

# Jervois

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## Jervois Investor September 2021 Quarterly Investor Call

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### [START OF TRANSCRIPT]

Operator: Thank you for standing by and welcome to the Jervois Global quarterly results investor call. All participants are in a listen only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question via the phones, you will need to press the star key followed by the number one on your telephone keypad.

Operator: I would now like to hand the conference over to Mr. Bryce Crocker, CEO. Please go ahead.

Bryce Crocker: Thank you very much. And it's a pleasure to be here today for Jervois' first earnings quarterly conference call following the acquisition of Freeport Cobalt. I'm on the line with James May, chief financial officer, Greg Young, executive general manager of commercial and Wayne Yeoman, group manager of commercial.

Bryce Crocker: If we move through on the slides, we have the usual disclaimers, and if we can move to the highlights, please on slide four. I guess, as I said, I'm really excited to be talking to you today. This is a transformative moment for Jervois, having our first operational quarterly earnings call. It's been a pleasure in September getting the weekly treasury reports from James's finance team. We've got incoming revenue over 25 US million dollars received during the first month of ownership and what's most pleasing and why we're having the commercial team online to guide you through what we're seeing in the market, is also where the revenue is derived from. It's a broad blue chip customer base of household names of customers across the United States, Europe and Japan. And we're really excited to be back in the market again.

Bryce Crocker: So in terms of the business itself, solid first quarter. Obviously we only owned the business for September. 6.8 million EBITDA for the Q3. Year to date proforma EBITDA of 15, and proforma guidance remains consistent with what we articulated in the equity raise. We won't overlook Idaho Cobalt Operations and in Sao Miguel Paulista, despite obviously the importance of Jervois Finland to our business today. ICO is now fully funded. Construction's advancing. I was at site recently. I'll talk a little about that later in the presentation. And we've also gone underground, which is particularly exciting for the team in Salmon, Idaho. I'm currently in Brazil, working with the team. We're advancing the bankable feasibility

study here in Sao Paulo at Sao Miguel Paulista, and also touch on that later on.

Bryce Crocker: And I guess just on the corporate side, you've seen the announcement this morning with the 75 US material standby working capital facility, that again, James will touch on. He'll touch on the other financial aspects in the presentation, but a pretty significant quarter, just given where we came from. 235 US equity raise, 100 US ICO, senior secured bond, currently undrawn. That will change, obviously, as we move through construction. And we ended the quarter with 31.2 US in cash, and that excludes the escrowed ICO bond [inaudible].

Bryce Crocker: Next slide, please. We'll move on to Jervois Finland. I'll now pass over to Wayde Yeoman who many of you who did come in on the equity raise, would recall from the time when we were acquiring Freeport Cobalt. Over to you, Wayde.

Wayde Yeoman: Thanks Bryce. And as you said, it's a pleasure to be able to report actual results from an operating company, after one month of ownership for Jervois. Sales and business continues at what was Freeport Cobalt. That's been rebranded Jervois Finland, meeting in line with our expectations, a good strong third quarter. While we only owned the business during September we've reported the third quarter proforma results, 76.9 million in sales and 1,415 tonnes, which is our strongest quarter of the year, based on the improved cobalt pricing during the quarter and good strong sales volumes. That brings the year to date revenue to nearly 200 million and sales volume, nearly 4,000 tonnes. As Bryce mentioned, it's an ongoing business with sales to a broad portfolio of customers across all geographies, and some of the data for the geographies in the segments is here on the slide.

Wayde Yeoman: If we want to go to the next slide, we have a little bit more detail on the different segments that we supply into. The business analyses the sales into three different segments, CCC or chemicals, catalyst and ceramics, powder metallurgy, and the battery segments. CCC are the stronger legacy type businesses that cobalt's been used in, like pigments and catalysts and other chemical applications. And sales for the quarter where on year to date, are strong across all of those applications. After COVID things have started to recover during 2021, and we expect 2022 to continue to be strong in all those segments. The powder metallurgy sections, more manufacturing and GDP type industries, aerospace, automotive, things like that. We are starting to see some recovery in the aerospace industry. Automotive is less certain. I think everyone's heard of the semiconductor shortage. So that continued to impact a bit of the business in the automotive.

Wayde Yeoman: Mining's been strong associated with the robust commodity situation in the world. And we look modest growth in '22 against all these end use

markets. In the battery market, everyone's aware of the steep demand curve for electric vehicle EV batteries, and we see that continuing to grow. Cobalt chemicals used in these batteries are in high demand. Prices for all the components in these batteries are rising, lithium, cobalt, nickel, manganese, and the battery chemistries are shifting, but the cobalt demand still continues to be very strong. We see a big demand for cobalt sulphate, which is one of the downstream chemicals produced by the Jervois Finland business. And that leads me just into a little bit of an update on the overall cobalt market.

Wayde Yeoman: Cobalt prices have continuously increased over the past month. Prices today, range around the 27.50 per pound mark. And we see that the supply demand balance is really being driven by a lot of demand for metallic units into the battery sector. And now we're starting to see some uptick in the demand for the metallic units in the melt sector for aerospace and those kind of applications. So we're seeing short term availability, very, very tight in the cobalt market. Some of that's driven by logistics and labour shortages that everyone's well aware of with the container problems and shipping port congestion, and things like that, are driving some of the short term lack of availability. But we see overall demand increasing at such a rate that the markets look strong and tight going forward as well.

Wayde Yeoman: On the raw material side, going into the cobalt refineries, the cobalt hydroxide coming from the DRC continues to be priced as if that's going to remain tight as well. And so just

Wayde Yeoman: ... overall market outlook for cobalt is very strong.

Wayde Yeoman: Excellent. I'll turn that over to James.

James May: Yeah. Thanks, Wayde. So, just turning to the financial performance of Jervois Finland. Firstly it's worth recapping the real engine room of EBITDA for the Jervois Finland business is it's really spread between the cobalt price as a key driver of revenue and cobalt hydroxide pricing, which is the key import, the key feedstock, which the business buys to transform into those cobalt products. And those feedstock supply is typically priced off a percentage payable of the cobalt metal price. Look on the revenue side you heard from Wayde, we've got some good price momentum. The third quarter, as you can see in the chart, is the strongest of the year to date, underpinned by the price momentum that we spoke about.

James May: On the cost side, there's really sort of three buckets in terms of the cost structure of this business. There's the cobalt hydroxide feedstock cost that I just referred to. And as we communicated back at the time we did the equity raise, while we do have some contractual protection in the way our supply contracts are structured, you can see on that bottom chart the payroll indicator that's up around the high eighties. It has remained stable

but at historically high levels. And so, for the portion of where we do have some market-linked exposure in that supply structure, we are, as Wayne said, participating in a market that is in itself quite tight. In addition, on the cost side, there's then sort of two smaller buckets. There's the towing costs that we pay in cockela, to Unicores to process cobalt hydroxide in their refinery. And then there's the cost associated with transforming those cobalt units that come out of the refinery into the wide number of cobalt products that Wayne referred to.

James May: And really, we are starting to see a few cost pressures there. Relatively localised, but with something we continue to monitor. It's not out of step with trends we're seeing elsewhere in Europe. It's pressures around electricity costs and certain chemical's reagents, radio function at the wider macro environment as well. So really, the key opportunity for us as a business is to really keep pushing in terms of capturing momentum on the revenue side, through both pricing, and from premium and looking to capture as much margin as possible through offsets in terms of how we manage feedstock arrangements and those operating costs that I just referred to as well.

James May: The one specific item I would note as well is when you look at just the single month for EBITDA and revenue, which is a single month of ownership post-acquisition, there is a slight quirk to the business model. When you do zoom in on one month, and we're transitioning through, into a higher cobalt price environment. What you do see is an immediate adverse impact to feedstock supply costs, which are priced based on that percentage of the end cobalt price. And we don't really sort of catch up with the corresponding revenue benefit from those higher prices for sometimes one to two months. So, I think putting it all together, you've got that one off-factor that we're seeing in September as we transition to higher prices, but certainly, we think there's cause for optimism about the future. And we also wanted to convey today that when we look at the ever dark gardens for the full year 2021 on a proforma basis, that remains at 20 million US dollars, consistent with what we previously communicated during our equity raise process back in July.

James May: One final point. Just talking about integration. There has been a significant undertaking within the business. A huge effort both from the team in Finland and the wider management team in Jervois. A number of us were in Finland through early September, really working hard on advancing the integration and the transition of that business, following the acquisition from Freeport on 1 September. And, as part of our growth as an organisation and partly out of necessity, as we assume ownership of an operating business, we are progressing with a systems rollout, including SAP, and the board has just approved 5 million dollars of CapEx over the next 12 months to deliver that programme. So I think it's something that's really exciting in terms of providing a backbone of our operations as we continue to grow into the future. Next slide, please.

James May: And look, just to touch on working capital. This business is relatively working capital intensive, and there're valid reasons for that. We've got a diverse and specialised product suite. We've got a relatively long outbound supply chain and particularly given the nature of what I just described around how key supply contracts are priced. What happens is that when the cobalt price moves up, so does inventory. Obviously, we ultimately harvest the benefits of higher-margin and higher cash in that higher price environment. But it's on the way to those higher prices, what we do see is a requirement to ensure that we invest in working capital ready to manage our ability to meet the supply of payments and that inventory that's held on the balance sheet at a higher cost. And so what you've seen really through the course of this year is a growth in terms of overall working capital predominantly in line with that price growth.

James May: We've noted here on the page the cobalt price at the end of last year was around \$15 a pound. That growth in the cobalt price to \$26 at September, and as Wayde referred to, it's even higher today. Obviously, great from a business perspective. We'll begin to harvest the benefits of those high prices. But it does mean we do have this investment requirement in working capital.

James May: And so, really excited to announce today, and hopefully, everyone's had a chance to see the announcement. We have announced a working capital facility with Mercuria. We'll come on to talk about that later in the presentation. But really, what that does do, a key part of implementing that is really to enable us to have the right sort of financial tools and the right level of flexibility, such that we have the funds available in an appropriate way to continue to manage those fluctuations and working capital as we set ourselves up for long term success.

James May: I'll pause there and hand back to Bryce to talk about ICO and SMP. Oh. Sorry. We've got a page before that. Wayde, do you want to talk about the next slide?

Wayde Yeoman: Yeah. Thanks, James. We do want to highlight how important ESG issues are for Jervois and that Jervois Finland is definitely a leader in all aspects of ESG compliance. They are the first cobalt chemical producer that's achieved RMIs conformant downstream facility status following all the OECD guidelines and very engaged with customers on ESG issues. The team at Jervois Global, in conjunction with the team at Jervois Finland, are working diligently on applying the same operational issues to all of our facilities, focusing on

Wayde Yeoman: Carbon footprint reduction, climate action strategy targets, participating in the TOCANEM "Towards Carbon Neutral Metals" programme with Business Finland. And very importantly, the R and D staff at Jervois Finland is working on a number of projects that are aimed at increasing the amount, the percentage of the business that's involved in the circular

economy, recycling spent catalyst and other materials, and working not only at the plant at Jervois Finland but in conjunction with universities and suppliers and customers to make that happen in the future. Recycling's an important part of the business and we look to make that more important in the future. Next slide.

- Bryce Crocker: Thanks Wayde. So just back on ICO, Idaho Cobalt Operations and São Miguel Paulista here in Brazil briefly. So as I mentioned, I was at site recently in Idaho, heading back there in a couple of weeks. Construction's proceeding at pace. It's exciting. We've opened the portal and we're currently preparing the site for the winter construction season. Here in Brazil in São Paulo, the study's progressing. We've modified the scope to look to optimise the commercial framework ahead of a 2023 restart and working with Ausenco and the team here in Brazil, to move that along for a 2022 end Q1 study delivery. Move to the next slide for James to close out.
- James May: Yeah, thanks. Thanks Bryce. And look, this is an overview of our cash reconciliation for the quarter and I won't dwell on all of it. It largely sort of speaks for itself, really sort of dominated by three key activities in the quarter or key sources and uses of the cash.
- James May: Firstly, to call out the CapEx at ICO. So we've continued it obviously to progress at pace as Bryce has referred to. And we spent almost \$8 million U.S. on CapEx progressing delivery of the ICO project through the third quarter.
- James May: Secondly, and sort of dominating the chart that you see on the page, we had a significant equity raise and really a dominant feature of sort of early third quarter period was the funds and the consequence sort of outflow to acquire and secure the acquisition which we closed on 1 September.
- James May: And thirdly and finally, just to mention, you'll see on the chart there as well, under the ICO bond structure, so the \$100 million U.S. Senior Secure Bond that we issued to fund ICO, you'll see that sort of \$15.5 million U.S. in the bar chart as well. That's money that remains ours, but under the terms of the bond, we had to put that into the ring fence sort of structure that we get back as we draw down or reserve for future interest payments in accordance with the bond terms that we agreed back in July.
- James May: So just to sort of pivot to really the right hand side of this page, the three really transformational financing initiatives that have been significant milestones in the company's history.
- James May: The equity raise, I won't dwell on it, I've referenced it a number of times and hopefully familiar to most on this call, but really significant in terms of how it transformed the company.

James May: In terms of debt financing, as I've just alluded to, we are expecting to meet our first drawdown of the Senior Secure Bond later in Q4, as we work through the pre drawdown requirements including the requisite expenditure and other milestones that we anticipate heading through the course of the coming weeks.

James May: And then sort of most importantly, I think in terms of the news that's sort of fresh out today, the Mercuria facility. So initially it's a \$75 million facility. It's secured against the Jervois Finland assets. What it's really designed for is for us to borrow up to \$75 million, the lower of \$75 million or 80% of the collateral that sits in the Jervois Finland business that we've defined according to eligible inventory and receivables. And what that enables us to do is, as the working capital sort of rises and falls is to match that with proceeds that we'll have available from the loan. And indeed it enables us to over time, if we wish to, recycle a portion of those proceeds to upstream outside of Jervois Finland for use elsewhere in the group. So it really is across all dimensions providing significant flexibility for us. I think it's testament to how we've taken a good strike forward with Mercuria, further to our previously announced MOU with Mercuria some months ago.

James May: And look, probably just to sort of round that out, when we talk about sort of flexibility, you know, this could just be the first phase. We have agreed a mechanism within that facility that could increase it all the way to \$150 million limit in due course, subject to completing a set of further requirements with Mercuria and obviously subject to the collateral and the assets that we can secure that against in Jervois Finland. So I think just wrapping it up, on the corporate side, it's really all about delivering the finance to deliver our business plans and really providing us with that strength and flexibility to continue to strive forward as an organisation. Bryce, back over to you.

Bryce Crocker: Thanks James. We don't have a closing slide, but I guess I'd just note that given Wayde mentioned that we're currently sitting around \$27.50 a pound in terms of cobalt, and we don't provide forecasts, but certainly from what we're seeing in the physical markets into Q4 and until 2022 contract rating season is underway, we're positive, quietly positive.

Bryce Crocker: And I guess what I would say is obviously first month of ownership and partnership with our new colleagues in Jervois Finland, it's the middle of the night hence the team that you've got on the call now. Sometimes when you buy a business and you look under the hood, it's not quite what you expect. This hood's good. We've been there the first month, I've spent a number of weeks in Finland, and again, heading back there shortly. And we're really excited about a business of the calibre of Jervois Finland on board, and really excited about what the future is going to bring for us. And it's nice to have a tailwind in the context of the broader commodity market, specifically as it pertains to how cobalt looks as though it's playing

out coming into the next calendar year. So I'll close there and open and see if there are any questions, operator, please.

Operator: Thank you. If you wish to ask a question, you will need to press the star key followed by the number one on your telephone keypad. Your first question comes from Andrew Hines of Shaw and Partners. Please go ahead.

Andrew Hines: Yeah, thanks guys. And welcome to the world of cash producing companies. It's a big day for Jervois. I guess though with that, Bryce, comes scrutiny on the cash flows and the numbers. And I must say I'm a little surprised that the number in September was as low as it was and I guess James has talked about

Andrew Hines: ... but more around the guidance for the full year. I think when the 20 million EBITDA pro-forma guidance was given out, it was on the basis of a \$20-a-pound cobalt price, and as you point out, with the cobalt now at \$27.50 you're still sort of essentially guiding us to a five million EBITDA number for the December quarter. Just, to me that looks a little low compared to what we might have expected. I'm just wondering if you can talk to that.

Bryce Crocker: I think there's a greater or equal than next to the 20, and so I think that's an important aspect to consider. I guess the way that I'm looking at that, how we set ourselves up in equity markets, Andrew, is that we're conservative in how we run the business and we're certainly conservative in how we manage and guide expectations now. Obviously we saw the impact in September. There is a lag, the way the prices feed through. And what I would say is, we're confident that the 20 million guidance that we haven't updated... So it's less a... We're not updating previous guidance. It remains intact, and we're confident that that will be achieved.

Andrew Hines: Yeah. Sure. I obviously don't want to make a big deal out of the first month, but looking for some good numbers coming through. And I agree with you, I think the outlook looks really positive.

Andrew Hines: A question for James on the financing. With the SMP refinery, obviously you've changed your approach slightly. You're going to start it off at full scale rather than do the phased approach. Have you got any guidance for us yet on how much full cost will be for that startup? And are you now fully funded for that with this Mercuria facility that was announced today?

James May: Yeah, look, thanks Andrew. Look, we haven't provided updated guidance in terms of potential restart costs or economics. That will come when we publish the feasibility study, which is expected in Q1 2022. But what I think we can say is that the Mercuria facility offers us significant financial flexibility, and one of the attractive features that we negotiated successfully with Mercuria was the ability to not have those funds

exclusively ring-fenced within Jervois Finland and available for deployment elsewhere if we choose to do so. So, look, I think we have to wait until we get the feasibility study before we make it really is only half guidance, but I think what I'm really pleased about is that we've got a really strong tool in the armoury to provide flexibility around how we think through funding for SMP or any other development activity.

Andrew Hines: Great. Thanks, James. I'll let it be.

Operator: Thank you. Once again, if you wish to ask a question, please press \*1 on your telephone and wait for your name to be announced. Your next question comes from Sinclair Currie with NovaPort Capital. Please go ahead.

Sinclair Currie: Good day. Thanks for the presentation. That was really interesting. I was just... On the Finland, I guess, timing issue around pricing and then putting those prices through, how does working capital play into that? Are you able to alleviate some of those, I guess, lags and bumps around profitability with changes in price by managing the working capital in a different way?

Bryce Crocker: Wayde, why don't you take that to start?

Wayde Yeoman: I think we're already attempting to manage the working capital in the most efficient way possible, Sinclair. I think the lag is just inevitable based on the way the contracts are set up with the timing and the quotational periods on the raw material purchases relatively different, in some cases, to the same for our sales contracts.

Sinclair Currie: Okay. Okay. So realistically, leave the working capital strategy the way it is and bear the intra-month volatility because over six months it should iron itself out. Is that the way I should interpret the way you manage it?

Wayde Yeoman: Yes.

Sinclair Currie: Okay. Thank you.

Greg Young: Sinclair, Greg Young here. It is really just a timing issue between risk management, so, matching purchase and sales together, and that is what creates-

Sinclair Currie: Yep. Yeah, no, that makes-

Greg Young: ... a little bit of the timing issue.

Sinclair Currie: Thank you.

Operator: Thank you. There are no further questions at this time. I'll now hand back to Mr. Crocker for closing remarks.

Bryce Crocker: Okay. Well, I think we've covered most of the comments that I did want to make. Thanks very much for dialling in. We are excited to be doing this, and look forward to talking to you on a regular basis and updating you on the market and on the business in quarters to come. Thank you.

Operator: That does conclude our conference for today. Thank you for participating. You may now disconnect.

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