Fundamental Research Corp.
Investment Analysis for Intelligent Investors

October 15, 2021

Blue Sky Uranium Corp. (TSXV: BSK / OTCQB: BKUCF)

A Solution to Argentina's Rising Demand for Uranium – Initiating Coverage

BUY
Current Price: C$0.30
Fair Value: C$0.47
Risk: 5

Sector / Industry: Junior Resource

Click here for more research on the company and to share your views

Highlights

- Blue Sky holds a portfolio of four uranium assets in Argentina. There is a need for domestic uranium producers as **Argentina imports 100% of its uranium consumption**. Argentina has three operating nuclear reactors (plus one in construction, and two additional planned), but no domestic uranium production.
- BSK has the largest NI 43-101 compliant uranium resource in Argentina.
- A Preliminary Economic Assessment (PEA) on the flagship Amarillo Grande project has an **AT-NPV8% of US$135M, and a high AT-IRR of 29%**, at US$50/lb U_3O_8. It has potential to be a low-cost mine as the cash cost is estimated to be just US$16/lb.
- The project hosts a medium-sized/low-grade deposit, with 22.7 Mlbs of U_3O_8, and 11.5 Mlbs of V_2O_5 (vanadium) in inferred resources. Uranium accounts for approximately 85% of the project's value. We believe a major advantage of the deposit is that it is **near-surface (within depths of 25 m).**
- The company is undergoing an aggressive resource expansion/upgrade drill program.
- Management has a strong track record, and has been operating in the country since 1993.
- We have **a positive outlook on uranium prices**, and believe that long-term prices have to be at least US$50/lb for new projects to come online. The global movement towards clean energy is driving optimism in the uranium sector.
- **BSK is trading at just $4.24/lb vs the sector average of $5.85/lb.** Key catalysts include drill results, and rising sector optimism.

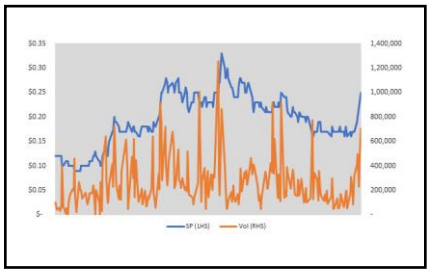
Risks

- **Commodity prices**
- Exploration and development risks.
- As the company has not joint ventured its projects, it will be challenging to advance all of its projects simultaneously.
- **Access to capital and share dilution.**

Sid Rajeev, B.Tech, CFA, MBA
Head of Research

Nina Rose Coderis, BSc (Geology)
Equity Analyst

Price Performance (1-year)



	YTD	12M
Ret.	58%	150%
TSXV	5%	29%

Company Data

52 Week Range	C$0.09 - C$0.37
Shares O/S	179M
Market Cap.	C$54M
Yield (forward)	N/A
P/E (forward)	N/A
P/B	N/A

Key Financial Data (FYE - Dec 31) (C$)	2020	2021 (6M)
Cash	$1,215,569	$1,248,317
Working Capital	-$758,705	$786,965
Mineral Assets	$70,876	$78,245
Total Assets	$1,333,087	$1,367,895
Net Income (Loss)	-$1,928,918	-$4,283,317
EPS	-$0.02	-$0.02

- Subsequent to Q2, BSK raised $2.1M.

***See last page for important disclosures, rating and risk definitions. All figures in C$ unless otherwise specified.**

Portfolio Summary

Four uranium-vanadium properties covering 450,000 hectares

The flagship Amarillo Grande project is located in Rio Negro province

Sierra Colonia, Tierras Coloradas, and Cerro Parva are in Chubut province

BSK's Portfolio



Source: Company / FRC

Amarillo Grande Project, Rio Negro Province

100% interest

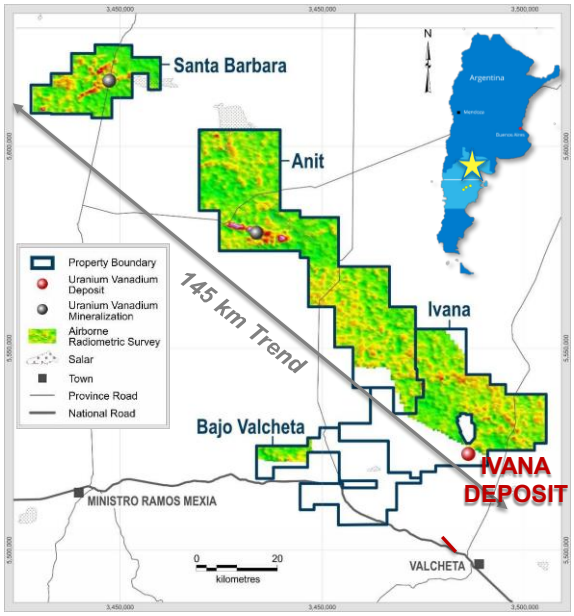
145 km long trend

The project consists of three major properties – Ivana, Anit, and Santa Barbara

Road accessible from major centers

The deep ocean port of San Antoio Oeste is 200 km to the east

Project Location



Source: Company

The project covers an area of approximately 300,000 hectares of mineral rights. It is located in the Patagonia region of southern Argentina, and roughly 25 km north of Valcheta city, where BSK has an exploration office. A railway runs parallel to National Road #23, and two power lines crosscut the project area. The project area is semi-arid, and generally flat lying (elevations of under 200 m).

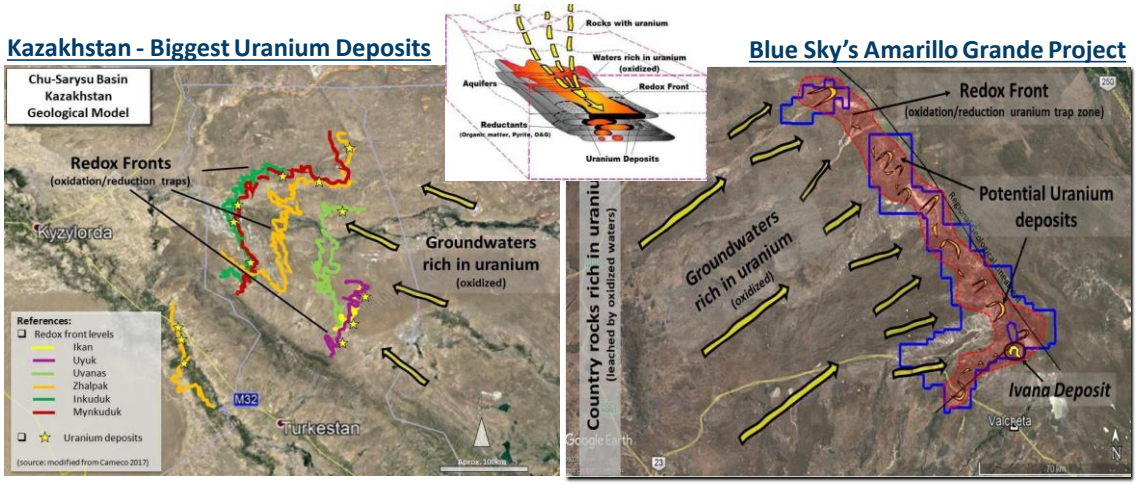
History and Mineralization

The Santa Barbara deposit, discovered in 2006, was the first uranium deposit found in the Rio Negro basin. Blue Sky explored the area from 2007 to 2012, and subsequently discovered the Anit deposit in 2008, and the Ivana deposit in 2011. Prior exploration programs included airborne and ground radiometric surveys, sediment and pit sampling, induced polarization (IP) geophysical surveys, and auger and core diamond drilling. **A total of 9,000 meters have been drilled across the three deposits.**

Sandstone-hosted uranium deposits are typically low to medium grade deposits

Mineralization at the Ivana deposit has characteristics of sandstone-type and surficial-type uranium-vanadium deposits. The Ivana deposit is related to a braided fluvial system, which is typical for sandstone-hosted uranium deposits, and indicates potential for a district-size system. It is **comparable to the Inkai deposit in Kazakhstan**, owned by Cameco (TSX: CCO) and Kazatomprom. The Inkai mine is the fourth largest uranium producer in the world, and accounts for 6% of global uranium production.

Surficial-type deposits can be processed by leaching and simple upgrading



Similarities to the Inkai deposit

Source: Company

2019 Resource and PEA

We note that sandstone-hosted deposits constitute 28% of the world's uranium resources, and are typically of **low to medium grade**. Individual orebodies are usually small to medium in size. The project's resource estimate is only for the Ivana deposit.

Medium-size/low-grade inferred resource

Resource Estimate - Ivana

Inferred Resources – Base Case at 100 ppm Uranium cut-off grade							
Zone	**Tonnes (Mt)**	**U (ppm)**	**U_3O_8 (%)**	**V (ppm)**	**V_2O_5 (%)**	**Contained U_3O_8 (Mlbs)**	**Contained V_2O_5 (Mlbs)**
Upper	3.2	133	0.016	123	0.022	1.1	1.5
Lower	24.8	335	0.040	105	0.018	21.6	10
Total	**28**	**311**	**0.037**	**107**	**0.019**	**22.7**	**11.5**

Source: Company

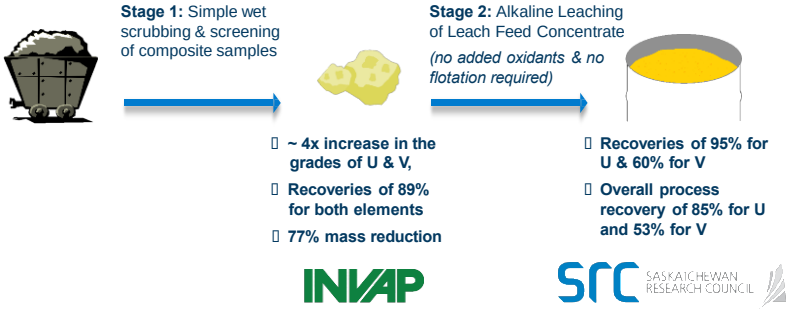
A PEA completed in 2019 was based on open-pit mining of the Ivana deposit. Uranium recovery is by simple wet scrubbing and screening, followed by alkaline leaching.

Simple two-stage recovery process

No blasting or crushing required

Overall recovery of 84.6% for uranium, and 52.5% for vanadium

Two-Stage Recovery Process



PEA Results

Mine life (LOM) of 13 years; total production of 17.5 Mlbs U3O8

Initial CAPEX estimate of US$128M, and a low AISC of US$18.27/lb, and cash cost of $16.24/lb

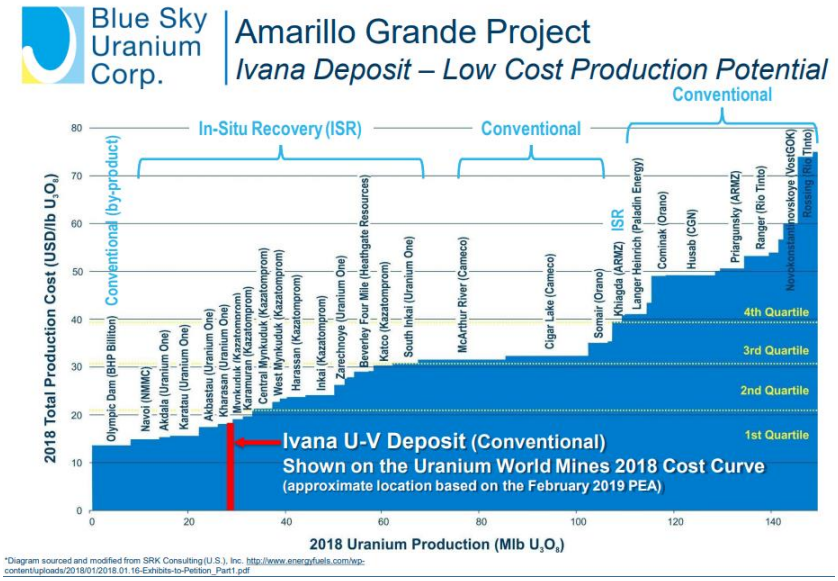
AT-NPV8% of US$135M, and a high AT-IRR of 29%, using US$50/lb uranium

After Tax		
NPV8%: $135.2 million	IRR: 29.3%	Payback period: 2.4 years
Pre-production Capital Cost: $128.05M incl. $28.3M contingency	LOM Sustaining Capital Cost: $35.46M incl. $7.21M contingency	
Average LOM Total Cash Cost net of credits: $16.24/lb U_3O_8	Average LOM All-In Sustaining Costs ("AISC") net of credits: $18.27/lb U_3O_8	

PEA Key Assumptions & Inputs	
Uranium price:	**$50/lb U_3O_8**
Vanadium Price	**$15/lb V_2O_5**
Years of Construction	**2**
Years of Full production:	**13**
Strip Ratio (waste/ore):	**1.1:1**
Dilution:	**3%**
Average Mining rate (waste + mineralized material):	**13,000 tonnes per day ("tpd")**
Processing throughput:	**6,400 tpd**
Process Plant Recoveries	**Uranium: 84.6%, Vanadium: 52.5%**
Average Annual Production (LOM):	**1.35 Mlbs/y U_3O_8**
LOM uranium production:	**17.5 Mlbs U_3O_8**

Source: Company

In terms of OPEX estimates, Ivana falls in the lower quartile

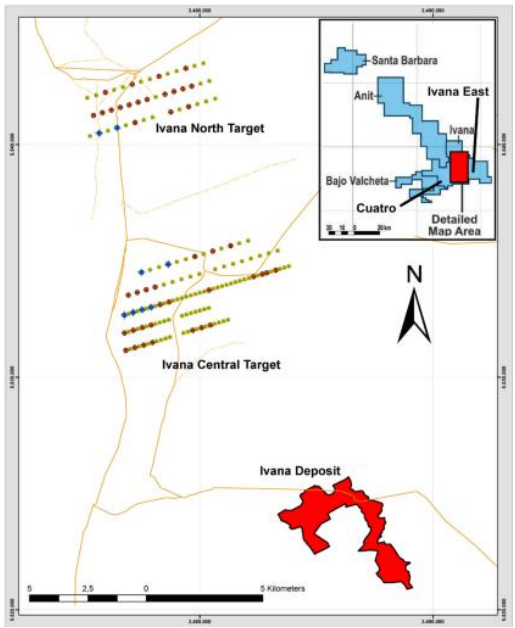


Resource Potential

Multiple potential targets have been located along the 145 km geological trend of the Amarillo Grande district. A **4,500+ drill program to test two high priority targets**, including Ivana Central (IC) and Ivana North (IN), is underway. Phase 1 drilling at IN was completed in June 2021, and the company is awaiting assay results.

Ivana North drilling (Phase 1 Drilling) consisted of 40 holes totaling 1,591 m

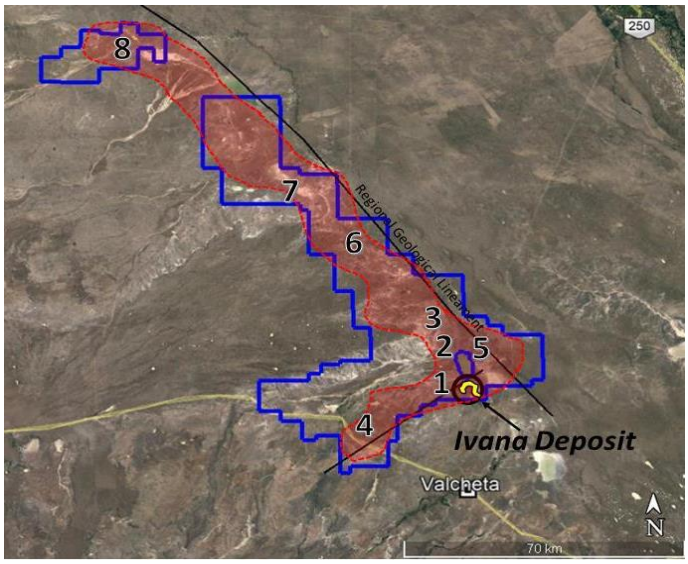
Ivana North and Ivana Central



Source: Company

Multiple potential targets along the 145 km geological trend of the Amarillo Grande district

Target #6 is a potential in-situ recovery (ISR) zone; ISR is the most economical mining method for uranium deposits



Source: Company

A 3,500 m RC drill program is also underway at the Ivana deposit. The drill program's goal is to expand and upgrade Ivana's resources.

Upcoming Catalysts:

- Ongoing drilling at Ivana, IN, and IC.
- Process design test work
- Complete a PFS in 2023

Other Projects

Management has no immediate plans for these non-core assets

Projects in Chubut Province, Argentina

Project	Total Area (hectares)	Work Completed
Sierra Colonia	28,470	
Tierras Coloradas	40,000	Surface radiometric surveys, sampling & mapping
Cerro Parva	36,237	
	104,707	

Source: Company

Management and Directors

Management and board own 7.3%

Share Ownership

Name	Position	Shares	% of Total
Joseph Grosso	Chairman of the Board	9,035,725	5.04%
Nikolaos Cacos	President , CEO and Director	2,800,000	1.56%
Dr. David Terry	Director	9,273	0.01%
Darren Urquhart	Chief Financial Officer	569,500	0.32%
Guillermo Pensando	VP Exploration	454,166	0.25%
Connie Norman	Corporate Secretary	225,000	0.13%
Total		**13,093,664**	**7.30%**

Source: Company / FRC

Brief biographies of the management team and board members, as provided by the company, follow:

Nikolaos Cacos – President and CEO
Mr. Cacos brings over 29 years of management and advisory expertise in the mineral exploration industry. He has worked with the Grosso Group since inception and serves as senior level executive for all the member companies. Mr. Cacos' career includes administration and strategic planning for public companies. He holds a Master of International Management degree from Heidelberg, Germany and a Bachelor of Science degree from the University of British Columbia.

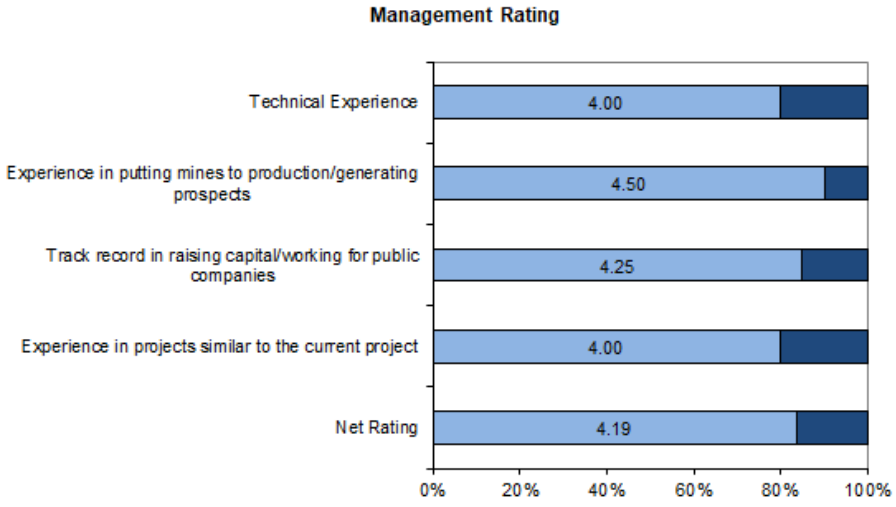
Joseph Grosso – Chairman of the Board
Mr. Grosso is the President and Founder of Grosso Group Management Ltd. and President and CEO of Golden Arrow Resources Corporation. He became one of the early pioneers of the mining sector in Argentina in 1993 when mining was opened to foreign investment, and was named Argentina's Mining Man of the Year in 2005. His knowledge of Argentina was instrumental in attracting a premier team which led to the acquisition of key properties in Blue Sky Uranium Corp. He has successfully formed strategic alliances and negotiated with mining industry majors such as Barrick, Teck, Newmont, Viceroy (now Yamana Gold) and Valeand SSR Mining Inc., and government officials at all levels.

Dr. David A. Terry - Director
Dr. Terry is a professional economic geologist, senior executive and corporate director with more than 25 years' of international experience in the mineral resources sector. He has played key roles in the successful acquisition, exploration and development of a number of precious and base metal deposits, primarily in North and South America, and has expertise in advanced project evaluation, M&A, corporate finance, and design and execution of effective exploration programs. Dr. Terry holds a B.Sc. and Ph.D. in geology from Western University in Ontario and is a member of the Association of Professional Engineers and Geoscientists of British Columbia.

Darren C. Urquhart - Chief Financial Officer
Mr. Urquhart is a chartered professional accountant with twenty years of experience working in public practice and industry. Mr. Urquhart operates his own public practice accounting firm offering chief financial officer and accounting services to TSX Venture Exchange listed companies in Vancouver. Mr. Urquhart began his career working as an audit accountant with Grant Thornton LLP, then later worked as a senior tax accountant with Lohn Caulder Chartered Accountants. Mr. Urquhart obtained his chartered accountant designation in 2001. In 1995, Mr. Urquhart graduated from the University of British Columbia with a Bachelor degree of Applied Science in Electrical Engineering.

Guillermo Pensado – Vice President of Exploration & Development
Mr. Pensado is a professional economic geologist with more than 25 years of expertise in the mineral exploration industry - with particular emphasis on uranium. He holds extensive experience in exploration and economic project assessment in Argentina, Brazil, Chile, Peru, USA and Canada, mainly focused in uranium, precious metals and copper deposits. In the last decade, Mr. Pensado has worked in the start-up of new projects and companies, and has held positions from advisor to V.P. Exploration.Mr. Pensado holds a B.Sc. in Geology from the University of La Plata, Argentina, and a M.Sc. in Mineral Exploration from Queen's University, Canada. In 2016 and 2018, Mr. Pensado was recognized by the Argentina Mining International Conference for his professional career in the exploration industry.

Our rating on the company's management team is 4.2 out of 5.0



Source: FRC

Strength of Board

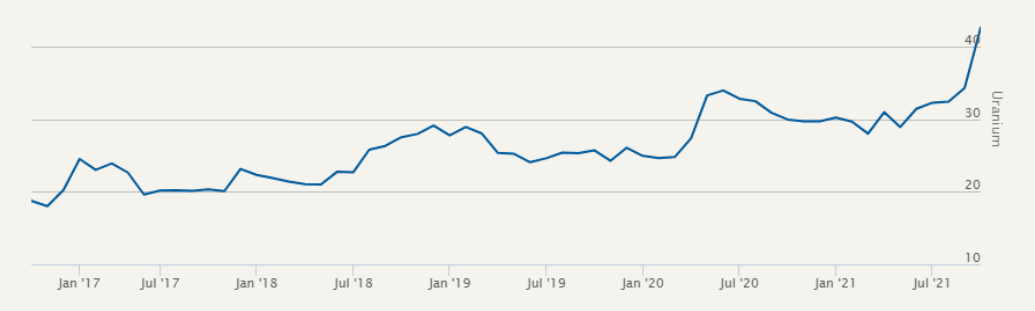
	Poor	Average	Good
Two out of three directors are independent		X	
Directors' share ownership			X
The Audit committee is composed of all three board members, two are independent		X	
The Compensation committee is composed of all three board members, two are independent		X	

Only three directors

Source: FRC

Outlook on Uranium

Spot Uranium Prices



Uranium prices are up 60% since the beginning of 2020

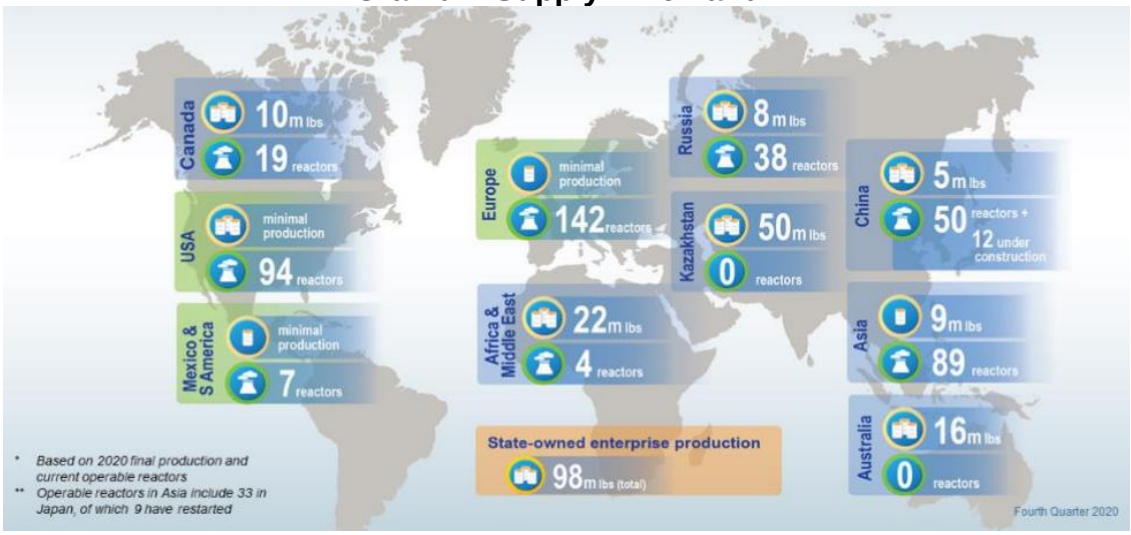
Source: Cameco

We believe that **prices are up due to two key factors**: temporary supply disruptions due to the pandemic, and an increasing number of uranium producers and institutions purchasing the metal from spot markets, betting on higher prices in the future.

The Horizons Global Uranium Index ETF (TSX: HURA) is up 248% since the beginning of 2020. Another factor that is driving optimism in the sector is that Biden's $2T infrastructure and climate plan includes initiatives to revive uranium production in the U.S. As shown below, the U.S. currently has minimal domestic production; almost all of the uranium required for its 94 reactors is imported.

Biden's $2T plan includes initiatives to revive uranium production

Uranium Supply – Demand

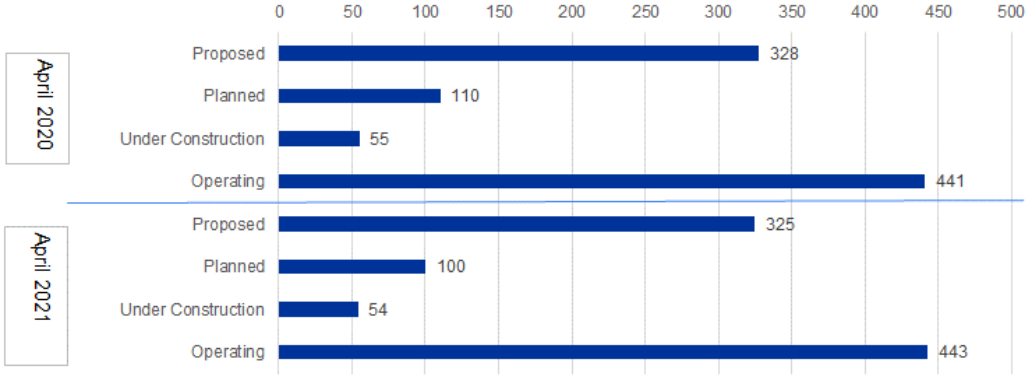


Source: Cameco

443 nuclear power reactors are in operation globally. The planned and under-construction reactors will bring the total number of existing reactors to 597, a 35% increase from current levels.

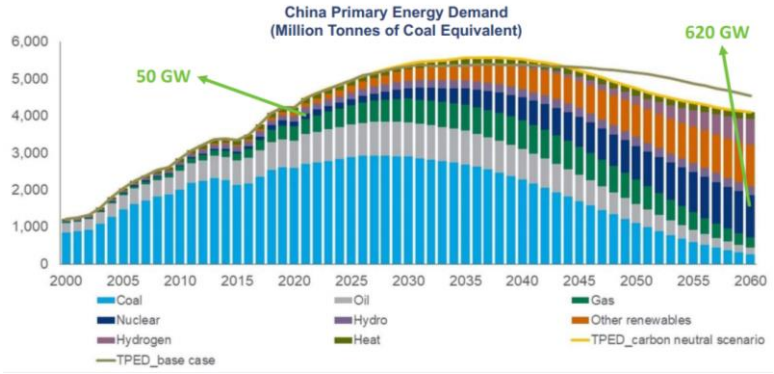
More than half of the reactors under construction are expected to come online in two years

Number of Reactors in April 2021 versus April 2020



Source: WNA, FRC

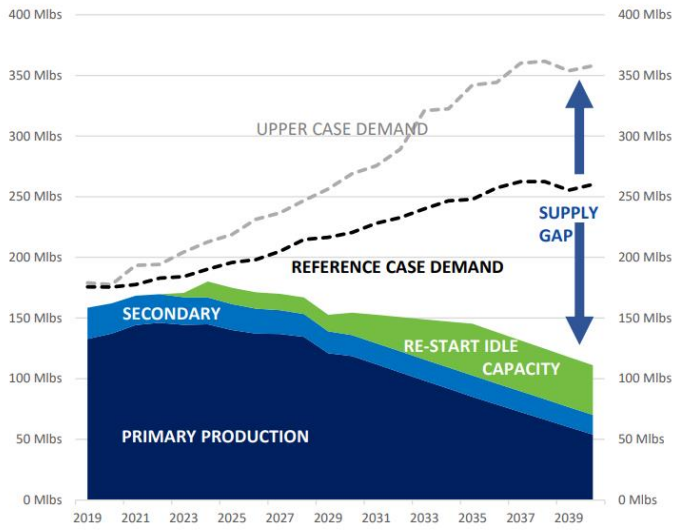
China's commitment to reduce its carbon footprint is expected to result in a significant increase in nuclear demand



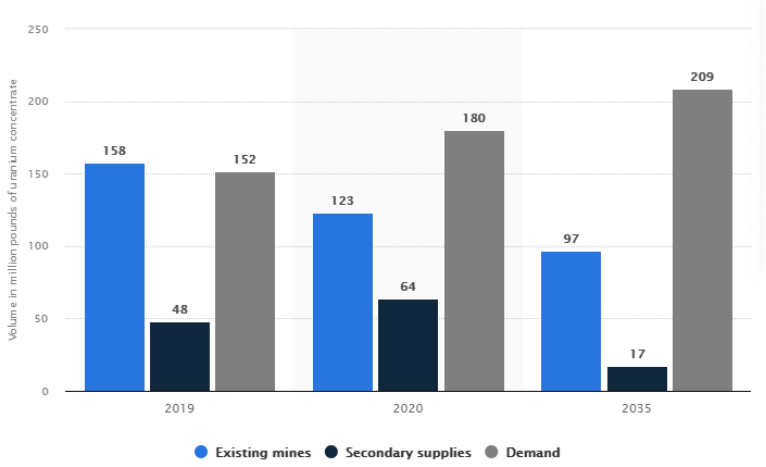
Source: Wood Mackenzie / NexGen

The market is estimated to be in deficit over the long-term

Uranium Supply-Demand



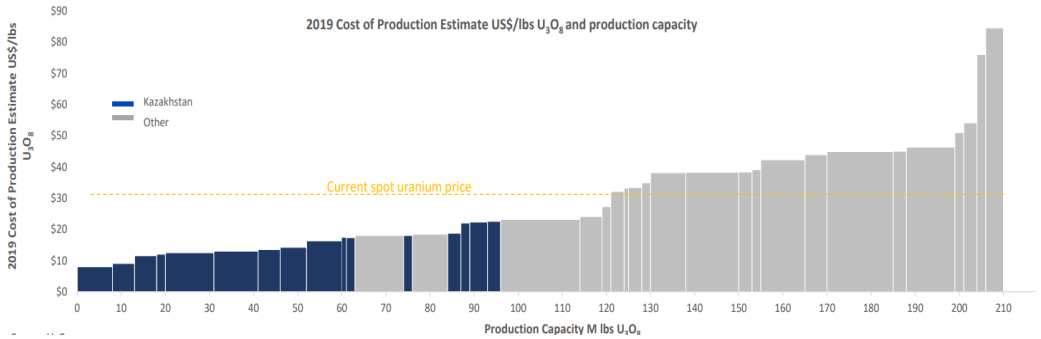
Source: Lotus/WNA



Source: Statista

We have a positive long-term outlook on uranium prices based on the following key factors:

- Nuclear energy is a dependable and clean power source.
- Uranium has no direct substitute for use in nuclear power plants.
- A major concern regarding the supply of uranium is that it typically takes over 10 years from discovery to production for a uranium mine.
- Although capital costs are high, nuclear power plants have lower operating costs per unit of electricity produced (compared to other power plants).
- Prices need to be at least US$50/lb in order to incentivize idled and new projects to come online. As shown below, projects with OPEX of over US$40/lb have to come online to increase global production.



Source: Lotus/UxC

Financials

Financial Position

(in C$)	2020	2021 (6M)
Cash	$1,215,569	$1,248,317
Working Capital	-$758,705	$786,965
Current Ratio	0.62	2.57
LT Debt	-	-
LT Debt/Assets	-	-
Monthly Burn Rate (incl. G&A)	-$40,528	-$151,036
Property Related	-$1,397,384	-$1,904,068
Cash from Financing Activities	$2,402,639	$2,915,751

Source: FRC / Company

Healthy cash position

Subsequent to Q2, the company raised $2.1M from equity financings

In-the-money options and warrants can bring in $19M

Stock Options and Warrants – 16.17M options (weighted exercise price of $0.26), and 102.38M warrants ($0.27) are outstanding. 12M options and 64M warrants are in-the-money, implying a potential to raise up to $19M.

Valuation

BSK is trading at $4.24/lb vs the sector average of $5.85/lb

	Location	EV ($M)	EV / Resource (US$/lb)
Paladin Energy	Namibia	$2,116	$19.15
Ur-Energy	U.S.	$433	$17.13
NexGen Energy Ltd.	Athabasca Basin, Canada	$3,483	$11.52
Lotus Resources	Malawi	$280	$8.24
Denison Mines Corp.	Athabasca Basin, Canada	$1,565	$8.04
Peninsula Energy	U.S.	$256	$7.35
Fission Uranium Corp	Athabasca Basin, Canada	$667	$5.61
Bannerman Energy	Namibia	$431	$5.49
Global Atomic	Africa	$644	$4.43
Blue Sky Uranium	Argentina	$55	$4.24
Azarga Uranium	U.S.	$172	$3.66
Vimy Resources	Australia	$233	$3.40
Laramide Resources	U.S.	$168	$2.42
UEX Corporation	Athabasca Basin, Canada	$265	$2.06
Deep Yellow	Namibia	$319	$1.63
GoviEx	Africa	$239	$1.43
Average (Global)			**$5.85**

Resource = 100% Measured and Indicated and 50% Inferred Resources

Source: Various Companies / S&P Capital IQ / FRC

DCF valuation of $101M, or $0.52 per share

DCF Valuation - 50% of Inferred Resources	6,400 tpd
Avg. Annual Production (Mlbs)	1.35
Operating Life (years)	14
LT Uranium Price (US$/lb)	$55
Exchange rate (C$:US$)	1.25
Operating Cost (LOM) in US$/lb	$17
Initial Capital Cost (US$M)	$134
Discount Rate	12.5%
After-Tax Net Asset Value (C$)	**$100,505,822**

Source: FRC

Arriving at a fair value estimate of $0.47 per share, which is the average of our DCF and comparables valuation models

Valuation Summary	Fair Value (C$M)	Per Share (C$)
- DCF	$100.51	$0.52
- Comparables @ $5.85/lb	$76.64	$0.40
Average	**$88.57**	**$0.46**
Working Capital ($M)	$2.18	$0.01
Fair Value of BSK	**$90.75**	**$0.47**

C$:US$ - 1.25		Uranium Price (US$/lb)				
		$45.00	$50.00	$55.00	$65.00	$75.00
Discount Rate	7.5%	$0.44	$0.56	$0.69	$0.93	$1.18
	10.0%	$0.36	$0.46	$0.56	$0.77	$0.97
	12.5%	$0.31	$0.39	$0.47	$0.64	$0.80
	12.5%	$0.31	$0.39	$0.47	$0.64	$0.80
	15.0%	$0.26	$0.33	$0.40	$0.54	$0.68

Source: FRC

Based on our review of the company's portfolio, management team, and their development plans, we are initiating coverage with a **BUY rating, and a fair value estimate of $0.47 per share**. Key catalysts include drill results, and rising sector optimism.

Risks

We believe the company is exposed to the following key risks (not exhaustive):

Assigning a risk rating of 5 (Highly Speculative)

- BSK's ability to advance its projects depends on **uranium prices.**
- Exploration and development risks.
- **Geopolitical and exchange rate risks.**
- Access to capital and share dilution.
- There is an outstanding lawsuit by anti-mining and environmental activists against BSK and the Government of Rio Negro. A request by the plaintiffs to halt exploration was denied by the judge hearing the case.
- Sandstone-hosted uranium deposits are of relatively low-grade.

Fundamental Research Corp. Equity Rating Scale:
Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk
Hold – Annual expected rate of return is between 5% and 12%
Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk
Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues and may rely on external funding. These stocks are considered highly speculative.

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