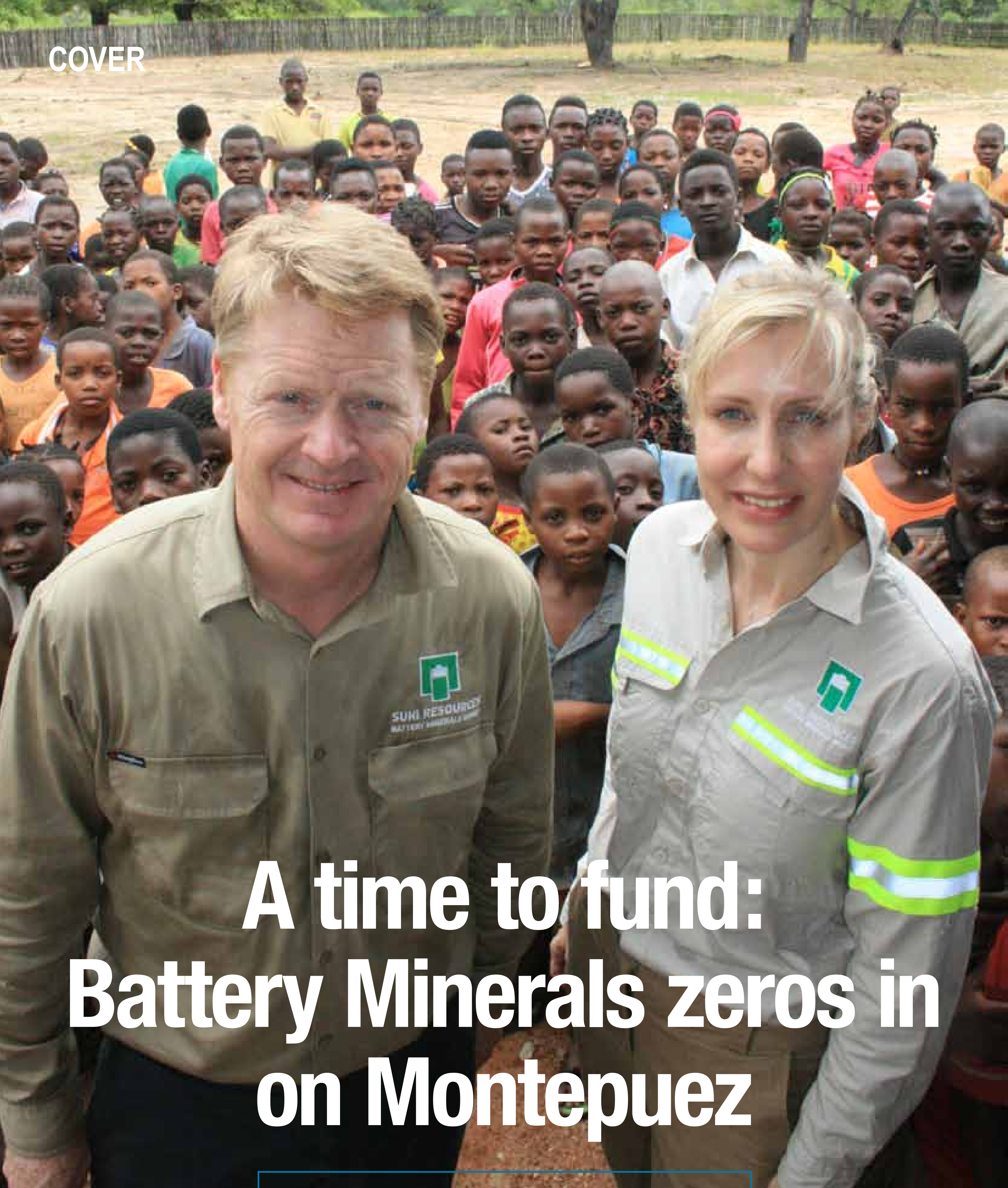

A time to fund: Battery Minerals zeros in on Montepuez

Exactly 10 years ago, David Flanagan was watching the first of many iron ore loaded ships leave Port Hedland for China as Atlas Iron emerged as the hottest stock rising on the ASX.

It was the high point of a remarkable story which disproved armies of sceptics who believed it impossible for a junior miner to establish a business in an iron ore space dominated by the majors. Atlas' impact on the sector was confirmed at Diggers & Dealers that year, with the company recognised as the Digger of the Year for 2009.

Reflecting on that feat with **Paydirt** at Pemba Airport, Mozambique, after hosting a tour to Battery Minerals Ltd's Montepuez graphite project, Flanagan recalls a different time in the history of the resources sector.

"We had a massive paradigm that we were challenging, there was massive rising demand for iron ore and now it feels like that moment could be about a year off [for graphite]," Flanagan said. Having led Atlas as managing director during its development and early production years, he is in the same role at Battery Minerals and is intent on recreating the experience only in a different commodity, new country and with a wealth of experience behind him.

"For me, it is a little bit different. I went charging into [Atlas] never having done it before. Going back to the Atlas days, we found ourselves with piles of money but waiting on approvals. Here in Mozambique, we are not waiting for approvals, it is the markets."

If the current graphite market dynamics were as clear-cut as iron ore in 2009, Battery may already be in operation at Montepuez, about 200km from the seaside city of Pemba.

While Flanagan believes telling the company's graphite story is much easier today than 12 months ago, getting markets in-sync is another proposition.

"It is about getting equity and capital markets to align with the physical markets and then with the actual project milestones that you are going to deliver. At the moment, our project has nothing standing in the way of a mine starting, it is just financing," Flanagan said.

Of course, Battery believed a debt ($33.3 million) and equity ($6.7 million) arrangement with Resource Capital Funds (RCF) would go some way to fulfilling phase one graphite production targets at Montepuez.

In a research note released after the RCF agreement, Hartleys estimated $85 million would be required for Montepuez.

According to Hartleys' note on June 1 2018, it assumed a capital raising of $20 million would be needed after it factored in RCF's commitment, tranche one of a $20 million capital raise completed and a $5 million SPP (subject to shareholder approval back then) for Battery to get going at Montepuez.

Urbix Resources LLC has off-take and other agreements to maximise any downstream value-added opportunities for Battery's Montepuez graphite concentrate. Purification and spheroidization test work has been completed in Arizona and a scoping study on outcomes expected in early Q3. Urbix's advanced technology includes a unique environmentally/cost conscious purification method as well as intellectual property developments in applications such as proprietary lithium-ion battery cells, graphene products, lightweight concrete additives and other composites and energy storage materials

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Shortly after completing first phase due diligence, RCF pulled out of the arrangement citing: "The graphite market no longer meets investment criteria".

RCF's proposed term sheet loan and equity investment in Battery was agreed on May 3 2018, before the deal was pulled on June 13, leaving Montepuez's phase one capex in the air.

"RCF not completing that funding creates funding uncertainty, which is not a good thing. We knew it wasn't certain, but we didn't expect them to exit so quickly.

"I am not saying it was actually for the better, but maybe in five years' time you never know; a sliding doors moment perhaps for us," Flanagan said.

Battery has since regrouped with a sense of optimism in front of it.

"Ultimately, we went back and created a whole heap of independent documents, which from an independent perspective verified anything that anyone had concerns about at both graphite market and project level," Flanagan said.

"That has now positioned us to provide a really strong argument on which to offer the opportunity. We are now talking to groups to finance our projects, which we never would have had access to if that [RCF] deal had been completed."

Despite a rugged December quarter – one of the worst financial quarters in 90 years – Flanagan said the company's first round pitch to banks on the back of the independent documentation was well received.

He said up to eight banks had signed CAs, two of which had visited site in recent times with another two scheduled to visit Montepuez at the time of print.

"I would expect that over the next few weeks we will start exchanging term sheets with probably four or five of them. It has already started with one party and from there we will move to documentation. Once we have concluded documentation we will tell the market and at that point we would have already satisfied the conditions precedent to be able to access that money," Flanagan said.

Investor sentiment towards graphite since interest piqued in the period 2013-2017 has waned, as lithium and cobalt have become focal points in the EV/battery revolution.

Interest still remains in lithium and cobalt, while rare earths, copper, vanadium, nickel and the like have emerged as commodities of importance in the Industrial Revolution 4.0.

The push to secure supply of such commodities has sharpened and the relative lack of success of graphite hopefuls to date means there is growing pressure on supply of the bulk commodity.

Syrah Resources Ltd currently hosts the world's largest graphite resource at Balama, also in Mozambique.

Syrah has indicated production of 250,000t of natural graphite in 2019, subject to market conditions.

The Balama deposit is the world's leading producer of high-purity graphite, but the mine remains in its infancy as commercial production was only declared on January 14 after a series of ramp-up delays.

Syrah's progress presents a quandary for those graphite companies hoping to emulate it. On the one hand, its large production profile has created an overhang for those below on the development ladder. However, if it fails to live up to promise, the entire graphite development sector will suffer from a bout of severe market scepticism.

Flanagan would rather bask in the reflected glory of the bigger neighbour.

"Syrah's success does overflow into us to some extent; the more successful they are, the easier everything is for us," Flanagan said.

"There are a lot of people in the market that have been trained, educated, supported and helped by Syrah, so net-net they have done a wonderful job and I wish them every success."

"There is absolute intent out there to engage with us, there is money out there, but I still think the market has a way to go to get back to where we were this time last year.

The graphite canvas prepared by Syrah in Mozambique is something which Battery can leverage from, while forecasts from Benchmark Minerals Intelligence (BMI) indicating a potential flake shortage by 2021 certainly enhance the prospect of near-term projects like Montepuez attracting requisite investment.

There is a host of ASX companies on the East African coast – from Mozambique up to Tanzania – sitting on "super high-grade, quality graphite" at varying stages of development that Battery considers peers in the field.

"The whole region literally doesn't have bad graphite; it is all good," Flanagan said.

"The differentiator is how close you are to production, whether you have approvals, the technical understanding you have of your project, customers, port allocations and access to cash."

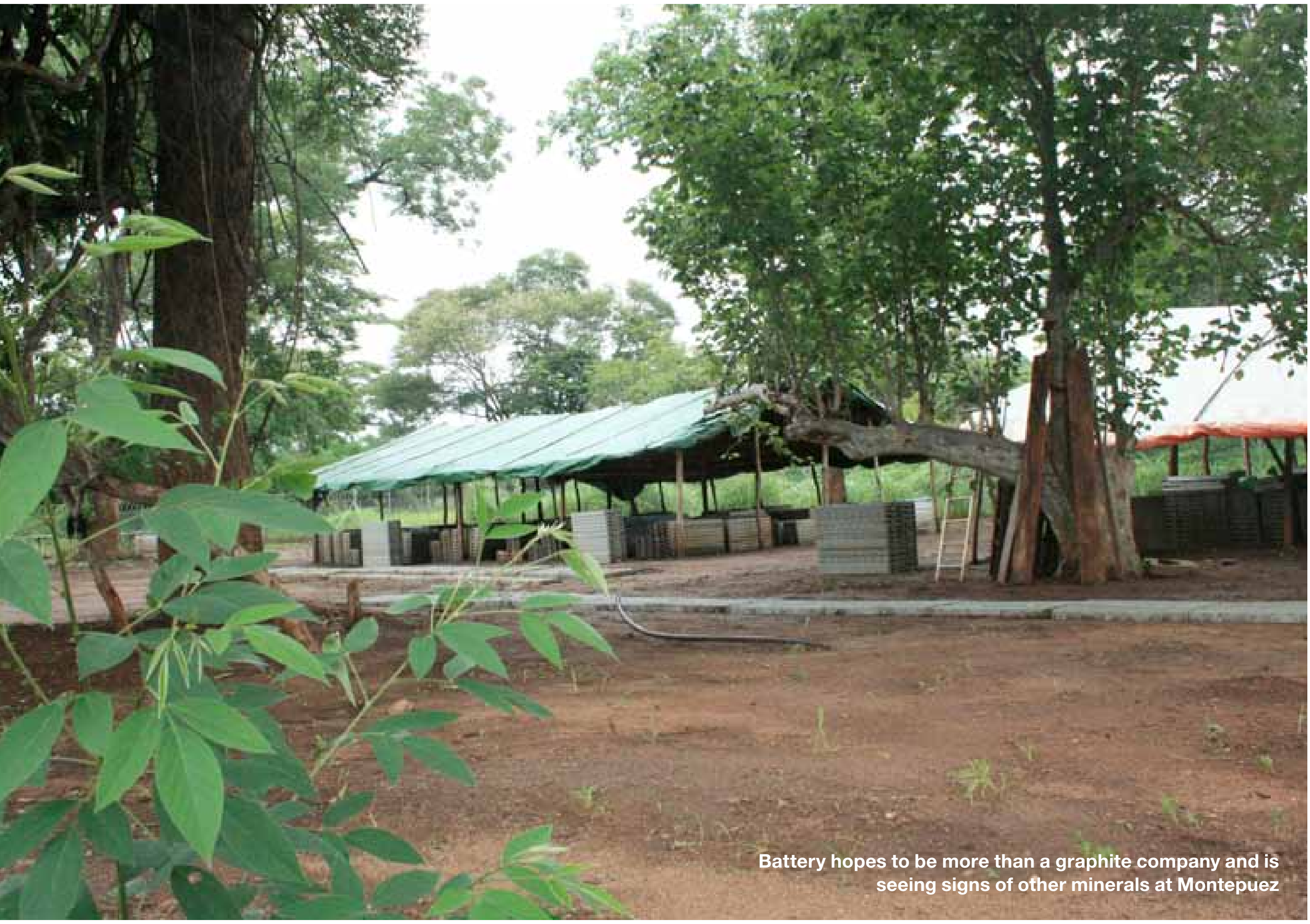
Battery sits comfortably on most fronts, with 100,000 tpa of graphite concentrate for export allocated at Pemba port for Battery, while a mining licence at Montepuez has been granted and offtake agreements are in place.

"Fast-forward six months and we hope to have completed financing, completed

Battery has a global resource of 152.5mt @ 8.5% for 13.03mt contained graphite at Montepuez and Balama Central

Pemba port is about 200km from Montepuez. Battery has locked in 100,000 tpa of export capacity

The public school built by Battery in the community of Nkewene, 7km from the Montepuez project, was opened in February



Battery hopes to be more than a graphite company and is seeing signs of other minerals at Montepuez

equity funding and have all shareholder approvals in place," Flanagan said. "All long lead items would have been ordered and starting to arrive on site. We'll have 120-150 people on site and if someone would turn up to site it would look like the plant is finished because there is not a lot of plant to put in; it will be fully strapped and ready to put in," Flanagan said.

"There are people raising money, so there is money out there and the groups that are talking to us have priced the risk and are seeing whether they can make money. There is absolute intent out there to engage with us, there is money out there, but I still think the market has a way to go to get back to where we were this time last year."

Battery has indicated it would take 15 months from finance to first export of its 11% TGC from Montepuez (12% TGC for the first 18 years) at a rate of 50,000 tpa in stage one from a modular 500,000 tpa plant over a mine life in excess of 50 years.

C1 opex for the first 10 years has been estimated at $US361/t with EBITDA of $US30 million a year suffice to payback capital costs in two years.

Based on BMI's October 2018 FOB China graphite spot prices, the basket price for Montepuez 96% TGC concentrate is $US1,064/t.

Assuming Montepuez stage one is nailed down, Battery plans on a quick ascension in the graphite market with the introduction of Montepuez stage two and stages one and two of its second project, Balama Central, potentially realised by 2025.

The company's combined potential 96% TGC concentrate CIF China production profile in 2025 could be in excess of 200,000 tpa at a forecast basket price of $US1,300/t.

The basket price has been weighted against BMI's average yearly prices.

"I reckon that the graphite market is short. It's in undersupply and graphite prices haven't fallen. It is well known that Syrah has had to discount some cargo to sell them, but the benchmark itself hasn't fallen. Some of the other commodities have fallen, so I think there could be significant upside in graphite price," Flanagan said.

"You have to build another five Syrahs in the next seven years [to satisfy demand]. Trying to build just one of the biggest mines in the world will be hard enough let alone five in the next seven years. What you have to do is stimulate a large number of new producers and that will happen as the price goes higher and the equity markets go bananas."

Montepuez phase one and Balama Central alone have combined mine lives in excess of 85 years, meaning Battery can pay full attention to locking down capital to ensure its graphite reaches the market.

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“We don’t have a super long time on the planet, so you kind of want the things that you are doing to have an impact. Going to Mozambique to build a mine, make money, be involved in the global [energy] thematic and change the lives of people is a real driver.

With fundraising the current focus, the geologist in Flanagan is keeping a lid on the temptation to explore other opportunities, including vanadium potential, across the company’s properties.

“Every now and then we find sulphides in some of the drilling and we have studied the assemblage quite closely. We sort of know where these prospects are and some of the other prospects in Mozambique and we are called Battery Minerals, we are not just about graphite,” Flanagan said.

“Fast-forward five years and I wouldn’t be surprised if we have another asset that is well advanced and that shareholders love because it has real wow factor.”

There are few in the industry with the ability of Flanagan to present the “wow” factor to shareholders.

At Atlas, Flanagan built a reputation for finding capital from myriad sources. In August 2009, he told **Paydirt** the Atlas philosophy lay in having multiple parallel strategies working towards the corporate goals.

“We have done 30 deals since we have listed and we’d like to think that those who did deals with us would like to do another deal, and pass on the message to others,” he said at the time. “The more people you have conspiring with you to succeed, the greater chance you have of success.”

At Battery, he has people backing him to deliver the first priority for Battery; project funding for Montepuez.

While people’s confidence in Flanagan stems from the success achieved at Atlas in the favourable jurisdiction of Western Australia, it is timely to remember he had a career before heading the iron ore juggernaut.

During the mid- to late-1990s Flanagan had vast exposure to West Africa, namely Ghana, Guinea and Burkina Faso, with Coffey in mining and exploration project management.

“People only got to see me operate after I listed Atlas; I did do other things before that and know how to build teams in Africa. I didn’t start with nothing, I started with Metals of Africa and there were already good people in there. It is just about resourcing them, backing them, raising money and getting shareholders on board and building the project,” Flanagan said.

After class its back to the field for some students to help prepare crops

Battery chief operating officer Ben Vanroon

Prior to joining Metals of Africa in 2016, Flanagan looked at 20 other opportunities around the world and after choosing to be part of the graphite in Mozambique narrative has had to learn on the fly about both commodity and country.

So far, he has learned that Mozambique is “absolutely open for business” and relied on the likes of Battery chief operating officer Ben Vanroon to drive the project in country.

Flanagan said he’d like to spend more time in country, however, attending to customers in China and North America, while also servicing the capital markets meant Vanroon took charge on the ground in Mozambique.

“I had a ballpark understanding of the project before I came in and the project is different now to what it was. If you get someone like Ben and throw them at the project...he’s just so dynamic and continues to make improvements on the project,” Flanagan said.

“When I backed out of Atlas and looked around I really wanted to be involved in building something and an opportunity to develop a high-grade deposit that is in demand which will really generate good cash flow and profits for shareholders; that’s a given.”

With global energy consumption worth

$10 trillion a year, exposure to the renewable and new energy industries is an area of great attraction for Flanagan, who is hell-bent on making the most of the chances he's afforded.

"We don't have a super long time on the planet, so you kind of want the things that you are doing to have an impact. Going to Mozambique to build a mine, make money, be involved in the global [energy] thematic and change the lives of people is a real driver," Flanagan said.

"I absolutely believe that mining has created opportunity here in Africa and it will continue to. If you look at the resources projects under way here right now just in Mozambique, it is going to transform the nation for the better. African countries are different and have their nuances. Often you are dealing with people with low incomes, low standards of education and there can sometimes be governance challenges, but one of the core skills is the patience in dealing with certain things, it is about showing genuine and authentic dedication to helping the local people."

Syrah's Balama project has provided leverage for other graphite hopefuls in Mozambique

David Flanagan with Suni Resources' – Battery's in-house subsidiary – geologist Geraldo Lembura and field technician Frederico Joao