Cobalt 27 – Major acquisition announced, catalysts pending

INTERVIEW with Anthony Milewski, Chairman and CEO, Cobalt 27 Capital Corp, on the friendly acquisition of Highlands Pacific in a transaction expected to add initial increased attributable production of over 600,000 lbs of cobalt and 2,900 tonnes of nickel per year to Cobalt 27, from the long-life, world-class Ramu Mine located in PNG.

RESOURCE WORLD (RW): Cobalt 27 closed several major transactions in 2018 and, within the first few weeks of 2019, announced a couple more, including the acquisition of Highlands Pacific to increase Cobalt 27's exposure to the Ramu Nickel-Cobalt Mine. Could you take us through the highlights of the proposed acquisition?

ANTHONY MILEWSKI (AM): In May 2018, Cobalt 27 announced an acquisition of a cobalt-nickel stream on the Ramu Mine from Highlands Pacific which owns a minority, non-operating joint venture interest in the mine. The Ramu cobalt-nickel stream was scheduled to close during the second half of 2018; however, through discussions with Highlands and the shifting commodity price environment for cobalt and nickel over the course of negotiations, we realized that by acquiring Highlands outright, Cobalt 27 could acquire significantly more attributable cobalt and nickel production at a lower transaction cost compared to the initial Ramu cobalt-nickel stream transaction.

The purchase price offered to acquire all of the shares of Highlands is valued at approximately US$70 or C$96 million, while the cost to acquire the proposed Ramu nickel-cobalt stream was US$113 million (C$145 million) as an upfront deposit, plus ongoing payments of US$4.00 per pound of payable cobalt and US$1.00 per pound of payable nickel according to the terms of the stream.

Under the stream transaction, Cobalt 27's implied production exposure would have amounted to approximately 450,000 pounds of cobalt and approximately 1,000 tonnes of nickel, based on 2018 Ramu production guidance for Highlands' pro forma 11.3% interest in Ramu. By comparison, Cobalt 27's proposed acquisition of Highlands implies an increase in attributable production to Cobalt 27 to over 600,000 pounds of cobalt and over 2,900 tonnes of nickel per year (based on 2018 Ramu production guidance for Highlands' 8.56% interest). However, upon repayment of Highlands' attributable partner loans, Cobalt 27's interest in Ramu would increase to 11.3%, which would imply 2018 attributable production of over 800,000 pounds of cobalt and over 3,800 tonnes of nickel. We expect to close the acquisition in Q2 2019.

RW: Can you tell us about the Ramu Nickel-Cobalt Mine including the key performance indicators that, in addition to improved transaction economics, contributed to Cobalt 27's decision to acquire Highlands Pacific and a direct interest in the mine?

AM: One of Cobalt 27's core principles is to invest in in geopolitically stable jurisdictions outside of the DRC. We believe the primary issue facing cobalt supply is the major concentration of cobalt reserves and production in the DRC, and the underlying human rights and environmental issues and political uncertainty associated with the region.

The Ramu Mine is located on the north coast of Papua New Guinea. The acquisition of Highlands and the resulting direct interest in the Ramu Nickel-Cobalt Mine meets Cobalt 27's investment criteria on a number of counts including increasing our exposure to a large, long-life, low-cost, high-growth nickel-cobalt mine outside of the DRC and, the potential to deliver immediate cash flow to Cobalt 27. Also, a direct interest in the Ramu Mine expands and diversifies Cobalt 27's existing portfolio with increased nickel exposure which, combined with the company's large cobalt assets which includes over 2,900 tonnes of refined cobalt, provides meaningful exposure to two of the most promising electric vehicle (EV) theme metals.

The Ramu Mine is a large scale, modern nickel-cobalt operation with total estimated reserves of 1 billion pounds of nickel and 100 million pounds of cobalt. The Ramu Mine is considered one of the most efficient, integrated lateritic nickel-cobalt operations in the world, ranking in the bottom half of the 2018 global nickel asset cost curve. The mine is majority-owned and operated by a first-in-class operator, Metallurgical Corporation of China, which trades on the Hong Kong and Shanghai stock exchanges with a market capitalization of approximately US$9 billion.

The Ramu Mine was financed and constructed from 2009 to 2012, by MCC for US$2.1 billion which, at the time, was China's largest overseas mining investment and one of very few major success stories in building a nickel-cobalt mine in the past 20 years. MCC's ownership interest in Ramu is supported by a consortium of three of the largest enterprises in the Chinese nickel and stainless steel industry, namely Jinchuan Group, Jilin Jien Nickel Industry and Jiuquan Iron & Steel.

The mine is considered a cornerstone asset for MCC, within their nickel-focused resource portfolio and management of Highlands currently estimates a mine life of 30 plus years. The Ramu Mine produces approximately 3% of annual global mined cobalt as a co-product of nickel production and, in 2017, the mine exceeded annual production projections, reporting net cash flow of US$170 million (unaudited), on production of 34,666 tonnes of contained nickel and 3,308 tonnes of contained cobalt, both in excess of nameplate capacity.

Finally, as announced by Highlands in Oc-

tober 2018, MCC is evaluating a potential expansion of the Ramu Mine, which could cost in the order of US$1.5 billion. Details regarding potential expansion have not been finalized; however, Cobalt 27 would have the opportunity to participate in any potential expansion and increase its attributable production which, in turn, could generate meaningful additional free cash flows and deliver significant value to Cobalt 27's shareholders.

RW: Why did you feel it was important to add nickel production to Cobalt 27's portfolio of battery metals streams, royalties and direct interests?
AM: It is our view that the EV demand surge will result in a class 1 nickel demand surge. And, with EV adoption still in the early stages, our research suggests that EV-driven nickel consumption could account for up to 10% of global nickel demand by 2025, supporting a long-term deficit. We expect significant demand growth for battery materials through 2025, with nickel and cobalt critical to this trend as continued key elements in advanced battery chemistries. According to our research, Class 1 nickel – used in EV batteries – is forecast to go into deficit after 2022. The capital intensity to develop new nickel projects is high and development times are long. It is estimated that by 2030, the nickel industry will need to invest up to US$70 billion to meet expected demand. With current nickel prices well below the incentive price required to support new capacity, we view Cobalt 27's acquisition of a direct interest in the Ramu Mine as a world-class opportunity to gain exposure to nickel through a producing, long-life, low-cost mine, with significant expansion capacity.

RW: In closing, could you briefly tell our readers your views on recent shifts in cobalt pricing and the underlying, near to mid-term supply and demand fundamentals?
AM: We are confident that EV demand will drive long-term cobalt consumption. At present, the market is experiencing a one-time supply response which came out of the DRC during the first half of 2018, placing the cobalt market in what we believe is a temporary oversupply position. However, in the near-term, we expect cobalt prices to stabilize in 2019. Over the longer horizon, we anticipate the cobalt market to enter into a long-term deficit as EV-driven demand for cobalt outpaces supply, which could happen as early as 2020. We consider this perfect timing as Cobalt 27's 32.6% cobalt stream on Vale's US$1.7 billion underground expansion of the Voisey's Bay Mine in Labrador starts January 1, 2021, to deliver approximately 1.9 million pounds of cobalt per year to Cobalt 27, to be settled in physical delivery for the life of the mine.

Basamuk Processing Plant part of US$2.1 billion Ramu Nickel Cobalt Mine in Papua New Guinea.

Cobalt 27 Capital Corp.
4 King Street West, Suite 401
Toronto, Ontario, Canada, M5H 1B6
info@cobalt27.com

TSXv: KBLT
OTCQX: CBLLF
FSE: 270
www.cobalt27.com