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HALLGARTEN & COMPANY

Initiation of Coverage

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GoviEx (CSE:GXU)
Strategy: Long

Key Metrics		
Price (CAD)	$0.085	
12-Month Target Price (CAD)	$0.21	
Upside to Target	147%	
High-low (12 mth)	$0.025 - $0.19	
Proforma Market Cap (CAD mn)	$19.0	
Current Shares O/S	168.0	million
Proforma Post-Merger Shares O/S	224.0	million
Proforma Fully-Diluted	268.0	million

GoviEx
Bulking Up in African Uranium

- + Merger with Denison's African assets makes it one of the strongest pan-African uranium development plays
- + The uranium component in the Friedland stable, founded and run by his son, Govind
- + All three main projects have been quantified to PFS level
- + Madouela project in Niger is in a stable jurisdiction with major players like Areva operating in close proximity
- + Very strong band of strategic shareholders post-deal with Cameco, Toshiba, Ivanhoe Industries and Denison holding meaningful stakes
- ✘ Uranium spot price remains in the dumps with attendant effect upon broader investor sentiment
- ✘ Company needs to switch to a London listing to attract a more knowledgeable and receptive audience for African stories
- ✘ Financing is the next goal and this remains a tough market

Transformative Transactions

When this company was first brought to our attention at a Uranium Day event in London last year, the most intriguing thing was that GoviEx was the vehicle of Govind Friedland, the son of Robert Freidland. Much to our surprise the strange name of the company is merely a coincidence. Less surprising was that the company's uranium search had been directed at Niger, a country made famous for its role in the WMD "justification" for the Iraq invasion of 2003. Despite flying below the radar for a couple of years, GoviEx had managed to bring its Madouela project to an advanced stage without attracting much attention from the investing public.

The company is a relatively recent listing dating only from June 2014. Interestingly it chose the CSE over the TSX-V. Recent weeks have seen it transformed, via a merger with the development assets of Denison in Africa, from a single-project uranium developer into one with a reach across Africa, diversifying its country risk and its deposit styles. In this initiation of coverage we shall look at the latest transaction and its implications for the future evolution of the company.

Bulking Up to Diversify Risk

One of the greatest concerns about any African-based mining company is concentration of risk. This cloud was finally dispelled in late March when GoviEx announced that it had come to an agreement with Denison Mines Corp. (TSX: DML, NYSE: DNN) to combine their respective African uranium mineral interests. Under the terms of the transaction, GoviEx will acquire Denison's wholly-owned subsidiary, Rockgate Capital Corp., which holds all of Denison's Africa-based uranium interests.

The transaction is particularly fortuitous for both parties as it provides diversification for GoviEx while letting Denison return to its focus on its core Athabasca assets. The acquisition of Rockgate in 2014 (which brought the Mali asset into Denison's sphere) was less of a strategic move than a cash-strip and thus this latest deal tidies up a number of loose ends for the uranium major.

The mechanism for the transaction is that GoviEx will acquire the assets from Denison in exchange for:

+ 56,050,450 Consideration Shares
+ 22,420,180 Consideration Warrants

As to the warrants, these will be convertible into one common share of GoviEx at a price of US$0.15 per share for a period of three years. The warrants will include an acceleration clause, which will provide that, in the event that the closing price of GoviEx's common shares is equal to or greater than CAD$0.24 per share for a period of 15 consecutive trading days, GoviEx may prompt Denison to exercise the warrants at US$0.15, failing which the exercise price will be increased to US$18 per share and the term of the warrants will be reduced by six months. Effectively a “drop-dead” clause on the warrants. The deal clearly offers Denison enhanced optionality to the uranium price through the significant ownership of share purchase warrants in GoviEx.

Upon completion, Denison will hold 25% of GoviEx shares outstanding (and 28% of GoviEx shares on a fully diluted basis).

Interestingly, Denison must ensure that DML Africa is capitalized with a minimum working capital of US$700,000, which is equivalent to the forecast annual budget for the assets of DML Africa, thereby mitigating any carrying cost for the short-term from the new bolt-on assets.

For so long as Denison holds at least 5% of the GoviEx issued shares, it will have the right to appoint one director to the GoviEx board and will also have the right to participate in future GoviEx equity financings to maintain its pro-rata ownership.

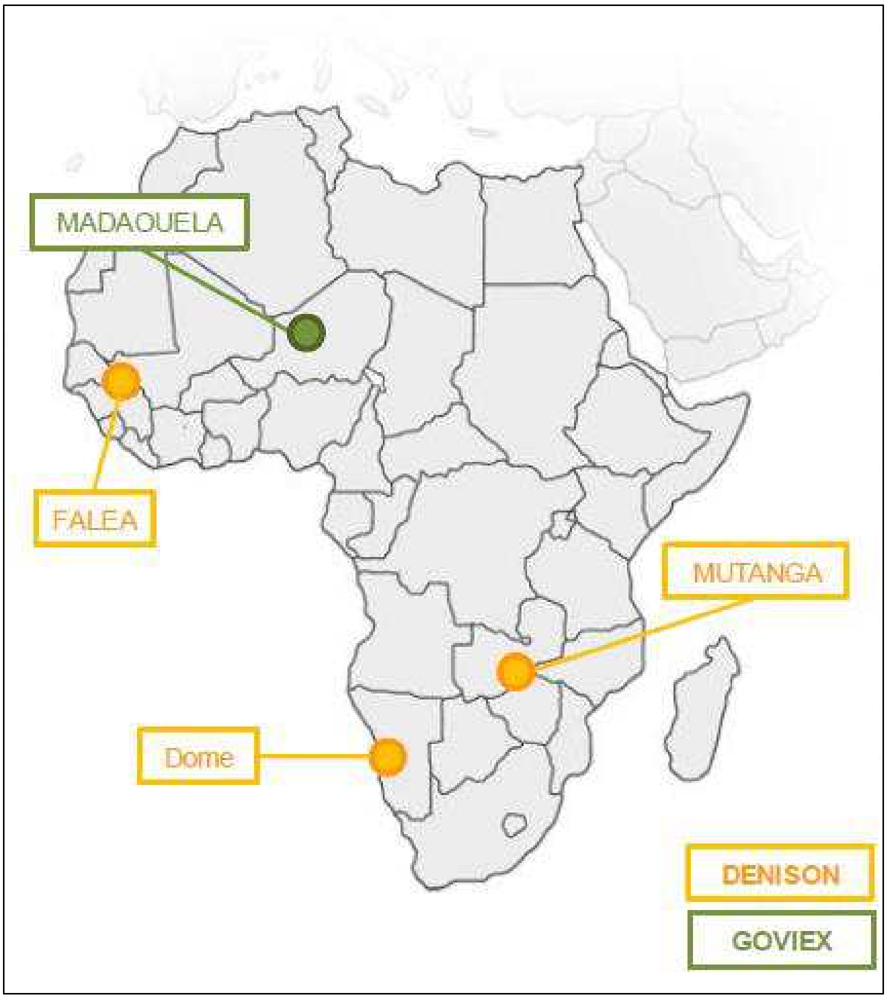
The Broader Portfolio

The asset portfolio of the combined company will include:

+ Madaouela project in Niger (permitted)
+ Mutanga project in Zambia (permitted)
+ Falea project, an advanced exploration-stage asset project in Mali
+ Dome, an exploration-stage project in Namibia

There the merged entity has its mining permits approved or granted on its two most advanced projects in Niger and Zambia, both recognized mining countries with good infrastructure and mining history.

As a result of the consolidation of interests, GoviEx will control one of the largest uranium resource bases among publicly listed companies, with combined NI 43-101 Measured resources of 28.59 mn lbs U_3O_8, Indicated resources of 95.7 mn lbs U_3O_8, and Inferred resources of 73.11 mn lbs U_3O_8.

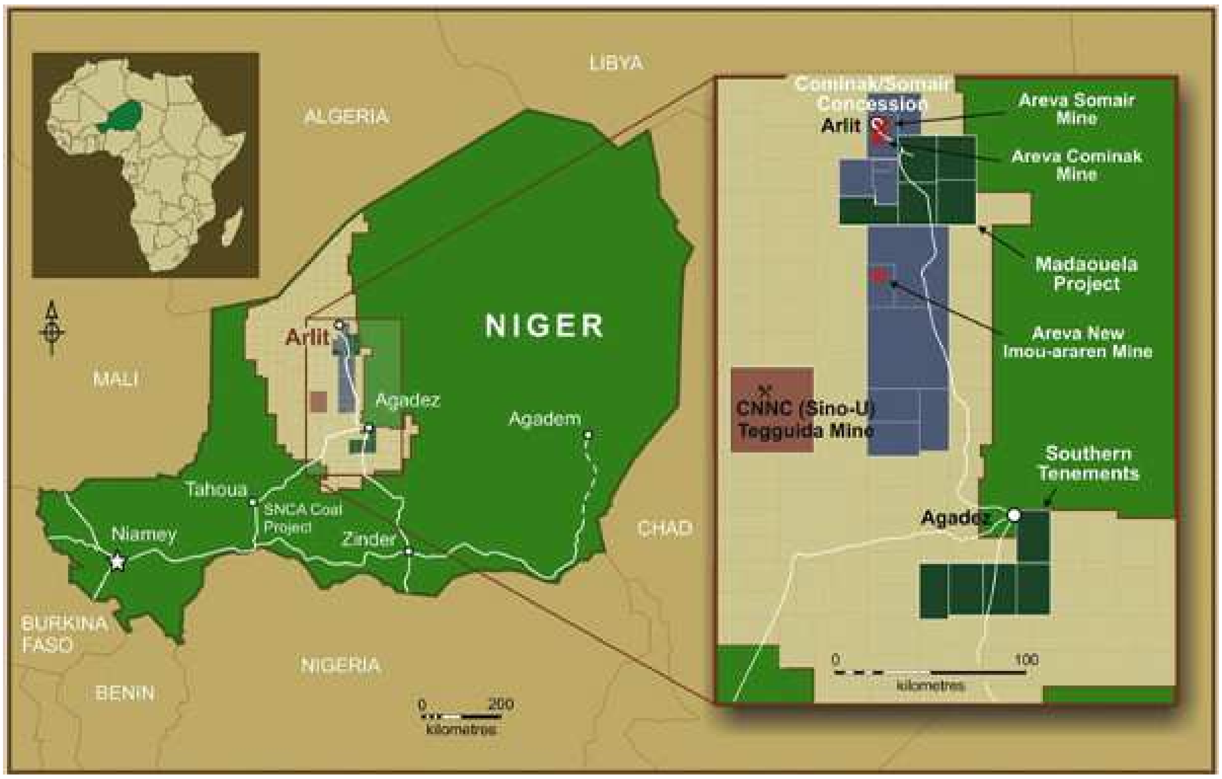


Madaouela Project

This is no small project with over $100mn having been spent on it so far between $30mn in acquisition costs and $70mn in exploration work. Neither is the project fledgling as GoviEx in its private manifestation has been working on the project since 2007. The company has undertaken a rather stunning 581,000 metres of drilling so far, so like every Friedland family project, nothing is being skimped.

The main prospect is Madaouela, which is in the main prospectivity zone for uranium in Niger and in close proximity to the aforementioned Arlit mine of Areva. The Probable Mineral Reserve is 54.88mn lbs at 0.098% U_3O_8.

The proposed base case envisions an average 2.53mn lb per year U3O8 yellowcake production rate over an eighteen year mine life, with an 83% ultimate recovery of uranium. The base case project economics for this project at a long-term uranium price of USD 70 /lb U3O8 are positive, and indicate an after-tax NPV of US$251mn (at an 8% discount rate) with an IRR of 21.9%. Initial capital costs are estimated at US$339mn, total life of mine capital costs at US$646mn, and cash operating costs of US$33.10 per lb U3O8 including royalties.



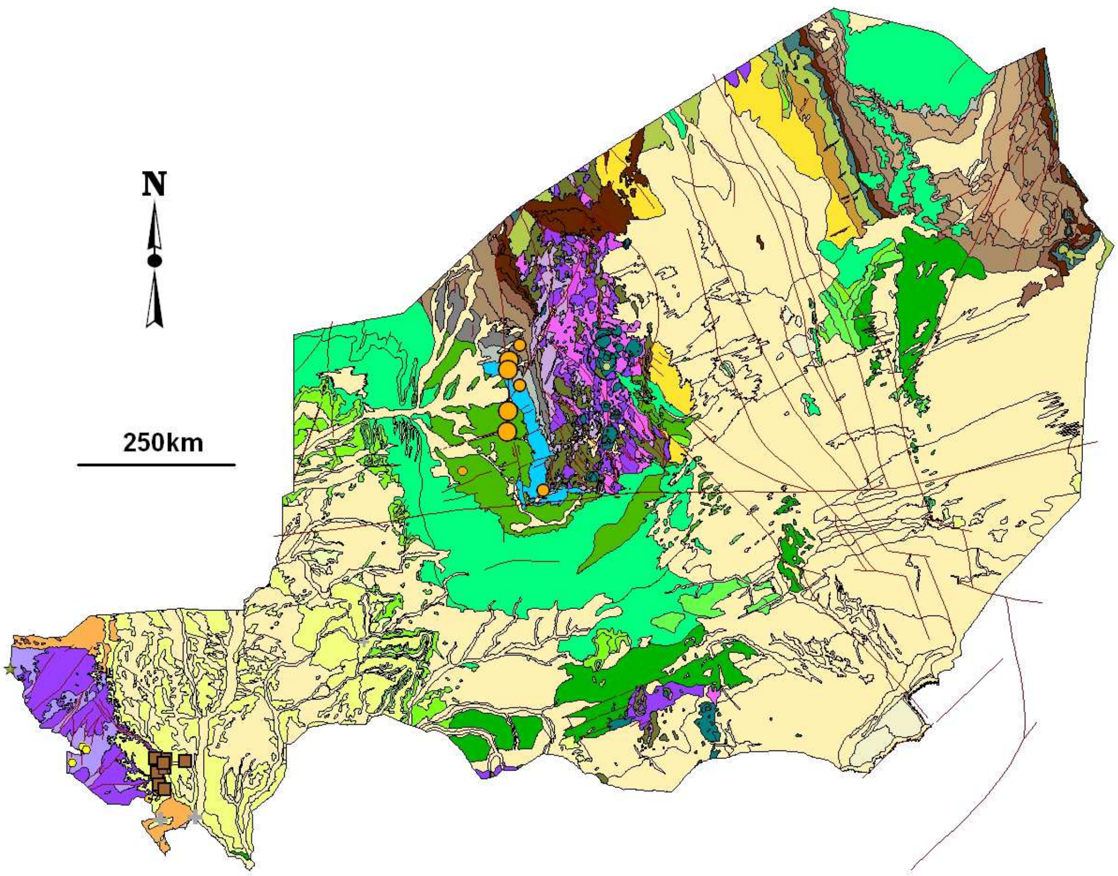
So capex here is chunky and opex is flirting with the levels at which uranium is currently trading in the spot markets. This implies that nothing much is likely to happen in the short term as far as production decision is concerned. The company is not fazed though as it has a tie-up with Toshiba and is clearly focusing on proving up the deposit and plans for its development and "awaiting the turn" in the uranium price like so many others. As the word "failure" is not in the Friedland family phrase book and "too big" is not employed either, GoviEx remains something to watch for eventually becoming a reality.

The existing production of Areva and China National Nuclear mines combined with Areva's and GoviEx's projects could boost Niger's uranium production capacity to over 10,000 tpa within five years from the present 4,500 tonnes. This would put Niger definitively ahead of Namibia in the African U_3O_8 stakes.

All About Niger

Niger has fluctuated in the rankings but has been for decades one of Africa's leading uranium producers, swapping first place over time with Namibia depending on which country was ahead on sales at any given time. In 2011, the country ranked fourth (globally) in terms of uranium production by volume, accounting for about 8% of world production.

Niger has been mining uranium since 1971. It is currently the world's fifth largest uranium producer, producing approximately eight million pounds of uranium per year, and its global market share has fluctuated between 5-9% over the last decade. It has accounted for as much as 72% of the country's export revenues. Foreign direct investment in the sector from 2008 to 2012 (the most active period) was estimated to have been US$1.4 billion.

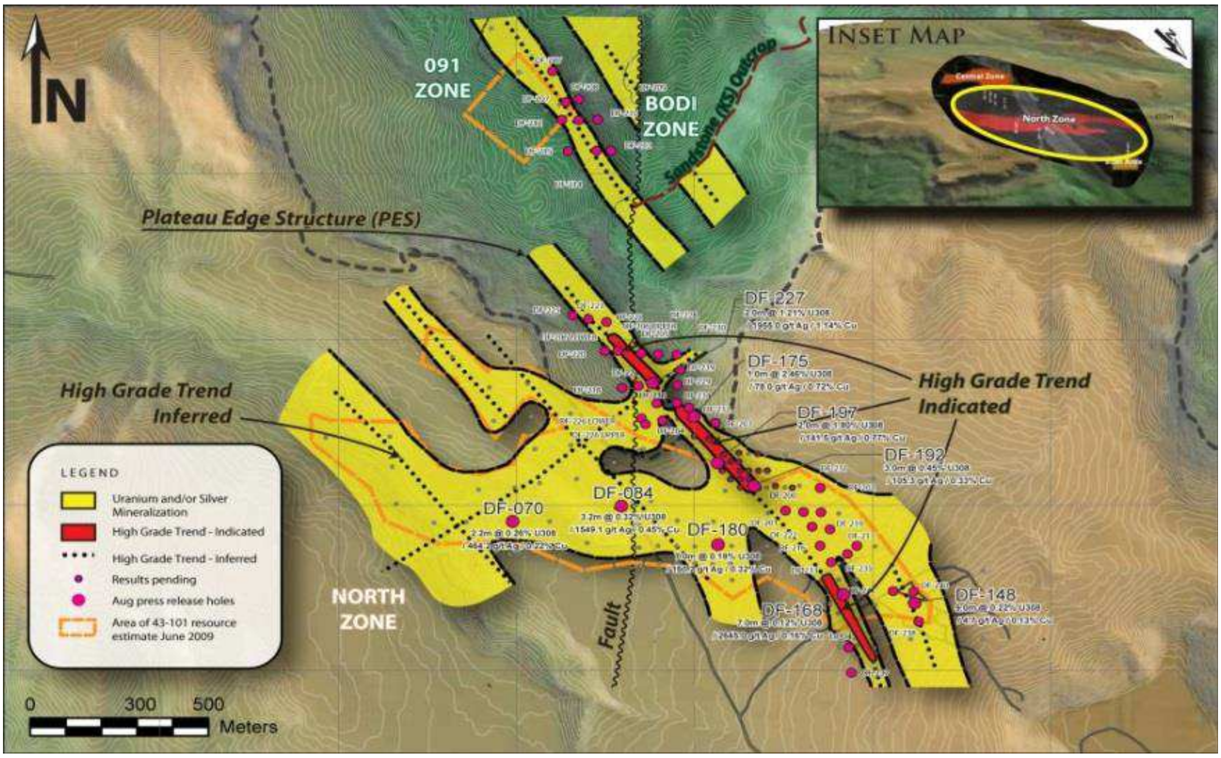


The uranium deposits in the country are the orange circles in the mid-north of the country. All uranium production in the country comes from sandstone-hosted deposits within sediments of the Tim Mersoi Basin, which are adjacent to and overlie rocks of the Air Massif. At least 13 individual uranium deposits are known in the area. The Tim Mersoi deposits have attractive uranium grades, typically of 0.3% to 0.6%. The abundance of uranium in the district, the attractive grades, and the relative lack of exploration clearly make this area an attractive exploration target.

Falea

This is the project from the Denison portfolio that we had encountered before, in February 2010 when we first met in New York with Rockgate Capital, when it was a listed uranium play focused on Mali. So when the latest deal was announced the Rockgate name had a familiar ring to it. Moreover, despite the intervening years the thing that had stuck in our memory was that the deposit at Falea was embedded in a plateau meaning it was actually above the surrounding countryside.

This project consists of 225km^2 (of which 75km^2 is on the plateau) and is located within the Falea-North Guinea-Senegal Neoproterozoic Basin, around 80 km from Areva's Saraya East uranium deposit. It consists of three licenses: Bala, Madini and Falea.



The project was formerly a Cogema (Areva) property, explored in late 1970's. In Denison's promotional materials it is referred to as an epicontinential and intracratonic basin, similar in age and style to Athabasca basin.

The deposit overlays Birimian stratigraphy intruded by uraninite-bearing Saraya granites. This Uraninite overprints native silver and copper mineralization near basal unconformity in the sandstone unit. Denison also claims that there is potential gold and uranium mineralization, on trend from the Siribaya gold deposit of Iamgold/Merrex.

Before its acquisition by Denison, Rockgate completed a 5,900m drill program in 2013. As far as exploration is concerned only 5% of the 225 km^2 land package has been explored, whilst most known zones remain open. The resource currently stands at:

Falea	Tonnes (Mt)	Grade (% U3O8)	U3O8 Contained (Mlbs)	U3O8 Eq Contained (Mlbs)
Indicated	6.9	0.12%	17.4	22
Inferred	8.8	0.07%	13.4	16.1

In addition, Falea contains 63mn lbs Cu and 21mn oz Ag.

The project has been documented up to PFS level, however not published. The envisaged production method would be an underground mining operation. Studies have laid out a process route that includes the recovery of copper and silver by-products. The site has road and air access, including a gravel airstrip on-site. GoviEx would like to further expand the resource before it comes out with a definitive plan for developing this deposit.

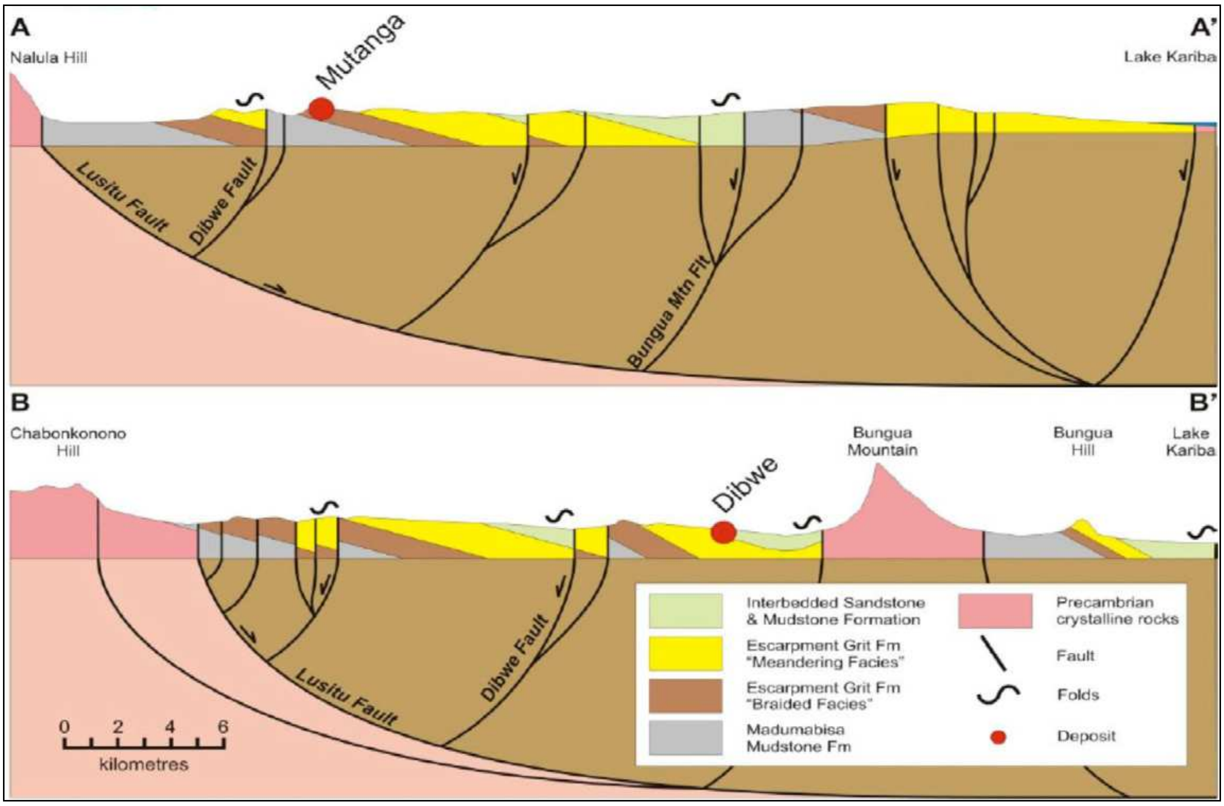
Mutanga

This is, in some opinions, is the major asset brought on board by the transaction. It is located around 200 km south of Lusaka, immediately north of Lake Kariba, at elevations of 500 metres to 960 metres above sea-level. Uranium was first identified in the area in 1957 after a ground survey located five radiometrically anomalous areas in the vicinity of Bungua Hill, west of Siavonga. Further exploration in 1958 and 1959 then found low-grade uranium mineralization that could be followed for over 800 metres of strike extent.

Denison acquired this property from Omega Corp in 2006 and it is held under a 25-year mine license. This was transferred in 2005 to OmegaCorp, who drilled eleven drill holes (649 metres) at the Mutanga prospect in 2006 to confirm the resource identified by AGIP That held the property prior to Omega). Denison acquired Omega in 2007 and subsequently carried out an extensive drilling program (with a two year hiatus from 2009-2011).

The Lower Karoo Group comprises a basal conglomerate, tillite and sandstone overlain unconformably by conglomerate, coal, sandstone and carbonaceous siltstones and mudstones (the Gwembe Formation), and fine-grained lacustrine sediments of the Madumabisa Formation. The Upper Karoo sediments unconformably overlay the Lower Karoo and comprise a series of arenaceous continental sediments (Escarpment Grit Formation) overlain by mudstones capped by basalt. The Mutanga deposits are hosted within sandstones of the Escarpment Grit Formation with the Mutanga, Dibwe and Dibwe East deposits have been defined to date.

The cross-sections are shown in the following graphic:



Two of the most promising new prospects are Dibwe East Zones 1 and 2 within the Dibwe Mutanga Corridor Area. The mineralization at these zones is remarkably consistent over 4 km strike, the centre of which is a high grade core. It remains open along strike in both directions, starts just below surface. A fault runs NS through this zone, and may have some significance to the placement of Uranium.

The resource dates from September 2013 and consists of 10.3mn tonnes @ 0.034% U3O8 (7.8mn lbs U_3O_8 contained) in the Measured and Indicated, and 65.2mn tonnes @ 0.03% U_3O_8 (41.4mn lbs U_3O_8 contained) in the Inferred category.

Mutanga	**Tonnes (Mt)**	**Grade (% U3O8)**	**U3O8 Contained (Mlbs)**	**U3O8 Eq Contained (Mlbs)**
Measured	1.9	0.05%	2.0	2.0
Indicated	8.4	0.03%	5.8	5.8
Inferred	65.2	0.03%	41.4	41.4

The mooted operation is based on open-pit mining and heap leach.

The infrastructure at Mutanga is not great with road access via 39 km gravel road, ground water and available grid power (approximately 60 km away).

Considerable technical and environmental work has been completed to date, including an unpublished PFS.

Financing

With market prices so beaten down, financing in the uranium space has been even more fraught than in other mining sub-spaces.

Therefore, taking advantage of the Denison hook-up, GoviEx is undertaking a non-brokered private placement to raise gross proceeds of not less than US$2mn, of which Denison will provide the lead order for 25% up to a maximum of US$500,000.

Post-deal Shareholder Breakdown

	Shares mn	Holding %
Identified Insiders & Strategics		
Denison Mines	56	25%
Govind Friedland	31	14%
Toshiba Corporation	28	13%
Ivanhoe Industries	16	7%
Cameco Corporation	13	6%
Core holders	144	64%
Other Shareholders	81%	36%
Basic Shares Outstanding	224	100%

The table at the right shows the make-up of the register post-closing (presuming that another strategic player does not buy in on the financing). It is an impressive list indeed.

The placement is expected to be completed prior to, or concurrently with, the closing of the transaction and is a condition of closing. The company estimates that the financing will therefore close in mid-May, subject to the receipt of required consents and approvals.

The Siren Song of London

While the Friedland name may resonate more in Canada than elsewhere he is probably the best-known Canadian mining figure in all the global mining finance markets. As such there is little reason for GoviEx to persist in pushing a rock uphill in pandering to the Canadian domestic marketplace. The sad reality is that Canadian investors just do not “get” Africa. True, there were brief flashes of interest in the go-go years of the Mining Supercycle, but little in the way of commitment. If anything it has been Quebec companies working Francophone Africa that have been most committed and stayed the distance. Otherwise the interest of Canadians has retreated to traditional “patches”. Meanwhile London’s enthusiasm for, and understanding of, Africa remains undimmed, as evidenced by the annual migratory flight of London bankers and investors to the Indaba in South Africa.

A further problem is that as Canadian mining markets recover there is going to be a pecking order in the revival of interests. First Canadian onshore, then US, then LatAm, then ROW. If the recovery is not a riproaring one it could be years before Africa ever attracts again the type of attention that companies like GoviEx will need to achieve the stock price they merit.

In our opinion GoviEx should be following in the footsteps of those other Canadian companies with African assets and getting itself a London listing to lift its profile in the market where its assets will be best understood.

Risks

The prime risk for the company is metal prices and country-risk. Ultimately other problems proceed from these two. If uranium firms up then financing will inevitably improve particularly for a company with the quality of the share register that it has currently.

Thus we would mention the major risks being:

- Ongoing lassitude in the Uranium stock price
- Another Fukushima-like event or major renunciation (like Germany's) of the nuclear option
- Negative actions by the governments (or rebel movements) in the countries in which GoviEx operates
- Difficult financing conditions do not improve, or actually worsen (though worse is hard to contemplate from the recent bathos)

Rebel or government action is always a risk that must be factored in when dealing with Africa. The Denison deal gives GoviEx a series of back-up projects that can be moved centre-stage in the event of "unforeseen circumstances".

Conclusion

In short, the latest transaction by GoviEx is a quantum leap, well-crafted and effective in positioning the company as the foremost upcoming uranium stock to watch in Africa. It brings together a dream-team of shareholders on the combined register while dispelling any lingering fears over being excessively exposed to any one jurisdiction.

The temptation to call this a Friedland vehicle is strong but in fact it was largely the brainchild of Govind Friedland and run with no connection to the other parts of the empire until recently when Ivanhoe Industries took a stake (and a stake no greater than the other strategic holders). The latest deal though with Denison shows that creative thinking runs in the family.

While we were sanguine with the Niger exposure, the risks of being a one-project company are omnipresent. Now the company has three advanced projects in three different wide-ranging African jurisdictions. Two are very advanced, and one is "merely" advanced, with significant work towards mine plans extant at all three.

With a powerful register and a veritable family of "Big Brothers" in the form of Denison, Cameco, Ivanhoe and Toshiba, the company's corporate makeup gives solace to incoming institutional investors.
Now all that is needed is for uranium prices to come to the party.

In the meantime we added a Long position in GoviEx to the Model Mining Portfolio last year and have now raised our 12-month target price of CAD 21 cts.

Important disclosures

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