8 spot prices were above US$50.00/lb and term prices were above US$60.00/lb. Cameco also stated that its customers are increasingly supporting supply from Tier-1, long-lived assets with more stringent environmental, social and governance performance standards in light of increased risk of trade policy distortions to regionalize supply. Figure 13 shows uncommitted demand from nuclear power plants projected to 2035 by UxC.

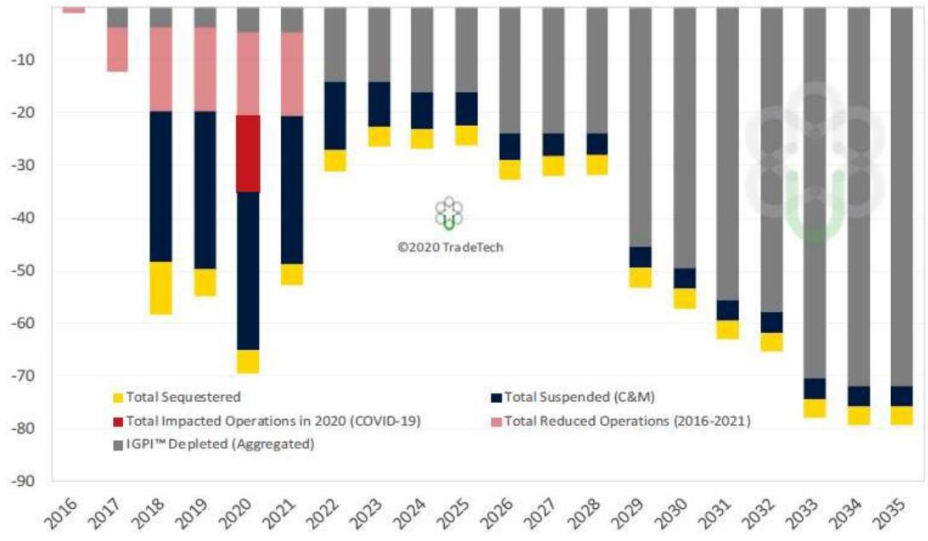
Figure 13: Utility Uncommitted Demand, 2019–2035e



Source: UxC Market Outlook

In recent years, there has been an accumulation of supply disruptions, including COVID-related shutdowns that impacted ~50% of global production during 2020, leading to a current supply shortfall of ~50Mlb (vs. 2020 demand of ~180Mlb) that is expected to grow to a cumulative gap of ~250Mlb by 2025, which has led to utility and supplier inventory depletion (Figure 14). Additionally, producers unable to match production with elevated sales contracts have been not only selling out of their inventory, but also purchasing from the spot market, thus reducing the availability to utilities. This is compounded by the U.S. bi-partisan Russian Suspension Agreement to limit and reduce Russian imports by up to 75%. Longer term, major mining deposits suffer from under-exploration and many producers are nearing reserve depletion. As such, we view new mine development as critical owing to the demand growth discussed below. Market studies currently forecast a supply deficit of ~30Mlb U_3O_8 by 2024; as such, we forecast a U_3O_8 spot price of US$45.00/lb and term price of US$55.00/lb in 2024, in line with historical term premiums.

Figure 14: Supply Shortfall – Cuts, Exhaustions, Reductions & Suspensions



Source: 2020 TradeTech, Uranium Royalty Corp.

Appendix IV: Financial Statement Summary

Figure 15: Financial Statement Summary

Income Statement	C$ 000	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
Total Revenues	C$ 000	-	-	-	2,797	6,757	8,900	12,766	22,193
EBITDA	C$ 000	(322)	(1,341)	(2,270)	(189)	1,574	3,483	7,347	16,774
Net Earnings	C$ 000	(322)	(3,820)	(2,701)	52	18,496	19,879	7,505	16,932
EPS, Basic (C$)	C$/sh	(0.03)	(0.13)	(0.05)	0.00	0.25	0.27	0.10	0.23
EPS, Diluted (C$)	C$/sh	(0.03)	(0.13)	(0.05)	0.00	0.25	0.27	0.10	0.23
Adj-Net Earnings (C$)	C$ 000	(322)	(5,020)	(3,314)	(30)	1,732	3,641	7,505	16,932
Adj-EPS, Basic (C$)	C$/sh	(0.03)	(0.17)	(0.06)	(0.00)	0.02	0.05	0.10	0.23
Adj-EPS, Diluted (C$)	C$/sh	(0.03)	(0.17)	(0.06)	(0.00)	0.02	0.05	0.10	0.23
Cash Flow Statement	**C$ 000**	**2018A**	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
Operating cash flows, pre WC	C$ 000	(322)	(1,748)	(2,100)	(183)	18,338	19,721	7,347	16,774
CFPS, Basic (C$)	C$/sh	(0.03)	(0.06)	(0.04)	(0.00)	0.25	0.27	0.10	0.23
CFPS, Diluted (C$)	C$/sh	(0.03)	(0.06)	(0.04)	(0.00)	0.25	0.27	0.10	0.23
Operating activities	C$ 000	(222)	(1,469)	(2,478)	(79)	18,338	19,721	7,347	16,774
Investing activities	C$ 000	(125)	(26,248)	(5,338)	(7,446)	(12,342)	(12,342)	158	158
Financing activities	C$ 000	2,400	27,894	17,423	1,063	-	-	-	54,835
Increase (decrease) in cash	C$ 000	2,053	177	9,606	(6,639)	5,996	7,379	7,505	71,767
Balance Sheet	**C$ 000**	**2018A**	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
Cash and cash equivalents	C$ 000	2,053	2,231	11,837	5,198	11,193	18,572	26,078	97,844
Current assets	C$ 000	2,057	30,903	43,397	31,156	37,152	44,531	52,036	123,803
Total assets	C$ 000	2,182	44,611	70,654	70,370	93,129	116,745	124,251	196,018
Current liabilities	C$ 000	104	14,955	400	311	311	311	311	311
Total liabilities	C$ 000	104	14,955	440	351	351	351	351	351
Total equity	C$ 000	2,078	29,656	70,214	70,018	92,777	116,394	123,899	195,666
Total liabilities and equity	C$ 000	2,182	44,611	70,654	70,370	93,129	116,745	124,251	196,018

Source: Company filings, Paradigm Capital Inc.

Appendix V: Investment Risks

Exploration and Developer Risk: URC is not directly exposed to development delays or capital expenditure overruns that may occur at one of the assets linked to a royalty contract. However, the company has not implemented a hedging strategy to mitigate these or other issues that could create a delay in receiving royalty or streaming revenue.

Mining Risk: URC is not responsible for the production of its product and instead relies on the capabilities of other companies. There is no guarantee the company will be able to develop a steady and stable revenue stream.

Financing Risk: Although URC successfully closed its $30-million IPO in December 2019, there is no guarantee it will be able to continue successfully completing financing transactions.

Permitting Risk: Some of the contracts involve assets in the permitting stage for which there is always a risk that complications will arise in the permitting process that could impact the ability to advance these projects or delay the timeline of their development.

Credit Risk: Developing early-stage projects requires significant capital investment. There is a risk that these projects will not be able to raise the financing necessary or, in the event of a financing, the company could expose itself to a large amount of credit risk should it secure large debt obligations to advance the project.

Commodity Price Risk: Although we have a positive outlook on uranium prices, there is no guarantee of positive returns and, based on our analysis, we consider URC's valuation highly sensitive to uranium price fluctuations.

Country and Geopolitical Risk: By our estimates, the bulk of URC's valuation stems from assets located in politically safe and stable jurisdictions; however, other areas may include the risk of asset nationalization of increased royalties/taxes over the course of operations.

Technical Risk: Several early-stage projects have had limited metallurgical work completed; as such, there exists the possibility that processing the ore proves to be more difficult than expected and extraction of the desired commodity could be materially impeded.

DISCLAIMER SECTION

Company	Ticker	Disclosures
Uranium Royalty Corp.	**URC-CA**	**3**
Cameco Corp.	**CCO-CA**	**3**
Uranium Participation Corp.	**U-CA**	**3**

Note: Please refer to above table for applicable disclosure numbers.

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2. Paradigm Capital Inc. has assumed an underwriting liability for, and/or provided financial advice for consideration to the subject companies during the past 12 months.
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Hold	19	8%	**Hold** - Expected returns of less than +/- 20% over the next 12 months. Includes companies Under Review.
Sell*	0	0%	**Sell** - Expected returns of -20% or more over the next 12 months.
Total	168		

**Includes companies with a "Tender" recommendation*

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