Audley Funding PLC - Series 2017-F2 Secured Notes

INTRODUCTION

ARC Ratings, S.A. (ARC) has affirmed the final, long-term public rating of 'A(sf)' with Stable outlook accorded to the GBP Secured Notes issued by Audley Funding PLC under its Series 2017-F2 transaction. The final rating accorded refers to timely repayment of interest and ultimate repayment of principal.

PROGRAMME SUMMARY

- Audley Funding PLC (the 'Issuer', company number 10364982), established a GBP 200,000,000 Secured Medium Term Note Programme on 14 November 2016. The programme is listed on The International Stock Exchange ('TISE') and has a secondary listing on the Frankfurt Stock Exchange.
- Initially the Issuer issued GBP 25,000,000 Secured Notes and USD 25,000,000 Secured Notes, together the "Series 2017-F2 Notes" under the Secured Medium Term Note of the Issuer. In May 2018, the notional maximum issuance size of the Notes was increased up to GBP/USD 50,000,000 for each tranche. However, the Issuer has only elected to release up to 25,000,0000 for both Series at present. Both Notes are listed on the Frankfurt Stock Exchange under ISIN: GB00BDCJX280 and ISIN GB00BDFBS041 respectively. Both Sterling and Dollar Notes mature on 27 February 2022. The rating accorded only applies to the Sterling Notes.
- NQ Minerals PLC (the "Borrower") is an exploration and mining development company. In June 2017, the Borrower purchased the Hellyer Gold Mine (the 'Hellyer') in Tasmania with its associated tailings retreatment project. The aim is to fully process and commercialise the in-situ tailings of 11.25mt comprising of gold, silver, lead and zinc. The equipment of Hellyer has been pledged in respect of the transaction. Hence, the security of the Notes is held in favour of the noteholders, in accordance with a fixed first priority charge over the assets of the Issuer and the Issuer's interests in the Borrower Security.
- The rating of the Series 2017-F2 Secured Notes are derived by applying a scorecard approach. Based on the "high quality prospects" on the Series 2017-F2 Secured Notes in an enforcement scenario, and the sound DSCR ratio's forecast an 'A' rating has been deemed appropriate for this transaction.

Key rating drivers include:

- The ability of assets to generate revenues consistent with the cashflows considered in the projections and risks associated with the interest repayment and returns
- Commercialisation of in-situ tailings and access to the value from the lead, zinc, silver, gold and pyrite. The sales have already started, with the first shipment sent in February 2019
- Projected Debt Service Coverage Ratio ('DSCR') of greater than 6.5x over the next five years with a minimum covenant of 1.75x
- One coupon reserve in place
- ARC applied haircuts of 30% and 40% as worst-case scenarios to the assets, in an assumption that it will be sufficient to repay the bond at maturity upon an enforcement scenario.

Rating Assumptions

- Non-amortising Structure
- Strong recovery prospects on the mining equipment in an enforcement scenario
- DSCR Ratio's covenanted above the Rating Criteria
- Liquidity & interest repayment reserves

Summary of Rating Methodologies

ARC analysed the transaction by applying its Global Structured Finance Rating Criteria (updated September 2018) and Project Finance Rating Criteria (updated November 2018). Both Criteria are freely available on www.arcratings.com.

RATINGS

Issue Rating	Outlook
A(sf)	Stable

ISSUER
Audley Funding PLC
SERVICER
Bedford Row Capital Advisers Ltd
TRUSTEE
Truva Services Limited
PAYING AGENT
Avenir Registrars Limited
CALCULATION AGENT
Bedford Row Capital Advisers Ltd

RATING DATE
1 March 2019
RATING VALIDITY
2 March 2020
INITIAL RATING
1 March 2018
NEXT REVIEW DATE
2 March 2020

RELATED RESEARCH
ARC Ratings Global Structured Finance Rating Criteria
ARC Ratings Project Finance Rating Criteria
available at www.arcratings.com

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COMPANY PROFILE

Audley Funding PLC (the 'Issuer')

The Issuer was incorporated in England on 8 September 2016 as a public limited company under the Companies Act of 2006. The Issuer is a special purpose company, established to raise money for purposes set out in the Listing Particulars and to fulfil the transaction purposes set out under the asset backed securities. The Issuer has three directors. The Issuer has adopted corporate governance policies, which comply with the combined code and the Model Code of Director's dealings.

NQ Minerals PLC (the 'Borrower')

NQ Minerals was incorporated in England and Wales on 14 April 2015. NQ Minerals own 100% of the issues share capital in NQ Minerals Pty Ltd; an Australian company registered in Queensland. NQ Minerals is an exploration and mining company with projects in Queensland and Tasmania, Australia. The company is listed on the NEX Exchange.

The flagship project is the Hellyer Gold Mine in Tasmania, there are strong projection forecasts for the revenue as NQ Minerals will be utilising the tailings materials on site. NQ Minerals has established a team with strong experience in the production and exploration of gold, silver and base metals.

An onsite review, was conducted by ARC on the 28th February 2019. ARC confirmed the physical situation of the operations. ARC also confirmed the start-up status and trajectory of operational performance at the onsite. Furthermore, ARC discussed the Traxys prepayment facility and marketing agreement (akin to an off taking agreement) which recently saw the first shipment of zinc concentrate to Korea Zinc.

Truva Services Limited (the 'Security Trustee')

Truva Services Limited was appointed as the Security Trustee for the benefit of the Noteholders and the obligations of the Issuer in respect of the Series 2017-F2 Secured Notes will be in favour of the Security Trustee. Truva Services Limited is a company with limited liability that is incorporated under the laws of England and Wales and having its registered office at 1 Bedford Row, London, WC1R 4BZ.

The bank account of the issuer is held with Barclays Bank PLC. ARC does not currently rate Barclays Bank PLC, which is part of the Barclays PLC Group. However, Barclays Bank PLC is rated A+/Stable by Fitch, Baa2 by Moody's and A2/Stable by S&P and Barclays PLC is rated A/Stable by Fitch, Baa3/Stable by Moody's and BBB/Stable by S&P.

RATING RATIONALE

ARC has implemented the Global Structured Finance Criteria with an interjection of elements from the Project Finance Criteria. ARC has considered the following in its analysis:

Audley Funding PLC (the 'Issuer' and the 'Lender')

Audley Funding PLC (the 'Issuer', company number 10364982), has issued a GBP 25,000,000 tranche and a USD 25,000,000 tranche of Series 2017-F2 Secured Notes, with the maximum issuance amount upsized to GBP 50,000,000 and USD 50,000,000 under its GBP 200,000,000 Secured Medium Term Note Programme. It is noted that the Issuer only intends to issue up to the previous GBP 25,000,000/USD 25,000,000 limit presently. In case of any changes ARC will revaluate the position and assets of the Issuer. The Secured Notes pay 12% fixed rate interest per annum and are due 2022. Under the Deed of Charge entered into between the Issuer and the Security Trustee, the security of the Notes is held in favour of the noteholders, in accordance with a fixed first priority charge over the assets of the Issuer and the Issuer's interests in the Borrower Security and segregated bank accounts. Note that ARC's rating only applies to the GBP 25,000,000 tranche. ARC however, conducted its analysis assuming the full draw down of both the GBP and USD tranches.

Hellyer Gold Mine

The Loan, GBP 17,986,696, was utilised to finance the AUD 20,000,000 cash component of the Borrower's acquisition of the Hellyer Gold Mine in Tasmania in 2017. The remaining balance of the proceeds is used for the refurbishment and activities that will enable the project to start the production of the concentrates.

Under the Facility Agreement, the Lender granted to the Borrower a 13% secured Sterling loan facility of a total principal amount not exceeding GBP 25,000,000, or such other amount as agreed by the Lender and the Borrower in compliance with the terms and conditions of the Facility Agreement. It is noted that currently the Borrower is not utilising the full amount and draws down the capital when needed. The interest should be paid semi-annually in arrears. The loan facility is due 27 February 2022.

The acquisition of Hellyer was a mix of vendor financing (which is now paid out) and outside financing (still creditors of the Borrower). The existing debt is secured by a series of security deeds. The Issuer will be entitled to a proportionate share as governed by the inter-creditor agreement and based upon the proceeds lent to the borrower.

Overview of the Hellyer Project

In the 20-month period since the acquisition of Hellyer, NQ completed the tasks listed below:

- Completion of extensive metallurgical test work as well as detailed mine planning
- Increase from the 4.2mt Mineral Resource to 9.25mt and establishment of an Ore Reserve of 8.04mt
- Funds raised to acquire the project, refurbish the plant, dredge the tailings, site infrastructure and start the operations
- Long term supply contracts are secured for key inputs and services including power and production logistics
- New permit is in place for tailings processing in compliance with updated Environmental Management Plan
- Development of new Development Application necessary for new dam works for tailing storage

Recent Achievements

- September 2018 planned commissioning started and reached full operations by the end of 2018 achieving target performance
- Five year marketing and prepayment agreements signed with Traxys for each of the metal concentrate produced by Hellyer
- October 2018 sales to Traxys have started and the first shipment to an end costumer (Korea Zinc) took place in February 2019
- The new tailings facility required for safe disposal of process was approved by the Tasmanian Environmental Agency in February 2019 for the full 10 year project life

Covenants

According to the Deed of Charge, the Issuer has a covenant to pay which entails the Issuer undertaking to the Trustee, to pay punctually and discharge its obligations as they fall due, and furthermore observe and perform and satisfy all other obligations and liabilities under the Deed of Charge and/or other Transaction Documentations.

Further to this, the Issuer shall:

1. Take all necessary action and maintain in full force and effect all authorisations, approval and similar actions
2. Comply with and perform and observe all of the provisions of the Notes and Transaction
3. At all times carry on and conduct its affairs in a proper and efficient manner
4. Keep proper books of accounts and allow the Trustee and its agents, access to the books of accounts
5. Notify the Trustee on becoming aware of the occurrence of any event or potential Event of Default
6. Do such things necessary to give effect of the Deed of Charge
7. Take all steps to ensure that its centre of main interest, remain in the United Kingdom and it does not have any establishment outside the United Kingdom
8. Comply with, perform and observe all of the provisions of the Deed of Change

Debt Structure

A Debt Service Coverage Ratio (DSCR) over a period of five years has been applied indicating that the underlying assets are generating sufficient income to pay all of the annual debt expenses all outstanding debt. EBIT assuming a 20% and 25% haircut, in line with an 'A' rating, are still producing adequate cashflows in order to repay the bond coupons.

The DSCR covenant is documented at 1.75x and is covenanted to be the minimum DSCR ratio maintained for the lifetime of the bonds. As per projected Hellyer's cashflows the DSCR is varying between 5.5x to 9.1x during the lifetime of the transaction.

	2019	2020	2021	2022
DSCR	5.5x	9.1x	8.1x	7.6x

EBIT Haircut	2019	2020	2021	2022
20%	4.4x	7.3x	6.5x	6.1x
25%	4.2x	6.8x	6.1x	5.7x

Noting that there is a one coupon interest reserve in place which is reflected in the above calculations as ARC assumes the reserve is fully funded in each year in the above calculations.

Valuations

ARC has received valuations of the Hellyer plant and dredging assets from NQ Minerals prepared by Lloyd Asset Services as of 24 January 2019. It states the total value of assets at GBP 50,948,582 (2017 valuation: 48,818,501). Among the valued assets were polymetals processing/concentrate plant and equipment as well as dredge, vehicles and boats. ARC applied haircuts of 30% and 40% as worst-case scenarios to the assets, assuming that it will be very difficult to sell assets given their specialism. ARC used the closing spot rates at 21 February 2019 to exchange the USD liabilities to GBP.

Valuation Haircut	Value
30%	GBP 35,664,007
40%	GBP 30,569,149

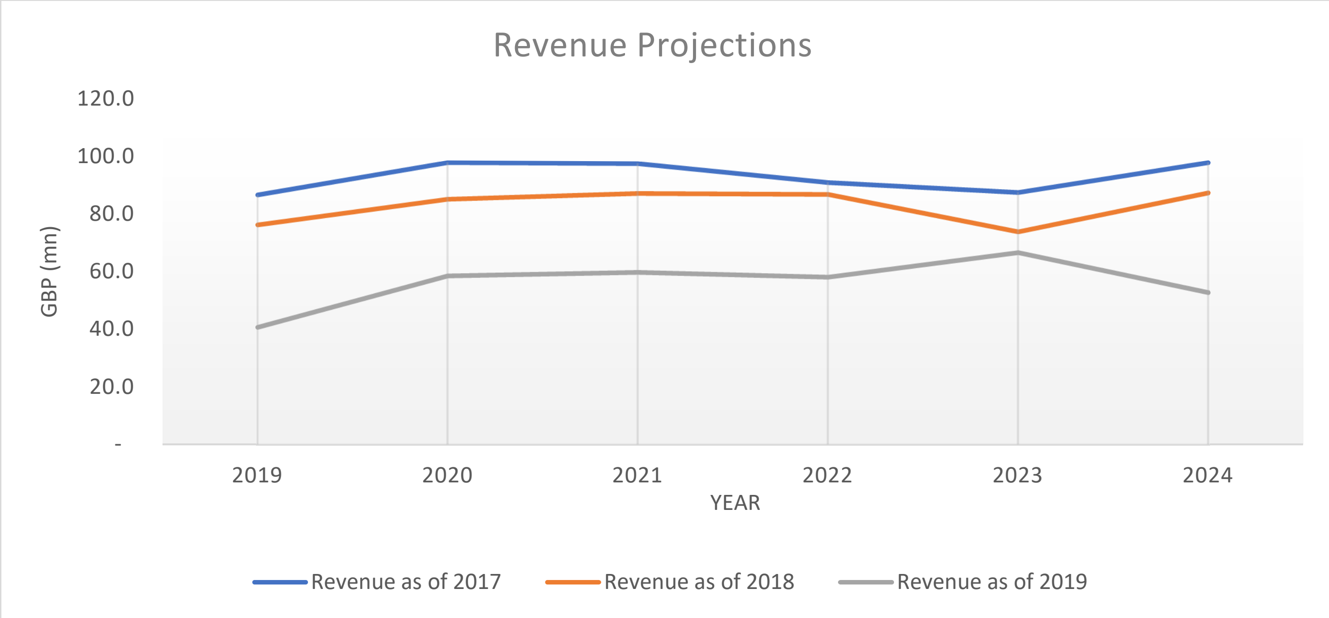
Compared to the results in the 2017 valuation reports, there is a 4.4% increase in the value of the assets due to the new equipment being installed or the installation thereof being completed: however the increase was in part subdued by currency fluctuations in the GBP:AUD exchange rate. It is noted that the current value does not take into account the cash flows of the underlying tailings reclamation project, which these assets enable, as well as the future opportunities upon completion of the reclamation project. As the asset refurbishment is still in process, assets such as 2 new air compressors, Centac and a bagging line have been ordered and once installed will add some extra value as they are incorporated into the operations. The equipment indicated in the valuation report has been pledged in respect of the transaction.

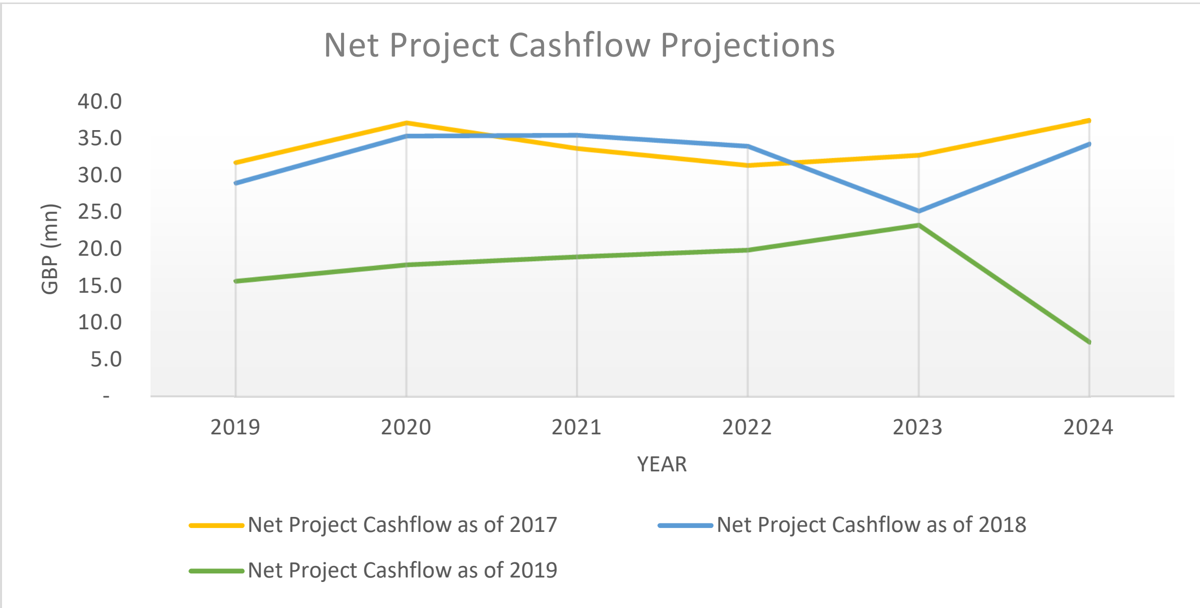
This is a conservative recovery assumption for an ‘A’ rating level. Given the value of the operational assets post enforcement, not including the value of the tailing reclamation project, and the 5 year Traxys marketing and prepayment in place, ARC drew comfort from the aforementioned in respect two further stressed scenarios it tested in according the rating (stressed enforcement and a failure to refinance scenarios).

Cashflows (GBP mn)

During the lifetime of the transaction ARC has already been provided with three versions of the projected project financials including as of March 2017, April 2018 and January 2019.

	2019	2020	2021	2022	2023	2024
Revenue as of 2017	86.6	97.8	97.5	90.9	87.4	97.8
Revenue as of 2018	76.2	85.1	87.1	86.8	73.8	87.3
Revenue as of 2019	40.7	58.5	59.8	58.1	66.6	52.8
Net Project Cashflow as of 2017	31.8	37.2	33.7	31.4	32.8	37.5
Net Project Cashflow as of 2018	29.0	35.4	35.5	34.0	25.2	34.3
Net Project Cashflow as of 2019	15.7	17.9	19.0	19.9	23.3	7.4





ARC used the closing spot rates at 21 February 2019 to exchange the USD liabilities to GBP. As it can be seen from the diagrams above, the updated financial models are increasingly conservative each year. In relation to 2024, revenue might be negatively impacted by the slump in commodity prices, especially lead and zinc. In addition, cashflows are primarily affected by capital expenditure (specifically dam construction).

The cashflows from the Hellyer project will be ring fenced within Hellyer Gold Mines Ltd and the cashflows relating to the Hellyer and NQ Minerals bond will be ring fenced within Audley Funding.

The revenues of Hellyer project come from lead, silver, zinc and gold concentrate sales. The biggest contributor as per the latest financials is lead, projected to contribute to more than half of the total revenue in 2019. ARC applied haircuts of 30% and 40% as worst-case scenarios to the revenues, in an assumption that the commodity prices will fall.

Haircut	2019	2020	2021	2022
30%	28.5	41.0	41.9	40.7
40%	24.4	35.1	35.9	34.9

This is a conservative assumption for an 'A' rating level. ARC believes the generated revenues after the haircut, is still sufficient to repay the interest on time. The security recoveries are sufficient to repay the full principal upon maturity.

It is noted that the Issuer will retain the equivalent to one coupon payment (6% of the series) in the Series 2017-F2 Collateral Account for the duration of the Facility and use it if needed to meet its interest payment obligations under the Notes.

ARC has also assessed the insurance documentation provided by NQ Minerals (worth GBP 38,255,000). The insurance policy covers amongst other items, material loss or damage, consequential loss and business interruption. The assets are deemed to be fully insured. The Insurance Coverage is provided by PSC Insurance Brokers Perth.

SENSITIVITY ANALYSIS

In assessing the stability of the rating, ARC has performed a range of sensitivity analyses, where the primary objective is to ensure that relatively minor fluctuations in key variables do not give rise to a multi-category rating decline.

In the first scenario ARC tested how a 5-15% decline in revenue will affect the DSCR ratio.

Decrease in Revenue	2019	2020	2021	2022
0%	5.5x	9.1x	8.1x	7.6x
5%	4.9x	8.2x	7.1x	6.7x
10%	4.2x	7.2x	6.1x	5.7x
15%	3.5x	6.2x	5.2x	4.7x

In the second scenario ARC tested how a 5-15% rise in operating expenses will impact the DSCR ratio.

Increase in Operating Expenses	2019	2020	2021	2022
0%	5.5x	9.1x	8.1x	7.6x
5%	5.2x	8.7x	7.6x	7.1x
10%	4.9x	8.3x	7.1x	6.6x
15%	4.6x	7.9x	6.7x	6.2x

As it is seen from the results above, the minor fluctuations in the revenues and operating expenses do not have an effect on the rating and are in line with the expectations for an 'A(sf)' rating.

RATING MEANINGS

The final, public rating accorded to the 'A(sf)' rated bonds relates to timely payment of interest and ultimate payment of principal. The ratings exclude an assessment of the ability of the Issuer to pay either any (early repayment) penalties or any default interest rate penalties.

A Rating Outlook indicates the potential direction of a rating over the medium term, typically an 18 month to two-year period.

ARC will perform regular surveillance on the Transaction, and surveillance reports will be made available to subscribers to ARC's information services.

DATA RECEIVED FROM NQ MINERALS

Data pertaining to NQ Minerals - Full Executed Transaction Documentation, including, amongst others:

- Deed of Charge
- Trust Deed
- Certificate of Incorporation for Audley Funding
- Investment Memorandum
- Intercreditor Deed
- Pricing Supplement
- Applicable security deeds
- Applicable guarantees and indemnities
- NQ Minerals Financial Model
- Legal Opinion
- Valuations as at July 2017
- Projections covering 2017-2027 (31/01/2019)
- Cashflows from 2017 to 2027 (31/01/2019)
- Operating Insurance Cover
- Insurance Policy
- Facility Agreement
- Valuations as at January 2019
- Hellyer Operations as at December 2018
- Hellyer Operations as at January 2019
- Traxys marketing and prepayment agreement
- Historical documentation relating to Hellyer Operations including an Economic Modelling study, Operating Cost studies, Project Reports, Plant Valuations, Mineral Resources studies, concentrate marketing studies amongst other documentation in relation to Hellyer was considered in the preparation of the performance report by ARC.

DISCLAIMER

Note that ARC is not a legal, tax or financial adviser, and only provides a credit opinion of the rated securities. For example, a rating does not cover a potential change in laws nor can it be regarded as an audit. Moreover, ARC is not a party to the transaction documents. Users of our credit ratings should familiarise themselves with the Transaction documents / mechanics, and should form their own views in this respect. They should not rely on ARC for legal, tax or financial advice, and are encouraged to contact the relevant advisers.

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This Review Report should be read together with initial Rating Report and with the subsequent Review reports.

Ratings assigned by ARC represent opinions on the capacity and willingness of an entity to make all required payments on a given obligation in a timely manner.

The rating(s) assigned by ARC in this report was / were sought by the entity whose financial commitments are being rated.

Prior to the assignment or revision of a rating ARC provides to the entity whose financial commitments are being rated the documents that substantiate the rating to be attributed. This entity is thus given the opportunity to clarify or correct factual details, thus allowing the rating assigned to be as accurate as possible. The comments made by the entity whose financial commitments are being rated are taken into account by ARC in the assignment of the rating.

ARC historical default rates are published in the European Securities and Markets Authority Central Repository (CEREP) which can be accessed in the website cerep.esma.europa.eu/cerep-web/. ARC Ratings default rate is the probability of lack of full and timely payment of capital or interest or of the occurrence of any event that explicitly indicates that the future full and timely payment of those commitments will not occur (e.g., in case of insolvency).

Ratings do not constitute a recommendation to buy or sell, but only one of the factors to be weighted by investors.

Throughout the entire period during which ratings are valid, ARC monitors the issuer's performance on a constant basis, and may even bring forward the date of the review unless stated as point in time. Hence, prior to an investor using a rating, ARC recommends that it be confirmed, namely by consulting the list of public ratings available at the web site www.arcratings.com.

Ratings are assigned based on information, including confidential information, collected from a wide group of sources, and in particular from the entity whose financial commitments are being rated. ARC uses and treats this information with due care and attention. Although all due care was taken in the collection, verification and processing of the information for the purposes of the rating analysis, ARC cannot be held liable for its accuracy. ARC must make sure that the information has a minimum level of quality prior to assigning a rating based on such information.

In the rating process, ARC adopts procedures and methodologies aimed at ensuring transparency, credibility and independence, and also that rating classifications are not influenced by situations of conflict of interests. Any exceptions to these principles are disclosed by ARC together with the rating of the financial commitment in question.