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Luca Giacobazzi
Head of Wyloo Metals
PO Box 3155
Broadway Nedlands
WA 6009 Western Australia

November 19th, 2021

Dear Mr Giacobazzi,

Odey Asset Management LLP, through funds under its discretionary management, holds a position equivalent to 11.4 million ordinary shares in Noront Resources (“Noront”), or 2.04% of the shares outstanding.

We are perplexed at your decision to enter discussions with BHP Lonsdale Investments, a wholly owned subsidiary of BHP Billiton (“BHP”); with your stated aim being to consider potentially supporting BHP’s C\$0.75/share offer, at a market capitalisation of just US\$340m, and for Wyloo to achieve a “mutually beneficial” arrangement regarding the acquisition of Noront by BHP¹.

Odey contends that an informed appraisal of Noront results in a multi-billion valuation and which is in contrast to the current bid valuation of US\$0.34bn. It is also notable that according to public statements by Noront’s CEO, *“the value of the minerals in the ground is \$250bn.. and the costs of developing these ores... is \$3bn to \$5bn.”*²

It is our opinion that Noront is being auctioned at an extreme discount to its intrinsic value and furthermore that the consortium forming by bidders is not rational. Odey does not believe that Wyloo has a need to share the upside in the project by joining with BHP; a scenario that also introduces new interloper risk. As is laid out in this letter, the prospective formation of a Wyloo/BHP consortium potentially exposes both Wyloo and BHP to a significant opportunity cost scenario – the loss of the entirety of the Noront project.

Generally, in a competitive auction process of two bidders, consortium forming is only rational when the additional cost to win the auction would exceed 50% of the development profit available from the project at the consortium forming price (i.e. consortium formation achieves a price ceiling but only by splitting the profits of the project 50:50). Odey contends that control of Noront could be independently achieved by Wyloo, given its already dominant 38% shareholding. Control by Wyloo at a 51% shareholding could be secured through tenders without BHP involvement by Wyloo utilising clear communication to Noront’s shareholders as to why many would benefit from retaining equity exposure to a deeply undervalued minority which will remain listed. This is not a deal structure in our view that BHP could compete with given BHP’s lack of a comparable shareholding in Noront. Furthermore, this prospective deal structure has the potential to ultimately allow greater fund-raising potential through Noront’s minority equity than would be available from partnering with BHP – no company, including BHP, is bigger than the equity market at large.

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Such a strategy would be supported by Odey and in our view other shareholders if BHP were depicted as a hostile entity with Wyloo as the friendly, existing shareholder that would allow minority shareholder participation in the future.

By contrast, we believe that informed Noront shareholders, provided with the facts regarding in our appraisal the true valuation of Noront's assets, in line with the information in this letter, will not sell their shares to a Wyloo/BHP consortium at C\$0.75. Furthermore, in recognising that Noront does require development financing, and that Noront itself has signed non-solicitation agreements, Noront's shareholders – such as Odey – may elect to engage in an activist approach and including with incentivisation to seek other buyers who may offer a more reasonable value for Noront equity and thereby in its entirety remove the success scenario for the Wyloo/BHP consortium.

It is notable that Noront's investor-facing disclosures currently withhold from shareholders a clear and concise summary of the value of its land package; yet this is information that is determinable from other public domain disclosures. In our view it is the decision by Noront to withhold this information from a readily ascertainable format that has led to extreme market mispricing of Noront's equity.

Noront owns the most significant land package in Northern Ontario's "Ring of Fire", a once-in-a-generation and vast development stage mining opportunity whose total assets span over 100 kilometres³. Specifically, Noront owns 22 of the 26 mineral discoveries, 7 of the 9 NI 43-101 compliant resources, and both of the positive feasibility stage projects³.

A careful review of historical disclosures reveals that Noront's CEO has made public statements as to the extraordinary value of this land package, stating in March 2020:

"The value of the minerals in the ground is actually well in excess of \$60bn, it is **more like \$250bn...** and the costs of exploiting or developing these ores, we feel is somewhere in the \$3bn to \$5bn range... so, there is a massive margin available if you can get all the right elements in place."

Alan Coutts, CEO of Noront Resources, 4th March 2020,
interview with Canada's Institute of Public Policy and Economy²

It is noteworthy that Noront's shareholders are also able to independently verify the value of Noront's deposits, even assuming a scenario that the Noront CEO chooses to downplay his comments. Technical reports⁴ relating to conducted drilling of two of Noront's chromite deposits, Blackbird and Black Thor, documented a combined 158m tonnes of chromite reserves and a further 50m tonnes of chromite resources⁵. Frank Smeenck, CEO of KWG Resources, has commented:

"The Western hemisphere has never had a source of chromite until we discovered, in the Ring of Fire, the **most humongous orebody of its kind in recorded history**. This thing is 14 kilometres long and 130 metres wide and we've only scratched the surface with the little drilling we've done."

Frank Smeenck, CEO of KWG Resources,
which holds a minority equity share in a Noront chromite deposit⁶

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The value of the ferrochrome within this chromite tonnage can be calculated as:

- *tonnes of chromite ore x ore grade (30%) x conversion to lbs (2,204.6) x price per pound of ferrochrome (\$1.40/lb).*

Based on this formula, the combined calculation output for Blackbird and Black Thor deposits is US\$146bn of ferrochrome reserves (i.e. 158m x 30% x 2,204.6 x 1.40/lb = US\$146bn), and for the reserves + resources, the deposits contain an even higher US\$192bn of ferrochrome value (i.e. 208m x 30% x 2,204.6 x 1.40/lb = US\$192bn).

However, those are the gross asset values for just two of the 22 mineral deposits in Noront's land package. Noront's CEO has publicly disclosed that the remaining 20 deposits include those of significant value; and that they include gold and nickel deposits comparable to Noront's primary nickel asset, Eagle's Nest.

*"Exploration-wise, we are looking for a partner to develop some of the **gold deposits** that we have found in the region...but our main focus right now is on **all the other nickel potential that is in this region**, it is a huge district, about 100 kilometres from tip to tail, and we think **there are many more Eagle's Nests to be found..**"*

Noront CEO, presentation at Red Cloud Fall Mining Showcase, Sept 2019⁷

The significant valuation of Noront's deposits is supported by comments from Wyloo control shareholder Andrew Forrest, who has noted that Noront *has the potential to be Canada's next great mineral hub*. Similarly, Noront bidder BHP has noted that Noront is *capable of delivering a scalable, new nickel-sulphide district and provides the BHP group with more growth options*.

*"We invested in Noront because **it has the potential to be Canada's next great mineral hub.**"*

Andrew Forrest, comments in press release announcing offer for Noront Resources, August 2021⁸

*"Noront is a world class growth option... a growth opportunity in a prospective nickel basin **capable of delivering a scalable, new nickel-sulphide district and provides the BHP group with more growth options in future-facing commodities.**"*

BHP, comments in press release announcing offer for Noront Resources, July 2021⁹

In a director's circular dated August 6th, 2021, Noront's shareholders received a "fairness opinion" on Noront's valuation from Stifel, for which \$600,000 of shareholders' money was paid¹⁰. Odey is unconvinced by the purported valuation range of C\$0.36 to C\$0.68 a share (market cap range US\$160m to US\$305m). The director's circular notably withheld information relating to many of the critical inputs used in determining this valuation range, inputs which would have allowed the assumptions of the fairness opinion to be interrogated.

Subsequently, Andrew Forrest has publicly described BHP's first offer for Noront at C\$0.55 as representing *"a fraction of the potential value of Noront's Ring of Fire assets"* and in doing so has rejected Stifel's "fairness opinion". **Dr Forrest's comments appear to imply his belief that Noront's shares are worth at least C\$1.10 a share** (on the basis that the least flattering valuation input *fraction*

being $\frac{1}{2}$, i.e. if BHP's first offer for Noront at C\$0.55 was a *fraction* of its value and the fraction is $\frac{1}{2}$, then Noront's value is at least C\$1.10).

*“Wyloo didn't make its cornerstone investment in Noront earlier this year to accept **an offer that represents a fraction of the potential value of Noront's Ring of Fire assets**. We invested in Noront because it has the potential to be Canada's next great mineral hub.”*

Andrew Forrest, comments in press release announcing offer for Noront Resources, August 2021¹¹

To succeed, any offer by Wyloo/BHP for Noront Resources must be reflective of its value

We believe that the reason Noront's equity continues to trade at a deeply discounted level is two-fold; firstly, because a clear and concise summary of the necessary information to value Noront has not yet been provided to shareholders (yet is provided in this letter and which Odey may disclose publicly). And secondly, because management has signed non-solicitation agreements prohibiting prospective new entrants into the bidding process, restricting Noront's ability to engage with new interlopers¹². These agreements add a significant frictional cost to the path to fair value as it now requires an activist shareholder to encourage new counterbidders; a process that Odey is willing and able to conduct.

Noront is one of the largest and most promising development stage mining assets in the Western hemisphere with two of the world's largest mining companies committed to take it into production. Noront's shares should be trading at a very significantly higher value.

Based on publicly available information, it is also discernible that Andrew Forrest is sitting on an extraordinary prospective profit from his solar and hydrogen investments in Australia; having pegged 92,000 square kilometres (an area the size of Portugal) for his plans¹³. This land area has a solar generation capacity equivalent to world energy usage¹⁴. However, a robust business plan first aligns this capacity with the existing operations of Fortescue Metals, and as such the hydrogen output will initially be used as an input for the production of green steel¹⁵; which requires a secure supply of ferrochrome, currently absent from Western markets¹⁶. This also makes the acquisition of the chromite assets of Noront a fulcrum transaction underpinning the future business acceleration of Fortescue Metals.

Odey has no intention to support attempts to delist Noront from the market at valuations that do not more closely reflect our calculation which has been formulated based on publicly available data. If such attempts are made, we will consider all options in response, including but not limited to public statements to other shareholders outlining our position in voting against the deal, and encouraging new prospective interlopers to come forward.



Adrian Courtenay
Fund Manager
Odey Asset Management

Footnotes

1. BHP extends tender expiry following commencement of discussions with Wyloo Metals [\[link\]](#)
2. Noront CEO Alan Coutts disclosure to Canada's Institute of Public Policy and Economy [\[link\]](#)
3. Noront Resources investor presentation, slide 7 [\[link\]](#)
4. Technical Report Blackbird [\[link\]](#), Technical Report Black Thor [\[link\]](#)
5. Noront Resources investor presentation, slide 18 [\[link\]](#)
6. Sparking up the Ring of Fire, Canadian Mining Journal [\[link\]](#)
7. Noront Resources presentation at Red Cloud Fall Mining Showcase [\[link\]](#)
8. Wyloo proposes offer to participate in Noront's future under new leadership [\[link\]](#)
9. BHP makes recommended all-cash offer of C\$0.55 per share for Noront [\[link\]](#)
10. Noront directors circular recommending acceptance of the offer by BHP [\[link\]](#)
11. Wyloo proposes offer to participate in Noront's future under new leadership [\[link\]](#)
12. See page 17, Noront directors circular recommending acceptance of the offer by BHP [\[link\]](#)
13. Andrew Forrest marks land mass the size of Portugal in Western Australia, Sydney Morning Herald [\[link\]](#)
14. 58 million petajoules of solar energy fall on Australia each year [\[link\]](#), world energy consumption was 0.556 million petajoules in 2020 [\[link\]](#), 92,000 square kilometres is 1.1% of Australia's total land area [\[link\]](#)
15. Forrest unveils Fortescue's green steel plans [\[link\]](#)
16. The world's current chromite supply is entirely produced outside of Western hemisphere nations – in South Africa, Zimbabwe, Turkey, Pakistan and Iran [\[link\]](#)