Nickel 28 Books Record Distribution from Nickel & Cobalt JV as it Battles Pelham for Control

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Nickel 28 Capital Corp. (TSXV: NKL) ("Nickel 28") is an innovative metals streaming and royalty company recognized for its leadership in developing a battery metals focused investment vehicle. The Company has an 8.56% joint venture interest in the producing Ramu Nickel-Cobalt Operation in Papua New Guinea ("PNG") and has a portfolio of 13 nickel and cobalt royalties on development and exploration projects in Canada, Australia, and PNG.

Note: Nickel 28's Ramu JV interest increases to 11.3% at no cost once Nickel 28 pays down their Ramu JV loan, targeted by early 2025.

Ramu JV performing well with a record distribution to Nickel 28

On April 19, 2023, Nickel 28 announced that they had received their "*largest ever cash distribution from Ramu joint venture of US$9.7 million*". Furthermore, the news stated:

> *"These payments reflect Ramu's previously announced strong operational, production and sales performance during the second half of calendar 2022 and further demonstrate the financial and strategic value of the Company's interest in the Ramu Nickel joint venture project."*

Nickel 28 also mentioned that they had paid down a further US$18.1 million of their share of the Ramu JV construction debt, reducing Nickel 28's attributable debt balance to approximately US$55.8 million as of January 2, 2023.

So all up, a very impressive result.

FIGURE 1: Aerial view of the Ramu JV nickel-cobalt operation in PNG

Source: Nickel 28 website

Nickel 28 is battling against an unsolicited offer for their Company shares

Nickel 28 is battling Pelham Investment Partners LP ("Pelham"), who first tried to place a US$15 million financing in February to gain more control of the Company and then in March submitted an all-cash tender offer for up to 10 million shares at C$1.20.

Nickel 28's response is very clear, stating:

> *"Pelham's Scheme is a coercive vote-buying ploy designed to create uncertainty in the market. Pelham is trying to gain influence over Nickel 28 for virtually **no premium** at the expense of Nickel 28's other shareholders in order to advance its self-interested agenda. The global market for electric vehicles continues to ascend with high-grade Nickel sulphides increasingly in demand. Nickel 28 cautions shareholders about selling their shares before Nickel 28 benefits from significant near-term catalysts that are expected to drive further value creation for Nickel 28 shareholders. Management and the Board remain strongly of the view that the intrinsic value of the Company's shares are far in excess of the price Pelham is attempting to acquire shares for under the Scheme……"*

Naturally, Nickel 28's response to its shareholders has been to "***TAKE NO ACTION***" and to "***DISREGARD*** any materials or communications received from Pelham or its agent."

In response to the above Nickel 28 has adopted a 'Shareholder Rights Plan' to protect against "creeping" bids and unequal treatment of shareholders. The Plan details can be read here.

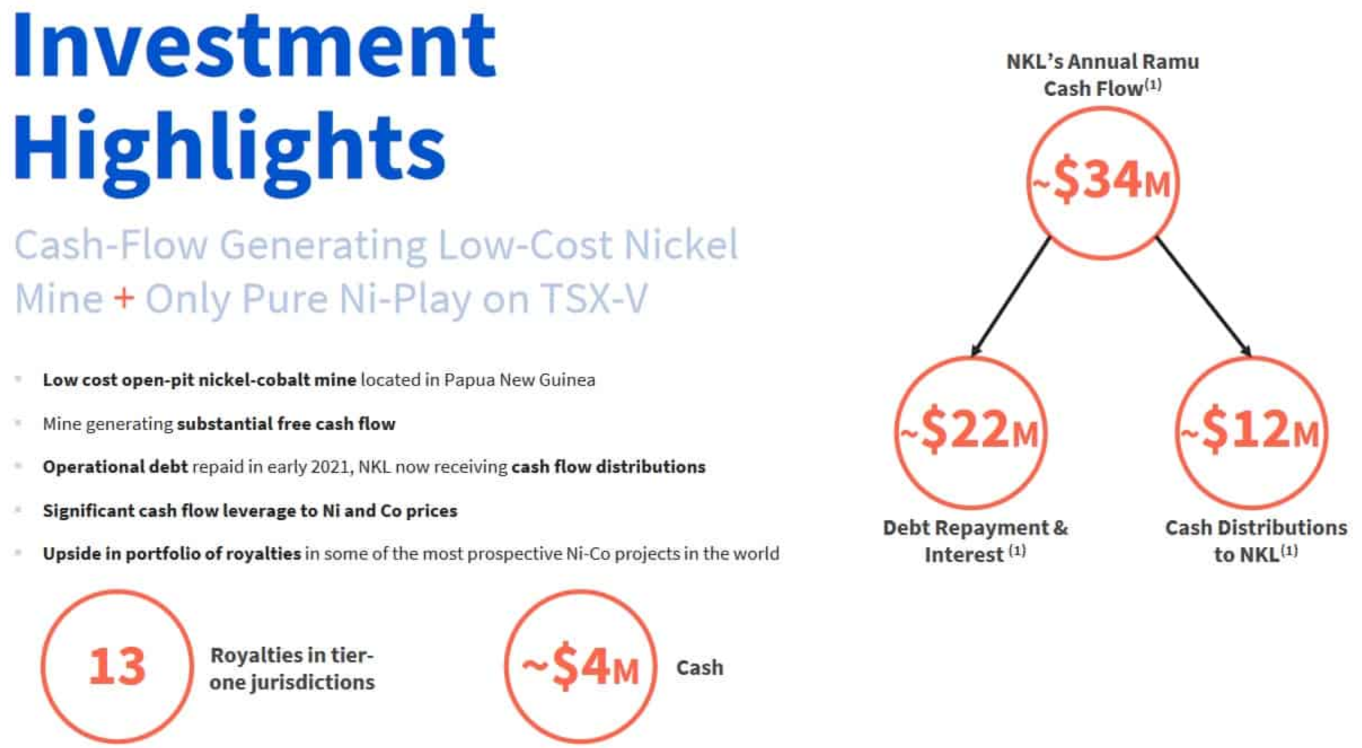
Pelham's response to Nickel 28 on April 26, 2023, stated:

> *"Pelham Investment Partners LP announces completion of its tender offer for shares of Nickel 28 Capital Corp. and expresses disappointment with management's actions……Following taking-up and paying for the tendered shares, Pelham LP will own and control a total of 9,635,778 shares, representing approximately 10.50% of the total issued and outstanding shares, which will make Pelham LP (to its knowledge), the Company's single largest shareholder..…"*

It should be mentioned that 'unsolicited offers' in the mining business are common, especially if stock prices are down and bargains can be found. Recent examples include:

- A bid for super-cheap lithium miner Essential Metals Limited (ASX: ESS) by the IGO/Tianqi Joint Venture. The offer was rejected by Essential Metals shareholders and effectively blocked by Mineral Resources Limited (ASX: MIN) buying a blocking 19.55% stake in Essential Metals shares.
- Teck Resources (TSX: TECK.A | TSX: TECK.B | NYSE: TECK) and Glencore (LSE: GLEN), which has seen Glencore come back and 'up' the bid.
- UAE-based Fujairah Holding and its bid for the West Africa-focused miner Asante Gold (CSE: ASE).
- Newmont (NYSE: NEM | TSX: NGT) & Newcrest (ASX: NCM | TSX: NCM), which has recently moved to the 'exclusivity' stage so now becoming more 'friendly'.

FIGURE 2: Nickel 28 investment highlights



Source: Nickel 28 company presentation

Closing remarks

The takeaway message for investors is that when unsolicited takeover offers start arriving you know the stock is usually a bargain. It's the market's way of letting you know that opportunist investors have arrived to collect great value. Of course, only time will tell and investors should make up their own minds regarding their views on Nickel 28 and their stock price and the Pelham C$1.20 offer.

The renewable energy and electrification trends are still in the early days, so companies that can progress or build quality portfolios stand to do very well over the next decade or two.

Nickel 28 trades on a market cap of C$104 million and a stock price of C$1.16 at the time of writing.

Nickel 28 Capital focuses on cash-flow positive nickel PNG mine and royalty portfolio that includes Mitsubishi JV

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Nickel 28 Capital Corp. (TSXV: NKL) is an innovative battery metals investment vehicle with a focus on metal streaming and royalty agreements. They focus on exposure to metals integral to key technologies of the electric vehicle and energy storage markets. Nickel 28 is led by an experienced team of mining executives and financial professionals under Nickel 28's Chairman, Anthony Milewski, with a track record of value creation in the natural resources sector.

One of the company's main assets is its 8.56% interest in the Ramu Nickel Cobalt Mining Operation, located near Madang on the north coast of Papua New Guinea and operated by the Metallurgical Corporation of China. The company's interest in Ramu increases to 11.3% following repayment of Highlands' attributable Ramu construction and development loans. Nickel 28 recently announced the second quarter results of the Ramu project. Production at the Ramu Nickel Mine in Papua New Guinea was consistent in the second quarter of 2022, with a production of 8,128 tonnes of contained nickel and 695 tonnes of contained cobalt during the quarter. Nickel sales were also consistent in the second quarter, with 6,624 tonnes of contained nickel sold.

The mine is currently generating substantial free cash flow. The company has repaid all of its operational debt and is now receiving cash flow distributions from the project. Nickel 28 has significant leverage to Nickel and Cobalt prices, which should continue to support strong cash flow generation from the project.

The second quarter looked extremely promising as sales improved due to increased demand for lithium-ion batteries. However, the continued conflict in Ukraine, the continued pandemic's effects, and the suspension of nickel trading on the LME in March, were significant challenges. Ramu has been able to successfully navigate through these challenges due to the consistent and stable production at the company. This level of production has allowed Ramu to maintain a position of strength in the nickel market despite the challenges that have arisen.

In addition to their main project, Nickel 28 also has a number of royalties. Streams and royalties have some key advantages as commodity investment vehicles. They provide exposure to the resource's underlying earnings and dividends rather than capital costs. This strategy means that they offer investors the potential to participate in both resource growth and production growth. In addition, streams and royalties avoid direct exposure to the many risks associated with commodity production, such as increasing capital, operating, and environmental costs. As a result, they can provide a more stable and predictable return profile for investors.

These royalties are likely to pay off for Nickel 28. Recently, they announced an update on their 2.0% Net Smelter Return royalty from Giga Metal's Turnagain Nickel/Cobalt deposit. This deposit is a world-class nickel-cobalt deposit, and metallurgical test work indicates that a clean concentrate grading 18% nickel and 1% cobalt is achievable using proven technology.

On August 15, 2022, Nickel 28 announced the formation of a joint venture for Giga with Mitsubishi Corporation. This joint venture will investigate the Turnagain Nickel Deposit in British Columbia, Canada, for the potential of nickel and cobalt. Mitsubishi has a long history of investing in high-quality mining projects all over the world. The backing of a massive corporation like Mitsubishi in a joint venture is good news for both Giga and Nickel 28. If the joint venture successfully develops the deposit, it could provide a significant source of battery metals for anticipated electric vehicle growth over the next decade.

The formation of the joint venture is just the first step in what is sure to be a long and complex process. However, it is an important step that increases the chances of success for all involved. Nickel 28 is in a solid position to continue to benefit from both the Turnagain and Ramu projects.

Nickel 28 Capital offers growing nickel-cobalt exposure as nickel prices eclipse a 10 year high

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Nickel has been shooting for the stars lately, having just recently eclipsed its 10 year high (see chart below).

The reasons are a combination of strong demand (stainless steel and electric vehicles) and some weaker supply during 2021 (Norilsk Nickel supply disruption, BHP & Vale weaker output).

As we look ahead to 2022, market forecasters see a ‘balanced market’ as both nickel demand and supply rise. A recovering China and a booming EV sector bode well for both nickel and cobalt in 2022 and in the years ahead.

Nickel is at a 10 year high – Currently US$24,320/t

Source: Trading Economics

Nickel 28 Capital Corp. (TSXV: NKL) is a nickel-cobalt producer via its 8.56% joint venture interest in the producing Ramu Nickel-Cobalt Operation in Papua New Guinea (PNG).

Nickel 28 also manages a portfolio of 13 nickel and cobalt royalties on development and exploration projects in Canada, Australia and PNG.

The Ramu Nickel-Cobalt Operation in PNG

Source: Nickel 28 website

The Ramu operation is performing well (Nickel 28’s share is 8.56%)

As shown below the Ramu operation in PNG is performing very well making a high gross profit margin due to its low costs and the current high nickel and cobalt prices. Nickel 28 received US$3.2 million in distributions from Ramu in H1, 2021 and these are expected to rise due to stronger nickel and cobalt prices in H2, 2021.

A not very well known fact is that Nickel 28's JV interest will increase from 8.56% to 11.3% once the JV loan is repaid (forecast by mid 2024), but likely to be earlier (H2, 2023) if strong nickel and cobalt prices hold. Once the JV loan is repaid Nickel 28 will see a very significant rise in their cash flow. As a next step, Nickel 28 has the option to acquire an additional 9.25% JV interest at fair market value. If Nickel 28 decides to take that option their share of the Ramu JV would rise to 20.55% (11.3% + 9.25%).

Ramu highlights

Source: Nickel 28 company presentation

Nickel 28 Executive Chairman, Anthony Milewski, stated in the Company's December 2021 Annual Shareholder Letter:

"Ramu continued to be one of the top performing nickel producing mines globally. Ramu's production in 2021 is on target to produce over 31,000 tonnes of nickel in product. Costs of production remain consistent at around $2.00/lb of nickel making it the lowest cost HPAL producer according to Wood Mackenzie. As we have seen a significant appreciation in nickel prices in 2021, we see that Ramu is generating significant cash flow, which, with the retirement of the operating debt at Ramu, is being utilized to pay down the construction debt."

Nickel 28's royalties portfolio

Nickel 28 has created a portfolio of 13 projects offering nickel-cobalt royalties. Think of this as a potential new revenue stream if the projects succeed.

Nickel 28's potential royalty streams if the projects succeed to production

Source: Nickel 28 company presentation

Nickel 28 Executive Chairman, Anthony Milewski, stated:

"We are also encouraged by the progress at two of our important royalties. Both Dumont and Turnagain are two of the world's largest undeveloped nickel sulfide projects which are located in Canada. An investment bank lead process is underway to find a partner to advance Dumont and we are hopeful a result is achieved in 2022. Turnagain is also working toward bringing in a partner to help advance its feasibility studies and to put the project on track towards a construction decision."

Closing remarks

Nickel 28 offers investors a potential growing exposure to the well-performing Ramu Nickel-Cobalt Operation in PNG. Nickel 28 has the potential to grow its share from 8.56% to 11.3% at no expense (must repay JV debt) and then an option to increase its share to 20.55% should it wish to buy a further share.

Furthermore, Nickel 28 has a portfolio of 13 potential royalty stream projects led by investments in some of the best junior (non-producing) nickel assets globally.

Nickel 28 trades on a market cap of C$109 million, which is certainly not a high market cap given the existing and potential upside exposure to global nickel-cobalt production.

Further reading

- Nickel 28's Anthony Milewski discusses the Impact of the Demand and Price Surges for Battery Grade Nickel

Nickel 28 Capital: A Nickel-Cobalt Producer Leading its Industry is Going Green

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Global primary nickel demand is seen increasing by 12% in 2021 to 2.67 million tonnes, while primary nickel production is only expected to climb by 9% to 2.7 million tonnes, according to the International Nickel Study Group. Presently about 65% of annual nickel production is used to manufacture stainless steel. However, Electrified Vehicle (EV), nickel demand for use in batteries, is forecast to grow to 1.3 million tonnes yearly by 2030. You read that right, EV demand alone could consume almost 50% of current global nickel production within the foreseeable future. There's no renewable or low carbon replacement for stainless steel, so that demand isn't going away. Suffice it to say the supply/demand picture looks reasonably healthy for nickel for the foreseeable future, which might be why nickel prices have risen almost 10% year to date, despite being down 11% from their recent highs in September.

When we last visited an interesting opportunity to gain exposure to this commodity, Nickel 28 Capital Corp. (TSXV: NKL), was on the cusp of a transformational change whereby they were about to pay off the Operating Debt for the Company's principal asset, an 8.56% joint-venture interest in the Ramu Nickel-Cobalt operation in Papua New Guinea. As part of a Joint Venture Agreement with majority owner and operator of the mine, Metallurgical Corporation of China Limited (MCC), it, MCC, provided the financing for the construction and development of the Ramu Mine. Nickel 28 had two separate debt agreements with MCC – one to finance the original construction of the mine (Construction Debt) and a second amount to finance the ramp up and early operating expenses of the mine (Operating Debt). 100% of the operating surpluses from the mine were first allocated to repay the Operating Debt and related interest, meaning that once this is paid off there is significant free cash flow available to Nickel 28.

Once the Operating Debt is repaid, Nickel 28 can repay the Construction Debt at any time without penalty but is entitled to its share of 35% of the mine's operating surpluses, with the remaining 65% used to repay any remaining Construction Debt and related interest. For the three months ended June 30, 2021, Nickel 28 Capital Corp. recognized $8.4 million for its share of operating profit from the Ramu Mine and $14.9 million for the first six months of 2021. Assuming, they make the final payment of $10.2 million to the Operating Debt, that should leave $1.6 million ($4.7 million x 35%) to add to the quarter end cash of $4.6 million. Going forward, Nickel 28 could be adding 35% of $7-$10 million per quarter, depending on mine output and commodity pricing. But what to do with all that cash? That's material liquidity for a company that also manages a portfolio of eleven royalties (see below). Nickel 28 says that it intends to continue to invest in a cobalt and nickel-focused portfolio of streams, royalties and direct interests in mineral properties which could use up some of that extra cash.

Source: Nickel 28 Capital Corp. Q2/2021 MD&A

But perhaps even more compelling than all the potential upside from the royalties is the path that the Company is taking on the Environmental, Social, and Governance (ESG) front. There is no question that more and more emphasis is being put globally on how safely and with minimum environmental footprint you provide your commodity. To that end, on February 9, 2021, the Company announced that it had completed an independent analysis on greenhouse gas (GHG) intensity for the Ramu nickel-cobalt operation, confirming that the operation is one of the lower GHG emitters in the world nickel industry. Ramu's average GHG intensity has been calculated at 15.6 tonnes of carbon dioxide equivalent per tonne of nickel (15.6 tCO_2e/t Ni) contained in mixed hydroxide product. This compares favorably to a nickel industry average GHG intensity of 36.6 tCO_2e/t Ni as calculated by Wood Mackenzie. Then on March 15, 2021, in an industry first, Nickel 28 bought carbon offsets for its share of Ramu nickel and cobalt production. The carbon offsets will fully offset Nickel 28's anticipated 2021 attributable GHG emissions from the Ramu integrated nickel-cobalt mine, and makes it the mining industry's first carbon neutral refined nickel-cobalt producer. This should put Nickel 28 in all green ETFs once everyone figures this out.

With 85.7 million shares outstanding, the Company has a market cap of roughly C$79 million based on yesterday's close of C$0.92. When you think about what the value of an 8.56% interest in a producing world class nickel-cobalt mine is, plus the cash flow that it's about to start generating, one can make a pretty compelling investment thesis. The fact that they might be the greenest miner out there right now should give it a premium over whatever other metric you want to use to measure this company by. So if you are interested in having some exposure to nickel, the commodity, you might want to look at Nickel 28 Capital Corp.

Nickel 28 is in an enviable position for future nickel demand

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The headlines for the new green (low carbon) world tend to focus on security of supply of rare earths, with a decent helping of lithium, cobalt and copper supply news. However there is a commodity that doesn't seem to get its share of the attention when it comes to the build-out of EVs and battery storage – and that's nickel. Global primary nickel usage is seen increasing by 12% in 2021 to 2.67 million tonnes, while primary nickel production is only expected to climb by 9% to 2.7 million tonnes, according to the International Nickel Study Group. EV nickel demand is forecast to grow to 1.3 million tonnes yearly by 2030, representing a whopping 48% of 2021 forecast nickel production. And let's not forget that presently about 65% of nickel is used to manufacture stainless steel. I'm pretty sure stainless steel will play an integral part in the US infrastructure spending the Biden administration has planned. So suffice it to say the supply/demand picture looks reasonably healthy for nickel for the foreseeable future.

There are several ways to add nickel to your portfolio if you are intrigued by these statistics. However, today we are going to look at a somewhat unique hybrid opportunity to get some nickel exposure. Nickel 28 Capital Corp. (TSXV: NKL) is a base metals company offering direct exposure to nickel and cobalt through its holding of 8.56% joint-venture interest in the producing, long-life and world class Ramu Nickel-Cobalt Operation located in Papua New Guinea. This provides Nickel 28 with significant attributable nickel and cobalt production, both being critical elements of electric vehicles and energy storage systems. But where Nickel 28 differentiates itself from other miners and explorers is that it also manages a portfolio of eleven nickel and cobalt royalties in Canada, Australia and Papua New Guinea on nine exploration stage projects and two advanced / development stage projects. So an investor gets direct exposure to nickel and cobalt production today, with upside from a diverse set of potential royalties in the future. In other words, Nickel 28 is also a nickel/cobalt streaming company.

As interesting as that sounds, it's not even the most intriguing thing about Nickel 28 at present. The Company has reached a watershed moment in its deal with the Ramu mine majority owner and operator Metallurgical Corporation of China Limited ("MCC"). Without trying to get too deep into the financial nitty gritty, as part of the Joint Venture Agreement with MCC, MCC provided financing for the construction and development of the Ramu Mine. Nickel 28 had two separate debt agreements with MCC – one to finance the original construction of the mine ("Construction Debt") and a second amount to finance the ramp up and early operating expenses of the mine ("Operating Debt"). Up to this point, 100% of the operating surpluses from the mine are first allocated to repay the Operating Debt and related interest. Once the Operating Debt is repaid, the Company can repay the Construction Debt at any time without penalty and is entitled to its share of 35% of the mine's operating surpluses, with the remaining 65% used to repay any remaining Construction Debt and related interest.

So what the heck does all that mean? The operating surplus for the 6 month period ended December 31, 2020, at Ramu was $15.4 million, which was applied to the Operating Debt in Q1/21 leaving $10.1 million outstanding. With the average price for nickel in H1/21 being higher than H2/20, it's reasonable to assume Nickel 28 should soon be making its final payment on the Operating Debt thus freeing up some material free cash going forward. Back of the envelope math would suggest that number is almost $11 million per year based on H2/20 pricing and costs.

There are several options that Nickel 28 has available to it for deploying this cash. Following repayment of the $82.7 million Construction Debt still owed to MCC, Nickel 28’s ownership interest in the Ramu Mine, will automatically increase to 11.3% at no cost. The Company can continue to invest in a battery metals focused portfolio of streams, royalties and direct interests in mineral properties. The Company recently announced a normal course issuer bid to repurchase its common shares, which it feels would be highly accretive to its net asset value per share and represents the highest rate of return on investment based on the current share price. Additionally, Nickel 28 has also indicated that there is an option to explore the institution of a dividend.

It’s always an exciting time for a company when it is in the enviable position of having numerous options to deploy its cash. Nickel 28 is focused on IRR and will be making a decision on how to spend its capital accordingly once the Operating Debt is officially retired. Stay tuned for what’s next.