NEW ISSUE: USD Jervois Mining 12.5% 5-year Senior Secured Notes

BondIncome is pleased to offer investors the opportunity to participate in a USD issue for Jervois Mining USA Limited. The transaction is expected to raise USD80m-100m, offering investors a 12.5% p.a coupon with a maturity date in 5-years from the issue date.

Indicative Issue Terms

Issuer:	Jervois Mining USA Limited (USA)
Parent:	Formation Holdings US, Inc
Ultimate Parent:	Jervois Mining Limited (Australia, ASX:JRV)
Ranking:	Senior Secured
Issue Amount:	USD 80-100 million
Issue Date:	Expected to be 1 July 2021
Interest Rate:	12.5% per annum, semi-annual interest payments
Offer Price:	100
Maturity Date:	5 years after the Issue Date
Amortization:	Bullet
Investment Minimum:	USD 200,000
Investment Increment:	USD 100,000
Issuer's Call Options:	Make-whole first 3 years. Then callable at: USD103.75 at 3.5 years from issue date USD102.5 between 3.5 years and 4 years from issue date USD101.25 between 4 years and 4.5 years from issue date USD100 thereafter
Financial Covenants:	Minimum Issuer Liquidity of no less than USD 5,000,000 Minimum Group Liquidity of no less than 10% of Total Debt Minimum Book Equity Ratio of no less than 35%
Change of Control:	101% upon CoC or a Stock De-Listing Event for the Ultimate Parent

Credit Commentary - *Matthew Macreadie, Credit Strategist*

Background and Company Assets

Jervois Mining USA (Jervois US) is the issuer with the ultimate parent being Jervois Mining Ltd (Jervois) which is ASX-listed (JRV – market cap of USD395m). Jervois' principal assets are a lease and purchase option over the San Miguel Paulista nickel cobalt refinery in Brazil (known as 'SMP') and 100% indirect ownership in Jervois US.

Jervois US' principal asset is a permitted and partially constructed cobalt-copper mine in Idaho, US (known as 'ICO'). There is also a nickel-cobalt resource in NSW, AU. Jervois US is in the early stages of restarting construction and has no history of earnings.

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Jervois' key strategy is to become a vertically integrated cobalt and nickel company. Cobalt and nickel are the key determinants for vehicle performance and safety – all non-Chinese OEMs are pursing high nickel cathode chemistries with cobalt which is supportive for the company's high-level strategy. ICO will help Jervois become the only significant cobalt producer in the US and is the only short-term pathway for the US to reduce dependence on cobalt imports and supply chain risk to China.

Intermediate cobalt produced from ICO will be refined and processed at SMP and then sold to key markets (but mainly in the US). The plan is for first production at the ICO mine in mid-2022 and a restart of the SMP refinery is due in stages, beginning in 2022.

ICO Operations

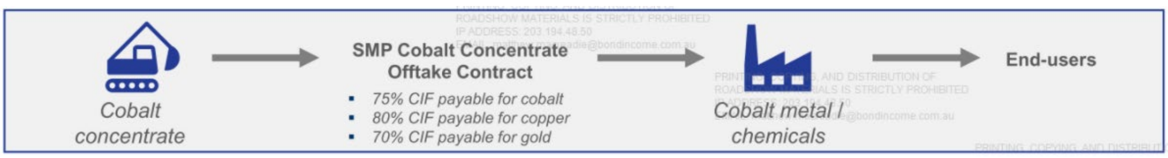
ICO is a high-grade cobalt-copper-gold deposit with a partially completed mine site and USD91m remaining in capital cost. Development has been de-risked through a previous investment of ~USD127m, of which USD54m was for construction and USD73m on drilling/studies respectively. The total cash cost for cobalt (including credits from gold and copper) is ~USD4.70/lb Life of Mine (including Cu 4.25 USD/lb and Au 1,950 USD/oz credits).

This low C1 cash cost has consistently been below the 10-year LME cobalt price and is a commonly used metric to measure mine performance. The ICO cobalt concentrate is sold at 75% of the cobalt price regardless of the underlying Fastmarkets Metal Bulletin standard alloy grade price, which protects against any price volatility.

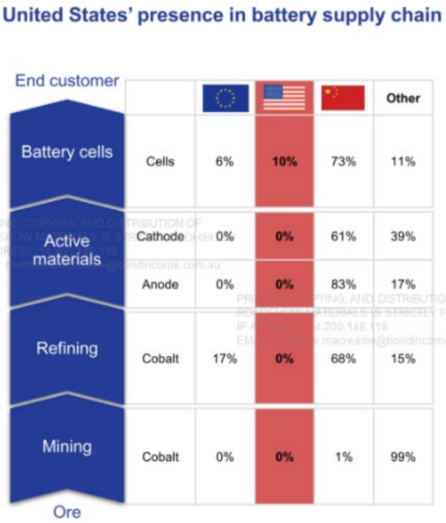
The key components include the completed infrastructure and fully-permitted status for mine construction. The short construction time provides speedy cash generation, which is a positive for bondholders as many projects have long-dated construction profiles. The proceeds from the bonds, alongside up-front project equity contribution of USD50m, is expected to fully-fund all costs and expenditures associated with the ICO development until project completion. Any negative effects from any unforeseen capital shortfall are mitigated through an escrow mechanism and a guarantee from the listed parent Jervois.

In an escrow mechanism, bondholder funds are basically kept in trust until certain construction milestones are completed. There will be two withdrawals from the escrow account during the life of the bonds, each in an amount of ½ the issue amount. Each withdrawal is subject to numerous conditions, including:

- Project equity contribution having been spent on the ICO project
- Cost-to-complete test met and countersigned by independent engineer
- Certain project documents being in place and other conditions' precedents fulfilled



Bankable Feasibility Study 2020 – Published Highlights[1]	
Production rate	1,090 mtpd ore
Initial mine life (reserve only)	7 years
Remaining capital cost[1]	USD 91.2 million
Operating cost (post by-product credit)	7.45 USD/lb payable Co
NPV @ 8% (real) pre-tax	USD 113.4 million
NPV @ 8% (real) post-tax	USD 95.7 million
IRR (nominal) pre-tax	45.2%
IRR (nominal) post-tax	40.6%
EBITDA (average, US$ real)	USD 54.8 million
Post-tax Payback (from technical comp)	2.8 years
Average EBITDA-margin	>50% life of mine



Source: Company Presentation as at June 2021

Financials

Using Bloomberg Market Estimates for financial year 31/12/2023, we can get an understanding of what the combined Jervois entity would look like and rough financial metrics. At this stage, first production at the ICO mine is due in mid-2022 and a restart of the SMP refinery is due in stages, beginning in 2022.

Key Financials	Market Estimates 31/12/2023
Income Statement	
Total Revenue	488.0
Growth Over Prior Year	--
EBITDA	61.0
Margin %	*12.5%*
Period on period change	
EBIT	44.4
Margin %	*9.1%*
Pre tax Profit	41.0
Net Income	31.0
Cash Flows	
EBITDA	61.0
Funds from Operations	
Chg in Working Capital	
% of Revenues	
Cash Flow from operations	61.0
Capex	(4.0)
Free Cash Flow	57.0

Source: Bloomberg as at June 2021

Balance sheet as of 31 December 2020

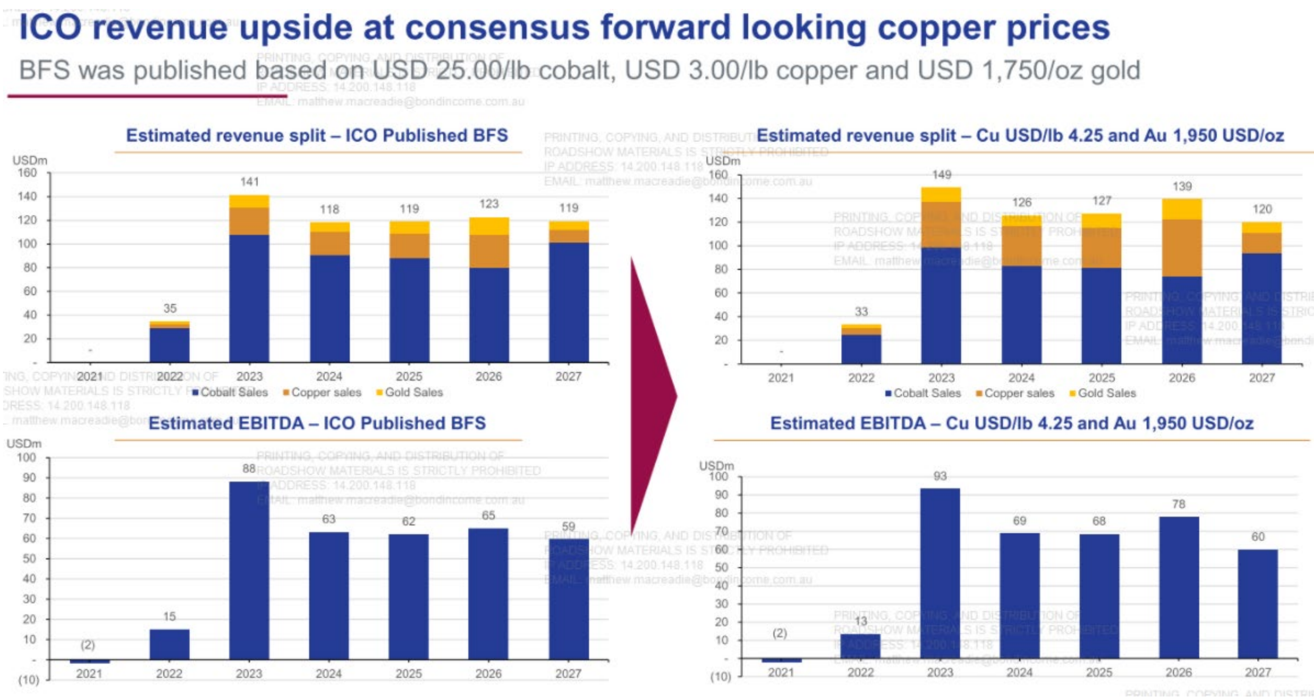
Balance sheet	31/12/2020 USDm
Cash and cash equivalents	33
Other	1
Total current assets	**33**
Exploration and evaluation	6
Property, plant and equipment	57
Other	27
Total non-current assets	**90**
Total assets	**123**
Lease liability	10
Other current liabilities	1
Total current liabilities	**11**
Asset Retirement Obligation	8
Lease liability	11
Other non-current liabilities	0
Total non-current liabilities	**18**
Total liabilities	**29**
Total equity	**94**
Total liabilities and shareholder equity	**123**

Source: Company Presentation as at June 2021

The balance sheet below has been calculated based on pro-forma USD100m of debt and USD50m of equity raised. The balance sheet does not include lease liability (USD21m total) or asset retirement obligations (USD8m). If you included this in debt, you would be effectively greater than 100% geared (on a debt-to-equity basis).

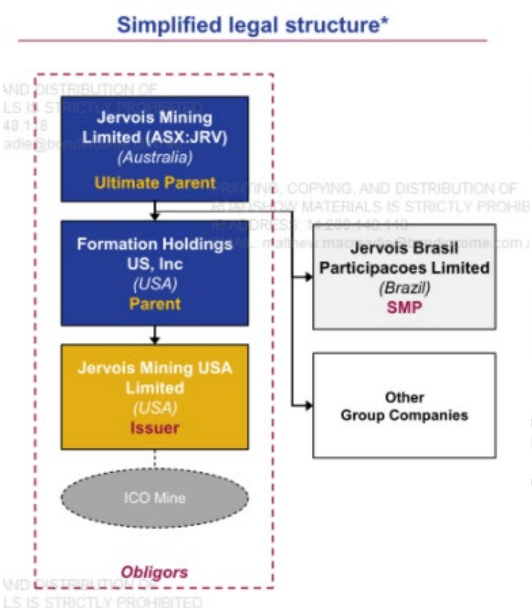
Key Financials	Market Estimates 31/12/2023	Comments
Balance Sheet		
Cash & Equivalents	42.3	Assumes USD100m debt raised
Short term investments	0.1	
LT Debt	113.7	
ST Debt	13.3	
Total Debt	127.0	
Net debt	**84.6**	
Equity	144.0	Assumes USD50m equity raised
Credit Ratios		
Net Debt / EBITDA	**1.4 x**	
Gearing (debt to equity basis)	**88%**	

Source: Bloomberg as at June 2021



Source: Company Presentation as at June 2021

<u>Legal Structure and ICO Project – Sources and Uses</u>



ICO Project: Sources & Uses[1]
(from end 2Q21 until end 3Q22)

Sources	USDm
Senior Secured Bonds	80 - 100
Project Equity Contribution	55 - 35
Estimated Revenues	5
Total Sources	**140**

Use of Proceeds	USDm
Remaining capital cost	91
Estimated rehab and closure deposit	12
Estimated operating costs	17
Prefund Debt Service Account	8.0 - 10.0
Additional interest cost in the period	1.6 - 2.0
Transaction costs	2.6 - 3.0
WC and cash on balance sheet	7.8 - 5.0
Total Uses	**140**

Source: Company Presentation as at June 2021

<u>Jervois Mining Limited: Ownership Structure</u>

Senior management retains meaningful equity ownership of the business. Thus, there is an economical alignment of the leadership team to overall performance of the business – reducing principal-agent risk.

Furthermore, Australian Super holds 27% and is a long-term, stable equity holder in Jervois Mining Limited. Given Australian Super's overall ethical stance on renewable energy, this gives us comfort they may also want to further support this investment vehicle going forward.

Ownership Structure

Holder Name	Shares	% Owned
AUSTRALIAN SUPER PTY LTD	216,901,400.00	27.04%
BNP Paribas Nominees Australia Pty Ltd	47,042,867.00	5.86%
Kennedy Brian	16,131,344.00	2.01%
Newton John	14,101,900.00	1.76%
MCCUSKER HOLDINGS PTY LTD	13,400,000.00	1.67%
Johnston Peter B	6,811,476.00	0.85%
Callahan Michael H	5,729,800.00	0.71%
Crocker Bryce	5,550,000.00	0.69%
KOH LIAN HUA	5,328,166.00	0.66%
SARGOOD PAMELA JULIAN	5,300,000.00	0.66%
DRAWONE PTY LTD	5,231,990.00	0.65%
Netwealth Investments Ltd/Australia	5,186,004.00	0.65%
Young Greg	2,459,016.00	0.31%
Clarke Simon P	1,559,000.00	0.19%
Invesco Ltd	1,198,529.00	0.15%

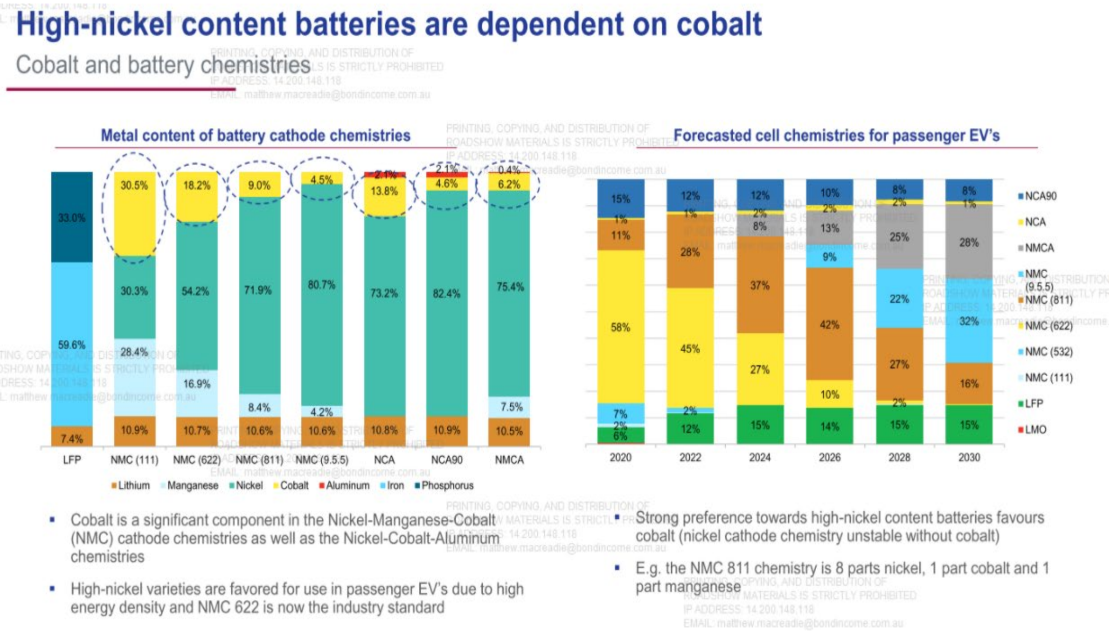
Source: Bloomberg

Cobalt Market: International Energy Agency (IEA)

The IEA was established as the main international forum for energy cooperation on a variety of issues such as the security of supply, long-term policy, information transparency, energy efficiency, sustainability, research and development, technology collaboration, and international energy relations.

International Energy Agency (IEA) conclusions are that by 2040 cobalt demand into EVs and battery storage is set to rise 7x (STEPS) and 21x (SDS) from 2020 baseline levels. Cobalt demand growth in non-energy transition uses also continues.

Expansion in cobalt supply is unlikely to be capable of satisfying demand. Supply increases are dominated by unstable and unreliable regions, like the Democratic Republic of Congo. High-nickel content batteries are also dependent on cobalt, which increases the strength for cobalt.



Source: Company Presentation as at June 2021

Conclusion

Indicative implied rating would be in the equivalent CCC range with the bond proceeds used to fund the partially constructed cobalt-copper mining operations in the US (ICO). Demand and supply fundamentals are very positive for cobalt, with EVs and battery storage to rise 7x (STEPS) and 21x (SDS) respectively from 2020 baseline levels (note: cobalt is a key ingredient here).

Furthermore, the current US Biden administration is hell-bent on supporting local US cobalt and nickel producers, especially given their role in the decarbonisation agenda. Thus, some form of government intervention (whether a direct subsidy or funding related) within this investment vehicle could provide a positive catalyst for bondholders going forward.

Bondholders have protection with a guarantee over the ICO mine as well as the nickel cobalt refinery in Brazil (SMP) respectively. Because ICO is in the early stage of construction and has no history of earnings, risk remains high for this type of vehicle. The ICO project is a key source of revenue for the group and will largely service bond payments.

Pro-forma for USD100m of debt and USD50m of equity raised, the balance sheet will be heavily geared at 88% (debt-to-equity). If we were to use market estimates for 31/12/2023, net debt/EBITDA is 1.4x (and it looks more like a B/BB company by that stage with no construction risks).

At this stage, first production at the ICO mine is due in mid-2022 and a restart of the SMP refinery is due in stages, beginning in 2022. The current assets per balance sheet include cash of ~USD30m as well as PPE and other of ~USD90m which bondholders could call upon in a recovery scenario.

Relative value

At a 12.5% return, we believe the Jervois issue looks appealing in relative value terms compared to the broader US High Yield (HY) – metals and mining sector and even the AU High-Yield (HY) – metals and mining sector. The AU HY metals and mining sector is relatively light on in issuance.

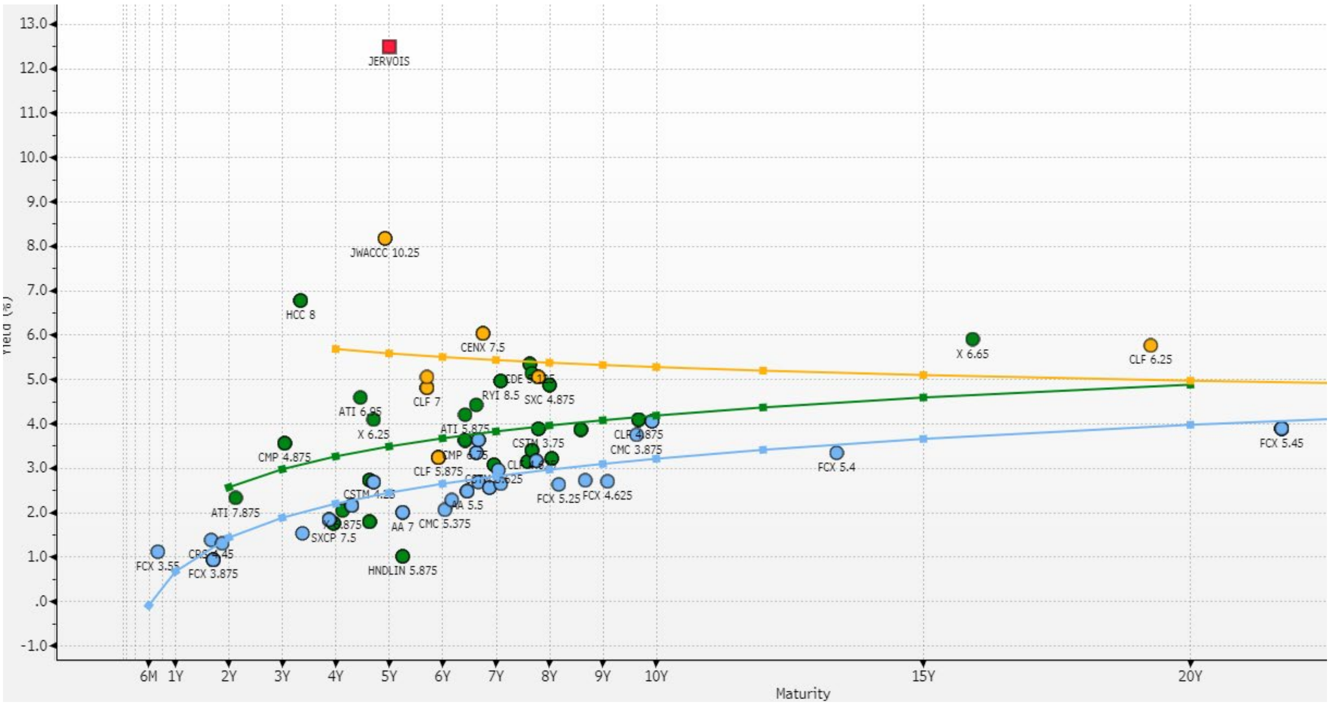
However, we believe the Jervois issue looks appealing versus the existing Infrabuild 12% 2024s (B2/BB) and NCIAU 12.5% 2031s (B+) currently trading at around 9% and 10% respectively. In addition, we note these securities offer around a 6.25% pickup on the recently issued Emeco 6.25% 2026s (B+), which we believe is unwarranted given the ratings differential and credit profiles.

Firstly, Infrabuild was recently downgraded by Moody's to B2/Negative and there is a good chance they will go to B3. GFG Alliance (GFG), who wholly own Infrabuild, are facing funding issues following the collapse of Greensill Capital. While Infrabuild has no direct financing arrangements with Greensill, the financial difficulties facing the broader GFG Group could weaken Infrabuild's already poor liquidity buffer and cause credit stress if other Gupta companies do not step in.

While it offers a decent coupon at 12%, we believe Jervois has a better long-term credit profile and has a better corporate governance structure that bondholders can rely on as opposed to Infrabuild. Furthermore, risks around construction and unforeseen capital shortfalls are largely mitigated by the short construction time (which provides speedy cash generation) as well as an escrow mechanism and a guarantee from listed parent Jervois.

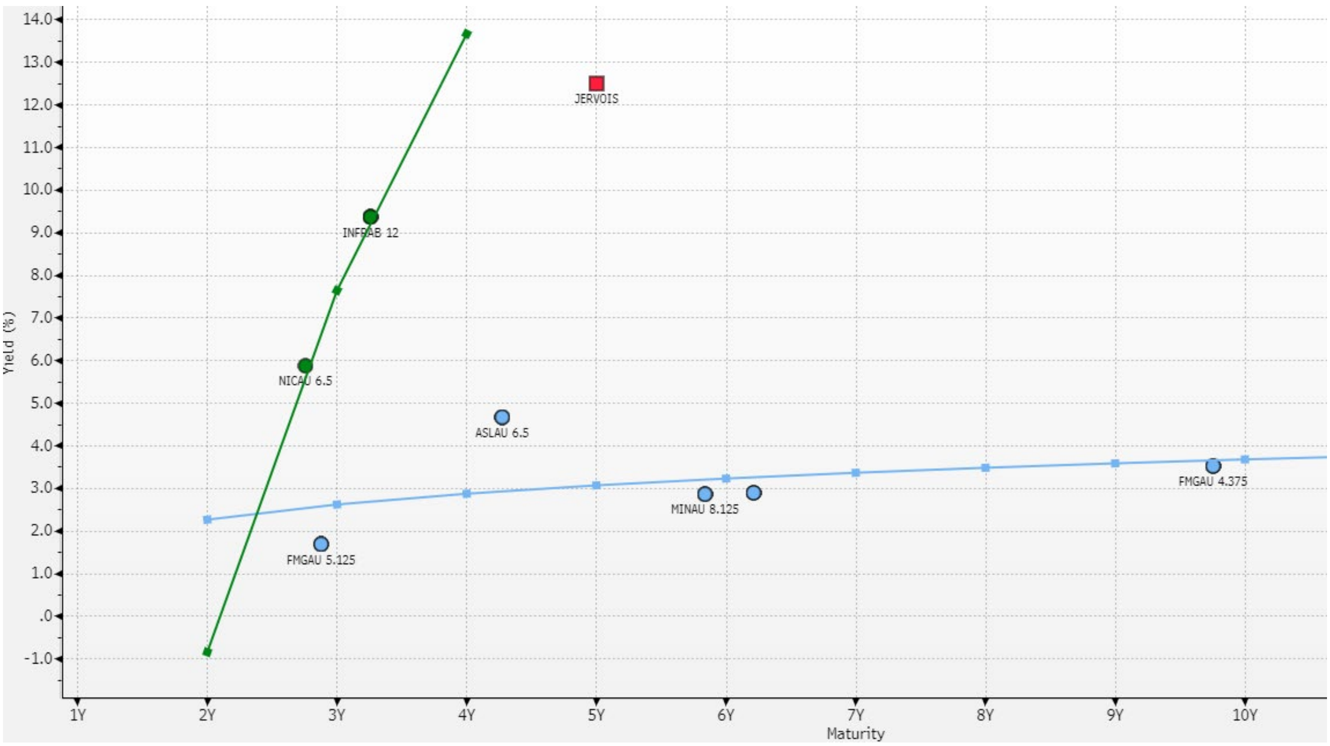
Secondly, the NCIG 12.5% 2031s (B+) are long-dated and structurally impacted by the decarbonisation agenda. While the credit is fundamentally sound and offers a decent coupon at 12.5%, we believe holding the Jervois bonds to maturity would result in a better relative IRR.

US HY – metals and mining



Source: Bloomberg as at June 2021

AU HY – metals and mining



Source: Bloomberg as at June 2021

Risks:

- ICO is in early-stage construction and has no history of earnings
- ICO is expected to be a large revenue generator for the group, with SMP refinery not due for restart till beginning of 2022
- Although competition is limited in the cobalt market in the US, new competitors/producers in the US could impact ICO revenue upside at consensus forward-looking copper prices
- Changes in EV and batteries technology e.g., high-nickel content batteries not being dependent on cobalt
- Assets are relatively thin and recovery for debtholders would be minimal in the event of a default

CONTACT US

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