

METALS & MINING

David Davidson, Senior Analyst | 416.360.3462 | ddavidson@paradigmcap.com

Jeff Woolley, CFA, Analyst | 416.361.9557 | jwoolley@paradigmcap.com

Gordon Lawson, MBA, Analyst | 416.361.6053 | glawson@paradigmcap.com

Matthew Chong, Associate | 416.365.5297 | mchong@paradigmcap.com

All figures in C\$, unless otherwise noted.

Rating: Speculative Buy

unchanged

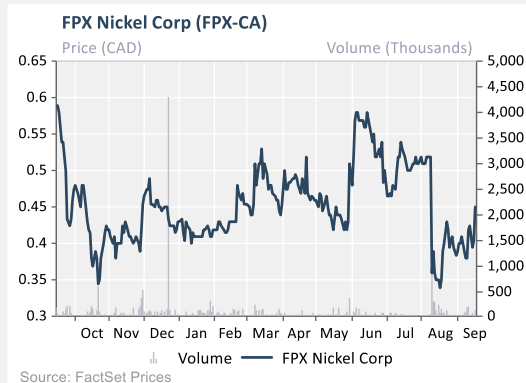
12-Month Target: \$1.30 ↑

previously \$1.20

Price	\$0.43
Ticker	FPX-T
FYE	31-Dec
Potential ROR (incl. dividend)	206%
Shares O/S	Basic (M) 273.9 FD (M)* 279.9
Market Cap (\$M)	Basic (\$M) 116.4 FD (\$M)* 118.9
Net Debt (\$M)	-\$32.3
Enterprise Value FD (\$M)	86.6
NAV/sh (FD)	\$1.76
Working Capital/sh (FD)	\$118.02

*based on in-the-money dilutive securities

Resource Estimate	Tonnage Mt	Ni %	Ni kt
Indicated	1,815	0.211	3,828
Inferred	339	0.212	720
Total Resource	2,154	0.211	4,548



Source: FactSet, Company filings, Paradigm Capital Inc.

Company Description: FPX Nickel is a Vancouver-based junior nickel mining company developing the large-scale Decar Nickel District in central British Columbia. Decar hosts the PFS-stage Baptiste deposit, which has the potential to become one of the largest nickel mines in Canada.

PFS Confirms Economic Viability of Baptiste

Investment Thesis. FPX Nickel's flagship Decar nickel project, located in British Columbia, is a greenfield discovery of nickel mineralization in the form of a naturally occurring nickel-iron alloy called awaruite. Decar is a promising target for bulk-tonnage, open-pit mining. FPX has made some important changes to the flow sheet since taking ownership from Cliffs, which suggest new and improved economics for the project. Initial metallurgical test work demonstrates the nickel-iron alloy is recoverable using conventional magnetic separation and flotation, which we believe will improve recoveries and concentrate grade while reducing the environmental impact.

Event

FPX recently announced the results of a Preliminary Feasibility Study (PFS) on the Baptiste nickel project, reporting an after-tax NPV₈ of US\$2.0B and an IRR of 18.6% using \$8.75/lb nickel, demonstrating robust economics for the asset that ticks many ESG boxes and is becoming increasingly more strategic.

Highlights

- ▶ **PFS Results |** FPX incorporates optimizations supported by various engineering and metallurgical studies to improve on the results from the 2020 PEA (after-tax NPV₈ of US\$1.7B, IRR of 18.3%) while reducing project footprint. LoM milled material is maintained at ~1.5Bt, although mine life has been shortened to 29 years from 35, offsetting a later start date. Flowsheet optimizations have improved expected Davis Tube Recovery (DTR) to 88.7% from 84.7%.
 - NPV₈: US\$2.01B
 - IRR: 18.6%
 - Life of Mine: 29 Years, averaging 59.1ktpa Ni
 - Initial Capex: US\$2.18B
 - C1 Cash Cost: \$3.70/lb Ni
 - All-in Sustaining Cost: \$4.17/lb Ni
- ▶ **Another New Strategic Investor |** In addition to the C\$12M from an unnamed strategic investor (December 2022), the company announced a strategic investment by Outokumpu Oyj for \$16M in May, granting the Finnish steel producer a right of first offer for up to an aggregate of 60Kt Ni (7.5Ktpa Ni over eight years). The agreement validates the suitability of the project for the stainless-steel market and only represents <5% of the estimated LoM nickel production from Baptiste, leaving room for additional partners. As one of the first recipients of funding under Canada's Critical Minerals strategy, the project is being recognized by the Canadian Federal Government as a strategic asset and is well positioned for additional funding.
- ▶ **Next Steps |** While Van target drilling has potential for additional exploration upside in the Decar district, FPX remains focused on Baptiste. It aims to initiate the Environmental Assessment process with submission of an initial project description in mid-2024 while targeting early 2026 for delivery of a Feasibility Study. Current projected timelines put the company in a position to make a final investment decision with permit in hand by late 2027. In its global exploration alliance formed with the Japan Organization for Metals and Energy Security, FPX will look for new awaruite nickel deposits on a worldwide basis.

Valuation & Conclusion

We update our modelling to reflect the PFS base-case results, with first production now in 2031 (was late 2027). We use a 10% discount rate (was 12%) to reflect the advancement from PEA to PFS for the well-located project that is becoming a highly strategic asset which has garnered strategic investor and government funding support. Our NAVPS has increased to \$1.76 (was \$1.54). Using a 0.75x P/NAV multiple, we increase our target to \$1.30 (was \$1.20) and maintain our Speculative Buy rating.

The Nickel Sulphate Refinery Option

FPX included an evaluation of the Refinery Option, a scenario that conceptualizes operation of a standalone refinery sized to produce 40,000 tpa of battery-grade nickel sulphate. A refinery of this size would be one of the largest in the world and could be supported entirely by Baptiste feed because of the unique metallurgical properties of the awaruite deposit. Using a conservative nickel sulphate price premium of \$1.00/lb over LME Nickel, the company presents a Refinery Option that demonstrates economics accretive to the PFS Base Case (Figure 1). The economics are very sensitive to that premium and it is the company's view the premium will rise significantly over time. Importantly, the Refinery allows strategic flexibility for Baptiste to supply product to the growing battery market that has increased priority on supply from friendly jurisdictions. Additionally, the project may benefit from North American governments support for battery production, as they look to deploy funding to accelerate production of battery materials and associated facilities.

Figure 1: Refinery Option Economics

Economic Basis/Result	Units	Refinery Option		
		Only	PFS Base Case + Refinery Option	
Nickel Refinery Capacity	Tpa	40,000 tpa of contained nickel in nickel sulphate		
Nickel Sulphate Premium	\$/lb Ni	1.00		
Nickel Price	USD/lb	8.75		
Cobalt Price	USD/lb	15.00		
Copper Price	USD/lb	3.50		
Initial Capital Cost	USD, millions	448	2,629	
C1 Operating Cost ¹	USD/ lb Ni	0.79	3.89	
Payability, MHP	% LME price	87	87	
After-Tax	NPV _{8%}	USD, millions	63	2,127
	IRR	%	9.9	17.7
	Payback	years	7.5	3.9

Source: Company filings

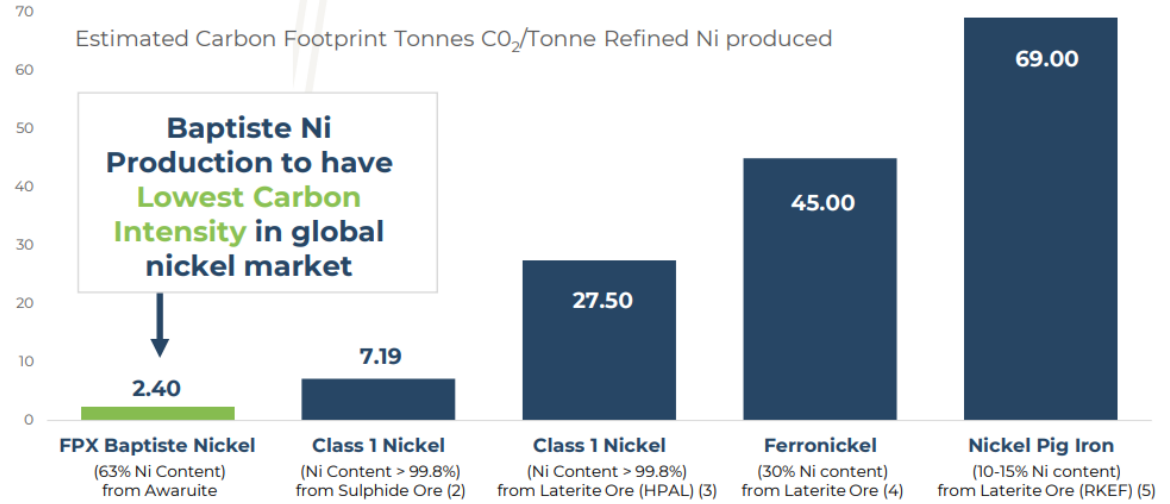
Environmental Considerations

FPX has made significant efforts developing the project with environmental considerations in mind. Now designed with a single integrated tailings facility that simplifies site water management, the PFS footprint was reduced 33% versus the PEA. Utilizing low-carbon power supplied by B.C. Hydro and a conventional processing flowsheet, the project is estimated to have Scope 1 and 2 carbon intensity of 2.4 t CO₂/t nickel produced. This puts the project in the lowest decile of global nickel production in terms of carbon intensity, a metric that is becoming increasingly important in the nickel industry and key criteria for many strategic investors.

Figure 2: Refinery Option Economics

BAPTISTE PROJECT

The Green Choice For Nickel



Source: 1 FPX analysis based on September 2020 PEA; 2 "Life Cycle Assessment of Nickel Products" (Mistry et al., 2016); 3 "Assessing the Energy and Greenhouse Gas Footprints of Nickel Laterite Processing" (Norgate et al., 2010); 4 "Ferronickel Life Cycle Data" (Nickel Institute, 2020); 5 "Energy Consumption and Greenhouse Gas Emissions of Nickel Products" (Wei et al., 2010)

Source: Company filings

Figure 3: NAV Summary

	<u>US\$ M</u>	<u>C\$ M</u>	<u>C\$/sh</u>
EXPLORATION PROJECT ASSETS			
Decar Nickel District (10%)	\$365.1	\$456.4	\$1.63
Total	\$365.1	\$456.4	\$1.63
OTHER ASSETS			
Cash and equivalents	\$25.9	\$32.3	\$0.12
Current Assets (net cash)	\$1.3	\$1.7	\$0.01
Exercise of in money wts/options	\$1.0	\$1.2	\$0.00
Other	0.0	0.0	\$0.00
Total	\$28.1	\$35.2	\$0.13
TOTAL ASSETS	\$393.3	\$491.6	\$1.76
LIABILITIES			
Current Liabilities	\$0.8	\$1.0	\$0.00
LT Debt	0.0	0.0	\$0.00
Retirement obligations	0.0	0.0	\$0.00
Other	0.0	0.0	\$0.00
Total	\$0.8	\$1.0	\$0.00
NET ASSET VALUE	\$392.5	\$490.7	\$1.76
		FD Shares Estimate	
US\$1.00 =C\$ (Long Term) \$1.25		Basic S/O	273.9
		ITM Options	6.0
		Fully Diluted	<u>279.9</u>

Source: Company filings, Paradigm Capital Inc.

DISCLAIMER SECTION

Company	Ticker	Disclosures
FPX Nickel Corp.	FPX-CA	3

Note: Please refer to above table for applicable disclosure numbers.

- The analyst has an ownership position in the subject company.
- Paradigm Capital Inc. has assumed an underwriting liability for, and/or provided financial advice for consideration to the subject companies during the past 12 months.
- Paradigm Capital Inc. expects to receive or intends to seek compensation for investment banking services from the subject companies in the next 3 months.
- Paradigm Capital Inc. has greater than a 1% ownership position in the subject company.
- The analyst has a family relationship with an Officer/Director of subject company.
- A partner, director, officer, employee or agent of Paradigm Capital Inc. is an officer or director of the issuer.

Paradigm's disclosure policies and research distribution procedures can be found on our website at www.paradigmcap.com. Paradigm Capital Inc. research is available on Bloomberg, CapitalIQ, FactSet and Thomson Reuters or at www.paradigmcap.com. Issued by Paradigm Capital Inc.

Stock Coverage History

Date	Target	Rating	Estimates
4/23/2021	\$1.20↓	Spec Buy	
9/2/2020	\$1.00	Spec Buy	Initiating Coverage

Research Rating System

Paradigm Capital Inc. uses the following rating recommendation guidelines in its research:

Recommendation	Number of Companies	Percentage Breakdown	
Buy	74	51%	Buy – Expected returns of 20% or more over 12 months.
Spec. Buy	42	29%	Speculative Buy - Expected returns of 20% or more over the next 12 months on high-risk development or pre-revenue companies, such as junior mining and other early stage companies.
Hold	13	5%	Hold - Expected returns of less than +/- 20% over the next 12 months. Includes companies Under Review.
Sell*	1	1%	Sell - Expected returns of -20% or more over the next 12 months.
Total	130		

*Includes companies with a "Tender" recommendation

About Paradigm Capital Inc.

Paradigm Capital Inc. (PCI) is a research-driven, independent, institutional equity investment dealer focused on sectors and companies that have attractive long-term secular growth prospects. PCI's research is available on our website at www.paradigmcap.com. Please speak to your Sales or Trading Representative if you require access to the website.

The analyst (and associate) certify that the views expressed in this report accurately reflect their personal views about the subject securities or issuers. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations expressed in this research report.

Analysts are compensated through a combined base salary and bonus payout system. The bonus payout is determined by revenues generated directly or indirectly from various departments including Investment Banking, based on a system that includes the following criteria: reports generated, timeliness, performance of recommendations, knowledge of industry, quality of research and investment guidance and client feedback. Analysts are not directly compensated for specific Investment Banking transactions.

The opinions, estimates and projections contained herein are those of PCI as of the date hereof and are subject to change without notice. PCI makes every effort to ensure that the contents herein have been compiled or derived from sources believed reliable and contain information and opinions, which are accurate and complete. However, PCI makes no representation or warranty, express or implied, in respect thereof, and takes no responsibility for any errors and omissions that may be contained herein and accepts no liability whatsoever for any loss arising from any use of or reliance on this research report or its contents. Information may be available to PCI, which is not reflected herein. This research report is not to be construed as an offer to sell or solicitation for or an offer to buy any securities. PCI, its affiliates and/or their respective officers, directors or employees may from time to time acquire, hold or sell securities mentioned herein as principal or agent. PCI may act as financial advisor and/or underwriter for certain of the corporations mentioned herein and may receive remuneration for same. PCI is a member of The Toronto Stock Exchange, The TSX Venture Exchange and The Investment Industry Regulatory Organization of Canada (IIROC).

Any products or services mentioned on this website are made available only in accordance with local law (including applicable securities laws) and only where they may be lawfully offered for sale. PCI will not open accounts except in jurisdictions in which it is registered.

To U.S. Residents: This report was prepared by PCI which is not subject to U.S. rules with regard to the preparation of research reports and the independence of analysts. PCI U.S., affiliate of PCI, accepts responsibility for the contents herein, subject to the terms as set out above. Any U.S. person wishing to effect transactions in any security discussed herein should do so through PCI U.S.

RESEARCH

Healthcare

Scott McAuley, PhD, Analyst (Head of Research) 416.361.9080

Diversified Industries

Alexandra Ricci, Analyst 416.361.6056

Technology

Daniel Rosenberg, Analyst 416.361.6054

Thomas Hui, Associate 416.573.9108

Energy

Link Liu, Associate 403.513.1032

Metals, Mining & Agriculture

David Davidson, Senior Analyst 416.360.3462

Jeff Woolley, CFA, Analyst 416.361.9557

Gordon Lawson, Analyst 416.363.5476

Matthew Chong, Associate 416.361.6053

Gold and Precious Metals

Don MacLean, Senior Analyst 416.360.3459

Don Blyth, Analyst 416.360.3461

Lauren McConnell, Analyst 416.366.7776

Alex Brown, Associate 416.365.5297

Industrial Products

Marvin Wolff, CFA, Analyst 416.361.3376

Quantitative & Technical Analysis

Aazan Habib, CFA, CMT, Analyst 778.237.2607

SALES

John Bellamy (Head of Sales) 416.361.6032

Matt Doty 416.361.5987

David Roland 416.216.6844

Craig Mills 416.361.1895

Naomi Ebata, CFA 416.364.9764

Wolfgang Rosner 514.447.8950

TRADING

Peter Dunlop 416.368.6557

Tom George 416.360.3579

Oliver Herbst 416.364.7988

Bruce Latimer 416.368.8353

OFFICES

Toronto

95 Wellington Street West, Suite 2101, PO Box 55

Toronto, Ontario M5J 2N7

General Line 416.361.9892

Fax Line 416.361.6050

Calgary

110-9th Avenue SW

Suite 500

Calgary, Alberta T2P 0T1

General Line 403.513.1025

Fax (Research) 403.265.8721

STOCK RATING SYSTEM

Buy: Expected returns of 20% or more over 12 months.

Speculative Buy: Expected returns of 20% or more over the next 12 months on high-risk development or pre-revenue companies, such as junior mining and other early-stage companies.

Hold: Expected returns of less than 20% over the next 12 months.

Sell: Expected returns of -20% or more over the next 12 months. .