

# Conic Metals Corp.

## The Pure-Play Battery Metals Investment Vehicle.

**Conic Metals Corp** provides direct leverage to nickel and cobalt prices from its principal asset, an **8.6% joint venture (JV) interest** in the producing **Ramu Nickel-Cobalt Project**, and **an additional portfolio of 11 royalties focused on nickel and cobalt.**

The Ramu mine and processing facility, located near Madang on the north coast of PNG, is a significant operation. It was financed, constructed and commissioned in 2012, by majority-owner and operator Metallurgical Corporation of China (MCC), for US\$2.1 billion. In both 2017 and 2018 the mine exceeded nameplate capacity of 31,150 tonnes per annum of nickel and 3,300 tonnes per annum of cobalt. FY 2019 production is also expected to exceed nameplate capacity with guidance of 33,000 tonnes of nickel and 3,300 tonnes of cobalt.

### Conic Metals Corp.

Ticker: NKL:CVE  
Share price: C\$0.44  
Market cap: C\$37.0m  
Cash: C\$6.6m  
Equity Investments: C\$1.8m  
Debt: C\$157.8m  
Enterprise Value: C\$186.4m  
Shares Outstanding: 83.5m  
CEO: Justin Cochrane



Prices as of the close of business  
6th January 2020

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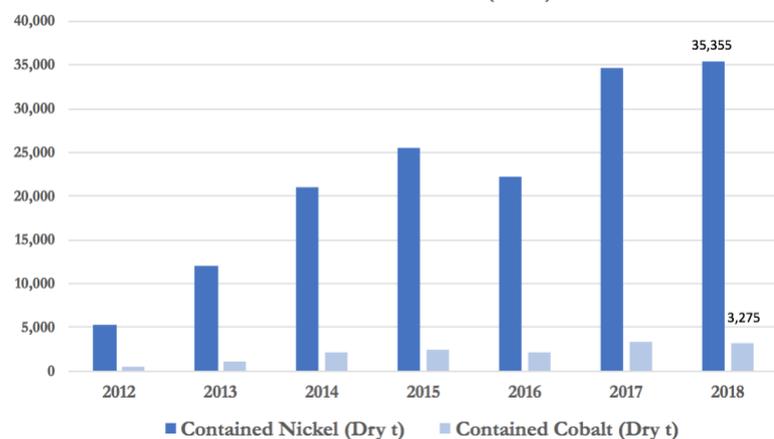
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Ramu Nickel-Cobalt Production (100%) - Tonnes

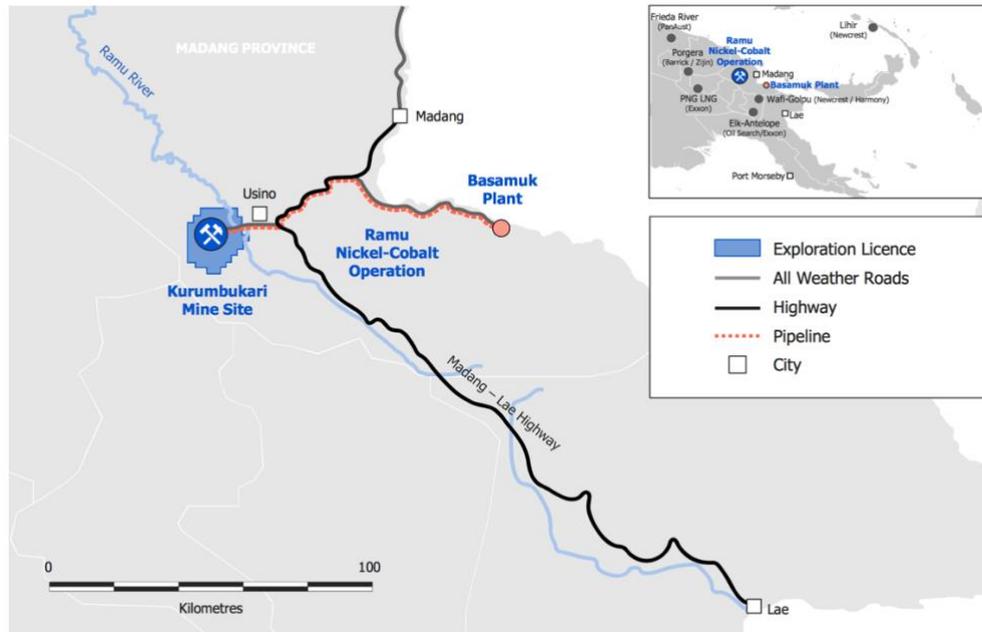


Conic's 8.6% JV interest share of debt, for the Ramu operation, currently stands at US\$110m. This debt has no maturity date (i.e. perpetual), bears interest at 5.1% and is **non-recourse to Conic**. It is paid down from Conic's JV share of free cash flow. Interestingly, once debt levels drop to US\$75m, only 65% of Conic's share of free cash flow goes to pay down outstanding debt with the remaining 35% paid out to Conic Metals Corp.

The **mine life at Ramu currently extends for 13 years** (until 2032) with **potential to increase this to over 30 years**. Since reserves and resources cover only 12% of the project footprint, exploration potential appears substantial. As a sign of confidence in the geology, in 2018, the operators of Ramu announced plans for a **US\$1.5 billion expansion to double the existing production capacity**. The expansion would increase throughput to around 8.3 Mtpa (dry-basis) with metal production increasing to approximately 65,800 tonnes per annum of contained nickel and 6,550 tonnes per annum of contained cobalt.

**Ramu Nickel-Cobalt Integrated Operation – Map**

Mining takes place at the Kurumbukari mine site using conventional open-pit mining methods.



Source: Conic Metals Corp’s November 2019 Investor Presentation.

**Ramu Nickel-Cobalt Refinery known as the Basamuk Plant.**

After beneficiation, the ore is transported from the mine site via a 135km slurry pipeline to the Basamuk refinery. The slurry pipeline is helped by a 680m drop in elevation from mine site to refinery.



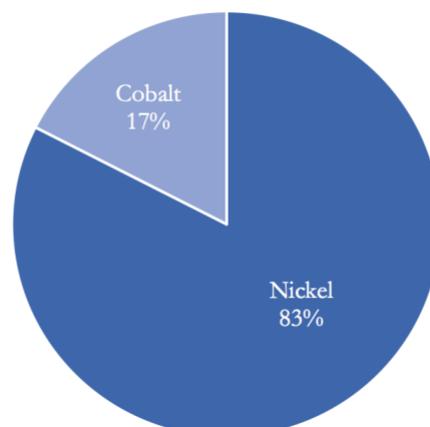
Source: Metallurgical Corporation of China’s (MCC) website.

The Basamuk refinery treats concentrate to produce a mixed nickel-cobalt hydroxide product (MHP) which grades 39% nickel and 3.8% cobalt.

Nickel and cobalt prices are both key drivers of economics at the Ramu operation but it’s worth noting the breakdown between the two. If we look at the value of contained metal production for FY 2018 and use spot

metal prices, nickel is 83% of the value and cobalt 17%. **The Ramu operation is a primary nickel producer with a cobalt by-product.**

**Ramu - Breakdown of Contained Metal Production  
Based on Value - FY 2018 Production**



Since Ramu is operated by MCC, there is little publicly-available financial information. Financial statements from Highland Pacific offer some insight into the economics of the project. Note: Conic Metals Corp. own their joint venture stake from the acquisition of Highlands Pacific, which was completed in May 2019.

**Ramu’s implied FY 2018 revenue, on a 100% basis, is approximately US\$450m.**

Highland Pacific’s FY 2018 financial statements ended 31<sup>st</sup> December 2018 indicate the 8.6% joint venture interest in the Ramu Nickel Mine generated attributable revenue of US\$38,667,000 and an attributable ‘share of associated entity’s production costs’ of US\$15,992,000. This suggests an attributable operating profit of US\$22,675,000, or approximately C\$30 million.

If we discount an annual operating profit of C\$30 million over the current 13-year reserve life of the project (ignoring the expansion potential), at a 7.5% discount rate and then deduct Conic’s attributable debt of C\$144.7m (US\$110m), the equity value of the 8.6% joint venture stake comes to C\$109.9 million. This is a simplified calculation but it’s useful to get a sense of valuation. Conic Metal Corp’s current market capitalisation is C\$38 million.

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Operating Profit (C\$)	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000
Discount Rate	7.50%													
NPV (C\$)	254,674,612													
Debt (C\$)	144,736,842													
Equity Value (C\$)	109,937,770													

Once Conic Metals Corp’s share of debt for the Ramu project has been repaid, **their 8.6% interest in the Ramu JV increases to 11.3%, at no cost to Conic.**

Furthermore, at this stage Conic Metals Group will also have an option to purchase an additional 9.2% interest in Ramu at market value, which if exercised would take their interest to 20.6%.

### **Metal Prices**

Since the beginning of 2018, the cobalt price has dropped -57% and the nickel price is +10% over the same two-year time frame. In fact, nickel prices rallied +35% in calendar year 2019.



Source: LME

But as mentioned above, while cobalt prices are important to Conic Metals Corp, **the key driver of the Company's principal asset is the nickel price.**

### **Portfolio of Nickel and Cobalt Royalties**

In addition to Conic Metals Corp's principal asset, the 8.6% joint-venture interest in the Ramu Nickel-Cobalt operation, the Company has a portfolio of **11 royalties specifically focused on nickel and cobalt**, all of which are located in favourable mining jurisdictions. **In our opinion, the market is assigning zero value to the portfolio of 11 royalties.**

ROYALTY NAME	OPERATOR	LOCATION	STAGE	PRIMARY METAL	ROYALTY TYPE
Dumont	RNC Minerals	Canada - Quebec	Construction Ready	Ni-Co	1.75% NSR
Turnagain	Giga Metals	Canada - B.C.	Exploration	Ni-Co	2.0% NSR
Nyngan	Scandium Int'l Mining	Australia - NSW	Construction Ready	Ni-Co-Sc	1.7% GRR (1)
Flemington	Australian Mines	Australia - NSW	Exploration	Ni-Co-Sc	1.5% GRR
Triangle	New Found Gold	Canada - Ontario	Exploration	Co-Ag	2.0% Co NSR
Rusty Lake	New Found Gold	Canada - Ontario	Exploration	Co-Ag	2.0% Co NSR
Professor Waldman Properties (2)	New Found Gold	Canada - Ontario	Exploration	Co-Ag	2.0% Co NSR
North Canol Properties (2)	Golden Ridge Resource	Canada - Yukon	Exploration	Ag-Pb-Zn-Co	2.0% Co NSR
Sunset	Private Individuals	Canada - B.C.	Exploration	Cu-Zn-Co	2.0% Co NSR

(1) Gross Revenue Royalty

(2) Two separate mineral properties to which a Co NSR applies.

Source: Conic Metals Corp's November 2019 Presentation.

Three of these royalties are particularly noteworthy; **Dumont, Turnagain** and **Nyngan**.

### **Dumont Project – 1.75% NSR**

**In our opinion, the stage of development, location and ownership by credible project developers, makes the Dumont Project likely to be built.**

The **Dumont Project** is one of the largest, undeveloped, permitted and shovel-ready nickel sulphide projects in the world. The Project is held in a Joint Venture vehicle and is operated by **RNC Minerals**. The joint venture is owned 28% by RNC Minerals and 72% by a fund run by the private equity firm **Waterton Global Resource Management**.

An updated Feasibility Study (FS) was completed by Ausenco in July 2019. **Proven and Probable Mineral Reserves (30<sup>th</sup> May 2019) amount to 6.0 billion lbs of nickel and 243 million lbs of cobalt.** Economic analysis indicates a post-tax NPV of C\$1,226 million, using an 8% discount rate over a **30-year mine life**. Annual production is estimated to be 33,000 tonnes of nickel 1,000 tonnes of cobalt for the first 8 years ramping up to annual production of 51,000 tonnes of nickel and 2,000 tonnes of cobalt thereafter. Interestingly, the Dumont deposit remains open at depth and along strike to the northwest.

**An important near-term catalyst for Conic Metals Corp.**

**An important feature of the Dumont royalty worth noting is a repurchase option owned by the Dumont Joint Venture over this royalty.** It offers a one-time opportunity, in July 2020, for the Dumont JV to repurchase 25% of the 1.75% NSR (i.e. 0.375%) for US\$15 million.

The significance of the repurchase option being exercised would be two-fold. It would validate the value of the remaining 1.375% NSR that Conic Metals Corp would continue to own, implying a valuation of US\$45million (C\$69million) for the remaining royalty. It would provide Conic Metals Corp with a significant cash injection. If we add the potential cash injection of US\$15 million (C\$19.7 million) to current cash and equity investments of C\$8.5 million, the company would have approximately C\$28.2million in cash and equity investments. This is against a market capitalisation of approximately C\$37.0 million.

**The potential exercise of this repurchase option in July 2020 could provide a significant near-term catalyst for the re-rating of Conic Metals Corp.**

### **Turnagain Project – 2.0% NSR**

The Turnagain Project is an undeveloped nickel-cobalt sulphide deposit located in British Columbia, Canada. The project is 100% owned by Giga Metals and Measured & Indicated resources (NI 43-101) already contain 4 billion lbs of nickel and 250 million lbs of cobalt. Recent metallurgical studies suggest a clean concentrate is achievable using proven and reliable ‘off-the-shelf’ processing technology. Engineering studies are underway, with the goal of having the project ‘shovel-ready’ by 2021.

### **Nyngan Project – 1.7% Gross Revenue Royalty**

The Nyngan Project is 100% owned by Scandium International Mining and is located in NSW, Australia. A definitive feasibility study completed in May 2016 by Lycopodium, concluded that the project has the potential to produce an average of 38,000 kg of scandium oxide per year at a grade of 98.0-99.9%, generating an after-tax NPV (8% discount rate) of US\$225.4 million. The capital cost estimate for the project is a modest US\$87.1 million.

### **Book Value**

In order to assemble Conic Metals Corp's current portfolio of assets (Ramu 8.6% JV share and the 11 royalties), management spent approximately **C\$130 million** over the last 2 years.

The book value of Conic Metals Corp's assets equates to approximately C\$1.55 per share which is significantly higher than the current share price of C\$0.43.

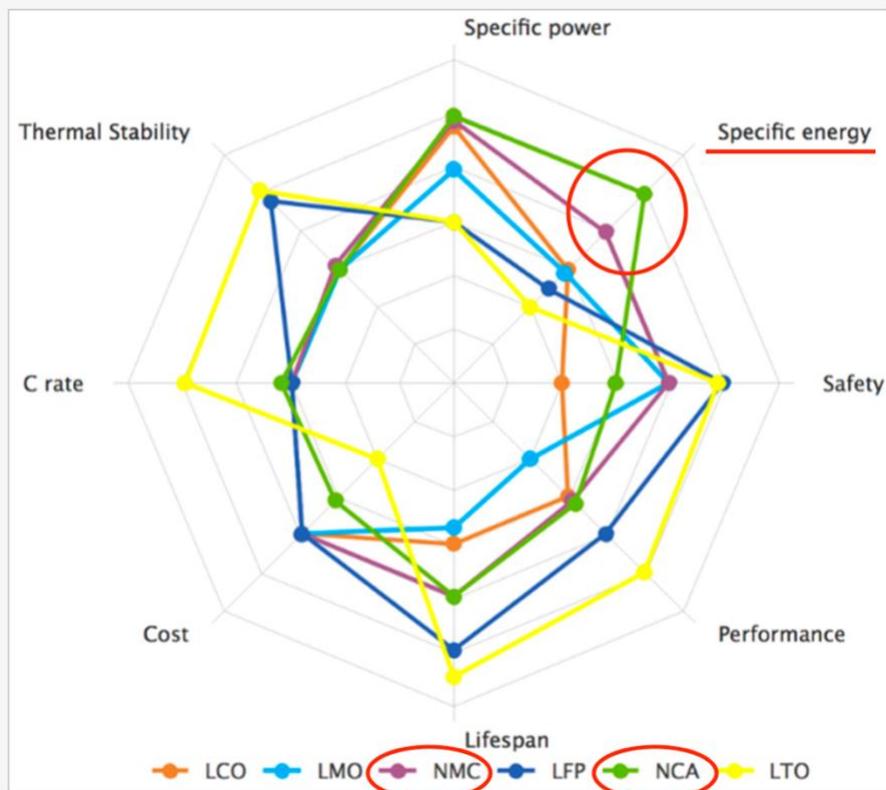
Considering nickel's price performance over the last two years, this dislocation between the book value and current market price seems, in our opinion, overdone and is another potential indication that the Company is being mispriced by the market.

### **The Nickel Market**

At Arlington Group, we're constructive on the outlook for nickel prices over the longer-term, based on the on-going demand for nickel in stainless steel production and the additional demand driver of electric vehicle battery production. We expect growth in electric vehicle production to accelerate due to ever-increasing evidence of governmental support around the world. And while battery chemistries are likely to evolve as battery technology develops, **we see nickel and cobalt remaining at the heart of battery systems for automotive use**, for the foreseeable future.

We base this assumption, on the superior specific energy – capacity for storing energy per kilogram of weight – of nickel and cobalt containing battery technologies. (See Figure 1 on following page);

**Figure 1.** Spider chart for LIBs with various anode and cathode materials.



Key: LCO – Lithium Cobalt Oxide, LMO – Lithium Manganese Oxide, NMC – Lithium Nickel Manganese Cobalt Oxide, LFP – Lithium Iron Phosphate, NCA – Lithium Nickel Cobalt Aluminium Oxide, LTO – Lithium Titanate.

Source: State of the Art of Lithium-Ion Battery SOC, Estimation for Electric Vehicles by R. Zhang et. al. June 2018.

**BHP commissioned the Ravensthorpe Nickel Operation (Laterite) in late 2007 after spending US\$2.2b but shut it down a year later following operational problems. BHP sold the operation to First Quantum for US\$340m in 2009.**

On the supply side, the discovery of ‘easier-to-process’ nickel sulphide deposits are becoming rarer, while the complexities, and challenges of nickel laterite processing continues to act as a bottleneck on future supply.

Large diversified mining companies have the ability to think and act strategically, using a long-term perspective. We find it interesting that BHP held onto their Nickel West assets when spinning out South32 in May 2015. In fact, in their FY 2019 annual report, BHP comment;

‘Our strategy is to have the best capabilities, commodities and assets to create long-term value and high returns.....This is particularly the case with commodities that we view as attractive. (for example, copper, oil and **nickel sulphides.**)’

**Conclusion**

There are three key characteristics shown by Conic Metals Corp which we think are interesting from a long-term investment perspective. First of all, the Company is exposed to a long-term structural theme relating to the electrification of vehicles. Structural themes undergo ebbs and flows but we see this theme as firmly in place over the longer-term. Secondly, the Company appears undervalued by the market. The joint venture stake in the Ramu nickel cobalt mine alone appears to be worth more than the current market cap of the Company and suggests no value for the 11 royalties. This mispricing could be due to a misperception that Conic Metals' valuation is driven predominantly by cobalt prices, which have been under pressure over the last two years. We would point out that nickel prices, which are +35% over the last 12 months, are a more significant driver of value at Ramu and Dumont, and ultimately for Conic Metals Corp. And thirdly, the Company appears well-funded with cash and equity investments of C\$8.5 million currently.

REPORT END

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