

Lotus Resources Ltd. (ASX:LOT)

LOTs to Happen; Lowering Costs at Low-Risk U Restart

Initiating Coverage

July 28, 2021

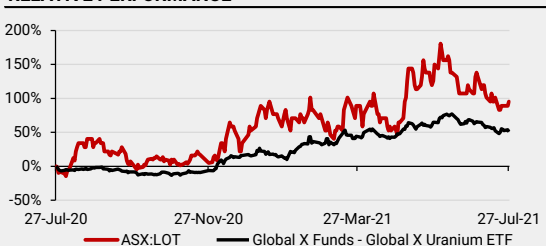
(Currency is A\$ unless noted otherwise)

Closing Price (\$/sh)	\$0.16	
Rating	BUY	
Target (\$/sh)	\$0.22	
Return to Target	38%	
52 Week Low / High	\$0.07 / \$0.24	
CAPITALIZATION	Basic	Diluted
Shares Outstanding (M)	954.6	999.6
Market Capitalization (\$MM)	\$152.7	
Enterprise Value (\$MM)	\$133.5	
Cash and Cash Equivalents (\$MM)	\$30.0	
Total Debt (\$MM)	\$10.8	

STOCK CHART



RELATIVE PERFORMANCE



MAJOR SHAREHOLDERS (According to IQ)

Blue Capital Limited (9.6%), Paladin Energy Limited (9.43%), Lloyd Harbor Capital Management, LL (5.79%)

DISCLOSURE CODE:

1,2

(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 (pending recent 20% acquisition to be approved) Kayelekera uranium project located in northern Malawi, Africa, with current resources of 37.5M U₃O₈ (M&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.

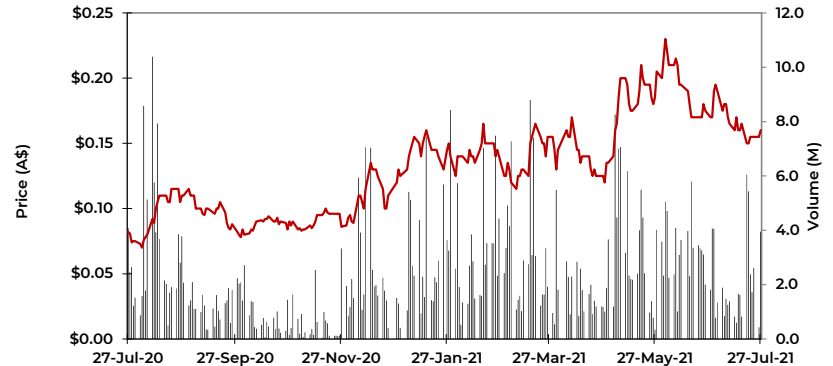
We are initiating coverage on Lotus Resources Ltd. (ASX:LOT) with a BUY rating and a target price of A\$0.22/sh. Lotus is advancing its 65%-owned (assuming 85% pending positive shareholder vote) Kayelekera project in Malawi. Facilities include open pit mine, 1.4Mtpa processing plant, tailings facility, acid plant, camp and existing ore and ROM stockpiles. **An investment in Lotus provides exposure to value behind the low-cost restart of a large, fully permitted, low risk, past-producing uranium mine (pending adequate U3O8 prices). We see opportunity for investors to benefit from an expected share price re-rating as Kayelekera is further de-risked and costs lowered as Feasibility Study and production nears.**

- **2020 PEA confirms quick, low capital restart.** The study contemplates just US\$50M (low US\$21/lb capital intensity) to return to production with US\$200M already sunk. Two scenarios consider open pit mining, and perhaps low-grade stockpile production. Costs were based on historical.
- **Successful production history didn't tap resources.** Past production of 11M lb (2009-2014) ceased only due to lower post-Fukushima U3O8 prices. Resources were updated to 37.5M lb at 650 ppm (83% M&I).
- **Significant savings potential.** FS due in H1/22 may incorporate material saving or improvements to Capex, Opex and production optimization. These include: 1) ore sorting potential; 2) power supply alternatives such as grid connection, solar/alternative, or acid plant steam retrofit; 3) acid recovery and leach optimization; and 4) tailings disposal options.
- **Ore sorting and power options are game changers.** Ore sorting has doubled potential head grades through bench scale testwork. This already shows enough promise that we incorporate higher head grades, production rates and longer LOM with 10-20% lower costs in our model. Removing the mine from running on diesel is also important.
- **We anticipate production by FY2024.** While the PEA suggested 2.5M lb pa at C1 costs of US\$33/lb, we are modelling up to 3M lb pa at C1 costs of US\$26.99 over 11 years, given that we believe ore sorting will help improve head grades, increase production towards plant capacity, extend mine life and lower Opex, we estimate by as much as 20%.
- **Considerable exploration upside.** The first drilling in the last 15 years is underway with a goal to find 7-14M lb U3O8 within 3km of the plant.
- **Hot uranium market and commodity diversification.** Near term U3O8 production potential and a rare earth oxide discover provides exposure to two hot, supply constrained commodities for investors.

We are initiating coverage on Lotus Resources Ltd. (ASX:LOT) with a BUY and target price of A\$0.22/sh. Our target is derived using a DCF valuation with an 8% discount rate, adding back value for cash, debt, equity interests, non-mined resources, and exploration upside. **Upcoming Catalysts:** 1) shareholder approval to increase Kayelekera ownership; 2) initial drill program results; 3) additional ore sorting testwork; 4) other technical study updates; and 5) Milenje Hills REO discovery exploration results. **Mining/exploration is inherently risky** and Lotus is subject to various geopolitical, technical, corporate, or financial risks (including the pending purchase of an additional 20% interest). We have visited site three times.

Financial and Operating Summary: Lotus Resources Limited
FINANCIAL AND MARKET DATA

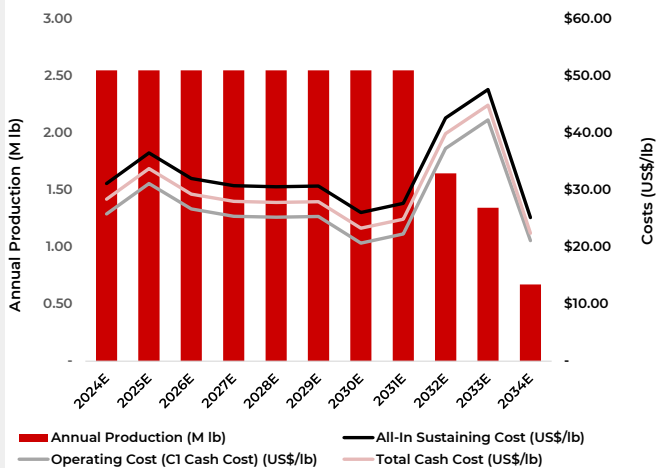
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Current Price (A\$/sh)	\$0.16
52 Week Low / High (A\$/sh)	\$0.07 / \$0.24
Rating	BUY
Target (A\$/sh)	\$0.22
Return to Target	38%
Shares Outstanding (M)	954.6
Market Capitalization (A\$M)	\$152.7
Cash (A\$M)	\$30.0
Debt (A\$M)	\$10.8
Enterprise Value (A\$M)	\$133.5

STOCK CHART

CAPITAL STRUCTURE

Capital Structure	Shares (M)
Shares Outstanding	954.6
Options	45.0
Warrants	0.0
Fully Diluted Shares	999.6
Shares used in Valuation	1226.0

Ownership (as per IQ)

	Shares O/S (M)	% O/S
Management	59.3	6.2%
Blue Capital Limited	91.6	9.6%
Paladin Energy Limited	90.0	9.4%
Other Shareholders	713.6	74.8%

PRODUCTION PROFILE

TECHNICAL ASSUMPTIONS

	2022E	2023E	2024E	2025E	2026E	2027E
Uranium Price (US\$/lb)	\$35.00	\$40.00	\$50.00	\$50.00	\$50.00	\$50.00
Canadian : US\$ exchange rate	\$0.75	\$0.75	\$0.75	\$0.75	\$0.75	\$0.75
Australian : US\$ exchange rate	\$0.72	\$0.72	\$0.72	\$0.72	\$0.72	\$0.72

GLOBAL RESOURCE
Kayelekera Project

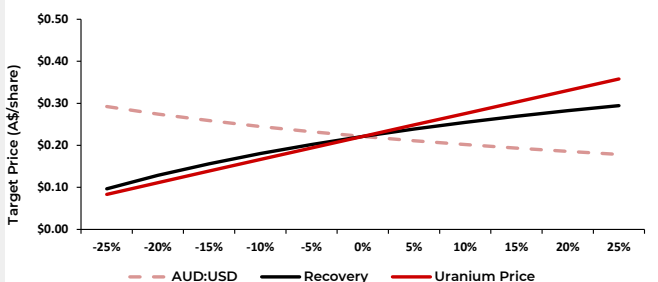
Category	Tonnes (Mt)	U308 (ppm)	Pounds (M lb)
Measured	0.7	1010	1.5
Measured - RoM Stockpile	1.6	760	2.6
Indicated	18.7	660	27.1
Inferred	3.7	590	4.8
Inferred - LG Stockpiles	2.4	290	1.5
Total	27.1	660	37.5

NET ASSET VALUE

	Discount Rate	Net Asset Value	
		A\$M	A\$/sh
Kayelekera, Malawi (85%)	8%	\$270.3	\$0.22
Asset Value		\$270.3	\$0.22
Cash & Cash Equivalents		\$30.0	\$0.02
Debt		-\$10.8	-\$0.01
Sunrise Energy Metals (ASX:SRL)		\$1.3	\$0.00
Additional Resource Value		\$20.2	\$0.02
Exploration upside		\$20.8	\$0.02
Corporate G&A		-\$30.5	-\$0.02
Net Asset Value	8%	\$301.3	\$0.25

COMPARABLES

Company	Ticker	Price C\$/sh	Mkt Cap C\$M	EV/oz US\$/lb	Consensus P/NAV
Global Atomic Corporation	TSX:GLO	\$2.80	\$455	\$1.955	NA
Paladin Energy Limited	ASX:PDN	\$0.43	\$1,142	\$3.125	0.83x
GoviEx Uranium Inc.	TSXV:GXU	\$0.23	\$124	\$0.323	0.31x
Deep Yellow Limited	ASX:DYL	\$0.60	\$200	\$0.991	NA
Uranium Energy Corp.	NYSEAM:UE	\$2.76	\$643	\$3.691	0.59x
Fission Uranium Corp.	TSX:FCU	\$0.56	\$362	\$2.010	0.57x
NexGen Energy Ltd.	TSX:NXE	\$4.87	\$2,316	\$4.898	0.76x
Denison Mines Corp.	TSX:DML	\$1.29	\$1,038	\$2.960	0.78x
Boss Energy Limited	ASX:BOE	\$0.14	\$317	\$3.582	0.72x
Laramide Resources Ltd.	TSX:LAM	\$0.52	\$92	\$0.627	NA
UEX Corporation	TSX:UEX	\$0.33	\$151	\$0.777	0.39x
enCore Energy Corp.	TSXV:EU	\$1.19	\$237	\$3.080	NA
Berkeley Energia Limited	ASX:BKY	\$0.27	\$70	\$0.712	NA
Vimy Resources Limited	ASX:VMY	\$0.11	\$115	\$0.752	0.59x
Forsys Metals Corp.	TSX:FSY	\$0.90	\$174	\$1.084	NA
Toro Energy Limited	ASX:TOE	\$0.02	\$57	\$0.752	NA
Average				\$1.958	0.61x
Lotus Resources Limited	ASX:LOT	\$0.14	\$137	\$2.732	0.72x

TARGET PRICE SENSITIVITY


Priced as of market close on July 27, 2021

Source: RCS Estimates, Company Reports, Capital IQ, S&P Global Market Intelligence

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Kayelekera is heavily de-risked, and is well-positioned for a rapid restart as uranium prices improve

Investment Thesis

Restart of the Kayelekera uranium mine represents a low-cost, low risk way for Lotus Resources to enter the uranium producer realm. We see opportunity for investors to benefit from an expected LOT share price re-rating as Kayelekera is de-risked and costs are potentially reduced as production nears. The asset is proven, has considerable resources and upside, and well-known costs with ways to improve. In its past life as an asset of Paladin (ASX:PDN, Not Rated), the Kayelekera asset produced 11M lb from 2009 until 2014 until it was put on care and maintenance due to low uranium prices and eventually divested to Lotus. We believe that Lotus will be able to steer clear of many of the earlier mine pitfalls, and new technology could help optimize mining, processing, and logistics. Now, with 65% interest (85% pending shareholder approval), Lotus has been taking steps to prepare Kayelekera for a quick production restart when the uranium market returns. A recent scoping study confirms Kayelekera can be among first uranium projects to rapidly and effectively recommence production to meet impending uranium supply shortfall. We believe a US\$50/lb uranium price will be sustainable over the long term.

Uranium fundamentals remain strong. We believe the nuclear industry is in good shape, and we forecast a uranium supply-demand deficit. Uranium demand keeps rising, mine supply keeps falling and there is currently a 50M lb shortfall. Recently Kazatomprom (LSE:KAP, Not Rated) said it plans to maintain 2023 uranium production at similar levels as 2022. That means 20% or 13M lb lower than expected, representing almost 10% of global uranium production remaining off-line. And this pullback will remain in place until the market shows improvement. We view Kazatomprom's strong supply discipline as very positive if not unexpected.

Spot prices are rising. Meanwhile the spot price of US\$32.50/lb is up slightly on the \$30.05/lb uranium price from YE 2020. We are seeing much more uranium demand from uranium companies this year than we have in the past, not including the typical (if not stronger demand this year) from the growing number of physical uranium holding companies. We expect the new Sprott Uranium fund to be positive for the market. It should lead to real price discovery, level out pricing, and get a proper incentive price from the market. It should also provide the liquidity needed for large investors to enter the uranium space. But we really believe we need to see a return to long term uranium contracting before we see major gains in uranium prices. UxC suggests there is about 1.4B lb of uncovered uranium requirements between now and 2035. We need higher prices to incentivise new supply, halted production to come back online, be built or encourage exploration for new discoveries. This is where Lotus Resources comes in, likely on time to help fill an increasing uranium supply gap.

2020 PEA confirms quick, low capital restart potential. In October 2020, Lotus released a positive Kayelekera restart scoping study, outlining initial capital expenditures of US\$50M. This excludes an additional US\$2-3 M that an ore sorter might cost (more on that later). PEA base case was set up based on past production, but management believes that things can change, particularly on the cost side. While the mine plan is new, it is using historical costs. C1 cash costs, estimated at US\$33/lb U3O8, are based on five years of historical production. Management sees cost reduction as a key

Uranium fundamentals remain strong, and we expect spot prices to continue to rise

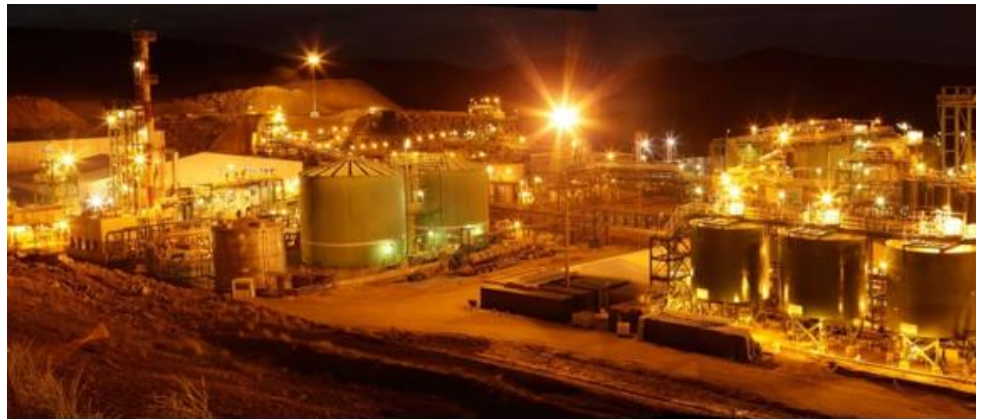
Our model assumes an open pit mining scenario followed by low-grade stockpile processing

value driver and has several cost savings studies underway. Two scenarios outlined in study:

- **Scenario 1: Open pit** – production of 16.4M lb at ~900 ppm U₃O₈ head grade (over 1,000 ppm in early years) over an 8-year mine life. Average production is estimated at 2.3M lb pa, with C1 cash costs of US\$33/lb at steady state.
- **Scenario 2: Open pit + low-grade stockpile** – production of 23.8M lb over a 14-year mine life. The initial eight years will be like Scenario 1, followed by an additional six years of low-grade 400 ppm production from stockpiles that reduce LOM head grades to ~680 ppm U₃O₈. Management believes that ore sorting of lower grade material may increase grades to 700-800 ppm and improve plant economics and expend LOM.

Both options complete in-pit mining after year six. As we will discuss later, we base our DCF model on Scenario 2, but incorporate the potential impact of an ore sorter – thus anticipate addition production and longer life of mine as lower grade material becomes more economic. We still confine our model within existing resources.

Figure 1: Photograph of Kayelekera mine site, Malawi



Source: Company Reports

Considerable cost reduction potential. Kayelekera was an opportunistic acquisition from a restructuring Paladin Energy. Pre-purchase due diligence by management determined that a few changes were required and that there were ways to reduce operating and perhaps capital costs. While the 2020 PEA set up a base case much like Paladin had run it, it did provide an updated resource of 37.5M lb at 650 ppm U₃O₈ and built a new mine plan, using historical operating costs. Management is now focused on completing targeted technical studies to further improve project economics and position the project for the start of a Feasibility Study in H1/22. The FS will incorporate optimized mining scenario, flowsheet, a new resource, and revised economics. We estimate potential that cost savings could help reduce costs by as much as 20% (including the impact that improved ore-sorted grade would have on increasing production). Ongoing studies include a power assessment study, ore sorting trials, acid recovery in the mill and tailings facility assessment. Each of these will be explained in more detail later in the report. While management anticipates various

plant improvements and efficiencies within the FS, the following is a summary of the key technical studies currently underway:

The FS, due next year, is expected to show improved project economics on the back of cost reduction initiatives; we expect costs to come down as much as 20%

Ore sorting could materially improve project economics; initial testwork showed potential to improve grades by up to 100%, and could lead to reduced costs and an extended mine life

Lotus holds a 65% interest in Kayelekera, and we expect its ownership to increase to 85% in the near-term

- **Ore sorting** – initial ore sorting testwork was highly successful, demonstrating nearly doubled potential head grades, reducing the amount of material that needs to go through the plant and into tailings, while simultaneously reducing reagent consumption (carbonaceous host rocks neutralize the acid leach) and potentially increasing production towards the plant's 3M lb of annual U3O8 production capacity. Recall that the current PEA suggests 2.5M lb of annual production. The ability to increase grades also makes lower grade material more economic and this can help extend LOM.
- **Power** – removing the operation from diesel generators is important. Connecting to the grid, using solar or alternative power sources, perhaps retrofitting the acid plant with a 2 MW steam generator (representing 25% of its current power requirements) are a few potential power savings options. There is power available at Korongo substation and discussions are underway. We see potential to decrease power costs by as much as 70%.
- **Acid plant and leach optimization** – acid plant capacity of 240 tpd was previously the chief bottleneck at Kayelekera mine. The current budget assumption of 230 tpd is conservative, but management believes it can make further improvements. A nano-filtration process should help recover over 30 tpd of acid from the elution circuit. Ore sorting could also potentially have a positive impact on acid consumption by reducing throughput and calcium-rich materials that might neutralize acids used during the leaching process.
- **Tailings storage facility** – options are being considered such as existing mine expansion or returning tails to the open pit. The PEA suggests that two additional lifts on the tailings storage facility and a new facility is required by year 4-5, particularly should lower grade stockpiles be processed. A new TSF could be built within the existing open pit which is due to be mined-out by year six, which could help reduce costs. Furthermore, ore sorting might help eliminate considerable mass prior to processing and that material can be handled much more cheaply.

Ore sorting testwork exceeds expectations. Yes, this study deserves further mention here, and we will add even further details later. Positive ore sorting results should improve project economics for inclusion within the Feasibility Study. Ore sorted grades increased by up to 100% from original grades during initial phase of testwork. Additional work during Q3/21 would include 1) optimization through the use of a combination of sensors (using colour and density sensors at the same time); and 2) testing various feed material including lower grade stockpiles. Benefits include potential for 1) increased production, 2) increased grades, 3) Capex and Opex savings, 4) production of lower grade feed (potential life extension); 5) reduced tailings requirements and 5) flexibility of operations (provide opportunity to relax selective mining and allow lower grade material through the plant earlier in LOM). **We see ore sorting as one of the most important optimization programs at Kayelekera and is key to expanding and extending production and reducing operating costs.**

Acquiring additional 20% interest in Kayelekera. The shareholder vote is on 30-Jul-21 as to whether to complete the acquisition of the Kayelekera Mine from a JV partner that is controlled by two Directors of Lotus Resources. While those Directors will assume over 20% voter control of

Lotus is managed by a strong team with the right type of experience needed to advance Kayelekera to production

Offtake discussions are underway with key nuclear utilities across three continents

Ongoing regional exploration includes a 5,000m RC drilling program aimed at adding near-mine resources and extending the project life

Lotus Resources, we do expect the deal to go through, even though it has been flagged by an Independent Expert as not being fair but being reasonable to other shareholders. We discuss this issue in much greater detail in the Asset – Ownership section of the report.

Seasoned team with African development and operations experience.

The Board and Management have proven experience with financing, developing and operating mining projects in countries such as Tanzania, Malawi, and South Africa. These factors together with the asset’s previous production history offer materially reduced risk with regards to permitting, operations, cost estimates, financing, and procurement of offtake contracts. The company also has uranium offtake arrangement experience, providing an advantage as production nears.

Dr. Robert Rich, Ph.D, appointed Uranium Marketing and Sales Executive.

This key addition to the team is a strong signal that Lotus is taking the next step in moving Kayelekera towards production. Potential offtakes may help build the project, de-risk project economics or financing requirements. Dr. Rich is based in the US, has 30 years’ experience as a Nuclear Fuel Consultant and was responsible for the sale of 60M lb and purchase of over US\$100M annually in uranium, conversion, and enrichment. He has advised many major US utilities in the procurement of nuclear fuels and worked with a wide range of producers in securing offtake agreements. Clients have included Paladin Energy, Emirates Nuclear Energy, American Uranium President, Olympic Dam Marketing, Sumitomo and several other North American nuclear utilities.

Management has initiated discussions with nuclear utilities

in North America, Asia and Europe to prepare for the eventual restart. While operating under Paladin, the mine completed deliveries to all three Western conversion facilities (United States, Canada and France) and as a result, is well positioned as a known source of uranium supply, enhancing the company’s chances of securing a sale contract.

Exploration to extend mine-life underway.

The first exploration drill program undertaken at Kayelekera in over 15 years, a 5,000m reverse circulation drill program is now underway. It is testing airborne radiometric anomalies within 3km of the processing plant. There are several anomalies within 10km of the mine, and other significant targets up to 100km to the south. Management believes there is potential for an additional 7-14M lb of U3O8 just within 3km of the mine. A regional assessment is underway on four prospective exploration licenses. This entails a detailed review of the historical data, mapping, radiometric prospecting, and sampling.

Renewed exploration is intriguing,

despite the existing 37.5M lb of resources at Kayelekera. First off, these Karoo sandstone-mudstone hosted sedimentary uranium deposits often occur in clusters. Secondly, we see potential for modern ore sorting technology to change the economics of these deposits as it has recently demonstrated a doubling in sample grades. This could help reduce material handling and increase trucking distances to existing process plants, opening up the potential for satellite deposits. This in turn could extend the project life.

Milenje Hills high-grade Rare Earth Oxides discovery.

REOs provide for added diversification for Lotus. In February 2021, the company announced the discovery material containing up to 16% REO (average 8% over 22

The recent REO discovery at the Milenje Hills prospect, 2km from Kayelekera, highlights additional upside potential

The past two years have been transformation Lotus, and we expect the momentum to continue

Several upcoming catalysts are expected to re-rate the stock towards our target, including increased ownership, technical studies, and exploration results

samples). With grades for known resources of REO typically ranging from 0.6-5.4%, this represents a potentially high-grade discovery which the company plans to continue to test with low-cost exploration in the near term.

ESG initiatives in place for local communities and stakeholders. Uranium is a key zero-carbon emission fuel source for nuclear power plants, while nuclear is the only zero-carbon base load power choice other than hydro power. Meanwhile rare earth elements are key magnet materials required for EVs, turbine generators and other green energy uses. Management plans to reduce GHG emissions by eliminating need to run on diesel generators as Kayelekera had in the past. There is also a desire to improve efficiencies by treating lower grade materials via ore sorting. The new management team will also work on its social license to operate through Community Development Agreements.

Increased exposure with US-based OTCQB listing. Its OTC ticker symbol will be LTSRF. We believe this listing should help raise awareness in the North American market and expect increased liquidity. It should help make Lotus more comparable to most of its peers who already trade in North America.

Recent Milestones

The past two years has been transformational for Lotus Resources. While the acquisition was completed in 2019 and the PEA in 2020, this year has already demonstrated considerable momentum in setting the stage for reducing costs, improving economics, and expanding the life of mine.

1. Purchased 65% stake in Kayelekera uranium project from Paladin Energy during its restructuring in June 2019.
2. Announced intent to acquire an additional 20% in the Kayelekera to achieve 85% interest.
3. Began four technical studies with a particular focus on reducing operating costs: ore sorting, power, acid plant and tailings management facility studies.
4. Commenced an initial near-mine exploration drill program.
5. Discovery of high-grade rare earth oxides (REO) of up to 16% REO and 3.4% critical REO at the Milenje Hills prospect, located 2km from Kayelekera.
6. Engaged environmental, social and governance consultant to assist in ESG matters.
7. Announced secondary listing on the OTCQB Exchange to increase liquidity, shareholder diversity, and market awareness
8. Appointed key management personnel, including Keith Bowes as Managing Director; Michael Bowen as Non-Executive Chairman; Mark Hanlon as Non-Executive Director.
9. Raised A\$12.5M through the issuance of 100M shares at A\$0.125/sh.

Catalysts

We expect the coming year to be critical in terms of demonstrating the restart potential of Kayelekera. As a result, Lotus has multiple important catalysts underway including expanded ownership, technical studies and exploration.

1. Shareholder approval to increase mine ownership from 65% to 85%
2. Initiate Feasibility Study (due H1/22)
3. Technical study updates regarding ore sorting, power supply, tailings storage and acid plant due mid-21.
4. Kayelekera exploration results (5,000m RC drill program)
5. Milenje Hills rare earth oxide (REO) discovery exploration results

Our DCF model assumes an 85% ownership, implementation of cost saving initiatives (e.g. ore sorting), and added production from lower-grade stockpiles

We assume 30-100% increase in grades, ~19% increase in LOM throughput, and 20% reductions in cash costs from the 2020 PEA

Valuation and Financial Analysis

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DCF Model Assumptions

Three key decisions drive our valuation. We assume Lotus will be successful in 1) securing 85% ownership in the mine, 2) identifying that ore sorting and other cost savings measures can be used; and thus we can 3) base our production model on Scenario 2 from its 2020 PEA which contemplates additional production from lower grade stockpiles, providing a longer LOM.

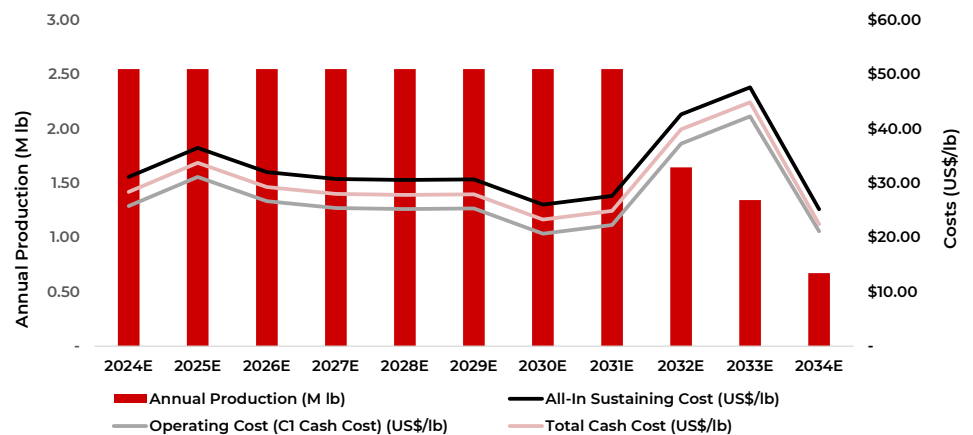
Our model deviates from the 2020 PEA. We do make slight modifications from PEA Scenario 2 to fit with what we believe management is trying to achieve with its cost reduction studies in 2021. Namely we believe ore sorting technology and other cost savings measures will be implemented, with a slight increase in annual production and longer LOM, thus reducing operating costs.

- We assume that ore sorting technology will be available for use and can increase resource grades. We assume that US\$3M capex can result in between a 30% and 100% grade improvement versus resource grades over the life of the mine. Since we do not expect throughput to drop given the existing infrastructure, we do expect grades to improve such that production approaches capacity. We forecast 3M lb pa U3O8 versus the 2020 PEA estimate of 2.5M pa average (3M lb maximum) and a historical capacity of 3.3M lb.
- Additional production, with or without lower throughput, should help reduce operating costs on a per lb U3O8 basis.
- Improved economics should help move production forward, increase production rates, and then allow production from lower grade stockpiles, considerably reducing mass balances and increasing grades in later stages of the mine life. While we do increase LOM production from PEA Scenario 2 (~23.8M lb) to ~28.3M lb U3O8, our estimate remains confined to existing resources.
- Cost reduction program such as power savings, acid plant improvement, and ore sorting could have a considerable impact on production costs. Power and acid costs, equipment wear and tear and other logistical issues dominated historical cost overruns. We assume several of these can be improved, mitigated or engineered away. A key aspect is that the chemistry of the process flowsheet works quite well. We therefore see potential for C1 cost savings of up to 20% from PEA C1 costs of US\$33/lb, which were based on historical costs.

Figure 2: Model parameters: 2020 PEA vs. RCS assumptions

Project Parameters	Units	RCS Estimates	Scenario 1 -	Scenario 2 -	Delta
			High Grade Stockpiles	Medium Grade Stockpiles	
Uranium Price	(US\$/lb)	\$50.00	\$50.00	\$50.00	0%
CAD:USD Exchange Rate		\$0.75	NA	NA	-
USD:AUS Exchange Rate		\$0.72	NA	NA	-
Mineable Resource	Mt	27.1	NA	NA	-
Uranium Grade	(%)	0.06%	0.09%	0.07%	-7%
Uranium Recovery	(%)	86.70%	86.70%	86.70%	0%
Start Year	(Year)	2024	NA	NA	-
Mine Life	(Years)	11	8	14	-21%
Mill Capacity	(tpd)	3,633	NA	NA	-
Ore Mined	(Mt)	27.1	9.5	18.4	48%
Strip Ratio		1.8	3.5	1.8	0%
Average Annual U3O8 Production	(M lb)	2.6	2.3	1.8	43%
Avg. Operating cost	(US\$/lb)	\$26.99	\$32.75	\$32.06	-16%
Avg. Total Cash cost	(US\$/lb)	\$29.55	\$35.35	\$34.58	-15%
All-In Sustaining Cash Cost (after tax-savings)	(US\$/lb)	\$32.30	\$39.83	\$39.07	-17%
Initial Capital Cost (incl. ore sorter)	(US\$M)	52.5	50.2	50.2	5%
LOM Sustaining Cost	(US\$M)	57.8	64.1	84.1	-31%
Closure Cost	(US\$M)	31.5	31.5	31.5	0%
Royalty	(%)	3.75%	3.75% + PDN	3.75% + PDN	-
Corporate Tax Rate	(%)	27.5%	27.5%	27.5%	0%
Post-Tax NPV @ 8%	(A\$M)	270.3	N/A	N/A	-

Source: RCS

Figure 3: Attributable production (85%-interest) and cost profile chart, based on RCS assumptions


Source: RCS

NAV and Valuation

Figure 4: NAV Summary Table

NAV Summary and Valuation (A\$M)				
Development Properties	0%	8%	10%	12%
Kayelekara, Malawi (85%)	\$472.7	\$270.3	\$236.4	\$207.3
Total Mine Site After-Tax NPV	\$472.7	\$270.3	\$236.4	\$207.3
Other Assets and/or Liabilities				
Sunrise Energy Metals (ASX:SRL)	\$1.3	\$1.3	\$1.3	\$1.3
Other assets/liabilities	\$0.0	\$0.0	\$0.0	\$0.0
Total	\$1.3	\$1.3	\$1.3	\$1.3
Asset NAV				
Total Pre-Financing NAV	\$474.0	\$271.6	\$237.7	\$208.6
Total Pre-Financing NAVPS (A\$/sh)	\$0.39	\$0.22	\$0.19	\$0.17
Corpore Adjustments				
Corporate G&A				
Cash & Cash Equivalents	\$30.0	\$30.0	\$30.0	\$30.0
Debt	(\$10.8)	(\$10.8)	(\$10.8)	(\$10.8)
Additional Resource Value	\$20.2	\$20.2	\$20.2	\$20.2
Exploration upside	\$20.8	\$20.8	\$20.8	\$20.8
Corporate G&A	(\$82.8)	(\$30.5)	(\$32.5)	(\$28.3)
Total Corporate Adjustments	(\$22.6)	\$29.7	\$27.7	\$32.0
Corpore NAV				
Total Post-Financing NAV (A\$M)	\$451.5	\$301.3	\$265.5	\$240.6
Total Post-Financing NAVPS (A\$/sh)	\$0.37	\$0.25	\$0.22	\$0.20
Target Derivation				
Total Post-Financing NAVPS (A\$/sh)		\$0.25		
Multiple		0.9x		
Target Price				
Return to Target		38%		

Source: RCS, Company Reports, S&P Capital IQ

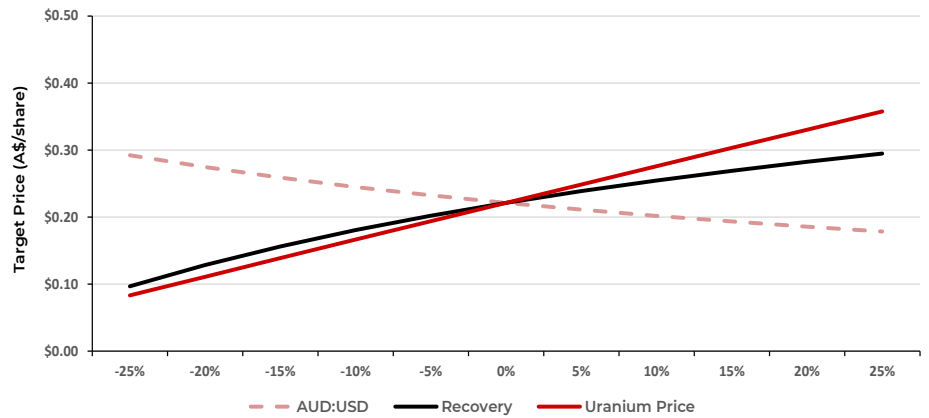
Figure 5: Target price sensitivity analysis, based on uranium price and FX

		Uranium Price (US\$/lb)								
		\$30.00	\$35.00	\$40.00	\$45.00	\$50.00	\$55.00	\$60.00	\$65.00	\$70.00
AUD:USD FX Rate	0.64	\$0.00	\$0.06	\$0.12	\$0.19	\$0.25	\$0.31	\$0.37	\$0.43	\$0.49
	0.66	\$0.00	\$0.06	\$0.12	\$0.18	\$0.24	\$0.30	\$0.36	\$0.42	\$0.48
	0.68	\$0.00	\$0.06	\$0.12	\$0.18	\$0.23	\$0.29	\$0.35	\$0.41	\$0.47
	0.70	\$0.00	\$0.06	\$0.11	\$0.17	\$0.23	\$0.28	\$0.34	\$0.40	\$0.45
	0.72	\$0.00	\$0.05	\$0.11	\$0.17	\$0.22	\$0.28	\$0.33	\$0.39	\$0.44
	0.74	\$0.00	\$0.05	\$0.11	\$0.16	\$0.22	\$0.27	\$0.32	\$0.37	\$0.43
	0.76	\$0.00	\$0.05	\$0.11	\$0.16	\$0.21	\$0.26	\$0.31	\$0.37	\$0.42
	0.78	\$0.00	\$0.05	\$0.10	\$0.15	\$0.20	\$0.26	\$0.31	\$0.36	\$0.41
	0.80	\$0.00	\$0.05	\$0.10	\$0.15	\$0.20	\$0.25	\$0.30	\$0.35	\$0.40

Source: RCS

Our model is most sensitive to uranium prices; each ~US\$5.00 increase in spot prices leads to a ~A\$0.05 increase to our target price

Figure 6: Target price sensitivity analysis, based on recovery, uranium price, and FX



Source: RCS

We apply a 0.9x multiple to our NAV estimate on the assumption that Lotus will issue additional shares to secure an 85% ownership in the project

“Reasonable” acquisition. In June 2019, LOT purchased 65% interest in Kayelekera from Paladin Energy, and 20% was purchased by KRPL (a group controlled by two Directors of LOT) from a third party – providing rights for LOT to purchase that 20% interest later. Earlier this year, LOT announced that it would purchase the remaining interest by issuing 226.46M shares to KRPL. The pending acquisition for an additional 20% interest in Kayelekera mine from two current Directors is deemed reasonable, but not fair, by an Independent Expert. We will review this topic later in the report under Assets – Kayelekera - Ownership.

We anticipate shareholders to approve the acquisition, but there is a chance that it does not happen, and LOT remains 65% owner of the mine – in which case, we would apply a 0.7x multiple to our NAV estimate. However, our valuation is predicated on the expectation that the deal goes through and incorporates the issuance of another 226.46M shares to KRPL. The added dilution is offset by our increasing our NAV multiple from 0.7x to 0.9x – considering that the demanding 85% ownership has several benefits to LOT that 65% interest would not provide. We believe the project deserves this higher multiple given that it is a fully permitted and proven past producer, with higher resources than when in operation and has avenues to lower costs, and upside is considerable. Further, the issuance of shares to KRPL would further increase management’s skin in the game, given their ownership in KRPL (more on this below).

Lotus had A\$29.9M in cash as of 31-Mar-21. This included proceeds of a A\$12.5M equity raise (100M shares at A\$0.125/sh). Shares on issue totaled 952,641,704 at 30-Jun-21 with 2,232,144 performance rights on issue, and 45,012,430 options on issue. Lotus is a sizeable company on the ASX with a current market cap of A\$53M and decent liquidity and volume, with an average of 2.9M shares traded daily over the past three months. We do not expect the 45M in-the-money options to represent a potential overhang given the strong liquidity and over two-year exercise timeframe, and the dilutive performance rights are negligible. The only significant long-term liability we see is an environmental bond posted for the mine site of

Lotus is well-financed, with ~A\$30M in the bank

A\$14.6M. A portion of the company's cash is held to backstop this environmental obligation. Overhead expenses at A\$1.9M in 2020 were a little lofty for a development company of this size, however we point out that this included A\$480k in legal fees likely linked to the acquisition of the Kayelekera mine and associated due diligence.

Substantial shareholders own 27.61% interest (Paladin Energy, HSBC Nominees, Sachem Cove, and JP Morgan Nominees); and the 20 largest holders own 60.83% interest. Directors currently own 2.5%. Most shareholders are Australian and management desires additional North American, UK and Asian-based investors. Upon completion of the acquisition of an additional 20% interest in Kayelekera, direct and indirect holdings of Mr. Bowes and Mr. Davey will be 13,573,196 shares and 231,289,356 shares, respectively. These two directors would hold their direct interest plus 20.73% interest through KRPL.

Figure 7: Warrants on issue

Number	Exercise Price	Expiry Date
10,323,227	\$0.04	12/09/2022
5,845,375	\$0.04	25/09/2022
1,393,102	\$0.04	04/10/2022
17,450,726	\$0.04	13/03/2023
5,000,000	\$0.04	23/10/2023
2,500,000	\$0.06	23/10/2023
2,500,000	\$0.08	23/10/2023

Source: Company Reports

Figure 8: Pro-forma capital structure following acquisition of additional 20% stake in Kayelekera

	Number of Shares	Number of Options	Number of Performance Rights
At the date of this Explanatory Memorandum	954,560,825	45,012,430	2,232,144
Consideration Shares	226,463,927	-	-
TOTAL	1,181,024,752	45,012,430	2,232,144

Source: Company Reports

Figure 9: Ownership interest of LOT's top 20 shareholders

	Name	Number of Shares	%
1	PALADIN ENERGY LTD	90,000,000	9.43
2	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	69,039,023	7.23
3	SACHEM COVE SPECIAL OPPORTUNITIES FUND LP	59,860,001	6.27
4	J.P. MORGAN NOMINEES AUSTRALIA PTY LIMITED	50,486,383	5.29
5	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	40,315,277	4.22
6	IK NOMINEES PTY LTD	40,000,000	4.19
7	NATIONAL NOMINEES LIMITED	36,563,526	3.83
8	CITICORP NOMINEES PTY LIMITED	28,693,898	3.01
9	SANDHURST TRUSTEES LTD <JMFG COLLINS A/C>	22,960,186	2.41
10	BNP PARIBAS NOMINEES PTY LTD <B AU NOMS RETAILCLIENT DRP>	20,408,398	2.14
11	MICHEL NOMINEES PTY LIMITED	14,556,906	1.52
12	SANDHURST TRUSTEES LTD <COLLINS ST VALUE FUND A/C>	14,105,598	1.48
13	NETWEALTH INVESTMENTS LIMITED <SUPER SERVICES A/C>	12,411,241	1.30
14	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	12,340,587	1.29
15	PRECISION OPPORTUNITIES FUND LIMITED <INVESTMENT A/C>	12,000,000	1.26
16	MR DARREN CRAIG GLOVER	11,904,762	1.25
16	MR BENJAMIN LEIGH HARPER	11,904,762	1.25
18	NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	11,631,943	1.22
19	MRS PAMELA JULIAN SARCOOD	11,250,000	1.18
20	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMMNLTH SUPER CORP A/C>	10,252,071	1.07
	TOTAL	580,684,562	60.83

Source: Company Reports

Lotus has a relatively tight capital structure, with the 20 largest shareholders owning over 60% of the company's shares

Lotus trades at a discount to its peer group

Relative Valuation

Trading at a premium to peers. With Lotus having peer-leading high grades at comparable production rates, and peer-leading initial capital costs and low capital intensity, it trades in line to its peers, with a P/NAV of 0.71x and EV/lb U3O8 of US\$2.73/lb, versus its peers at 0.61x and US\$1.96/lb, respectively. We expect this valuation gap to remain, if not accelerate as the catalysts begin to materialize over the coming years. The company does not trade close to the producer class which trend to trade upwards of US\$5/lb U3O8.

Figure 10: Comparable companies

Company	Ticker	Location	Price (C\$/sh)	Performance YTD Δ	Market Cap (C\$M) (C\$M)	Cash (C\$M)	Debt (C\$M)	Enterprise Value (C\$M)	Resource (U3O8e) (Mlb)	EV/lb U3O8 (US\$/lb)	P/NAV
Lotus Resources Limited	ASX:LOT	Malawi	\$0.14	15.0%	\$137.20	\$30.00	\$10.6	\$117.8	37.5	\$2.73	0.71x
Global Atomic Corporation	TSX:GLO	Niger	\$2.80	76.1%	\$455.35	\$14.51	\$0.0	\$440.9	179.3	\$1.95	NA
Paladin Energy Limited	ASX:PDN	Namibia	\$0.43	70.6%	\$1,142.26	\$64.59	\$176.4	\$1,254.1	375.4	\$3.13	0.79x
GoviEx Uranium Inc.	TSXV:GXU	Niger	\$0.23	0.0%	\$123.82	\$21.64	\$0.0	\$102.2	271.1	\$0.32	0.32x
Deep Yellow Limited	ASX:DYL	Namibia	\$0.60	29.6%	\$199.97	\$48.69	\$0.6	\$151.9	155.6	\$0.99	NA
Uranium Energy Corp.	NYSEAM:UEC	USA	\$2.76	56.5%	\$642.66	\$97.12	\$13.1	\$558.7	128.3	\$3.69	0.61x
Fission Uranium Corp.	TSX:FCU	Canada	\$0.56	45.5%	\$361.95	\$27.25	\$7.2	\$341.9	135.2	\$2.01	0.56x
NexGen Energy Ltd.	TSX:NXE	Canada	\$4.87	38.7%	\$2,316.13	\$226.80	\$59.7	\$2,149.0	348.8	\$4.90	0.77x
Denison Mines Corp.	TSX:DML	Canada	\$1.29	53.6%	\$1,038.01	\$189.04	\$0.6	\$849.5	228.1	\$2.96	0.77x
Boss Energy Limited	ASX:BOE	Australia	\$0.14	41.9%	\$316.89	\$15.50	\$0.0	\$301.4	71.6	\$3.58	0.70x
Laramide Resources Ltd.	TSX:LAM	USA	\$0.52	44.4%	\$92.20	\$2.86	\$7.5	\$96.9	122.7	\$0.63	NA
UEX Corporation	TSX:UEX	Canada	\$0.33	26.9%	\$150.69	\$6.17	\$0.1	\$144.7	148.0	\$0.78	0.42x
enCore Energy Corp.	TSXV:EU	USA	\$1.19	26.6%	\$237.15	\$33.43	\$0.0	\$203.7	56.4	\$3.08	NA
Berkeley Energia Limited	ASX:BYK	Spain	\$0.27	-62.4%	\$69.64	\$78.41	\$87.8	\$79.0	89.4	\$0.71	NA
Vimy Resources Limited	ASX:VMY	Australia	\$0.11	35.7%	\$114.91	\$4.26	\$0.0	\$110.6	117.0	\$0.75	0.56x
Forsys Metals Corp.	TSX:FSY	Namibia	\$0.90	200.0%	\$173.92	\$13.66	\$0.0	\$160.3	127.0	\$1.08	NA
Toro Energy Limited	ASX:TOE	Australia	\$0.02	5.1%	\$56.83	\$5.31	\$14.7	\$66.3	75.7	\$0.75	NA
Global Peers Average										\$1.96	0.61x
Canadian Peers Average										\$2.66	0.63x
Australian Peers Average										\$1.70	0.63x

Source: Company Reports, S&P Capital IQ

Figure 11: Comparable projects

Project Name (Main project only) / Country	Kayelekera, Malawi	Langer Heinrich, Namibia	Honeymoon, Australia	Lance, USA	Etango, Namibia	Tumas, Namibia	Mulga Rock, Australia
% Ownership	65% (increasing to 85%)	75%	100%	100%	95%	95%	100%
Type of operation (OP / UG / ISR)	OP	OP	ISR	ISR	OP (HL)	OP	OP
RESOURCE - MAIN PROJECT ONLY¹							
Measured - contained (M lbs) / grade (ppm)	4 @ 850	96 @ 475	8 @ 1,100	4 @ 489	-	14 @ 194	13 @ 1,100
Indicated - contained (M lbs) / grade (ppm)	27 @ 660	5 @ 520	25 @ 630	12 @ 496	53 @ 247	150 @ 188	33 @ 790
Inferred - contained (M lbs) / grade (ppm)	6 @ 518	19 @ 325	39 @ 570	38 @ 474	51 @ 248	63 @ 196	45 @ 432
Total - contained (M lbs) / grade (ppm)	38 @ 630	120 @ 445	72 @ 620	54 @ 480	104 @ 247	227 @ 191	90 @ 570
FUTURE STRATEGY & FORECASTS							
Study completed	Restart Study	Restart Study	FS	PFS	Pre-feasibility Study	PFS	DFS
Source document	Lotus Resource - Kayelekera Re-start study 20 October 2020	Paladin Energy - Langer Heinrich Mine Restart Study 30 June 2020	Boss Energy - Honeymoon Feasibility Study 21 January 2020	Pen Energy - Lance Project Feasibility Study 17 September 2018	Deep Yellow - Tumas Prefeasibility Study 9 February 2021	Bannerman Resources - Etango 8 Scoping Study 5 August 2020	Vimy Resources - Mulga Rock Definitive Feasibility 26 August 2020
OPERATION HISTORY							
Historically achieved forecasted production target?	Yes ²	Yes ²	No ³	No ⁴	New Development	New Development	New Development
Number of year project historically operated	5 ²	10 ²	2.5 ³	3.5 ⁴	NA	NA	NA
Total historical production (M lbs)	11 ²	43 ²	0.7 ³	0.4 ⁴	NA	NA	NA
FUTURE STRATEGY & FORECASTS							
Forecasted annual production (Mlbs)	2.5 Mlbs pa	5.9 Mlbs pa	2.0 Mlbs pa	2.3 Mlbs pa	3.5 Mlbs pa	2.5 Mlbs pa	3.5 Mlbs pa
Head grade (ppm)	898ppm / 400ppm	593ppm / 336ppm	ISR - NA	ISR - NA	232ppm	344ppm	768ppm
Mining phase / Stockpiles							
Initial Capital Cost (US \$ M)	\$50	\$81	\$63	\$119	\$254	\$295	\$255
Capital intensity (US\$ / lb)	\$21	\$14	\$32	\$52	\$73	\$118	\$73

Source: Company Reports

Assets

Lotus Resources Limited was incorporated in 2006 and is based in West Perth, Australia. It engages in the exploration and development of mineral properties in Australia and Malawi. Its flagship property is the 65%-owned Kayelekera uranium project located in northern Malawi, Africa. It has started divesting its non-core Australian assets.

Kayelekera Uranium Project

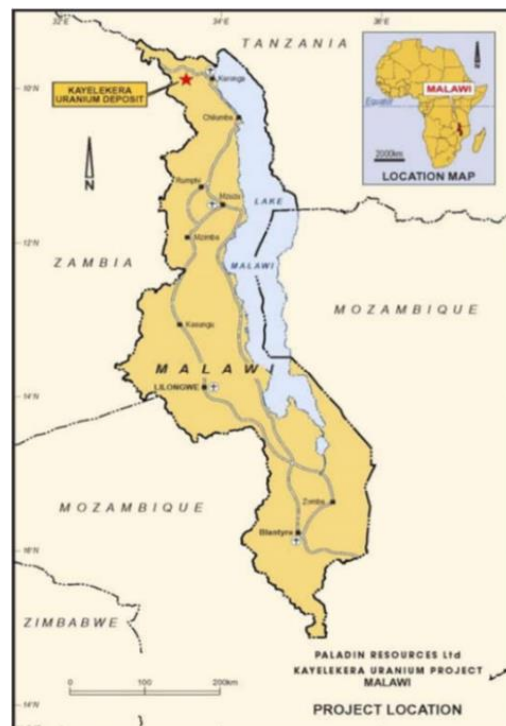
Kayelekera Uranium project sits on a large 157 km² tenement package with excellent exploration potential. It is currently 65%-owned by Lotus, with the remaining 35% held by JV partners Kayelekera Resources Pty Ltd (20%) and the Government of Malawi (15%). Lotus is in the process of acquiring KRPL's 20% interest as will be discussed in the Ownership section.

Kayelekera project hosts a recent 37.5M lb U3O8 JORC-compliant resource. The past-producing mine was officially opened in April 2009 and produced 10.9M lb between 2007 and 2014 under the previous operator Paladin Energy (ASX:PDN, Not Rated). The mine has been in care and maintenance since 2014 due to the sustained low uranium spot price.

Location & Infrastructure

The Kayelekera project is in the northern portion of the Karonga District, Malawi. The property is located 650km north of Lilongwe, the country's capital, and 52km by road from the town of Karonga.

Figure 12: Map showing Kayelekera project location in northern Malawi



Source: Company Reports

Kayelekera is located in northern Malawi's Karonga District

Kayelekera has been on care and maintenance since 2014, and has excellent infrastructure in place to provide a rapid restart

The Malawi government owns 15% of Kayelekera, and has thus far been a strong supporter and partner in advancing the project forward

When it was operational, Kayelekera accounted for up to 2.5% of Malawi's GDP

Past production from 2009-2014 was largely successful; previous technical issues have mostly been engineered away

Current mine infrastructure includes an existing open pit, waste dumps, existing ore and ROM stockpiles, water ponds, 1.4Mtpa processing plant, tailings storage facility, acid plant, and accommodation camp. With the site on care and maintenance since 2014, recent study has determined that facilities are in good condition and that restart could be completed using the existing facilities with low restart capital costs. Most initial Capex represents rebuilding the mine's reagent inventory and three-months of working capital to get operation prior to revenue. Grid power is available via a recently upgraded hydro-power facility located in the south of the country. Preliminary discussions regarding gaining access to the grid power have been completed with follow up anticipated once mine restart timing is clearer.

Malawi – proven and pragmatic mining jurisdiction and JV partner. Malawi is an east African country which declared independence from the UK in July 1964. Its government is a presidential republic with a 193 seat National Assembly based in the capital city of Lilongwe. The CIA World Factbook suggests that its economic performance is constrained by policy inconsistency, macroeconomic instability, poor infrastructure, corruption, high population growth and poor health and education. Climate ranges from dry (May-Nov) to sub-tropical (Nov-May).

GDP of \$19B in 2019 ranks it 155th of 218 countries. GDP per capital is \$1,200 on a population of 21.2M. Annual exports are \$1.42B, mostly to Zimbabwe, Mozambique and Belgium. Imports are \$2.31B, mostly from South Africa, China and India. Agriculture accounts for a third of GDP and 80% of exports. Natural resources include limestone, arable land, hydropower, and under-utilized resources of uranium, coal and bauxite.

Government of Malawi owns 15% of Kayelekera, through a 15% holding in Paladin Africa. It has supported the project through a 2007 Development Agreement that provided a stable fiscal environment for the first 10 years of the project. The Government of Malawi has been supporting and encouraging of private sector companies to help develop mining projects. The Kayelekera mine has made a substantial fiscal contribution to Malawi and provided opportunities for employment and improvements to social infrastructure, particularly in the north. It was estimated that Kayelekera provided up to 2.5% of the country's GDP when it was operational. The Government wishes to see the project return to production.

Project History

One key to Kayelekera being a low-risk, low capital uranium mine restart is that it has had a largely successful production history (2009-2014). While there were some production issues early on, and start-up was slower than anticipated, it was less about processing chemistry and more about the abrasiveness of the ore and suitability of equipment used at the time. Much of this was engineered away, and the mine closed as uranium prices fell post-Fukushima. We believe that Lotus can continue to look at cost control options and likely off-take sale contracts to help maximize project economics.

Recent developments. On 24-Jun-19, the company (then known as Hylea Metals) announced that it would acquire 65% indirect interest in Kayelekera. Following the acquisition, Hylea Metals changed its name to Lotus

The Kayelekera deposit was discovered in 1982, and open pit mining commenced in 2008 before shutting down in 2014 due to weak uranium prices

Resources Limited. Lotus commissioned a 2020 restart PEA that confirmed a low capital restart potential pending higher uranium prices. In 2021, an initial 5,000m near-mine RC drilling program began, along with multiple cost savings technical studies. A FS, due to begin shortly, is anticipated in H1/22. In March 2021, it was announced that Lotus would exercise its right to buy the remaining 20% interest in Kayelekera.

Acquisition summary. Kayelekera is held through Lily Resources Pty Ltd which was previously named Lotus Resources Pty Ltd. Lila is a JV between the company and Kayelekera Resource Pty Ltd (KRPL). Lily acquired 85% stake in Paladin Africa for \$5M in cash and shares from Paladin Energy during its 2019 restructuring. The remaining 15% interest in Paladin Africa is owned by the Government of Malawi. Under the shareholders agreement, Lotus may purchase all of KRPL’s shareholding in Lily. This Buy Out notice was announced on 25-Mar-21, and an agreement as to consideration was made (after negotiation by independent Directors). Resolution 1, subject to shareholder approval on 30-Jul-21, states that Lotus plans to acquire KRPL’s 23.5% interest in Lily to hold 100% interest in consideration for 226,463,927 shares of LOT. KRPL is controlled by two Directors of Lotus, and their combined voting power in LOT will increase from 1.93% to 20.73%, assuming certain resolutions are passed. More details are provided in the Asset - Ownership section.

Figure 13: History of Kayelekera prior to Lotus’ acquisition

Year	Event
1982	The Central Electricity Generating Board of Great Britain (CEGB) discovered the Kayelekera sandstone uranium deposit in 1982
1992	The project was abandoned in 1992 due largely to the poor uranium outlook, as well as privatisation of CEGB and resultant pressure to return to its core business
1998	In 1998, Paladin acquired a 90% interest in Kayelekera through a joint venture with Balmain Resources Pty Ltd, which then held exploration rights over the Project area
2005	In July 2005, Paladin acquired the regaining 10% interest in Kayelekera held by Balmain
2005	Paladin announced the go-ahead of a Bankable Feasibility Study (BFS) as a result of improved economics shown by the pre-feasibility work
2007	After completing the Development Agreement with the Malawi Government, the BFS and a full Environmental Impact Assessment, the Mining Licence (ML 152) covering 5,550 hectares, was granted in April 2007 for a period of 15 years
2008	Open pit mining commenced in June 2008 to develop initial stockpiles
2009	Commissioning began in January 2009, with first production achieved in April 2009
2010	KM continued to ramp-up its production volumes and commercial production was declared from 1 July 2010
2012	Paladin made substantial positive steps towards design capacity of 3.3Mlbpa through a programme of plant upgrades aimed at addressing bottlenecks. The focus at KM turned to production optimisation (nano-filtration technology) representing a key element
2013	The plant achieved record annual production totaling 2.963Mlb for FY2013
2014	Continuing low uranium prices resulted in a decision to place the Project in care and maintenance in February 2014

Source: Company Reports

Lotus recently announced the acquisition of a further 20% interest in Kayelekera through the issuance of ~226.5M shares, subject to shareholder approval

Shareholder vote for the 20% acquisition is scheduled for July 30, 2021, and we expect shareholders to approve

Ownership

The project is subject to several royalties including: a 3% royalty payable to the government, a 0.75% royalty payable to Power Resources Inc., a 3.5% NSR payable up to a maximum of US\$5M to Paladin Energy. It is unclear as to when the project might adjust to a 5% royalty payable to the Government.

Acquisition of an additional 20% interest in Kayelekera was announced in March 2021. Pending shareholder approval on 30-Jul-21, the arrangement would see the issuance of ~226.5M shares to KRPL. Summary of the deal:

- Lotus has exercised its Buy-Out right to acquire an additional 20% of Kayelekera uranium project from Kayelekera Resources Pty Ltd (KRPL), subject to approval by Lotus shareholders.
- Lotus' interest in the mine will increase from 65% to 85% with the remaining 15% held by the Government of Malawi.
- KRPL is an entity controlled by Lotus' Director Grant Davey, with which Lotus had a JV.
- We valued this all-scrip deal at A\$33.96M in March when the stock was at A\$0.15/sh. Lotus is to issue 226.4M shares to KRPL (24% dilution).
- Deal values 100% interest in the mine at ~\$169.8M – although this was based on Lotus' own enterprise value in March with the stock trading at A\$0.15/sh. A project NPV was not provided in the PEA press release.

Acquisition deemed “reasonable” by Independent Expert. Management always had desire to increase Kayelekera interest from 65% to 85%. And while LOT may pay more for this 20% of the project than it did for an original stake (from two Directors), we believe the acquisition price is in line with the valuation that Lotus Resources was receiving from the market for its 65% share at time of the announcement earlier this year, thus no harm-no foul in our eyes. If anything, going this route decreased the original purchase risk two years ago when the uranium stocks were out of favour. That said, LOT's 30-Jun-21 Notice of General Meeting/Proxy ([read more](#)) form states **“The Independent Expert has determined that the Acquisition and the acquisition by the KRPL Group of a maximum relevant interest of up to 21.47% in the Company is not fair but reasonable to non-associated Shareholders.”** The shareholder vote is scheduled for 30-Jul-21. For the sake of our valuation, we assume a *positive shareholder vote*, that LOT acquires 85% interest in the mine, and we add 226.46M shares to our DCF model – dilution which impacts all assets. We see more benefit in ownership of 85% of Kayelekera than we do in 65% of the project in the form of financing options, economies of scale, purchasing power, attracting off-takes, etc., not to mention ownership of future discoveries.

Independent Expert outlined several considerations for investors ([read more](#)) with respect to voting in favour or against the acquisition of the 20% interest in Kayelekera and insurance of 226.46 M shares:

- **Reasons to vote in favour include:** a) Non-Interested Directors unanimously recommend this action; b) increases ownership in Kayelekera from 65% to 85%; c) 85% ownership of future discoveries; d) free carry benefit and increase exposure to the mine; e) potential significant future cost savings; f) strengthened position when negotiating raising debt or equity; g) strengthened position when

negotiating an offtake; h) implications of shareholders not approving Resolution 1 include KRPL's right to exercise a PUT OPTION, which may require Lotus to raise cash in order to purchase further interest, and may lead to larger dilution than if shareholders had approved the acquisition; and i) *the Independent Expert concludes that the Acquisition and acquisition by KRPL Group to max relevant interest is not fair but reasonable.*

- **Reasons to vote against include:** a) dilution to existing interests of shareholders; **b) may prefer current ownership and not desire KRPL influence over LOT;** c) **potential impact on share price;** and d) *the Independent Expert concludes that the Acquisition and acquisition by KRPL Group to max relevant interest is not fair but reasonable.*

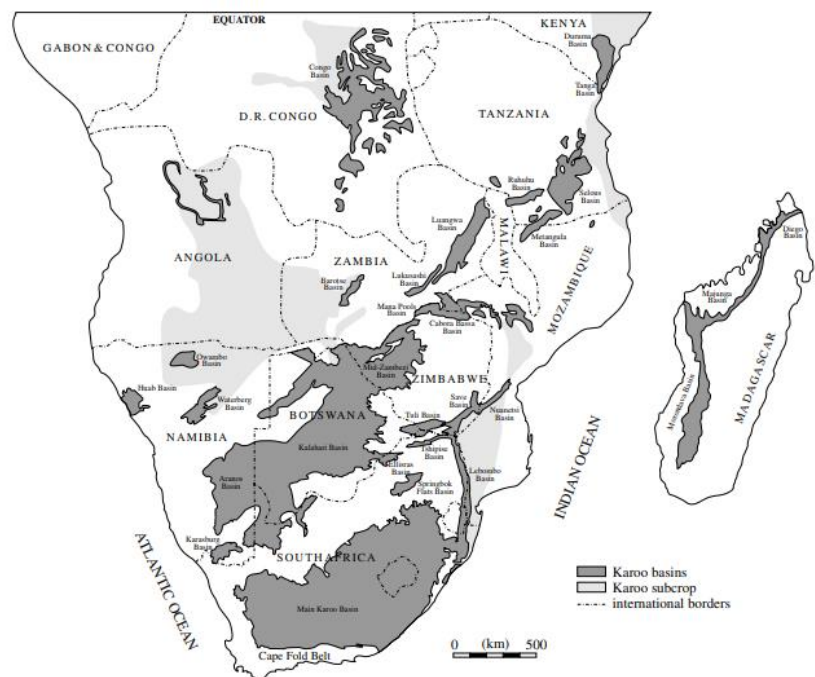
Kayelekera is a sandstone-hosted uranium deposit situated within the Karoo basins

Geology and Mineralization

Kayelekera is a tabular sandstone-hosted deposit hosted by Permian carbonaceous and pyritic arkoses of the Karoo rift-fill sequence. The age of mineralization remains poorly constrained, but the deposit could be a product of Permian rifting. Mineralization at the Kayelekera sandstone-hosted deposit is primarily within interlayered arkosic sandstone and mudstone lenses, much like many other uranium deposits that occur within Karoo sediments, stretching to Kenya and Tanzania to South Africa.

With an average mined grade >800 ppm U3O8 the deposit is higher in grade than most comparable deposits in the East African Karoo basins. This may be due to overprinting by secondary processes which previous operators believe were related to movement on NW-SE-trending Tertiary normal faults. This overprinting occurred after the arkoses had been rendered impermeable by clay cementation.

Figure 14: Map of Karoo basins of south-central Africa



Source: O. Catuneanu (2005)

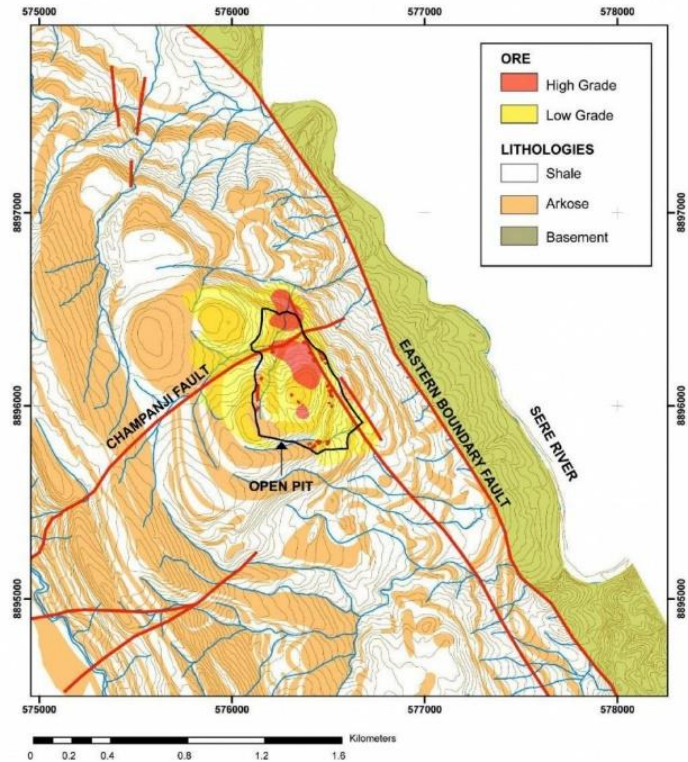
Average mined grade was >800 ppm U3O8, higher than most comparable deposits in the region

Highest uranium grades correspond to the intersection of the Eastern Boundary and Champanji fault zones

Kayelekera is situated close to a major tectonic boundary between two distinct Proterozoic domains, the NW–SE–trending Ubendian and the NE–SW–trending Irumide domains. The Ubendian domain contains several major NW–SE shear zones that are cut by granitoid intrusions dated at 1.86 billion years old. These shears may well have been reactivated during and after deposition of the Karoo sequence as many brittle faults that offset the Karoo-aged rocks have the same orientation. Uraniferous pegmatites are known to occur within the Ubendian, and these may represent a source of uranium for Kayelekera and other deposits.

Uranium mineralization is hosted in several arkose units adjacent to the Eastern Boundary fault zone. The ore forms tabular bodies restricted to the arkoses, except adjacent to the NS strand of the Eastern Boundary fault at the eastern extremity of the pit. Mineralisation also occurs in mudstones in the immediate vicinity of the fault. The highest grades correspond to the intersection of the Eastern Boundary and Champanji faults and grades and tonnage declines moving away from the faults.

Figure 15: Plan map over the Kayelekera pit, showing local geology



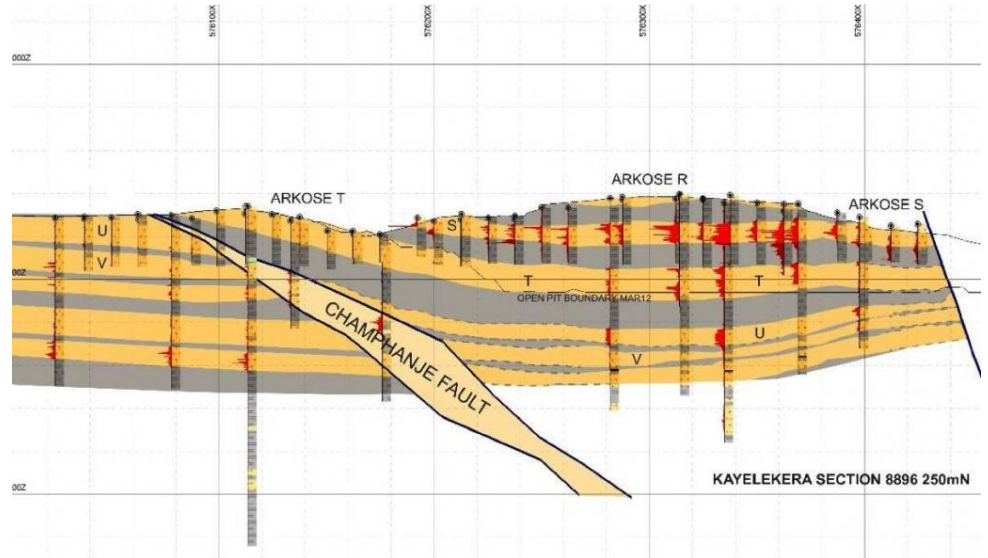
Uranium mineralization is hosted in several arkose units

Source: Uranium Production Cycle Papers (2012-2015), IAEA.org

40% of all uranium is primary, reduced and arkose hosted (carbon and pyrite-bearing). About 30% is hosted in secondary oxidised arkose, and 10% of mineralisation is termed “Mixed Arkose” and exhibits characteristics of both primary and secondary arkose mineralisation types. Primary uranium occurs as very fine grained coffinite, minor uraninite and a U-Ti mineral, tentatively referred to as brannerite. Uranium occurs disseminated in matrix clay, included within mica grains and intimately intergrown with carbonaceous matter. Another 20% of primary uranium is hosted by mudstone, namely as coffinite with lesser uraninite in a matrix of clay

minerals. Secondary ore tends to occur along vertical fractures and along the contact between mudstone and arkose in the upper parts of the deposit.

Figure 16: Section view through Kayelekera pit, showing arkose units



Kayelekera hosts JORC-complaint resources of 37.5M lb U3O8, including stockpiles (M&I+I)

Source: Uranium Production Cycle Papers (2012-2015), IAEA.org

Resources

Kayelekera hosts resources of 27.1Mt at 630 ppm for 37.5M lb U3O8.

Resources were updated in March 2020 to provide JORC compliance for use within future technical reports by Lotus and was subsequently used as the basis for the October 2020 PEA. The new resource includes a previously unmodelled high-grade arkose unit located below the pit, high grade Run of Mine stockpiles and low-grade stockpiles. The stockpiles are in situ at the processing plant as a remnant from recently historic mining (2009-2014). About ~97% of mine production in the study is based on Measured and Indicated resources and 3% based on Inferred resources.

Figure 17: Kayelekera resource estimate – March 2020

Category	Mt	Grade (U ₃ O ₈ ppm)	U ₃ O ₈ (M kg)	U ₃ O ₈ (M lbs)
Measured	0.7	1,010	0.7	1.5
Measured – RoM Stockpile ⁴	1.6	760	1.2	2.6
Indicated	18.7	660	12.3	27.1
Inferred	3.7	590	2.2	4.8
Total	24.6	660	16.3	36.0
Inferred – LG Stockpiles ⁵	2.4	290	0.7	1.5
Total All Materials	27.1	630	17.0	37.5

Source: Company Reports

Restart Scoping Study

Lotus announced the release of the PEA (really a +/- 35% Restart Scoping Study) for Kayelekera in October 2020. It confirmed the project’s ability to return to production quickly at low capital cost of US\$50.2M. Initial capital is largely restocking six weeks of reagents into inventory and working

The 2020 PEA/Scoping Study showed potential for a rapid mine restart at low capital costs of ~US\$50M

capital to cover three months from start-up to anticipated receipt of revenue. The study assesses the potential of two production scenarios – the first of which treats only high-grade material and the latter which includes the processing of stockpiled materials.

A 2016 Restart Study and follow up due diligence formed the basis of the 2020 study. That study outlined processing, infrastructure, capex and previous production data from operations. The study has a reported accuracy of +/- 35%, and a 25% contingency was added to capital costs.

The 2020 study contemplated two production scenarios: 1) high-grade mining only; and 2) high-grade mining + processing of stockpiles

Figure 18: Highlights of 2020 PEA/Scoping Study

General	High-grade ore only	With Medium-grade stockpiles
	LOM total / Avg.	LOM total / Avg.
Mine Life (Years)	8	14
Total Material Mined (Mt)	47.1	47.1
Strip Ratio	3.5	1.8
Total U ₃ O ₈ Mined (Mlbs)	18.9	27.5
Production	LOM total / Avg.	LOM total / Avg.
Plant Feed (Mt)	9.6	18.4
Plant Feed Grade (ppm U ₃ O ₈)	898	679
Plant Recovery (%)	86.7%	86.7%
Av. Annual Production (Mlbs)	2.3	1.8
Max Annual Production	3.0	3.0
LOM Production (Mlbs)	16.4	23.8
Operating costs	LOM total / Avg.	LOM total / Avg.
Mining Costs (US\$ / t mined)	2.87	2.87
Processing Costs (US\$ / t ore)	37.84	35.47
G&A Costs (US\$M pa)	12.4	12.4
Steady-state ² Cash costs (US\$ / lb)	32.75	32.06
Steady-state ³ AISC (US\$ / lb)	39.83	39.07
Capital costs	LOM total / Avg.	LOM total / Avg.
Initial Capital (US\$M)	50.2	50.2
Plant Sustaining Capital (US\$M)	28.0	48.0
TSF Sustaining Capital (US\$M)	36.1	36.1 ³
Closure Costs (US\$M)	31.5	31.5

² Production Years 2 to 6 after ramp-up.

³ Assumes in-pit tailings disposal will be possible otherwise this could increase to US\$65.4M.

Source: Company Reports

Mining would begin in tandem with the restart of processing, which would remain identical to historic operations

Mining would begin in tandem with restart of processing. Initial feed would likely be high-grade material currently classified as run-of-mine material. Previous mining and the existing pit design are relatively simple with a single open pit down to ~100m of depth. Pit angles are shallow to account for interlayered arkosic sandstone and mudstone units.

Two production scenarios are being considered. Both mining scenarios envision a restart of mining operations in the pit for the first six years of operations. The study contemplates mining of 47.1Mt of material, regardless of processing scenario.

- **Scenario 1:** 16.4M lb U₃O₈ produced over an 8-year mine life, with a head grade of ~900ppm U₃O₈.
- **Scenario 2:** 23.8M lb U₃O₈ produced over a 14-year mine life from low-grade pit ore and existing stockpiles starting in year 8, with a head grade of ~680ppm U₃O₈.

Processing would remain identical to historic operations. This includes successful conventional crushing, milling, ion exchange (resin-in-pulp), membrane-based acid recovery circuit and conventional yellowcake drying

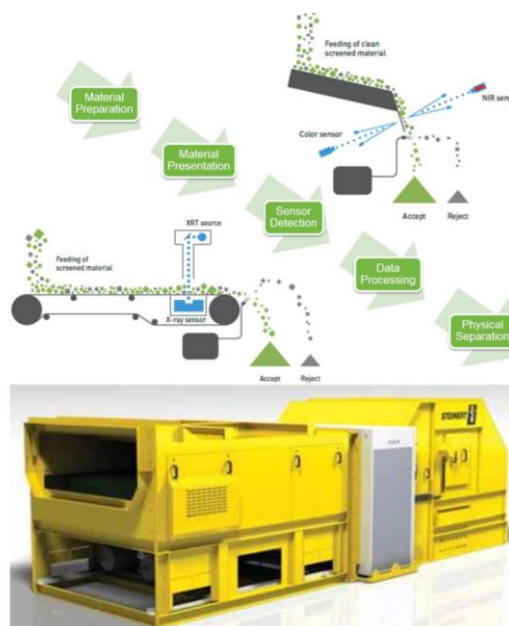
Ore sorting will be incorporated in the Feasibility Study due in H1/2022

Previous plant capacity was 3.3M lb pa, however, higher throughput may be possible

within FS. Ore sorted grades increased by up to 100% from original grades during initial phase of testwork using 500 kg of potential ore. This has the potential to both increase feed grade (production) and extend life of mine by making lower grade material more economic. Colour sorting had recovery of 85% with an upgrade ratio of 1.6x; density sorting had 71% recovery with 1.5x upgrade ratio. Ore sorting test work and associated studies will be incorporated into a FS due to begin in Q3/21. Additional testwork during Q3/21 would include 1) optimize results by testing a combination of sensors (using colour and density sensors at the same time); and 2) test various feed material including lower grade stockpiles. About 16% of the ore is fines that can't be sent through the ore sorter; more work is required to see if this can be upgraded further using conventional methods such as flotation, gravity or size separation (de-sliming), etc.

Ore sorting may improve project economics. Again, we view the ore sorting test results as very positive news that ultimately could help increase operating cash flow. Benefits include potential for 1) increased production, 2) increased grades, 3) Capex and Opex savings, 4) production of lower grade feed (potential life extension); 5) reduced tailings requirements and 6) flexibility of operations (provide opportunity to relax selective mining and allow lower grade material through the plant earlier in LOM). A single ore sorter would be required, and costs US\$2-3M. The 2020 PEA suggests the mine could restart at an annual production rate of 2.5M lb U3O8, with a max output of 2.93M lb expected. Previous plant production capacity was 3.3M lb and depending on where the bottlenecks remaining in the plant might be, higher production might be possible. Lotus continues to carry out exploration, and cost reduction studies including power cost savings, acid plant retro-fit, plant efficiencies and tailings dam options. Expectations are that Kayelekera mine can return to production for low restart Capex of US\$50M, but we'd expect that with C1 cash costs of US\$33/lb, that higher uranium prices will be required.

Figure 20: Theoretical ore sorting process (top) and ore sorter being tested (bottom)



Source: Company Reports

Ore sorting aside, several other project optimization studies are ongoing

Ore sorting testwork is ongoing. Lotus sent 500 kg of ROM ore to Steinert's testing facility in Perth, Australia. Steinert is an ore sorting specialist and leader in the magnetic and separation industry. Ore sorting could be an important way to reduce costs and improve the project's economics. It would essentially reduce the amount of mined material that runs through the mill requiring chemical treatment which could help boost feed grades. It reduces operating costs by rejecting high acid consuming gangue minerals. It has the added benefit of potentially extending life of mine by improving economics of the <400 ppm U₃O₈ low grade stockpile, allowing production of this material down the road. Management already suggests that initial ore sorting tests have been positive and it plans on continuing testing for the next few months. Results will be incorporated into the upcoming Feasibility Study.

Power study to help reduce cost of using diesel. Preliminary discussions have been established with the government of Malawi regarding gaining access to the recently upgraded hydro-power facility located in the south of the country. Successful implementation of this power source would allow the project to move away from diesel generators and decrease power costs by as much as 70%.

Acid recovery improvements may help reduce reagent consumption. Lotus is looking at improving its acid plant, the capacity of which was previously a limiting factor on operations. Based on historic operating data, the study uses conservative throughput regarding the capacity of the acid plant (240tpd of acid, budget assumes 230tpd). The plant also utilizes a nano-filtration process which recovers over 30tpd of acid from the elution circuit.

The Tailings Storage Facility covers 50 ha and contains ~6.34Mt of solid tailings from previous operations. The completion of two additional lifts upon restart of operations should provide an additional three years of processing capacity. A TSFA Design Report from 2013 contemplates further storage options for tailings. This includes the construction of two cells overtop of a waste rock dump located to the west side of the pit. The construction of the second cell would only go ahead should the company decide to process the low-grade stockpiles or if in-pit disposal is not possible. Excluding the second cell, TSF sustaining capital for the two lifts and one cell is estimated at US\$36.1M.

Historical issues are well understood. Management is going into its Kayelekera restart with eyes wide open and US\$50M in initial capital should help alleviate some of the past issues at the mine. These are some of our observations having covered the previous owner of the mine for over a decade and visited site three (or four) times.

- **Power.** The diesel powerplant was overbuilt (six 1.8 MW units and three 0.8 MW units) to avoid country wide power disruptions. But that came at additional Opex cost and added susceptibility to dust. While known grid power shortages were avoided, a country wide diesel shortage did impact production. We see potential to reduce costs by as much as 70% by connecting to the grid, having diesel as back-up.
- **Crushing.** Additional jaw crushers added. Initially the mine was supposed to run using just a mineral sizer which works well in Malawi's

We believe Lotus has a good handle on historical mining, processing, logistical, and other technical issues

wet conditions, but it didn't handle large rocks well. Adding the jaw crusher helped overcome the issues and improved plant availability.

- **Mill wear.** Ore was abrasive and wear and tear took its toll on many parts in the processing plant. Mill liner life had improved but steel ball consumption in the SAG mill had declined resulting in an improved grind and recoveries. We assume abrasive ore will be an ongoing challenge, but that new management should be better prepared to handle the issue.
- **Corrosion.** Issues began just two years into production as corrosion of equipment such as leach tanks, other tanks and pumps become an issue. Abrasive ore again to its toll as even slight damage can lead to corrosion. We doubt the rock types have changed, thus expect operators to continue to use coatings on equipment which resulted in higher availability of units.
- **Leach flow.** More leach tanks than expected had to be added to the mine as the mudstone which hosts 25% of the uranium increased the viscosity of the slurry. Originally mudstone was stockpiled, which meant more arkosic rock was sent through the mineral sizer causing additional problems. By 2011 the additional tanks boosted plant efficiency and achieved recoveries above 90%. We don't believe that the Kayelekera processing plant ever had an issue with the chemistry, but issues were more mechanical.
- **Resin cleaning.** This had been a problem for a while as tiny rock particles got past the filters given the abrasiveness of the rock. It is key to keep the resin clean as it must efficiently be "loaded" with uranium before it is "stripped" in the elution circuit (Resin-in-Pulp ion exchange circuit (RIP)). Management found that circular screens were a little more robust than stainless steel linear screens, but we believe this was an ongoing issue at the mine.
- **Pump capacity.** Processing often just got by as abrasiveness of the ore wore out several pumps. Temporary replacements at times weren't large enough and this impacted throughput rates.
- **Reagent use.** This was a primary concern. As the initial mine reached capacity, processing accounted for 59% of total operating costs, but reagent cost purchase prices were key. Acid was the highest single expense at 41% of total operating costs, despite saving immensely on the manufacture of its own acid. Procurement of grinding media, sulphur, lime, and sodium hydroxide supplies are other ways to save. Later in mine life Paladin anticipating saving 10-15% through purchasing synergies with its Langer Heinrich mine.
- **Logistic and supply lines.** The first time around, the new 35km road to the mine was difficult to maintain, but supply lines were worse. Logistics compounded some supply issues – something that could be a problem in the COVID-19 environment, but not as likely to be as much of an issue down the road. What it could mean is that Kayelekera must carry more inventoried parts and supplies than other mines in easier to access parts of the world.
- **Water handling.** Malawi is a sub-tropical climate for half the year, and prone to frequent deluges, particularly within the rainy season. Heavy rainfall has occasionally led to storm water over running containment or accelerate the release of tailings waters being discharged after treatment. Ground movements have also impact pit slopes, necessitate

Exploration upside at Kayelekera is vast, and previous operators did not systematically test its potential

There is potential to expand Kayelekera's resource by 7-14M lb U3O8 in shallow, near-mine targets

A ~5,000m RC drilling program is underway – the first uranium exploration drilling campaign on the project in over 15 years

the need for shallow pit walls, and caused damage to the yellowcake drying and packaging plant and acid plant in 2011.

- **Resource expansion.** Most management focus during Kayelekera's first production run focused on production consistency, debottlenecking and optimization. Mine expansion from 3.3M lb to 3.8M lb pa U3O8 which had earlier been in the discussion was never enacted, partially because money was not spent on exploration to expand the resource base. Besides extending the open pit to the west, Paladin did not have much of a handle on near-mine mineralization as systematic exploration had never been completed but did see tremendous regional potential. Kayelekera is a classic sandstone uranium deposit that typically occurs in clusters. We believe that Lotus has a good handle on potential resource expansion and has already started drilling.

Exploration Upside

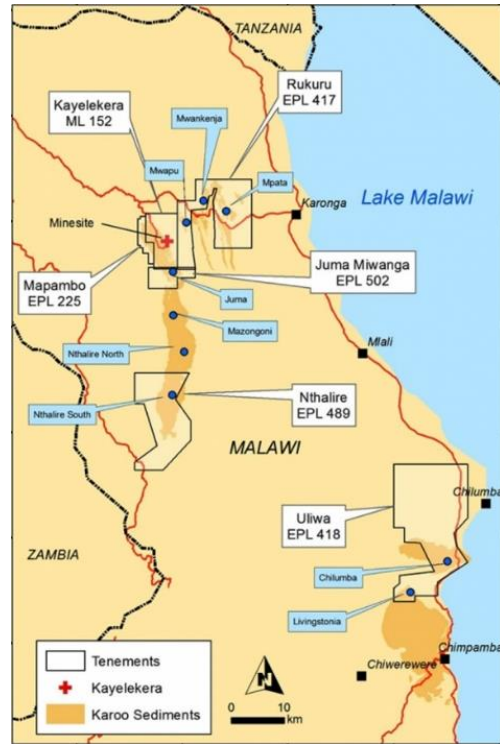
Limited exploration drilling. Exploration upside is something Paladin could not pull the trigger on as it focused on consistency of production at the mine. Kayelekera has total mineral endowment of ~50M lb U3O8 based on current resource of 37.5M lb U3O8 and historical production of 11M lb U3O8. There has been limited exploration completed in more than a decade, despite numerous near-mine, drill-ready targets, and the knowledge that these Karoo sandstone deposits tend to occur in clusters.

Brownfield target potential of between 7-14M lb U3O8 has been suggested. Shallow near-mine targets have seen no drilling and include the Kayelekera South target is made up of six anomalous radiometric targets within 3km of the current open pit. There is also a cluster of targets just outside of mining license area but within 10km of the mine site. This includes the Mpata target, a cluster of radiometric anomalies defined. Again, historical drilling was limited but showings of up to 250 ppm U3O8 have been identified.

Significant greenfield exploration opportunities. Several radiometric targets have been identified within up to 100km south of the Kayelekera mine. Many have been tested, but untested radiometric anomalies occur at the Mwankeja South, Livingstonia and Chilumba prospect areas, and structural targets in the Nthaire areas. With only radiometric and magnetic geophysics having been performed on a regional scale, there is potential for modern exploration techniques to help find uranium mineralization below areas of cover.

~5,000m reverse circulation (RC) drilling program underway. This represents the first uranium exploration drilling program at the project in over 15 years. Airborne radiometric anomalies within 3km of the plant will be tested with the ultimate objective of increasing mine life. A regional assessment is also underway on four prospective exploration licenses that will include review of historical data, mapping, radiometrics, prospecting, and sampling. Lotus will test 1) three of five radiometric targets identified as having similar signatures to known mineralization, 2) a step out target adjacent to the pit, and 3) a small infill program on the western edge of current resource which currently is not in the mine plan.

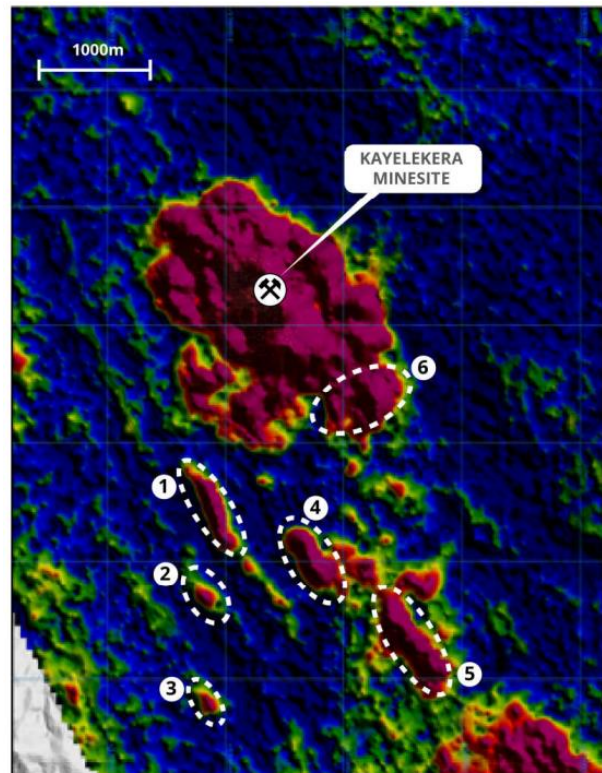
Figure 21: Map of Kayelekera tenements in relation to Karoo sediments



Several radiometric anomalies and structural targets have yet to be drill tested

Source: Company Reports

Figure 22: Kayelekera airborne radiometrics and key targets.



Source: Company Reports

Milenje Hills is favourably located 2km from Kayelekera

Milenje Hills provides exposure to rare earth elements – highly valued minerals that are increasing in demand thanks to the Green Energy revolution

Lotus divested its non-core Australian assets, allowing it to focus on Kayelekera while maintaining cobalt exposure through its interest in Sunrise Energy Metals

Milenje Hills Rare Earth Project

Milenje Hills rare earth oxide (REO) project is located 2km from the Kayelekera uranium mine. This project provides exposure to rare earth elements, high valued minerals that are in increasing demand given the growth of EVs and turbine generators in the growing Green Energy revolution. Preliminary geophysics (magnetics), mapping and trenching was carried out earlier this year.

High-grade REOs identified earlier this year. Up to 16% REO (8% average) and critical REOs up to 3.4% (1.6% average) were identified from 22 samples taken from near-surface allanite-rich pegmatites and granitoids. Titanium oxide of up to 7% was also found. The critical rare element assemblage includes Neodymium (Nd), Europium (Eu), Terbium (Tb), Dysprosium (Dy), Yttrium (Y), and Praseodymium (Pr).

High-grades and high valued minerals. Between the strong grades, the high value REOs and critical REOs provides strong incentive to carry out further work. Management suggests further trenching and mapping is warranted, prior to potential drilling as geophysics has identified further targets, including some below the existing trenches. Beneficiation potential might also be considered to help create a high-grade >30% REO concentrate. Nd and Pr oxides represent ~20% of the total REO content and are required for the manufacture of permanent magnetic for use in motors and generators, which make up 90% of the value of the REO market.

Potential value to be had. The project shows similarities with others that host JORC compliant resources. Projects with JORC Mineral Resources that have grades similar to those seen in the Milenje trench samples include Peak Resources' (ASX:PEK, Not Rated) Ngulla project in Tanzania (214Mt @ 2.16% TREO) and Arafura Resources' (ASX:ARU, Not Rated) Nolan Bore project in Australia (56Mt @ 2.59% TREO). Market caps of these two companies are A\$228M and A\$168M, respectively.

Interest in Sunrise Energy Metals

Lotus divested non-core Australian assets in late April, including the Hylea Cobalt project in the Fifield District of NSW. Total consideration was A\$1M cash and A\$1.5M worth of shares in Sunrise Energy Metals (ASX:SRL, Not Rated). Sunrise is a cobalt developer, chaired by Robert Friedland, focused on its advanced stage cobalt-scandium project. The Fifield District represents a significant cobalt, platinum, nickel and scandium exploration target in both scale and grade potential. Sunrise Energy Metals (formerly CleanTeQ), Australian Mines (ASX:AUZ, Not Rated) and Platina Resources (ASX:PGM, Not Rated) each have JORC compliant Co-Sc resources. While we view this deal as non-material, it does allow focus to remain on Kayelekera while maintaining exposure to cobalt within a more liquid vehicle. The Sunrise shares obtained by Lotus are currently worth A\$1.3M in our valuation.

Risks

Exploration, development, and mining projects are inherently risky investments given the large initial expenses that are required in advance of any potential revenue. Our view is based on publicly available information but note that our estimates and views are not without political, technical, geologic or financing risk typical for junior exploration companies. For Lotus Resources Ltd., these risks may include:

- **Geopolitical/jurisdictional risks** – Some of these risks may be out of the control of the company, including royalty and taxation levels, land agreement liabilities, regulatory, environmental and permit requirements and timing, global trade wars and political instability.
- **Technical risks** – This covers a wide variety of issues that we see associated with the deposit including exploration, development and exploitation strategies and methods. It would cover such issues as accuracy of geological interpretation, resource/reserve estimates and economic studies and inputs such as commodity prices, cost and grade fluctuations, assay reconciliation, metallurgical issues and exploration success. Our positive view relies on using existing technical data, recent exploration results and to a limited extent, expected positive results from future drilling. Future results may differ and negatively impact our assumptions.
- **Corporate risks** – These may include project execution by management, investor relations effectiveness, or market sentiment. Management pedigree and performance are paramount. Market sentiment is also an issue. Uranium is a particularly risky commodity given both the strong support and distain for the commodity and nuclear power as an answer to greenhouse gas emissions. Lotus is currently trying to acquire another 20% interest in Kayelekera mine from a company controlled by two of its Directors, subject to shareholder approval.
- **Financial risks** – These may occur at the project or corporate level, including variation in valuation parameters/metrics, commodity price or foreign exchange fluctuations, access to credit including debt, equity financing or potential for shareholder dilution.

As new information becomes available, we plan to refine our estimates and forecasts.

Appendix: Management & Directors

Keith Bowes - Managing Director: Mr. Bowes is a mining executive with >20 years' project development and operations experience in Africa, South America and Australia, across a range of commodities. Keith managed the Boss Resources' redevelopment program for Honeymoon uranium mine including all study phases and commercial trials of the new processing technology. He led the development in the application of two new technologies including leach chemistry and IX resins.

Michael Bowen - Non-Executive Chairman: Mr. Bowen is a partner of law firm Thomson Geer. He has >40 years of experience and practices corporate, commercial and securities law, focused on mergers, acquisitions, capital raisings and resources. He is also Non-Executive Director of ASX listed Omni Bridgeway Limited. Mr. Bowen holds a Bachelor of Laws, Jurisprudence and Commerce from the University of Western Australia. He has been admitted as a barrister and solicitor of the Supreme Court of Western Australia since 1979 and as a solicitor of the High Court of Australia. He is also a Certified Public Accountant and member of the Australian Society of Accountants.

Grant Davey - Non – Executive Director: Mr. Davey is an entrepreneur with 30 years of senior management and operational experience in the development, construction and operation of precious metals, base metals, uranium and bulk commodities. He has been involved in venture capital investments in exploration and mining projects and was instrumental in the acquisition and development of Honeymoon uranium mine in South Australia, Panda Hill niobium project in Tanzania, Superior Lake zinc project in Ontario, Cape Ray gold project in Newfoundland and Kayelekera uranium mine in Malawi. He is currently a Company Director for Cradle Resources Limited (CXX), Superior Lake Resources (SUP), Lotus Resources (LOT) and is a member of the Australian Institute of Company Directors (AICD). He also controls Kayelekera Resource Pty Ltd. which indirectly owns 20% of Kayelekera currently being sold to Lotus.

Mark Hanlon - Non – Executive Director: Mr. Hanlon has >25 years' experience in the resources and resource services sector, and commercial and merchant banking. He has senior executive experience across various industries including mining and mining services. He is currently Non-Executive Director of ASX listed companies Red River Resources and Copper Strike Limited.

Adam Kiley - Corporate Development: Mr. Kiley has over 15 years' experience in the mining sector with a depth of experience in providing corporate and financial advisory services to ASX listed companies in both Australia and the United Kingdom.

Chris Knee - Chief Financial Officer: Mr. Knee is a Chartered Accountant with 15 years' experience at a multinational accounting firm and has held senior finance roles at junior resources companies with projects in Africa, Canada and Central Asia. He has experience with joint venture agreements, due diligence, international taxation, financing transactions, accounting and compliance. He currently provides CFO services to Matador Capital, Graphex Mining and was former CFO of Manas Resources Limited.

Theo Keyter - Country Manager: Mr. Keyter has almost 40 years' mining operations experience in South Africa, Sierra Leone, Malawi and Saudi Arabia across a range of commodities. He was a past Mine General Manager, and Project Manager on The Mponeng Deepening project in South Africa, currently the deepest mining operation in the world. He has been the driver behind Lotus' cost improvement initiatives and has developed good working relations with government and other stakeholders.

Kobie Cilliers - Commercial & Project Administrator: Mr. Cilliers is a management account and experienced commercial and administration professional with 38 years of experience in mining. He has worked for various mining companies in South Africa and was one of the first permanent employees of Paladin (Africa) Ltd in 2008. He has been instrumental in maintaining the necessary in country commercial contacts.

John Mwenelupembe - Technical Supervisor: Mr. Mwenelupembe is a Geologist with >25 years' experience in exploration and environmental work. John has helped design and execute several exploration programs at Kayelekera since 2004, and was involved in previous Kayelekera feasibility studies. He also on greenfields uranium and rare earth elements exploration projects in North Malawi. He was previously involved in gold, coal and industrial minerals exploration across Malawi.

Ronarld Kapira - Security Manager: Mr. Kapira is Corporate Security Manager with >19 years' experience. He previously worked for G4S in Malawi in various security supervisory and managerial positions. Over the past 11 years he has been instrumental in the establishment of the security team at Kayelekera Mine, and has implemented use of several technologically advanced surveillance security systems.

David A. Talbot | MD, Mining Analyst
Koby Kushner | Research Associate
Alina Islam | Research Associate
Daniel Kozielowicz | Research Associate
Elie Khazzaka | Research Associate

Red Cloud Securities Inc.

105 King Street East, 2nd Floor
Toronto ON, M5C 1G6

research@redcloudsecurities.com

www.redcloudfs.com/research-home

Disclosure Statement

Updated July 27, 2021

Recommendation / Target Change			Red Cloud Securities has this percentage of its universe assigned as the following:	
Date	Rating	Target C\$/sh	Status	%
2021-03-26	NA	NA	BUY	69%
2021-07-06	NA	NA	BUY (S)	25%
			HOLD	0%
			SELL / Tender	0%
			NA	5%
			Under Review	2%

Disclosure Requirement

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Company Specific Disclosure Details

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

1. The analyst has visited the head 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.
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11. Red Cloud Securities Inc. is a market maker in the equity of the issuer.
12. There are material conflicts of interest with Red Cloud Securities Inc. or the analyst who prepared the report and the issuer.

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- 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.

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