

BLACK ROCK MINING LIMITED (BKT)

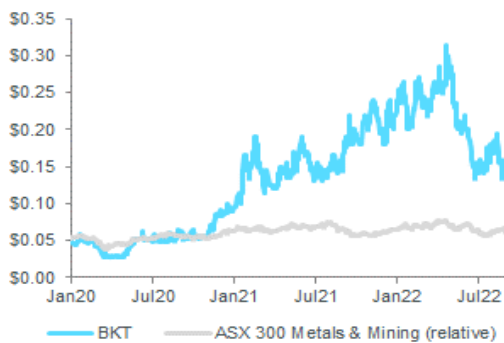
LIMITED DOWNSIDE & HUGE UPSIDE: CAN URBIX SECURE TESLA, FORD, GM FOR BKT TO ACCELERATE DEVELOPMENT?

Analyst
Date

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9 September 2022

BUY	SHARE PRICE	TARGET PRICE	IMPLIED RETURN
	\$0.14	\$0.62	350%

SHARE PRICE CHART – LAST 2 YEARS



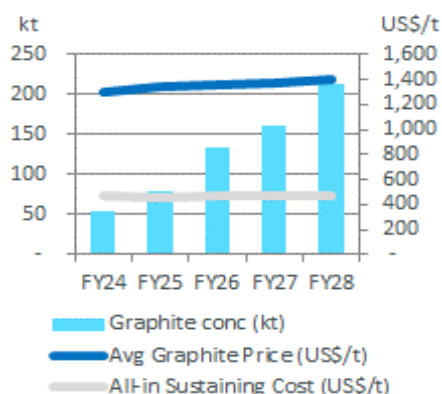
COMPANY DATA & RATIOS

Share Price (\$ per share)	0.14
Risk Adjusted NAV (\$ per share)	0.62
Implied Return (%)	359
Enterprise Value (\$m)	115
Diluted MCap (\$m)	141
Diluted Shares (m)	1,042
Avg Daily Value (\$m)	0.54
Free Float (%)	87%
GICS	Materials
Commodity	Graphite

MAJOR SHAREHOLDERS

POSCO	13%
Copulos Group	12%
Board & Management	6%

PRODUCTION AND COST PROFILE



CAN URBIX SECURE TESLA, GM OR FORD FOR BKT?

Following testing of Mahenge's fines, Urbix Inc. has technically demonstrated that its fines are perfectly suited to EV battery supply chains. Black Rock and Urbix have entered into an agreement that has the potential to result in any of the major North American EV OEMs joining Urbix in supporting Black Rock accelerate development of Module 2 with no additional dilution to BKT shareholders. This represents a very interesting option with the potential for major upside!

Having observed the effect of EV OEM offtakes/JVs on the share price of many lithium developers, we could expect a significant re-rating of BKT's shares prior to the development equity raising and limited dilution to current shareholders.

SML APPROVED – FINAL REGULATORY PERMIT SECURED

Black Rock has received confirmation from the Tanzanian Government that the Special Mining Licence (SML) for the Mahenge Graphite Project has been approved. This important milestone reaffirms the Tanzanian Government's support for the development of Mahenge and constitutes the final regulatory permit required to finance development.

NEXT KEY MILESTONES

- By December 2022, BKT expects the following key milestones:
1. POSCO's execution of long form offtake and prepay agreements
 2. Completion of FEED review by ITE to support debt finance
 3. Confirmation of agreements with additional offtakers
 4. Credit approved Term Sheets from potential lenders

The outcome of the Urbix agreement is expected within 150 days. These milestones would be followed by the development equity raising, Financial Close and project construction.

WATCH THIS SPACE...

In our view, BKT represents the best graphite exposure on the ASX. While we anticipate some cost inflation on FEED figures (vs the 2019 eDFS), graphite prices have held relatively stable through the last six months and expect the growing supply/demand deficits to have a material impact on prices by the time Mahenge Stage 1 is commissioned (CY24). The natural outcome to this supply/demand dynamic is now being incorporated into third party market forecasts reflecting the expected outcome of prices reacting to rebalance the market! In addition to updating our financial model with FEED capex/opex, we are reviewing key assumptions, including graphite prices, timing of expansions and risking.

RETAIN BUY – SENSITIVITIES SHOW MATERIAL UPSIDE

We retain our Buy recommendation (TP \$0.62). Anticipating BKT's FEED update and seeking to address market uncertainty around capex/opex inflation, we have modelled key sensitivities to reflect likely scenarios and conclude that even in the worst-case, the current share price is not justified! However, our expectation is that price increases, driven by material deficits, will more than compensate capex inflation, resulting in +350% potential returns vs current share price.

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THE URBIX OPTION – THIS COULD BE HUGE!

BACKGROUND

- Following assessment of midstream processing options (incl. thermal treatments, caustic bake processes and proposals to replicate the conventional Chinese hydrofluoric acid chemical purification method), Black Rock identified Urbix Inc. and its proprietary purification, spheroidization and thermal treatment techniques, and its positioning as a truly “Made in America” anode processor as providing the best strategic and commercial fit to the requirements of Western supply chains – **Urbix fits well with BKT’s strategy of focusing on its upstream assts while securing access to key markets at a time of growing supply/demand imbalances**
- Black Rock has entered into a Conditional Framework Agreement with Urbix Inc., an emerging American cleantech refining company focused on producing lithium-ion battery anode materials in the USA – **represents an option for BKT to sell Module 2 fines into a North American anode processor at a time when all OEMs are seeking to secure quality supply**
- Conditioned upon Urbix providing substantial prepayment or equity support to secure Offtake for Mahenge Module 2 – **for BKT to execute the option, it would require the end user to provide substantial funding support. Urbix has 150 days to secure a credit worthy end user capable of providing material funding**
- The Agreement enables Black Rock to potentially bring forward the construction of Mahenge Module 2 concurrent with Module 1, approximately doubling the project’s debt capacity with a similar Company equity requirement – **represents an option to enable the development of Module 2 without additional dilution to BKT shareholders**
- Establishes new integrated supply chain with best-in-class ESG credentials for the American and European battery markets, in line with the US Inflation Reduction Act – **provides access to key Western Markets for Mahenge’s product and accelerates development**

We understand that following the MOU with Black Rock (July 2021), Urbix tested Mahenge’s product, as well as other +35 resources, and has technically confirmed that Mahenge’s graphite is of a quality perfectly suited to EV battery supply chains and combined with Urbix technology has significant yield (+70%), product quality, cost advantages and ESG benefits.

Urbix processing technology delivers the following advantages to Black Rock and its customers:

- Materially lower energy consumption
- Elimination of hydrofluoric acid use
- Significantly higher product yield (more than double the industry standard)
- Ability to incorporate at the particle level appropriate levels of synthetic graphite material to produce a blended anode material as a drop-in product for cell manufacturers and
- Extensive third-party assessment confirming Urbix’s anode material has superior electrochemical performance.

Subject to securing an end user and pre-payment or funding support acceptable to Black Rock, Urbix will enter into the following minimum offtake agreement for Mahenge Module 2 -100 mesh graphite 95% concentrate on an as available basis in accordance with the following ramp up period:

- Year 1: 7,500 tpa +/- 10%
- Year 2: 10,000 tpa +/- 10%
- Remaining Term: 15,000 tpa +/- 10%





Black Rock anticipates that after the ramp up period it could produce up to 30,000 tpa of fines and to the extent it does or produces more than comprises the Minimum Commitment during the ramp up period, Urbix will extend its purchase commitment.

THE PRESSURE IS MOUNTING ON OEMS TO SECURE KEY INPUTS

Over the last few years, OEMs have realized that multibillion dollar investments in EV and LIB gigafactories also require certain security of supply of critical materials to support production forecasts. Due to the difficulties in de-risking and financing new supply of key materials, OEMs have had to enter into joint ventures, partnerships and offtake agreements with mining companies and processors to support and secure new supply. Many OEMs now have procurement teams seeking to secure raw materials to match the expected requirements (quality, quantity and timing) of their LIB and EV facilities.

Tesla has been the most prolific OEM in securing supply agreements. It has recently entered into lithium offtake agreements with Core Lithium and Liontown Resources, nickel supply agreements with BHP and Vale, cobalt supply agreements with Glencore and it also has an offtake agreement with Syrah Resources for graphite-based active anode material from its yet to be proven Vidalia plant in Louisiana. Other OEMs have also entered into similar offtakes (i.e. Stellantis with Pilbara Minerals and Ford with Lake Resources) and are expected to continue doing so as these companies seek to regain market share.

OEMs completely switching to EVs near term

	North American Gigafactories (current + expected)	Target EV production by 2026
	2 + 2	4 million
	2 + 3	2 million
	1 + 3	1 million
	2	1 million

Sources: company websites, BOEQ estimates

In addition, the recent passing of the US Inflation Reduction Act puts automakers under increasing pressure to localise battery raw material supply in North America or secure supply from FTA countries.

WHAT IS THE VALUE OF THE URBIX OPTION?

We estimate, based on our current financial model, that developing Modules 1 & 2 together, under a non-dilutive funding structure as proposed by Black Rock, represents an uplift of 12.9% on our risked NAV/share as illustrated below.

	NAV/share	Project NPV@10%, real	Project IRR
Staged development	\$0.62	1,239	49.2%
Modules 1 & 2 developed upfront	\$0.70	1,327	48.9%

Source: BOEQ estimates

However, having recently observed the effect of OEM's offtakes on the share price of development companies, we would expect significant value from a re-rating of BKT's shares prior to the development equity funding (i.e. lower dilution to current shareholders)!

SML APPROVED – MAJOR MILESTONE

SML - LAST REGULATORY APPROVAL FOR DEVELOPMENT!

Black Rock has received confirmation from the Tanzanian Government that the Special Mining Licence for the Mahenge Graphite Project has been approved and awarded to its Tanzanian subsidiary Faru Graphite Corporation.

Cabinet approval of the SML means the terms of the Framework Agreement have now been signed off by all senior ministers of the Government of United Republic Tanzania. This important milestone reaffirms the Tanzanian Government’s support for the development of the Mahenge world class graphite project, following from the Framework Agreement signed in December 2021.

- BlackRock’s SML consolidates the previous Mining Licences into one containing the Ulanzi, Cascade and Epanko Deposits – extending the tenure from 10 years to 26 years, matching Mahenge’s initial mine life.
- Existing environmental permits, resettlement action plans and operating permits will be grandfathered to the new SML.

The SML provides certainty and is the final key regulatory permit required to finance development and enables commencement of construction.

Map of Mahenge Graphite Project with New SML boundary



Source: Company

We currently view Tanzania as one of the most prospective African countries both from a mining and regulatory perspectives. Given Mahenge’s high quality and low-cost profile, we believe that this project will be developed in the near term and will start production at a point where material market supply/demand deficits are expected to be material.

NEAR TERM MILESTONES TO DEVELOPMENT

RECENT MILESTONES

In addition to securing the approval of the SML unifying the existing MLs and the option to accelerated development of Modules 1 & 2 without additional dilution to shareholders, BKT recently:

- Completed Front End Engineering Studies (FEED)
- Commenced initial resettlement and compensation payments (US\$1.8m) covering priority areas: mining and processing areas for Modules 1 & 2.

NEXT KEY MILESTONES TO DEVELOPMENT

By December 2022, BKT expects to achieve a number of material milestones:

1. Confirmation of POSCO's execution of long form offtake and prepay agreements – **based on term sheet signed December 2021 and expected shortly after SML approval**
2. Completion of FEED review by blue chip Independent Technical Expert (ITE) to support debt finance process – **the ITE report is one of the key pieces of bank due diligence and sign off on FEED capex/opex will provide high certainty on key project assumptions**
3. Confirmation of agreements with additional offtakers – **confirmation of further offtake diversification**
4. Credit approved Term Sheets from potential lenders – **confirmation of key debt funding parameters**

The outcome of the Framework Agreement with Urbix is expected within 150 days – **for BKT to exercise the Urbix option, we envisage a highly value accretive outcome to BKT shareholders**

These key milestones would be followed by the development equity raising, Financial Close and project construction with the potential to develop Modules 1 & 2 jointly.

We believe that while all these milestones are important, the key near term milestones investors are awaiting are 2 and 4.

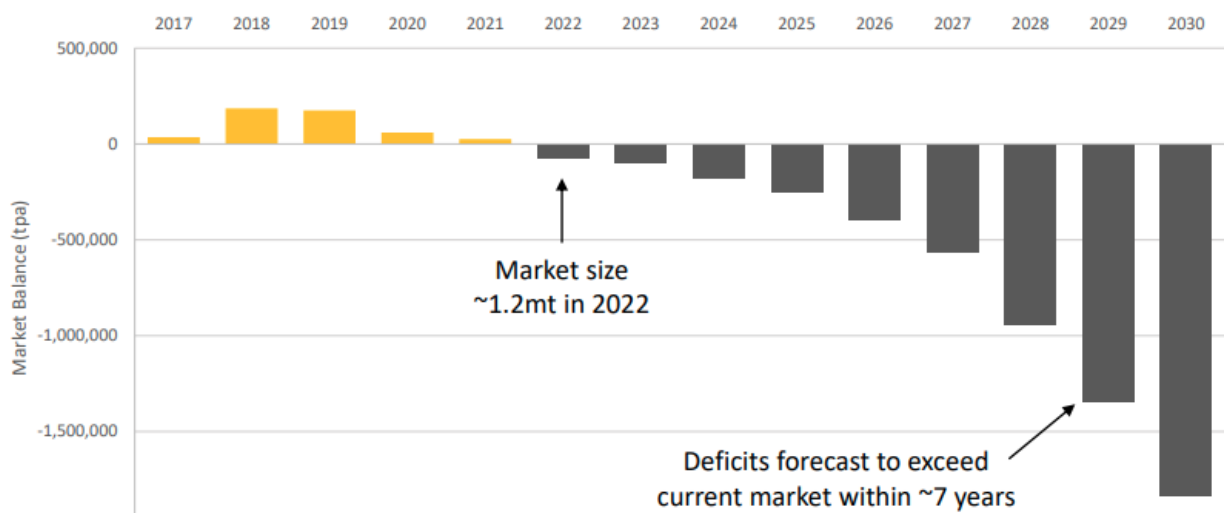
CAPEX, OPEX AND PRICE SENSITIVITIES

BACKGROUND TO KEY SENSITIVITIES

Black Rock's share price is trading at a material discount to our DCF valuation and while we note that in general there may be a disconnect between equity prices and commodity prices, we believe that the uncertainty around Mahenge's FEED capex/opex figures is a key driver.

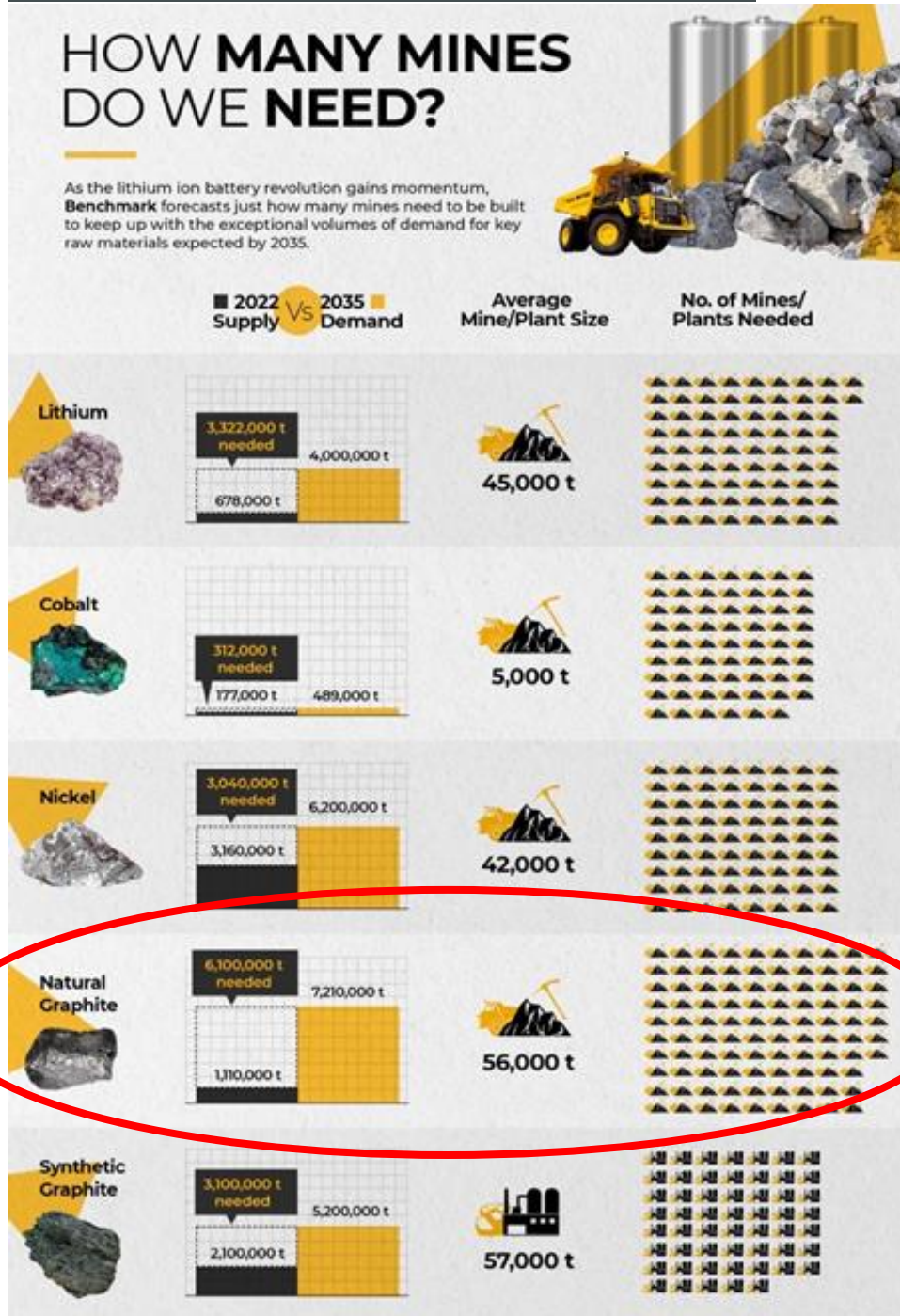
- We have recently observed significant capital cost increases across development projects. Mahenge's eDFS was done in November 2019 and our expectation is that Mahenge's capex could be in the order of 30-50% higher vs the eDFS figures based on:
 - Capex inflation in the order of 30% over the last 12 months mainly driven by higher input prices (including steel and energy) in addition to general inflation.
 - ORR recently updated Nyanzaga's capex (PFS dated 2019) with an increase of 65% (although this included an updated project scope) - we think that a 60% capex increase is likely to be the upper limit of a reasonable estimate.
- Opex increases (mining, processing, logistics, G&A) are expected to mainly be driven by inflation and energy costs – we expect these figures to be higher vs the eDFS but lower vs capex increases. As Mahenge has a range of significant cost advantages (i.e. close proximity to Tanzania's power grid, ~70% hydropower and near to TAZARA's underutilized rail line with direct access to Dar es Salaam's port) – we therefore expect opex increases to be higher (but not materially higher) than inflation.
- We also incorporate sensitivities around the price of graphite, based on our views on:
 - Higher medium/long term graphite price environment:
 - Mahenge is one of the lowest cost graphite projects close to development - we expect less advanced, higher cost projects to be deferred as these become marginal under current inflationary environment - further supports higher graphite prices to incentivise new production. The outlook for new qualified supply of graphite into the EV space fundamentally requires higher prices.

Graphite supply/demand balance



Source: Benchmark Mineral Intelligence, Black Rock Mining

Expected supply growth outlook relative to other EV materials



Source: Benchmark Mineral Intelligence

Benchmark expects 97 new graphite mines @ 56ktpa each will be required by 2035. Mahenge is one of the few new sources of supply that has been qualified as suitable for anode production. Its 4 modules will produce circa 350ktpa, with 40% suitable for anode production.

- We also note that the energy crisis in Europe is driving electricity prices to levels where industrial production of energy intensive materials (i.e. synthetic graphite) could be materially disrupted with impacts on pricing of end products and/or material reduction in supply – this could be expected to further incentivise natural graphite use in LIBs

KEY SENSITIVITIES

We have modelled key sensitivities on capex, opex to understand the likely near-term impact on Project NPV, Project IRR and NAV/share.

We have then modelled sensitivities to the graphite price (based on a recent third-party forecast pointing to a doubling of graphite prices over the next 10 years) on most likely capex/opex combinations.

NAV/share*		Opex increase			
AUD		0%	20%	40%	60%
Capex increase	0%	0.62	0.57	0.50	0.53
	20%	0.60	0.53	0.47	0.47
	40%	0.57	0.50	0.43	0.37
	60%	0.54	0.47	0.40	0.34

*Disc. rate 10% real, Ave Bskt price US\$1,410, 97% TGC, 55% gearing, Fx \$0.75, 30% Risking

NAV/share*		Capex & Opex increase			
AUD		0%	40/20	50/30	60/40
Price increase	0%	0.62	0.50	0.45	0.40
	35%	0.91	0.78	0.74	0.69
	50%	1.09	0.95	0.90	0.86
	100%	1.66	1.53	1.48	1.43

*Disc. rate 10% real, 97% TGC, 55% gearing, Fx \$0.75, 30% Risking

Project NPV*		Opex increase			
AUD m		0%	20%	40%	60%
Capex increase	0%	1,239	1,109	978	1,043
	20%	1,174	1,044	954	957
	40%	1,125	1,023	887	752
	60%	1,092	957	821	732

*Disc. rate 10% real, Ave Bskt price US\$1,410, 97% TGC, 55% gearing, Fx \$0.75

Project NPV*		Capex & Opex increase			
AUD m		0%	40/20	50/30	60/40
Price increase	0%	1,239	1,023	922	821
	35%	1,774	1,548	1,451	1,353
	50%	2,087	1,890	1,792	1,695
	100%	3,191	2,939	2,844	2,778

*Disc. rate 10% real, 97% TGC, 55% gearing, Fx \$0.75

Project IRR*		Opex increase				
		%	0%	20%	40%	60%
Capex increase	0%	49%	45%	41%	43%	
	20%	41%	38%	36%	30%	
	40%	37%	35%	31%	28%	
	60%	33%	30%	28%	26%	

*Disc. rate 10% real, Ave Bskt price US\$1,410, 97% TGC, 55% gearing, Fx \$0.75

Project IRR*		Capex & Opex increase				
		%	0%	40/20	50/30	60/40
Price increase	0%	49%	35%	31%	28%	
	35%	63%	45%	41%	37%	
	50%	70%	52%	48%	44%	
	100%	99%	70%	64%	62%	

*Disc. rate 10% real, 97% TGC, 55% gearing, Fx \$0.75

OBSERVATIONS AND CONCLUSIONS

- We expect Mahenge to remain a very attractive and robust project:
 - While we are reviewing key price, timing and risking assumptions to our financial model, under the expected strong macro environment (EV penetration growing from 12% to +40% by 2030) we:
 - remain bullish on graphite prices, driven by the fundamental need to increase supply by multiples of current production, without many obvious sources of quality and advanced projects to meet EV penetration forecasts (and associated investment in LIB gigafactories);
 - believe BKT has chosen a low-risk strategy (without closing future options) of focusing on its upstream asset (high quality & low cost concentrate production) to develop Mahenge’s production now and offset SPG/anode development/capacity risk either into existing capacity in China or new capacity being developed by anode producers; and
 - anticipate that capex/opex inflation will be more than compensated by a higher level of graphite prices based on the current trajectories of graphite supply and demand curves.
 - Under any scenario, BKT’s shares show material upside to the current share price!
 - If graphite prices indeed respond to reflect the expected supply/demand imbalances, BKT has the potential for material returns.
- What if we are wrong?
 - Even under our current assumptions (conservative prices and high risking reflecting pre-financing and pre-construction stages) and under the worst-case capex/opex inflation scenario, BKT is currently trading at 40% of the notional “worst-case” NAV/share (i.e. BKT shares would have 140% potential upside under capex/opex worse-case scenario and assuming prices do not react to supply/demand deficits).
- We expect significant re-rating of BKT’s shares following:
 - Release of BKT’s FEED figures; and
 - Release of parameters around credit approved senior debt funding envelop (Project Finance process near completion).

FINANCIAL MODEL SUMMARY



Black Rock Mining Limited

Code: BKT

Stock Details					Enterprise Value	\$114m
Recommendation:	BUY				Diluted MCap	\$141m
Target Price	\$0.62	Share Price	\$0.14		Diluted Shares	1042m
NAV	\$0.62	52 Week High	\$0.33		Free Float	87%
Implied Return	359%	52 Week Low	\$0.13		Avg Daily Value	\$0.54m

Macro Assumptions	FY21	FY22E	FY23E	FY24E	FY25E
Graphite Price, net (US\$/t conc)	1,010	1,100	1,200	1,302	1,341
Exchange Rate (A\$/US\$)	0.74	0.74	0.76	0.78	0.78

Profit & Loss (A\$m)	FY21	FY22E	FY23E	FY24E	FY25E
Revenue	-	-	-	89	135
Operating Costs	-	-	-	(32)	(46)
Operating Profit	-	-	-	57	89
Corporate & Other	(3)	(3)	(4)	(5)	(5)
Exploration Expense	-	-	-	-	(0)
EBITDA	(3)	(3)	(4)	52	84
D&A	(0)	(0)	(0)	(4)	(6)
EBIT	(3)	(3)	(4)	48	78
Net Interest Expense	0	-	-	(7)	(8)
Pre-Tax Profit	(3)	(3)	(4)	40	70
Tax Expense	-	-	-	(12)	(21)
Minorities	-	-	-	-	-
Underlying Profit	(3)	(3)	(4)	28	49
Significant Items (post-tax)	(0)	-	-	-	-
Reported Profit	(3)	(3)	(4)	28	49

Cash Flow (A\$m)	FY21	FY22E	FY23E	FY24E	FY25E
Operating Cashflow	(2)	(3)	(4)	52	84
Tax	-	-	-	(12)	(21)
Net Interest	0	-	-	(7)	(8)
Net Operating Cash Flow	(2)	(3)	(4)	33	55
Exploration	(1)	(9)	(1)	(1)	(0)
Capex	-	-	(122)	(31)	(68)
Acquisitions / Disposals	-	-	-	-	-
Other	-	-	-	-	-
Net Investing Cash Flow	(1)	(9)	(123)	(32)	(69)
Equity Issue	14	27	66	4	1
Borrowing / Repayments	-	-	83	25	14
Dividends	-	-	-	-	-
Other	-	-	20	-	-
Net Financing Cash Flow	14	27	169	29	15
Change in Cash Position	11	15	42	29	2
FX Adjustments	-	-	-	-	-
Cash Balance	11	26	68	97	99

Balance Sheet (A\$m)	FY21	FY22E	FY23E	FY24E	FY25E
Cash	11	26	68	97	99
Other Current Assets	0	0	0	0	0
PP&E	0	0	122	153	221
Exploration & Development	22	31	32	29	24
Other Non Current Assets	-	-	-	-	-
Total Assets	34	57	222	280	344
Debt	-	-	83	107	122
Other Liabilities	0	0	0	0	0
Net Assets	33	57	139	172	222

Ratio Analysis		FY21	FY22E	FY23E	FY24E	FY25E
Diluted Shares	m	629	629	716	851	977
EPS - Diluted	Ac	(0.5)	(0.3)	0.4	2.7	4.1
P/E	x	n.m.	n.m.	35.7x	4.9x	3.3x
CFPS - Diluted	Ac	(0.3)	(0.3)	(0.2)	2.0	3.4
P/CF	x	n.m.	n.m.	n.m.	6.6x	3.9x
FCF - Diluted	Ac	(0.4)	(0.5)	(17.5)	1.0	(0.6)
P/FCF	x	n.m.	n.m.	n.m.	13.3x	n.m.

Dividends	Ac	-	-	-	-	-
Dividend yield	%	-	-	-	-	-
Payout Ratio	%	-	-	-	-	-
Franking	%	-	-	-	-	-

Enterprise Value	A\$m	129	114	155	151	164
EV/EBITDA	x	(40.4x)	(38.1x)	(39.8x)	2.9x	2.0x
ROE	%	(10%)	(5%)	(3%)	16%	22%
ROA	%	(10%)	(5%)	(2%)	10%	14%
Net Debt or (Cash)	A\$m	(11)	(26)	15	10	23
Gearing (ND/(ND+E))	%	(51%)	(86%)	9%	6%	9%
Gearing (ND/E)	%	(34%)	(46%)	10%	6%	10%

Reserves & Resources

Resource	Tonnes			Grade		Contained	
	mt	% TGC	kt	mt	% TGC	kt	kt
Measured	31.8	8.6	2.7				
Indicated	84.6	7.8	6.6				
Inferred	96.7	7.4	7.2				
Total	213.1	7.8	16.6				

Reserve	mt	% TGC	kt
Probable	70.5	8.5	6.0
Total	70.5	8.5	6.0

Earnings Sensitivity

			FY24E	FY25E	FY24E	FY25E
			A\$m	A\$m	%	%
Graphite Price	US\$/t conc	+10%	6	9	23%	19%
FX Translation	A\$/US\$	-10%	3	5	14%	12%

Valuation	Discount	Stake	A\$m	A\$/sh
Mahenge (unrisked)	-	84%	919	0.88
Mahenge (risk-adjusted)	30%	84%	643	0.62
Exploration / Other projects			10	0.01
Corporate & Other			(36)	(0.03)
Debt			-	-
Cash			26	0.03
Cash from option strikes			7	0.01
Risk adjusted NAV			651	0.62

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Australia

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Blue Ocean Equities Pty Limited and its associates may hold securities in Black Rock Mining Limited at the date of this report and this position may change at any time without notice.

Blue Ocean Equities Pty Limited acted as Co-Manager for the BKT Placement in May 2022.

The Analyst of this report does not own shares in Black Rock Mining Limited.

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