

MINING FLASHNOTE

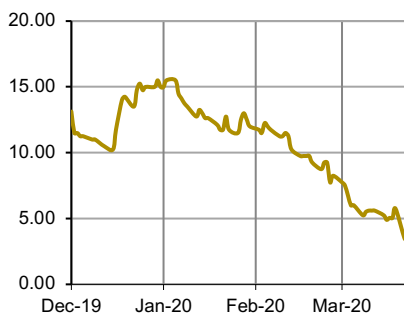
Pembridge Resources plc (PERE LSE)

08 April 2020

Stock Data

Share Price:	3.29p
Market Cap (M):	£2.26
EV (M):	£1.96

Price Chart



52 Week Range

16.9p		3.29p
3.2p		

Company Summary

Pembridge is a copper producer, having re-starting production at the Minto high grade copper mine in the Yukon.

MAIN SHAREHOLDERS HOLDING

Gati Al-Jebouri	19%
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Source: Pembridge Resources & Bloomberg

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Pembridge Announces Restructuring to Remove Direct Financial Commitments

Event

Pembridge Resources plc ("Pembridge") has announced an update to its funding obligations to Minto Explorations Ltd ("Minto") and future capital requirements including a restructuring of the Minto ownership.

The Proposed Changes

In light of the current financial market conditions as a result of the COVID-19 pandemic and the potential for material cash calls on Pembridge, the Company has agreed with the other shareholders of Minto (collectively "the US Investors") to remove certain future funding obligations of Pembridge and to restructure the Minto share ownership. This decision was in part aided by the additional risk posed by a potential legal dispute between Pembridge and the US Investors under the Shareholders' Agreement dated 3 June 2019 between Pembridge, Minto, and the US Investors and has reduced Pembridge's economic interest in the Minto project from 33% to 11%. In exchange the Company has removed direct ongoing Pembridge financial commitments of US\$6.4 – US\$22.1M.

Comment

This development has come at a surprise given how well Pembridge finished 2019 and started 2020. However, with a copper price languishing around US\$2.20/lb as the impact of COVID 19 is felt around the world, it would have been a hard ask and potentially more dilutive to meet further cash calls by Minto, which would have been sourced from the plc level. After allowing for by-product credits, BHC calculates that the cash cost of producing copper at the Minto mine is just under US2/lb assuming that the commissioning goes smoothly. It is our understanding that exploration drilling is still moving forward given its importance on expanding the mine life and unlocking the potential economics. The cost of exploration is not included in the cash cost of producing copper.

The actual potential dispute with the US Investors in Minto centres on a legal interpretation of Pembridge's contractual obligations. Previously, the Joint Advisory Committee of Minto (consisting of representatives from Pembridge and the US Investors) authorized a \$3M capital call to fund working capital, which was due to be paid by Pembridge under the Shareholders' Agreement. As previously reported, Pembridge has loaned Minto the equivalent of US\$3M via payment into an escrow surety account on behalf of Minto (the "Control Account") and thus considered that Pembridge had met its obligations with respect to its US\$3M cash call contribution to Minto. The US Investors intended to challenge this interpretation which would likely have led to a potential legal battle.

Perhaps what helped tip the scale was the US Investors' willingness to support a decision by the Minto Board of Directors for Minto to take over all of Pembridge's future payment obligations with respect to the Control Account. This action will reduce the financing commitments of Pembridge by a minimum of CAD\$2M and up to CAD\$3M.

Further, the US Investors have also agreed to support a decision by the Minto Board of Directors for Minto to take over all future consideration payments due from Pembridge to Capstone Mining Corporation ("Capstone") in accordance with the Share Sale and Purchase Agreement dated 3 June 2019. Previously Pembridge had been expected to pay a minimum of US\$5M and up to US\$20M out of the income that it derived from Minto. In the BHC modelling we had assumed that not all these payments were met as some depended on the copper price and we thought that it might not hit the required prices.

Interestingly, Pembridge can expect the repayment of its loan to Minto, arising from its previous contributions of C\$4M into the Control Account in 2022.

In summary, whilst Pembridge has reduced its valuable stake in Minto by 22%, it has also managed to hand off direct liabilities of US\$6.4M to US\$22.1M. It will be refunded US\$3M in due course (its advance of payments into the Control Account) and will at some stage begin to benefit from its 11% stake in a producing copper/gold mine. The CEO has invested circa £4M into the Company over the last 6months and we are intrigued to see how things play out from here.

Research Disclosures

Peter Rose

Peter has 34 years' experience in equities as a resources analyst; he has been at Brandon Hill Capital for 14 years, after having spent 11 years with Deutsche Bank in Australia. Prior to this he spent 2 years with Prudential Bache and 6 years with James Capel. Peter's industry experience includes 16 years as a metallurgist, 3 years with De Beers in South Africa and 9 years in the uranium industry, six of which were spent at the Ranger Uranium mine. Peter holds a BSc degree in Applied Mineral Science from Leeds University UK and a Bachelor of Commerce from the University of South Africa. Peter is also a member of the Institute of Materials, Mining & Metallurgy and a chartered engineer.

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Research disclosure as of 08 April 2020

<u>Company Name</u>	<u>Disclosure</u>
Pembridge Resources (PERE LSE)	1, 2, 7,8

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