

1 Deep Yellow Limited

DYL

Deep Yellow Limited (ASX:DYL) is our first "must own" and most highly recommended company. The core asset of the company is the Reptile/Tumas uranium project and nearby exploration grounds on the coast of Namibia, southwest Africa. The company is at a stage to enjoy exploration upside as it details out uranium assets and also has the entire life cycle of a junior explorer ahead of it due primarily to the base jurisdiction in Namibia and the operational excellence of the management team to go from drill hole to cake in a can. Being located in Namibia gives the potential for an asset to be fast tracked if all of the conditions are setup right. Permitting and regulatory hurdles are simple and reasonable. Namibia is a long time uranium mining jurisdiction and is currently competing with Niger to be the number one uranium exporting country in Africa. Namibia itself is one of the best mining jurisdictions in the world and arguably the top jurisdiction in Africa as things currently stand. The nation understands the importance of mining to its economic success. You can learn more about the jurisdiction in our editorial section.

The reason Deep Yellow is setup so well is that it possesses a management team led by John Borshoff that has advanced projects in the county since 2002 when the team acquired the Langer Heinrich project from Aztec Resources. The company was John Borshoff founded Paladin Resources now known as Paladin Energy. John and his team developed Langer Heinrich into a producing mine among the top ten producers in the world. Deep Yellow had been setup by John while at Paladin essentially to be the exploration arm of Paladin while it focused on Langer Heinrich development. John and other key people including Dustin Garrow, Mark Chalmers and Gill Swaby left Paladin in 2015 during the lows of the bear market. John, Gill and other key technical team people, including Ed Becker, took over at Deep Yellow in late 2016 when uranium prices had hit the low around \$18 per pound. Meanwhile, Dustin Garrow went off to his consulting company, Nuclear Fuel Associates, while Mark Chalmers took the helm at Energy Fuels.

It is clear that Deep Yellow is preparing an attempt to build the next conventional uranium mine in Namibia to be at the core of the company while it looks at global opportunities. The company plans to improve the uranium asset base to a level sufficient to proceed forward with feasibility scenarios. As this progresses over the next 2 years, we expect the company will add other accretive projects in Namibia, other parts of Africa, Australia, and potentially Canada. The company presently has control of some exploration grounds in Northern Territory, Australia.

The palaeochannel/calcrete type deposits that exist on the Deep Yellow exploration grounds are very shallow low grade deposits. The material is easy to dig and remove using conventional mining methods. It does not require any complicated expensive processes. Infrastructure is readily available and the shipping port is about 70km away making an ideal location and easier setup for a mine. The deposits at Tumas are close in proximity to be bundled together feeding a centralized facility.

You see, the Deep Yellow team has been in the same 80km radius area within this uranium district in Namibia for the past ~18 years. They know the uranium is easily available within the company properties. They know very well each step in the process including the agencies, local communities and government. When you consider the how well the situation is de-risked, even at these stages, it provides a highly attractive situation.

Deep Yellow has established a relationship via joint venture with JOGMEC, a major Japanese global resource group. This relation most likely ties into a potential future connection with Japanese utility re-supply deals. JOGMEC indirectly helps carry Deep Yellow with a bit of financial support via the joint venture at the Nova project. JOGMEC as a partner speaks to the credibility of management.

During the last cycle Paladin was the standout business that really performed above and beyond all else. The strategy that was fielded by the company was among the most difficult yet most credible. The company proved it could not only prove up value but it also showed it had the expertise and motivation to take the attack all the way to a commissioned mine and globally significant producer. It paid off. Can Mr. Borshoff do it again? We suspect he is fully capable and there will be many competitors yet again this time.

Not owning Borshoff means your uranium portfolio is not complete. A number of people have expressed concern and dissatisfaction with bankruptcy of Paladin in 2017. John left in 2015. Some attribute the Paladin problems to John directly. Some attribute it to the crushing blow Fukushima delivered the whole industry. Some blame partners such as EDF and CNNC for not working with the company. Some think all

these players had a role. Say what you will but these companies are not meant to be held from the bottom up and then from the top down. They are a one way flight that eventually runs out of fuel at max altitude. Referring to the past downtrend, it doesn't matter if the company survives or not when you've lost 90% already. The last 10% to a 100% loss is the pain free part of the death. In this specific case, I'd rather lose 90% of 100% (situation today) than 90% of 10,000% (situation from the last uranium cycle peak). The latter is extraordinarily painful and we hope you understand the context in which we are speaking. So, regardless of the Paladin debacle, which by the way may have reached a deal with creditors had Borshoff not left before

"In the uranium business all sector names float higher but some will severely outperform the group. You want to position yourself to take best advantage of key factors to improve the likelihood of catching a real standalone performer."

- Andrew Weekly

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those discussions took place, it is irrelevant to the fact that every business in the space suffered greatly. After a 90% loss, administration (bankruptcy) or survival, if there was a choice, is just laughable either way you take it. Any participant who held through the last cycle and are still sitting on 90%+ losses today missed a key set of concepts. All companies lost significant value post-Fukushima...not just Paladin.

Moving on to ownership, management and key insiders at Deep Yellow control about 32% of the shares in total while direct management holds about 16% of that total. Shares outstanding in late 2018 was about 201m. The remaining of that amount is held by Sprott, which includes a number of investors combined with Sprott capital. We estimate the Sprott cost basis near \$0.20 per share assuming they only participated in the two placements of which they were part of and have not purchased shares in the open market. Sprott also holds a chunk of listed warrants which are exercisable at \$0.50 until June 2022 with a \$0.78 acceleration clause. The listed warrants are on the ASX under symbol "DYLO".

You can't intelligently bet against John's expertise while he is still in the business. Him, his team, his access to talent, and his industry reach is best in class. Deep Yellow is and among our highest conviction positions across all of our work. There are a handful of other high conviction positions including our selections in this report, but Deep Yellow remains at the top of our shelf. Management is the best there is and they have control of an attractive situation and strategic plan that provides discovery, development, and production upside all in the same cycle. Their execution will drive the value upside over the next few years. Deep Yellow holds operational expertise from the field, geology, construction, the board room, utility relations, finance relations, and community/local expertise. This was expertise developed during the last cycle by the team because they went through all the stages. For perspective, the first stage Langer Heinrich mine was just less than 2 years from construction to first yellowcake delivery. This time frame is among the fastest we've seen to bring on notable production for the sector. This puts the potential in context. They have the components to repeat this success even better this time on what we see as a smaller scaleable project at Tumas.

We recommend 12% allocation per our entry guidelines within our Nuke Report.

FROM THE FOUNDER & CEO



Dear Reader,

By obtaining a copy of this report you've taken an important step in understanding the role nuclear energy plays in the world and, importantly, how the uranium fuel business critically contributes to sustaining the nuclear power source we all enjoy. This introduction letter is for potential, new, and existing uranium investors & speculators that have a positive, neutral or even negative view on the nuclear power and uranium mining industry. It provides a framework for understanding why we put together this report as a vehicle for best representing & expressing our view.

We are about to embark on a journey that will take years to complete. The path will test our patience, our endurance, our willpower, our certainty, and our capital on the way to success. People will say you're crazy and that you have it wrong. In fact, you may well be wrong for some time. What matters in this game is the finish and whether or not it pays well enough to be wrong for a time. We contend it does. It makes no difference whether or not you like the nuclear power industry or the uranium mining business. It doesn't matter if you think you can make money on the short side or the long side. It doesn't even matter if the uranium mining business loses money on every single pound of uranium that they sell from now until 2050. It doesn't matter if you think nuclear power is bad for people and the earth. The point is it doesn't matter what you think. It only matters what is going to happen...

You see, the nuclear power industry is a multi-trillion dollar business on a global scale. That's right, multi-trillion. It is not something that gets turned off in 10, 15, or even 20 years. It's just not going to happen anytime soon. Look at the hated coal power industry. After decades of government policies to kill the business, it still makes dirty power today so you can charge your electric car and your smartphone with it. At current pace, coal power will be with us for at least another decade. If coal can still survive, what do you think is likely to happen with nuclear? You can talk meltdown all you want but the reality is that humankind has an extensive tolerance for making sure power grids supply necessary power for the modern world. Only about 5 years later did Japan return to nuclear power generation. The reality of the global energy situation is much different than we are led to believe...especially if you are a student of the mainstream.

For those who are in the drunkenness of renewable power...it's time to sober up to the tough reality. While renewables like wind and solar have a place in modern energy, they will not become the sole source of power...unless

"Whether you take a bear or bull case in uranium, we all get a religious experience of witnessing who benefits when the time comes. Wisdom favors one side of that argument but more importantly, capital deployment confirms it. Do you have the willpower & agility to see it through?"

- Andrew Weekly

you're stupid. They aren't fully renewable because they require replacement parts. These parts come with a carbon footprint, just like everything else. Like residential waste, solar and wind have large waste implications. Because these sources have the uptime of about 1/3 on average as compared to a nuclear reactor, the capacity build out required to produce consistent reliable energy from these sources would take far too much capital and land mass to achieve. We're talking tens of trillions and multi-Texas like space footprints. In other words, it just isn't possible no matter how you cut it or how you spin it. As the race to the lowest cost per kilowatt hour ensues, so is the drive to see who can survive on the lowest possible margins. Margins attract capital...low margins attract less. Less capital means less innovation and improvement. Capital seeks better returns elsewhere.

So now that there is no argument about nuclear energy hanging around for the foreseeable future the next question is how they keep a steady fuel supply. Uranium remains to be that key fuel that is used in nearly all reactors worldwide. Now, there is no shortage of uranium mineral on this earth. In fact, there is a lot. The question is at what cost will it move from the ground, through the fuel cycle, and into a reactor? Who will do it? If there is no incentive to mine uranium, then how will the nuclear utilities get their fuel needs fulfilled? Do you believe that these folks will shut off a multi-billion dollar plant because there is no fuel? Prices dictate incentive. At some point in time the incentive to mine will return because there is no other option. None no matter how you hack it.

The negative uranium camp would have you believe that there is sufficient supply sitting around to power reactors for decades. They often forget how the real world works when it comes to supply, demand, stock and who holds it. I personally prefer to always fill my car with diesel anytime there is an opportunity. In fact, I prefer my car full of fuel, 100%, for at least 90% of the time. Doing so almost certainly ensures I have fuel for when I need it the most. We hope the station has fuel each time we need it. What do you think a nuclear utility would do when it comes to securing fuel, a cheap component of an overall multi-billion dollar power plant? They aren't stupid or naive...neither should you be. It's the same whether we are talking about keeping food in the pantry or water in the garage. The point is that smart people have a tendency to overstock to ensure supply for when it is needed most. When return on capital and power supply is needed we suspect there is just a bit more motivation to keep things operating. Margin attraction. Globally, we are on the cusp of a new refueling cycle where nuclear utilities will head to the grocery store to stock up on goods. Who will provide that new round of supply? There is no way it will be coming from existing governmental and existing utility stock. It won't come from HEU weapon dismantling either. It's not coming from seawater either.

Uranium prices have been in the dumpster for years. The longer prices stay low will result in more miners burying themselves. This is a classic setup that eventually is self correcting. No interest leads to supply decline. No supply eventually results in higher prices. Higher prices result in new supply coming online. Excessive prices lead to oversupply. You get the cycle. When you've already built a multi-billion dollar nuclear facility there is no further pain when you need to pay for the fuel. People don't stop going to work when the price of gasoline rises a

bit. The opportunity cost for that paycheck means too much to hesitate. Mining of uranium must continue. For that to happen, the price must go up and it will. The pain when the lights go out at your house is too great to bare.

Yet even the uranium bears have failed to realize that the time to short uranium has already passed. Yes, that time will come again but it is not before prices and production ability goes up substantially. This is besides the point that a true uranium bear must take a short position to put their money where their mouth is in the first place. You can't be a bear without something to risk. Rather, even during a poor uranium price environment there has been 3 distinct opportunities to make 2-3x your money, if not more, since 2016. Just take a look at the price action of uranium and most of the stocks since mid-2016 onward. You've just missed some fantastic trading setups that offered returns which rival many other sectors arguably in a shorter period of time. The time to be a bear has passed for now. The final tools left here are a hope that the big broad markets suffer big declines or another nuclear accident occurs. Hoping for the latter just to support a poorly conceived thesis is a shame. With commercial nuclear power operating for some 63 years, record of only notable 2 accidents, with the latest of those sadly occurring 8 years ago...we'll take those odds, with pleasure.



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Disruptive energy technology? It is entertaining to hear this common buzz word "disruptive" across the mainstream these days. Last we checked, there has been nothing disruptive about human needs, desires, protectiveness, and resistance to change, despite failed efforts to do so. Short of the end of life as we know it, there will be nothing disruptive overnight that will change how we generate electricity. Disruptively, nuclear power will endure for the foreseeable future until tens of trillions of dollars are deployed to replace its carbon-free generating capacity. Change remains to be painful and resisted. Human nature remains intact.

Just about everything is cyclical and the same is true for uranium or any other natural resource. The markets go through periods of leanness and excessiveness. No money to big money. Without a doubt we are near the beginnings of a cyclical uptrend for uranium coming from a longer period of leanness. Now that we are on the right side of the cycle...that is...bottom far left of a line chart with only room to move up and to the right...the final question is timing. Uranium or any other natural resource has characteristics that reward handsomely even if you got the timing wrong for a time. It speaks highly true for the small capitalization of the uranium mining business. We don't know exactly when uranium prices will rise but we can tell you that they will sometime in the next few years. Now, to some degree we've already seen some rise since 2016, from ~\$18 to ~\$29 in late 2018. Our hard charge to our uranium viewpoint came in May 2017. So far, we've been close on timing but remain to be wrong for now. For this specific sector, early has been better than waiting for some unknown confirmation or showing up late.

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With that, it makes sense to take the view that we might still be waiting around for another 3 years. During this time, we might also see a sizable broad market decline that would most likely put the uranium business on sale. In our view, this is understandable, attractive, and welcomed because it provides more time and capital to accumulate assets in the sector. It also keeps capital dry for a few more years causing things to become even more dire in a must survive industry. Investors and speculators in this space will still need patience going forward. Furthermore, the ride is a one-way trip that must be carefully navigated before successfully exiting. While supporting such a key energy industry is honorable and commendable, any successful enterprise gets paid for their supporting capital investments. A return on capital is required before we can enjoy advancement. We expect this report will provide comprehensive guidance and understanding in this regard from start to finish. 2019 is the potential early stages of that journey.

All the best as this trend gets underway. Nuclear energy may not be perfect, but it is the closest thing to perfect we've got so far. Uranium will provide the fuel to that end. Here is to nuclear energy, the prevailing powerhouse that has a bright future whether we like it or not.

Regards,



Andrew Weekly
Founder & CEO

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