



Bluejay Mining

11th July 2017

It's always better to travel than arrive... Conviction Sell.
Target price 5.3p.

Bluejay Mining (JAY), (previously named FinnAust Mining) is an AIM listed resources exploration company which currently has a number of prospective licences in Greenland, Austria and Finland. The current focus of the company's activities is the Pituffik Titanium Project in Greenland which has just seen a maiden JORC resource statement completed.

■ Shares surge based on continued hope at Pituffik

Bluejay shares have risen from 0.55p in December 2015, just prior to the announcement of the company's initial acquisition of a stake in the Pituffik project, to the current 13p. This makes the company one of the best performing on AIM over that period. **The valuation is now over £100 million on a fully diluted basis.**

■ However, we have numerous concerns over what is the company's flagship asset

There are many challenges related to operating a mine in Greenland, mainly due to the harsh climatic conditions and remote location. Bluejay's JORC resource for Pituffik has underwhelmed and of course the company needs to raise project finance to bring the asset to production. **We note related party selling, in particular Western Areas exiting in full at 12p in early June and that is a strong smoke signal to us.**

■ Shares materially over-valued in our opinion

We believe that Bluejay is materially over-valued for the stage that the company is at. It is in need of material equity and debt financing to progress to dredging activities in any volume. We believe the shares remain elevated as a consequence of the relatively limited free float. **Our price target based on a realistic DCF calculation is 5.3p and accordingly we place a rare Conviction Sell recommendation on the stock.**

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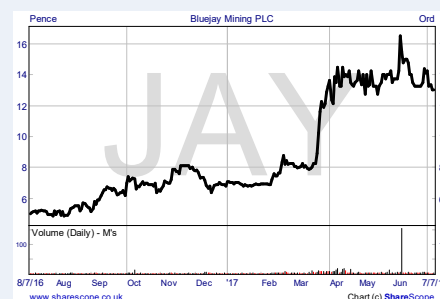
CONVICTION SELL



Key data

EPIC	JAY
Share price	13p
52 week high/low	16.5p/4.875p
Listing	AIM
Shares in issue	766.88m
Market Cap	£99.69m
Sector	Mining

12 month share price chart



Analyst details

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Background

BlueJay Mining (JAY) is an AIM resources exploration company which currently has a number of prospective licences in Greenland, Austria and Finland. The company came to the London market in December 2013 following the £7.7 million reverse takeover of Centurion Resources. This brought with it a major shareholder in the form of ASX-listed nickel producer Western Areas, who we will discuss in more detail later, and which put up £1.8 million into the £3.4 million IPO placing at a price of 5p per share.

Having an initial focus on a range of early stage copper assets, shares in BlueJay fell steadily over the two years following its IPO as a result of a 35% fall in the price of the metal. **However, a move into titanium in December 2015, driven by new Managing Director Rod McIlree, caught the market's attention and breathed a new lease of life into the shares with the company being one of the best performing stocks on AIM over the last 18 months.**

Bluejay's current assets are as follows:

Finland – owns 100% of a portfolio of copper, zinc and nickel projects; the **Hammaslahti Copper-Gold-Zinc Project**, the **Outokumpu Copper Project** and the **Kelkka Nickel Project**. In January of 2016 additional licences were granted over the project areas, increasing the land area by c.50%. While these are not the current area of focus Bluejay still sees value in the assets.

Austria – an 80% interest in the previously producing **Mitterberg Copper Project** in Salzburg. This is largely a legacy asset from the reverse takeover of Centurion Resources and Bluejay is currently looking at realising its value.

Greenland - the current focus of the company's activities is the **Pituffik Titanium Project** in Greenland, of which Bluejay owns 100%.

The Greenland assets were added to in September 2016 when Bluejay agreed to acquire 100% of Avannaq Exploration from Capricorn Oil, a subsidiary of Cairn Energy, for £500,000 in new Bluejay shares. The two most noteworthy projects are the **Disko-Nuussuaq** nickel-copper-platinum project and the **Kangerluarsuk SedEx** lead-zinc-silver project. Located in the south-west of the country the assets had over \$50 million spent on them prior to being bought by Cairn and are believed to have high-tonnage and high-grade base metal potential.

Pituffik

Touted as a potentially world class asset, the Pituffik Titanium Project is located on the Steensby Land peninsular in the north-west of Greenland, 83km south of the regional settlement Qaanaaq (pop. 656) and part of the Thule black sand province. Here, the coastline contains areas of high concentrations of the mineral ilmenite (the most commercially important source of titanium), on active and uplifted beach zones, which are the focus of Bluejay Mining. Bluejay holds exploration licences over 150km² of onshore ground and shallow marine environments at the project.

The acquisition price (for an initial 60.37% of Bluejay Mining) was a maximum of £905,607, paid for in March 2016 via the issue of 164,655,885 new shares in Bluejay at a price of just 0.55p per share – an early indication of what was seen as the real value of these assets as deemed by the parties to the transaction in early 2016. Along with the acquisition at the time, a placing of 10 million new shares at a price of 2p each raised just £200,000 with major shareholder Western Areas putting in half of this. Further, in March 2017, the then named FinnAust exercised its option to acquire the remaining shares in Bluejay Mining, taking its share of the project to 100%. The company's name was subsequently changed to Bluejay Mining PLC on 13th March.

As you can infer from the picture below, Pituffik is not somewhere you would want to go for your summer holidays, being located in the Arctic Circle and experiencing harsh climatic conditions. Despite the cold, Greenland has actually been warming up, with climatic changes causing its ice-sheet to retreat and exposing new areas for minerals exploration and exploitation. However, the jury is still out on just what window is actually available during the summer season to conduct meaningful dredging activities from what is largely a frozen shoreline.

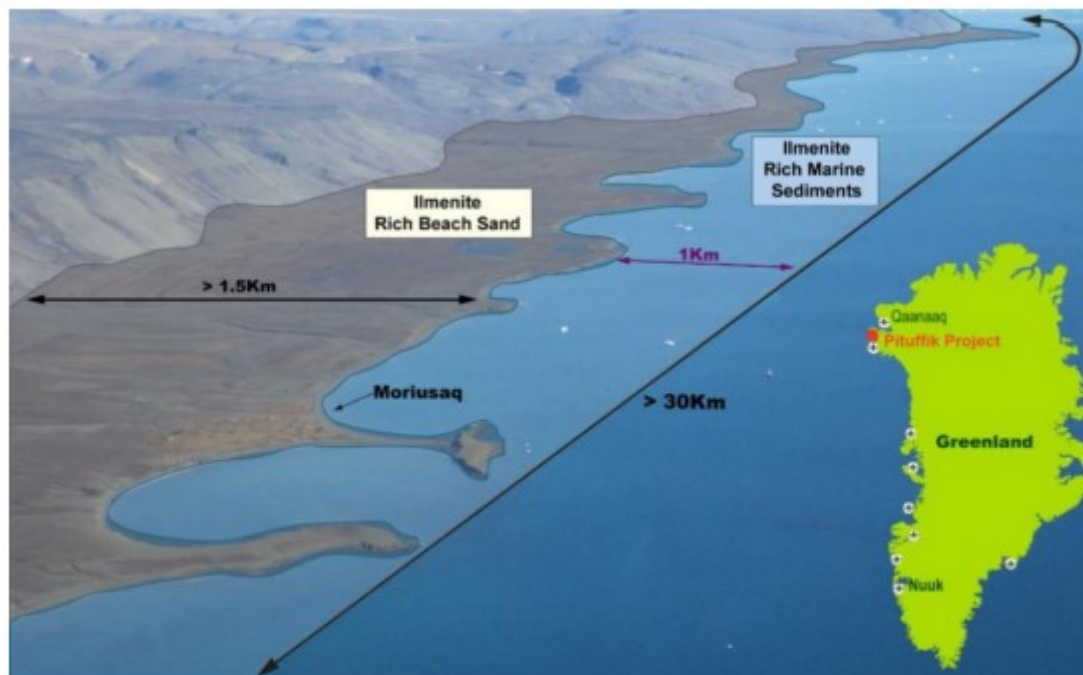


Source: Google Maps

While originally being discovered in 1915 Pituffik remains an early stage exploration asset.

It caught Bluejay's attention due to having high grade material and exploitation potential. Historic fieldwork by Bluejay, the Geological Survey of Greenland & Denmark and others has highlighted the presence of a large and, according to the company, "unusually pure" titanium deposit at Pituffik. Active beaches in the region have demonstrated grades of up to 68% ilmenite, averaging between 38-40%, with the more expansive uplifted beaches averaging around 17%. **Upon acquisition Bluejay's CEO McIlree gushed that Pituffik has the potential to "become one of the highest grade in situ deposit of ilmenite anywhere in the world."**

There are two key areas which have been identified for further work at the project, Moriusaq and Interlak, located along an 80km coastline in environments including raised beaches, active beaches and drowned (underwater) beaches. Moriusaq is the most advanced area and has returned the highest ilmenite grades to date, with grades in some areas estimated to be in excess of 85% ilmenite. Interlak offers the largest volume of heavy mineral sands, with grade upside potential and in some areas estimated to be in excess of 70% ilmenite. The plan is to advance Moriusaq first given that its marine environment could provide an opportunity to employ dredging (a simple and low cost method) to exploit the sands.



Moriusaq. Source: Bluejay presentation

Latest developments

Following the initial agreement to buy the stake in Bluejay in December 2015 Bluejay quickly got its plans together for developing the asset, with the strategy being to capitalise on Pituffik's near term production potential. In February 2016, results from a bathymetry (underwater) and seismic profiling survey completed in 2015, along with a sea floor sampling programme, suggested that the shallow marine environment hosts large volumes of potentially high grade titanium, with the results multiplying the amount of known titanium mineralisation significantly.

Subsequently, various technical consultants were hired in order to complete fieldwork over the course of 2016, including an initial resource calculation for the Moriusaq target and surrounds. With the nights (and days) getting colder, the work programme was finished in September, with more than 500 drill holes having been completed along with trenching and sampling across the project area. Results confirmed that the two target areas will remain the key focus. An Environmental Impact Assessment (EIA) and a Social Impact Assessment (SIA) are underway.

Bluejay was originally expected to publish a JORC compliant resource by the end of 2016, ahead of commencing an initial 30,000 tonne proof-of-concept bulk sampling programme this year, followed by the application for an exploitation licence in Q1 2017. But given that the JORC resource release only occurred on 10th April this year it is fair to say that reliance on these statements by management in 2016 has now passed.

Since then, permitting activities at Pituffik have commenced, with the pre-consultation phase of the process having been completed with the Greenland authorities. Bluejay has commented that it is “*very pleased*” with the responses received and will now work to incorporate the points raised into a final form document and move into the next phase of the process required to secure the all important exploitation licence. The next stage involves a public consultation of the final draft EIA and SIA documents and Bluejay is now preparing these documents.

Recent fundraisings

On 8th June, after market close, Bluejay announced its intention to raise up to £3.5 million via a placing at 12p per share. The issue was subsequently “significantly oversubscribed” (more than two times) with the proceeds being used to fund development work in relation to the Pituffik project in Greenland, as well as for general working capital purposes. **Three persons discharging managerial responsibilities, Greg Kuenzel (Non-exec), Shaun Bunn (Operations Manager) and Jeremy Whybrow (Exploration Manager), agreed to make 5 million existing ordinary shares available for inclusion in the placing, which was completed at a discount of c.27.3% to the closing mid-market price per share of 16.5p (the all-time high). Perhaps more notably, at the same time, supposed “cornerstone investor” Western Areas sold its entire stake in the company (138,611,112 shares) to institutional investors at the same price.**

So far so good but we believe that the valuation is materially out of kilter with the progression stage

To give Bluejay management credit the company has, over the past 18 months or so, provided a text book example of how to promote a story, importantly in these situations, they have done so with a relatively limited free float. A plethora of technically worded RNS's with copious amounts of "pleasing" and "exciteds" peppered throughout these releases in relation to the Pituffik asset has pushed the stock price up c.24-fold since December 2015 . **The shares have risen from 0.55p just prior to the Bluejay acquisition announcement to the current 13p, giving the company a market capitalisation now in excess of £100 million on a fully diluted basis – around a third of the valuation of peer Kenmare Resources, which is actually producing.**

These are our main issues and questions.

Difficulties mining in Greenland

As a jurisdiction, Greenland has its attractions and is regularly ranked as one of the most attractive places for mining investment by various industry surveys, accepted. The government is becoming ever more mining friendly as it looks to take advantage of the island's rich resources and, in contrast to the locations of many AIM listed junior miners, the country is politically stable. As mentioned above, climate change is causing ice sheets to retreat, creating the opportunity to study new potential resources.

But there are many challenges related to operating a mine in Greenland, mainly due to the harsh climatic conditions and remote location.

At Pituffik itself the average daily temperature in July barely reaches 8°C, with the winter months typically seeing temperatures of around -20°C. This creates a situation where certain activities can only be carried out at certain times of the year and makes for a more expensive operating environment. **With pack ice forming in the early autumn the window for making shipments from Pituffik could be as low as five months.**

Infrastructure in the country as a whole is limited, with there being no major road networks and most domestic transportation being conducted by air - Pituffik is located c.30km from the international airport and deep-water port of Thule Air Base which is operated by the US Air Force to the south-east and Qaanaaq domestic airport to the north.

Director backgrounds

We note that certain Bluejay directors have, shall we say "interesting" histories.

Rod McIlree was the founder of ASX listed uranium explorer Greenland Minerals and Energy and its Managing Director up until August 2014. Australian newspaper The Sydney Morning Herald reported on several issues with the company including questions over its ownership structure (see here <http://www.smh.com.au/business/unravelling-the-greenland-minerals-web-20091008-gp0w.html>) and the rapid dilution of shareholders via the issuance and exercise of options. In addition, it would appear that McIlree and fellow director Simon Cato sold stock into the market immediately after exercising options – see here <http://www.smh.com.au/business/a-cold-front-for-greenland-minerals-ceo-20110523-1f0px.html> and note in particular:

“In mid-April (2011) those two (Cato and McIlree), and Whybrow, each received 4.4 million newly vested options. Earlier this month (May 2011), Cato and McIlree both announced that they had exercised some of their options, 1.55 million and 250,000 respectively, but their filings suggested that they must have sold them immediately because their total shareholdings remained unchanged.”

The share price performance of Greenland Minerals has been “erratic” to be polite. What Greenland Minerals has in common with Bluejay however is that there was a concerted news blitz that increased the stock price materially before the company was laid low in large part due to the debt that was taken on. The problem with a heavily promoted bull story is that at some point the major stakeholders have to get out (which to Western Areas credit they have executed) and, if there is not a liquidity event to provide this, exit gravity inevitably asserts.

We also point out that Greg Kuenzel, Non-Exec at Bluejay, has a history of value destruction at AIM listed Noricum Gold (now Georgian Mining) where he is Managing Director.

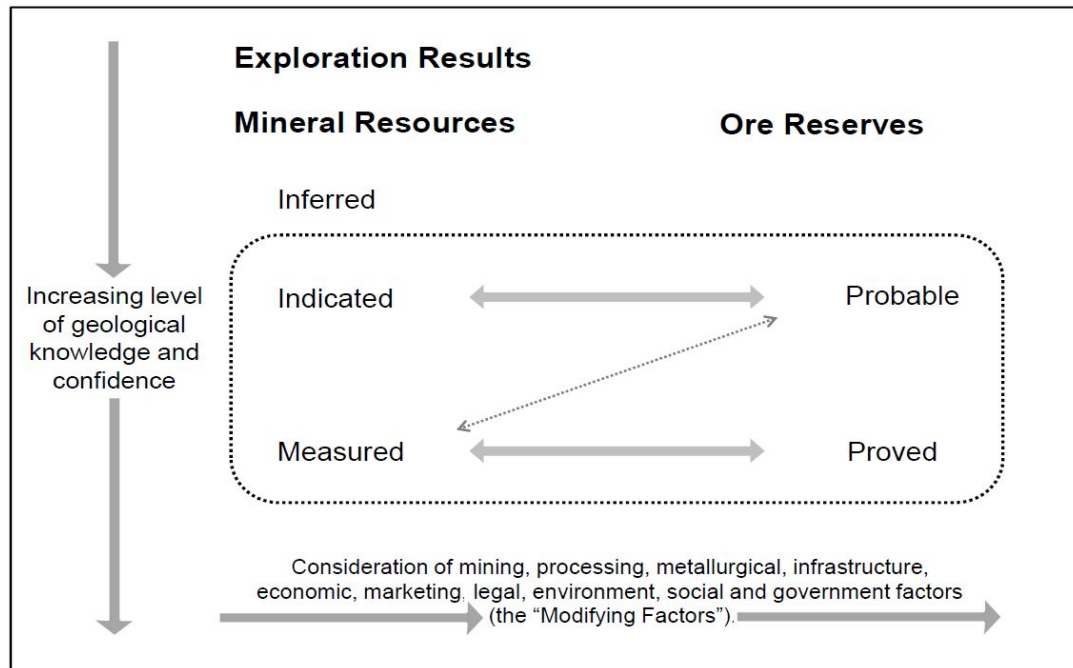
We also add that we have previously posed a number of questions to Rod McIlree in relation to these points to which he has deigned to reply.

Underwhelming initial JORC Resource statement

On 10th April this year Bluejay announced results from its long awaited maiden JORC mineral resource estimate for Pituffik. Consultants SRK Exploration Services assessed 17% of the raised beach area and suggested that Pituffik is “potentially” capable of supporting an operation of considerable mine life as well as having extensive exploration potential.

SRK estimates an **Inferred** resource of 23.6Mt at 8.8% ilmenite (in situ) for the total area tested, which includes a high-grade zone equal to 7.9Mt at 14.2% ilmenite (in situ) at the Moriusaq area. A larger exploration target for the area, primarily encompassing potential mineralisation below and inland from the current drilling, of between 90Mt to 130Mt at an in-situ grade of between 6.3% and 8.4% ilmenite has also been confirmed.

We highlight the word “inferred” here. While SRK believes there is a high probability that a “proportion” of the currently reported Inferred Mineral Resource can be upgraded to the “Indicated” category following additional exploration, **the industry standard is to place a nominal or even nil value upon this category of resources.** It’s not that inferred resources have no value, rather that they are one of the early steps in determining an economically feasible mining project – see table.



We quote from the CIM Council definitions,

*“Due to the uncertainty that may be attached to Inferred Mineral Resources, it cannot be assumed that all or any part of an Inferred Mineral Resource will be upgraded to an Indicated or Measured Mineral Resource as a result of continued exploration. **Confidence in the estimate is insufficient to allow the meaningful application of technical and economic parameters or to enable an evaluation of economic viability worthy of public disclosure.** Inferred Mineral Resources must be excluded from estimates forming the basis of feasibility or other economic studies.”*

Related Party Share sales

We wrote in depth on our site in relation to related party share sales by the company as this link here details - <http://www.alignresearch.co.uk/finnaust-mining/finnaust-mining-curious-case-large-shareholder-stock-sales/>

In essence, Shaun Bunn, Gareth Palmer & Jeremy Whybrow sold millions of shares between 2p and 6.45p and JAY’s own broker SP Angel sold stock ahead of writing a glowing research note (with no DCF detailed breakdown) last autumn. The recent warrant exercises, announced to the market on 31st March and 4th April, also appear to fit SP Angel’s awards by the company and we strongly suspect that they sold another 1.625 million around the 12-13p level. There is a saying in the stock market – *“follow not what I say but what I do with my money”*. To us, SP Angel have given a clear lead in that respect and one we intend to pay heed of and ditto referring to the related parties that were happy to reduce their holdings at a price a fraction of the current valuation.

Valuation

The main question we have in relation to JAY largely boils down to the valuation.

At the current share price of 13p the markets are valuing Bluejay equity at just under £100 million. While we do not deny that Bluejay's assets have *potential* we firmly believe that a figure of almost £100 million for "inferred" resources that are still quite some time from production is simply unjustifiable given the JORC resource statement and early stage of development.

Even a paid for research note written for the company back in February 2016 admitted that valuing the company was "*challenging*" largely given the early stage nature of the operations.

Here's why we think the valuation is overheated:

- Pituffik remains a very early stage asset. The company still has to apply for an exploitation licence, complete the social impact assessment and, as SP Angel highlighted in their note ahead of the placing at 7p last year (in which supposed anchor shareholder Western Areas reduced a meaningful stake), **JAY requires c.\$50-60 million to get operations fully ramped up**. What this means to us is that there will be inevitable future placings to complete in raising the all important project financing. This will only inflate the market cap further beyond any comparable justifiable valuations in our opinion.

- Minimal asset backing on the balance sheet. Net assets amounted to £17.5 million as at 31st December 2016, with most of these being in the form of £13.2 million worth of intangibles which is the director's best guess as to what the assets are **currently** worth. These values would have been hard tested by the auditors and they are the first "tell" that the market cap is out of sync with the current stage of resource progression. **Remember this value includes ALL the company's assets too, not just Pituffik.**

- Another valuation benchmark comes from the £215 million acquisition of mineral sands producer Sierra Rutile by Iluka Resources last year. The deal was completed on a historic enterprise value/EBITDA multiple of 16.2 times. Assuming a build out cost to Bluejay of say c.\$60 million (£47 million) per their own broker's estimates gives a comparable current enterprise value for the company of c.£151 million. **Applying the same Sierra Rutile exit multiple thus means that Bluejay needs to be making annual EBITDA of c.£9.32 million to justify anywhere near the current valuation.** That seems a long way off to us at this stage.

Realistic DCF approach even more damning

In the alternate, if we make the assumption that Bluejay can achieve £9.32 million as an annual profit figure for the next 10 years in trying to align to the Sierra Rutile EV:EBITDA valuation per above and discount this at an industry standard 12% per annum (this assumption is highly optimistic to JAY with regards to being able to achieve £9.31 million of profits next year of course) we thus derive a current PV figure of £52.6 million equivalent to approx 7p per share - **a succinct illustration of just how overvalued the shares in JAY are to us.**

In the alternate, if we assume a simplistic £5 million p.a profit generation for the first 3 years and £7 million p.a. for the subsequent 3 years and finally £10 million p.a. for the remaining 4 years and apply the same standard 12% discount rate we derive a valuation of £39.4 million – equivalent to 5.3p per share. **Remember, these DCF calculations make no adjustment for any further equity dilution or debt take on which almost certainly will be required, let alone the fact that the company still needs to obtain approval for the exploitation licence to actually mine the ilmenite at Pituffik.** If the delays with regards to Mcillree's Greenland Minerals & Energy uranium activities are anything to go by this could be a number of years before there is serious sales of the ilmenite to generate the profit figures we detail here (if ever).

To conclude, we believe that Bluejay is materially over-valued for the stage that the company is at. It will almost certainly require new equity and debt financing to progress the dredging activities to a state of any meaningful volume and the shares remain elevated by virtue of the relatively limited free float.

Our price target based on the realistic DCF calculation above is 5.3p and accordingly we place a rare Conviction Sell recommendation on the stock.

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