

First Cobalt Corp. (TSXV:FCC)

**Multiple Sources for Battery Grade Sulfate; More News Coming**

**Corporate Update**

March 31, 2020

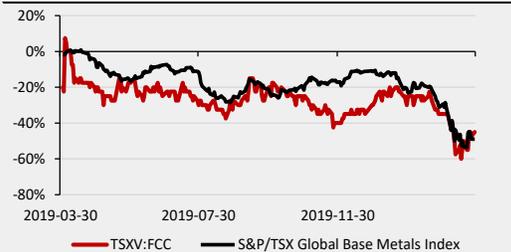
(Currency is CAD\$ unless noted otherwise)

Closing Price (\$/sh)	\$0.11	
Rating	NA	
Target (\$/sh)	NA	
Return to Target	NA	
52 Week Low / High	\$0.08 / \$0.25	
<b>CAPITALIZATION</b>	<b>Basic</b>	<b>Diluted</b>
Shares Outstanding (M)	372.2	409.6
Market Capitalization (\$MM)		\$40.9
Enterprise Value (\$MM)		\$40.8
Cash and Cash Equivalents (\$MM)		\$6.4
Total Debt (\$MM)		\$6.2

**STOCK CHART**



**RELATIVE PERFORMANCE**



**MAJOR SHAREHOLDERS**

Management (1.29%), Tribeca Investment Partners Pty Ltd (4.34%)

**DISCLOSURE CODE:** 1,2,3,4

(Please refer to the disclosures listed on the back page)

Source: RCS, Company Information, Capital IQ

**Company Description**

First Cobalt is a North American pure-play cobalt company whose flagship asset is the First Cobalt Refinery. The company's main strategy is to explore, develop and refine ethically sourced cobalt within North America for sale back into the American battery market. The company has the only permitted cobalt refinery in North America (located in Ontario, Canada) capable of producing battery materials. First Cobalt owns the Iron Creek Cobalt project located in Lemhi County, Idaho, USA, along the Idaho Cobalt Belt and has an extensive property package over 10,000 hectares in Ontario where the company aims to carry out exploration to re-evaluate the silver-cobalt mineralized system at the Greater Cobalt project in the Canadian Cobalt Camp.

**Impact: Mildly Positive**

First Cobalt announced that it has demonstrated that the flowsheet from its Cobalt, Ontario refinery can produce battery grade sulfate from a second type of feed. While this adds to operational flexibility, the focus remains on the pending feasibility study and the definition of economic terms with Glencore (LSE:GLEN, Not Covered). **We believe First Cobalt's shares are undervalued as its ownership of the only fully permitted cobalt refinery in North America is a competitive advantage.**

**Highlights:**

- **Flowsheet versatility at its refinery.** The company successfully determined that a cobalt alloy product could be used as a second feedstock to produce a cobalt sulfate heptahydrate, a key component of lithium-ion batteries, with the resultant cobalt sulfate assaying 21.4% cobalt. This compares favourably to 2019 when the company produced cobalt sulfate that assayed 20.8% cobalt from a cobalt hydroxide feed. Both products achieved over 99.9% purity and are considered battery grade. The ability to treat different feedstocks demonstrates the flowsheet versatility of the company's hydrometallurgical facility and lowers the risk profile for the company.
- **Pending feasibility study.** More importantly, we expect First Cobalt to release a feasibility study on a potential refinery restart in Q2/20. We anticipate a staged approach, with a lower-capex, smaller starting throughput (12 tpd), with a staged expansion in the future (55 tpd). Importantly, the study should provide a detailed understanding on the underlying cost structure of the refinery (capital and operating), allowing the company to set commercial terms with Glencore.
- **Economics terms and the advantage of outside capital.** The ongoing feasibility study is being funded by Glencore through a loan. Our understanding is that this debt facility would be expanded to fund the restart of the refinery. This goes along with economic terms which we would expect to be on a cost-plus model (i.e. paying First Cobalt operating costs plus margin), like toll milling. However, should First Cobalt be able to fund the restart with alternative capital, it could operate like a more traditional refinery and receive 30% of the payable metal it processes, which would likely result in higher margins.

**Valuation:**

**Iron Creek partially backstops First Cobalt's valuation, but focus should be on the refinery.** We note that while the 36Mlbs CoEq resource partially backstops First Cobalt's C\$41M market cap (trades at US\$0.86/lb versus peer at US\$0.69/lb), our view is that the company's value is tied to its ownership of the only permitted cobalt refinery in North America. We expect the refinery to be a strategic asset as EV's become more prevalent. **Upcoming Catalysts include:** 1) Feasibility study for the refinery (Q2/20) and 2) Refinery recommissioning (~Q4/20).



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Company Name	Ticker Symbol	Disclosures
First Cobalt Corp.	TSXV: FCC	1,2,3,4

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# First Cobalt Corporation

(FCC-V: C\$0.11)

**BUY**

Target: C\$0.60

March 30, 2020

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## Battery Grade Cobalt Sulfate Again Produced at Refinery

FCC-V	New	Last
Rating	--	BUY
Target	--	\$0.60
Projected Return	471% ▲	287%
Target Multiple	--	1.0x
NAV	--	\$0.62/sh
P/NAV	0.17x ▼	0.25x
Greater Cobalt (C\$MM)	--	\$71.50
Iron Creek (C\$MM)	--	\$58.28
In-Situ Stockpile Valuation (A,B,C) (C\$MM)	\$7.19 ▲	\$6.68
Refinery and Mill (C\$MM)	--	\$84.50
Cash & Debt (C\$MM)	--	\$0.60
JRV-V Equity Investment (C\$MM)	--	\$0.24
Potential Warrants/Options (C\$MM)	--	\$30.21
Total Valuation C\$MM)	\$252.53 ▲	\$252.01

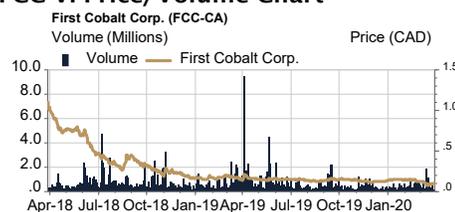
Company Data	
Last Price	0.11
52-week Range	0.08 - 0.25
Market Cap (\$MM)	\$40.7
Enterprise Value (\$MM)	\$40.1
Shares Outstanding - Basic (MM)	372.2
Shares Outstanding - FD (MM)	409.6
Avg Volume - 100d (000 sh/day)	139.7
Cash (\$MM)	\$6.8
Debt (\$MM)	\$6.2

Cobalt Forecasts	2018A	2019E	2020E	LT
99.3% Co (US\$/lb)	35.5	15.0	20.0	20

All Figures in C\$ Unless Otherwise Noted

Source: Company Reports, FactSet, Eight Capital

### FCC-V: Price/Volume Chart



Source: Factset

### Company Description

First Cobalt is a development and exploration company focused on assets in Idaho, USA and Cobalt, Ontario. Its Iron Creek Project in Idaho has an underground resource of 2.2 MMt @ 0.32% CoEq indicated and 2.7 MMt @ 0.28% CoEq inferred for combined 25 MM lbs of contained cobalt. Ontario's Greater Cobalt project takes a dominant land position in the historic Cobalt silver-cobalt mining camp. Past production totaled 600 MM oz of silver and 50 MM lbs Co since near the turn of last century. Its Ag-Co refinery in Cobalt is the only permitted facility in North America capable of treating high-arsenic cobalt.

We reiterate First Cobalt as a BUY, and maintain our target price of C\$0.60/sh. Relative in-situ valuation is applied to exploration assets, while replacement value is used for the refinery until such time that a FS and commercial terms can form the basis for DCF.

High purity battery grade cobalt sulfate was produced for a second time at its Refinery in Cobalt, Ontario using a different feed source by SGS Canada. This demonstrates that the same flowsheet can treat various feed sources. While the source of today's cobalt alloy was not provided, the end result was similar to previous tests completed on hydroxide feed that was apparently sourced from the DRC. Management suggests that there is still room for improvement to meet potential specs provided by off-takers.

- Battery grade Co sulfate (21.4% Co) with 99.91% purity was created from cobalt alloy in 2020.
- Battery grade Co sulfate (20.8% Co) with 99.9% purity was created from cobalt hydroxide in 2019.

We view today's news as incrementally positive and not all that unexpected given that this cobalt refinery had previously processed materials from various cobalt feedstock across the globe. We continue to await the final decision to recommission the Refinery. That decision is contingent on the outcome of the DFS and completion of a long-term feed supply agreement with Glencore (GLENLON, Not Rated). That said, we have yet to modify our "book value" valuation for the refinery until we are provided additional guidance as to management plans going forward. While the 12tpd refinery is likely to be expanded to 24tpd or up to 55 tpd, we aren't yet sure how Capex will be covered and who might be a buyer for its cobalt sulfate; using Glencore feedstock would likely demand delivery back to Glencore. While First Cobalt has plenty of potential to provide its own cobalt feed, development of its Iron Creek cobalt project in Idaho has slowed down given last year's volatile cobalt pricing, and might be a few years away despite approaching readiness by the refinery. Exploration of early stage cobalt projects in the Cobalt, Ontario area have also been halted in this price environment.

**Refinery definitive feasibility study delayed by 3-4 weeks.** This delay is partially due to the coronavirus pandemic slowing down vendor quotes, and partially management's decision to spend further time studying the matter given the extra time currently found during this market slowdown.

**Ausenco scoping study assumes expansion.** The Refinery is currently permitted for 12tpd, which can produce up to 675 tpa Co in sulfate for an estimated capex of US\$12.0 MM (see Table 1), according to the 2019 Ausenco scoping study (see PR). An additional capital cost of US\$18.4 MM could expand the refinery to ~24tpd (from 12 tpd), which could produce up to 1,964 tpa Co in sulfate. Lastly, an additional capital cost of US\$37.5 MM could further expand the refinery to ~55tpd (from ~24 tpd), which could produce up to 5,020 tpa Co in sulfate.

**Glencore funding available** while management seeks co-funding for refinery restart. FCC has sufficient cash for at least 12 months with no plans to tap the equity markets to recommission and expand the refinery. It recently raised \$2.1 MM equity and has a \$5 MM loan facility with Glencore. There is potential off-take interest from Western automakers that seek non-Chinese cobalt sources.

**Table 1: Potential production scenarios from 2019 Ausenco scoping study. Cost estimates are in USD, include contingencies, and are considered accurate within -30%/+50%**

	DESCRIPTION	PRODUCTION (TPA <sup>*</sup> )	CAPITAL COST (WITH CONTINGENCY)	OPERATING COST (ANNUAL)
Case 0	Using currently installed equipment, flowsheet changed to process cobalt hydroxide feed. Production limited by the capacity of the currently installed SX circuit.	675	\$12.0M	\$9.3M
Case 1	Using an expanded SX circuit, production is limited by capacity of the currently installed liquid-solid separation equipment	1,964	\$18.4M	\$17.4M
Case 2	Using additional liquid-solid separation equipment, production limited by filtration capacity and the size of the existing building	5,020	\$37.5M	\$36.4M

<sup>\*</sup> Tonnes per annum of cobalt in cobalt sulfate

Source: Ausenco, Company 28-MAY-19 press release ([link](#))

First Cobalt Corporation					FCC-V	C\$ 0.11
Rating	BUY	C\$ Target	\$0.60	Shares O/S (MM)	387.3	
		C\$ Close	\$0.11	Float (MM)	345.1	
David A. Talbot, Director, Mining Research				Fully Diluted Shares (MM)	416.55	
<a href="mailto:dtalbot@viiicapital.com">dtalbot@viiicapital.com</a>		12-month return	471%	Basic Mkt. Capitalization (\$MM)	40.67	
All figures in C\$, unless stated otherwise						
<b>INVESTMENT HIGHLIGHTS</b>						
<ul style="list-style-type: none"> <li>First Cobalt's recent acquisition of the Iron Creek project established critical mass for the company based on a Non 43-101 Compliant resource of 1.3MM tons - expecting a 43-101 resource in H2/18.</li> <li>In 2017, FCC closed a deal with Cobalt One and CobaltTech that has solidified it as one of the largest cobalt explorers globally.</li> <li>The Greater Cobalt Area project takes the dominant land position in this historic silver-cobalt mining camp 400 km north of Toronto. Past production totaled 600 MM oz of silver and 50 MM lbs Co since near the turn of last century.</li> </ul>						
<b>ASSUMPTIONS</b>						
Cobalt 99.3% Low Grade	US\$/lb	2019E	2020E	2021E		
Exchange Rate	US\$/C\$	15.00	20.00	20.00		
		0.77	0.80	0.83		
Eight Capital Modelled Reserves and Other Mineralization (MM t)						
<b>RESERVES &amp; RESOURCES</b>						
(as of Sept-18)		Contained Cobalt (CoEq)		FCC Share		
Ownership	Tonnes	Grade	FCC Share	FCC Share	FCC Share	
	MM t	Co (Eq) %	MM t	MM lbs		
<b>Proven and Probable Reserves</b>						
Iron Creek (OP)	100%					
Iron Creek (U/G only)	100%					
<b>Total Reserves</b>	<b>0.00</b>	<b>-</b>	<b>0</b>	<b>0</b>		
<b>Measured and Indicated Resources</b>						
Iron Creek (OP)	100%					
Iron Creek (U/G only)	100%					
<b>Total M&amp;I Resources</b>	<b>0.00</b>	<b>-</b>	<b>0.00</b>	<b>0.00</b>		
<b>Inferred Resources</b>						
Iron Creek (OP)	100%	26.90	0.11%	26.90	65.19	
Iron Creek (U/G only)	100%	4.4	0.30%	4.40	29.15	
* not additive						
<b>Total Inferred Resources</b>	<b>26.90</b>	<b>0.11%</b>	<b>26.90</b>	<b>65.19</b>		
<b>TOTAL RESOURCE</b>	<b>26.90</b>	<b>0.11%</b>	<b>26.90</b>	<b>65.19</b>		
<b>VALUATION: EIGHT CAPITAL ESTIMATES</b>						
	Lower Target	Base Target	Higher Target			
Greater Cobalt - Co Eq Min. Inv Target Estimates (MM t)	2	4	8			
Greater Cobalt - Ag Min. Inv. Target Estimates (MM Oz)	25	60	140			
Iron Creek - Co Eq Mineral Inventory Estimates (MM lbs)	41.9	58.3	74.7			
Total Co-Eq Mineral Inventory Target (MM lbs)	72.0	129.8	240.2			
EV/lb relative metric (C\$/lb, 5% of LT Co Price)	1	1	1			
Implied In-Situ EV (C\$MM) (100% FCC Share)	79.2	137.0	247.4			
<b>Total Implied Valuation</b>	<b>194.51</b>	<b>252.29</b>	<b>362.69</b>			
Target per Share	\$0.80/sh	\$0.60/sh	\$0.90/sh			
Upside/Downside to Current Target	33%	-	50%			
<b>CATALYSTS</b>						
<ul style="list-style-type: none"> <li>Q2/20 - DFS for Refinery Restart</li> <li>Q4/20 - 12 tpd refinery commissioning (and toll refining agreement with Glencore).</li> <li>2021 - 55 tpd refinery commissioning (and toll refining agreement with Glencore)</li> </ul>						
<b>COBALT PEERS</b>						
Company	Ticker	Share Price	Market Cap (C\$MM)	% Off 52 wk. High	Wk. Performance	
Brixton Metals	BBB	0.13	18.1	-71%	5%	
Cruz Cobalt	CUZ	0.03	2.4	-45%	20%	
Mawson Resources	MAW	0.17	34.3	-44%	0%	
Canada Cobalt Works	CCW	0.34	31.7	-53%	3%	
Jervois Mining	JRV	0.13	77.5	-47%	4%	
Fortune Minerals	FT	0.06	21.6	-50%	10%	
CleanTeQ	CLQ	0.11	A\$ 82.1	-72%	10%	
Cobalt Blockchain	COBC	0.04	6.1	-68%	-14%	
RNC Minerals	RNX	0.30	182.0	-59%	27%	
<b>Group Average (Ex-FCC)</b>			<b>50.6</b>	<b>-57%</b>	<b>7%</b>	
<b>BALANCE SHEET</b>						
				<b>(000\$)</b>		
<b>Year-End December</b>				<b>2017A</b>	<b>2018A</b>	<b>Q3/19A</b>
<b>Assets</b>						
Cash & ST Investments		29,817		3,262		6,370
Other Current Assets		1,427		1,967		1,080
<b>Current Assets</b>		<b>31,244</b>		<b>5,229</b>		<b>7,450</b>
Mineral Properties		105,858		193,899		194,260
Other non-current Assets		4,706		5,473		5,590
<b>Total Assets</b>		<b>141,808</b>		<b>204,601</b>		<b>207,300</b>
<b>Liabilities</b>						
Current Liabilities		3,481		3,883		220
Capital lease / LT Debt						6,240
Other non-current Liabilities		800		2,340		3,150
<b>Total Liabilities</b>		<b>4,281</b>		<b>6,223</b>		<b>9,610</b>
Capital Stock		141,946		225,477		230,370
Retained/Deficit		(4,419)		(27,100)		(32,680)
<b>Total Shareholder Equity</b>		<b>137,527</b>		<b>198,377</b>		<b>197,690</b>
<b>EARNINGS SUMMARY</b>						
				<b>2017A</b>	<b>2018A</b>	<b>Q3/19A</b>
<b>Revenue</b>						
Cobalt						
Other Revenue						
<b>Total Revenue</b>		<b>-</b>		<b>-</b>		<b>-</b>
<b>Operating Costs</b>						
Other Costs				188		57
DD&A						
Exploration						
S, G&A		8,259		27,865		1,628
<b>EBIT</b>		<b>-</b>		<b>(8,259)</b>		<b>(1,685)</b>
FX		(1)		(150)		35
Interest		3		219		(97)
Other non-operating income		23		1,623		492
Writedown of min. properties		(375)		(461)		(214)
<b>EBT</b>		<b>-</b>		<b>(8,609)</b>		<b>(1,469)</b>
less Tax		-		-		-
<b>Net Income (reported)</b>		<b>-</b>		<b>(8,609)</b>		<b>(1,469)</b>
Average shares (MM)		72		290		372
<b>STATEMENT OF CASH FLOWS</b>						
				<b>2017A</b>	<b>2018A</b>	<b>Q3/19A</b>
<b>Net Income (000's\$)</b>						
				(8,609)	(26,822)	(1,469)
<b>D, D&amp;A</b>						
Future income taxes						
Writedown of min. properties						
FX Gain						
Change in working capital		(145)		(1,193)		(1,364)
Other Operating		1,132		3,070		217
<b>Total Operating CF</b>		<b>(7,622)</b>		<b>(24,945)</b>		<b>(2,616)</b>
<b>Short term investments</b>						
Mineral Properties		(1,394)		(2,264)		
Acquisitions						
Increase in Investments		1,776		(107)		2,062
Other Investing						
<b>Total Investing CF</b>		<b>382</b>		<b>(2,371)</b>		<b>2,062</b>
<b>Equity financing</b>						
Equity financing		30,951		519		
Debt Issue						6,633
Debt Repayment						
Other financing		773				
<b>Total Financing CF</b>		<b>31,724</b>		<b>519</b>		<b>6,633</b>
Foreign Exchange effect		(0)		242		(160)
Change in cash		24,484		(26,797)		5,920
<b>Cash &amp; ST Inv., end of year</b>		<b>29,817</b>		<b>3,262</b>		<b>6,370</b>

Source: Company reports, Factset, Eight Capital estimates

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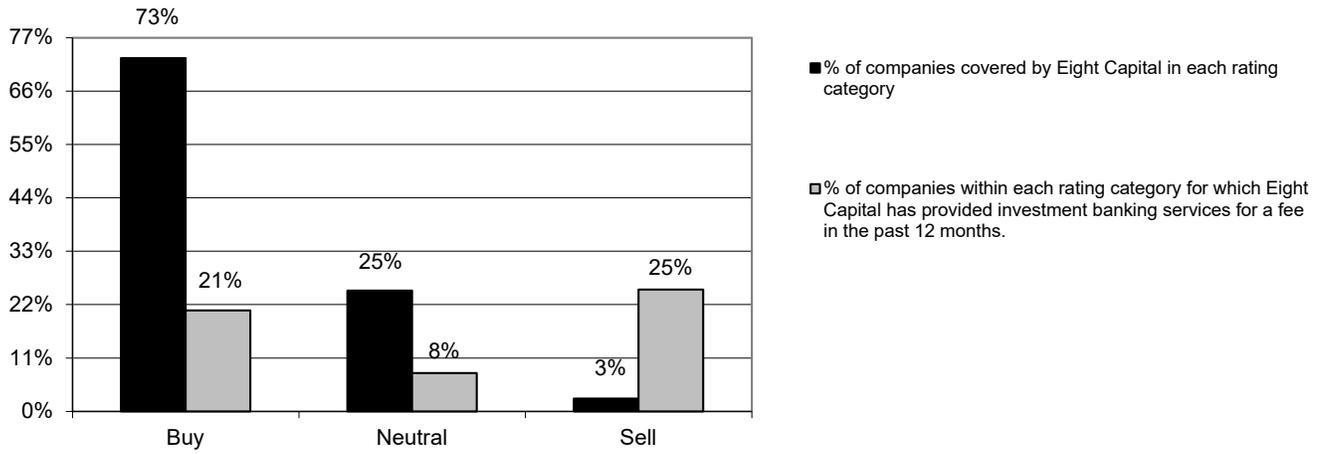
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**SECURITY ABBREVIATIONS:** NVS (non-voting shares); RVS (restricted voting shares); RS (restricted shares); SVS (subordinate voting shares).

**Eight Capital Equity Research Ratings:**



*As at December 31, 2019*  
 Source: Eight Capital

# First Cobalt Corp. Specialty Minerals and Metals

Rating  
**SPECULATIVE BUY**

Price Target  
**C\$0.70**

FCC-TSX

Price  
**C\$0.12**

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## Progressing well

### Impact: Neutral to Positive

We are maintaining our SPECULATIVE BUY rating on First Cobalt with a C\$0.70 target price. Management has provided an update on progress at its Cobalt, Ontario, refinery project. This comes as the spot cobalt market remains soft, but the long-term contract market shows signs of life.

**Refinery update.** As per our 4 September note, First Cobalt is [Paving a path to a refinery restart](#). The existing hydrometallurgical complex would be used to refine third-party cobalt hydroxide feed to produce high purity, battery quality cobalt sulphate, the first such North American supplier for the burgeoning EV market. First Cobalt is moving forward with the financial and technical support of industry behemoth Glencore plc (GLEN: AIM | Not rated), engaging contractors for ongoing studies. A November 12 [Reuters](#) article noted that First Cobalt is in talks with the Ontario government concerning funding assistance, which would reduce the company's reliance on Glencore. Key points from the update made include:

- On schedule for Q1/20 delivery of prefeasibility study to restart at 12t/d and feasibility study to restart at 55t/d. A third study will look at a staged approach, restarting at 12t/d in Q4/20 and expanding to 55t/d in H2/21. At 55t/d, the refinery would produce over 25,000t/a battery quality cobalt sulphate (~5,000t/a contained cobalt).
- Ausenco completed field study confirming the overall good condition of existing equipment including in power-on state.
- Concluded geotechnical drill program in support of new, expanded facility for dry-stack tailings at 55t/d, which requires amended permitting. The environmental process is ongoing to confirm existing permit compliance at 12t/d rate and provide baseline studies to support permit amendments to cover operation at the expanded 55t/d rate.

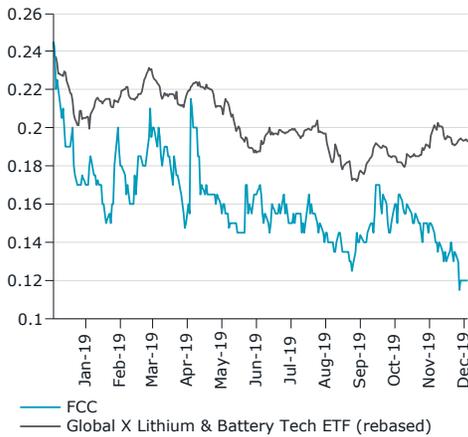
**The EV macro.** EV-volumes.com has reported discouraging October 2019 sales figures for new energy vehicles (NEV) in China showing a 48% drop relative to October 2018. This continues a strongly negative trend since July 2019 in the wake of adjusted NEV incentives favouring greater range vehicles, exacerbated by the US-China trade war. We continue to be optimistic longer-term given growth in OEM and battery manufacturing capacity globally. We believe that a levelling or up-turn in EV sales figures as new EV models hit the market through 2020 could trigger an anticipatory resumption of the upward trend for battery materials traders and equity investors.

**Where cobalt is concerned,** Glencore recently inked a deal with South Korean battery manufacturer SK Innovations. Under the six-year agreement, Glencore will supply up to ~30,000 tonnes of cobalt contained in cobalt hydroxide between 2020 and 2025. SK anticipates global cobalt demand for the EV market to increase over 180% from 2020 to 2025, and emphasizes the importance of stable, ethical and responsible sourcing. At the end of November, Glencore announced the early shut-down of the Mutanda copper-cobalt mine in the DRC due to a sulphuric acid shortage, representing ~20% of global cobalt supply.

**Trading attractively:** First Cobalt is currently trading at 0.13x P/NAV(5%) as compared to the 0.16x mean for covered, non-precious exploration and development peers.

### Market Data

52-Week Range (C\$) :	0.12 - 0.25
Avg Daily Vol (000s) :	471.62
Shares Out. (M) :	372.2
Market Cap (C\$M) :	44.7
Dividend /Shr (C\$) :	0.00
Dividend Yield (%) :	0.0



Priced as of close of business December 3 2019

## Appendix: Important Disclosures

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### Investment Recommendation

Date and time of first dissemination: December 04, 2019, 09:17 ET

Date and time of production: December 04, 2019, 09:17 ET

### Target Price / Valuation Methodology:

First Cobalt Corp. - FCC

We value First Cobalt's assets on a spot cobalt basis, currently US\$16/lb. Our valuation yields a project NAV of \$244 million or \$0.58/sh. We add net corporate adjustments of \$35 million or \$0.08/sh with 421 million shares outstanding. We apply a 1.0x multiple to the corporate NAVPS of \$0.66 to yield our target NAVPS of \$0.66, which supports a rounded target price of C\$0.70.

### Risks to achieving Target Price / Valuation:

First Cobalt Corp. - FCC

Aside from the usual risks associated with exploration and development, risks center on cobalt pricing, the technical assumptions we have made in our project valuations in advance of the company's delivery of technical reports, and potential risks from environmental and safety legacies in the Cobalt mining camp in Ontario.

### Distribution of Ratings:

#### Global Stock Ratings (as of 12/04/19)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	525	59.86%	51.81%
Hold	212	24.17%	37.26%
Sell	19	2.17%	21.05%
Speculative Buy	121	13.80%	76.86%
	877*	100.0%	

\*Total includes stocks that are Under Review

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**12-Month Recommendation History** (as of date same as the **Global Stock Ratings** table)

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### First Cobalt Corp. Rating History as of 12/03/2019



### Past performance

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