

# Prophecy Proposes to Spin Off Vanadium Royalty Co to Finance Construction of Gibellini Vanadium Project

written by Raj Shah | July 9, 2018

✖ July 9, 2018 ([Source](#)) – **Prophecy Development Corp.** (“Prophecy” or “the Company”) (TSX: PCY; OTCQX: PRPCF; FRA: 1P2N) announces that it is engaged in discussions with advisors regarding spinning off a vanadium royalty and streaming company (“VRC”). It would be a means to provide investors with direct participation in vanadium mining royalties, streaming, and physical vanadium.

Under the proposed structure, Prophecy would incorporate VRC as a wholly owned subsidiary – subject to regulatory, shareholder, and other necessary approvals. VCR would receive a minority portion of the vanadium production by the Company’s Gibellini project in Nevada, USA. That project would have the target of starting production in 2021.

For each pound of vanadium pentoxide (“V2O5”) that Prophecy produces and delivers to VRC, VRC would pay Prophecy at a substantially discounted price. That price would be based on the European vanadium pentoxide price published by Metal Bulletin – or any alternative reference price agreed to by Prophecy and VRC.

In exchange for the discounted vanadium purchase price, VRC would make a cash prepayment to Prophecy. This would cover the capital cost of constructing the Gibellini project, prior to the Company’s receiving all the permits required to start the

Gibellini mine construction. As announced in the Company's May 29, 2018 news release, the Company estimates Gibellini's capital cost to be approximately \$116.8M, with a 25% contingency margin.

An equity financing is planned in conjunction with the proposed spinoff transaction whereby VRC shares would be distributed to Prophecy shareholders.

The above transaction and proposed terms would be contingent upon the securities of VRC being listed for trading on a Canadian public stock exchange.

Below is a summary of the preliminary economic assessment study ("PEA") for the Gibellini project prepared by Amec Foster Wheeler E&C Services Inc. ("AMEC"), as announced in the May 29, 2018 press release:

| <b>Highlights of the PEA (after tax):</b>       |                                     |
|---|-------------------------------------|
| Internal rate of return                         | 50.8%                               |
| Net present value (NPV)                         | \$338.3 million at 7% discount rate |
| Payback period                                  | 1.72 years                          |
| Average annual production                       | 9.65 million lb V205                |
| Average V205 selling price                      | \$12.73 per lb                      |
| Operating cash cost                             | \$4.77 per lb V205                  |
| Initial capital cost, including 25% contingency | \$116.76 million                    |
| Life of the mine                                | 13.5 years                          |

The PEA is preliminary in nature, and includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves, and there is no certainty that the PEA will be realized. Mineral resources

are not mineral reserves and do not have demonstrated economic viability.

The PEA was prepared under the direction of Kirk Hanson, P.E., Technical Director, Open Pit Mining for AMEC. Mr. Hanson is a “Qualified Person” for the purposes of National Instrument 43-101, and he is independent of Prophecy.

### **Sensitivity Analysis**

After-tax NPV is over \$568 million (7% discount) and after-tax IRR is 69% at the current vanadium price of \$16.9/lb.

| <b>V205<br/>price<br/>change</b> | <b>V205<br/>price<br/>\$/lb</b> | <b>After-tax<br/>IRR</b> | <b>After-tax<br/>NPV<br/>\$M @ 7%</b> | <b>After-tax<br/>cashflow<br/>\$M</b> |
|----------------------------------|---------------------------------|--------------------------|---------------------------------------|---------------------------------------|
| <b>30%</b>                       | 16.55                           | 69%                      | 568.0                                 | 996.0                                 |
| <b>20%</b>                       | 15.28                           | 63%                      | 491.3                                 | 864.4                                 |
| <b>10%</b>                       | 14.00                           | 57%                      | 415.2                                 | 733.2                                 |
| <b>Base<br/>price</b>            | 12.73                           | 51%                      | 338.3                                 | 600.4                                 |
| <b>-10%</b>                      | 11.46                           | 44%                      | 261.0                                 | 467.2                                 |
| <b>-20%</b>                      | 10.18                           | 36%                      | 183.1                                 | 333.2                                 |
| <b>-30%</b>                      | 8.91                            | 26%                      | 103.9                                 | 196.9                                 |

Having already filed its Management’s Plan of Operations with baseline studies, Prophecy’s targets are for Gibellini construction to start by mid 2020 and first vanadium delivery to occur by the end of 2021.

John Lee, Prophecy’s Executive Chairman, states:

“The price of vanadium pentoxide has risen from a low of \$2.5/lb in 2016 (through \$4.2/lb in 2017) to a 9-year high of \$16.9/lb today. And we expect it to trade materially higher for the

remainder of 2018 and well into 2019.

Due to a decade of underinvestment in vanadium mining, there will be no vanadium mines coming on stream in the next 3 years. And China, which accounts for 55% of the world's vanadium production, is curtailing its vanadium export as domestic consumption for steel rebar, aerospace/defense, and vanadium batteries all are growing at high rates. There is no meaningful aboveground inventory. Chinese suppliers are reporting months-long back orders and so are not accepting new customers.

We are creating VRC for investors who want the opportunity to profit from the rising price of vanadium through owning an interest in near-term vanadium streaming and physical vanadium.

The Gibellini vanadium project is the most advanced stage vanadium project in North America. It has a 2021 target for first vanadium product delivery. A Gibellini vanadium streaming package tailored to VRC could offer returns superior to other, recently announced cobalt streaming transactions. Concurrently, Prophecy is shopping for physical vanadium from its established contacts who have confirmed availability.

Vanadium streaming has the potential of giving investors a cash flow upside when there are increases in mine production, vanadium price, and future mine reserves. And it caps the downside to a fixed, discounted purchase price throughout the life of the project.

Prophecy expects to benefit from this proposed spinoff transaction as VRC takes care of Gibellini's pre-production capital expenditure, while Prophecy maintains significant vanadium exposure through holding a majority portion of the future Gibellini production which is unhedged.

VRC will keep a lean corporate structure and look to being the

leader in the vanadium streaming and physical vanadium space. It will do this by enlisting strategic equity investors, closing Gibellini streaming deals, and making its first purchase in physical vanadium.”

The Company expects to announce material updates on the proposed VRC spinoff transaction later this month.

All dollar amounts (“\$”) are United States dollars.

### **Qualified Person**

The technical contents of this news release have been prepared under the supervision of Danniell Oosterman, VP, Exploration. Mr. Oosterman is not independent of the Company in that he is employed as a consultant to the Company and most of his income is derived from the Company. Mr. Oosterman is a Qualified Person as defined in NI 43-101.

### **About Prophecy**

Prophecy Development Corp. is a Canadian public company listed on the Toronto Stock Exchange. Its main objective is to develop the Gibellini primary vanadium mining project in the Battle Mountain region in northeastern Nevada to production. Further information about Prophecy can be found at [www.prophecydev.com](http://www.prophecydev.com).

PROPHECY DEVELOPMENT CORP.  
ON BEHALF OF THE BOARD

“JOHN LEE”  
Executive Chairman

*Neither the Toronto Stock Exchange nor its Regulation Services Provider (as that term is defined in the policies of the Toronto Stock Exchange) accepts responsibility for the adequacy or accuracy of this release.*

## **Cautionary Note Regarding Forward-Looking Statements**

Certain statements contained in this news release, including those that contain words such as "expects," "anticipates," "intends," "plans," "believes," "estimates" and statements related to matters which are not historical facts provide forward-looking information within the meaning of applicable securities laws. Forward-looking statements, which reflect management's expectations regarding Prophecy's future growth, results of operations, performance, business prospects, and opportunities are based on certain factors and assumptions and involve known and unknown risks and uncertainties which may cause the actual results, performance, or achievements to be materially different from the future results, performance, or achievements expressed or implied by such forward-looking statements.

These factors should be considered carefully, and readers should not place undue reliance on the Prophecy's forward-looking statements. Prophecy believes that the expectations reflected in the forward-looking statements contained in this news release and the documents incorporated by reference herein are reasonable, but no assurance can be given that these expectations will prove to be correct. In addition, although Prophecy has attempted to identify important factors that could cause actual actions, events, or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events, or results not to be as anticipated, estimated, or intended. Prophecy undertakes no obligation to release publicly any future revisions to forward-looking statements to reflect events or circumstances after the date of this news or to reflect the occurrence of unanticipated events, except as expressly required by law.