Walkabout nears funding finish line

Walkabout Resources Ltd has been gathering the kind of market momentum which has become a rarity for juniors in 2019.

While the majority of the junior sector has suffered from a general market malaise, Walkabout has shrugged off the lethargy to post a 313% share price rise since January 1. The company is now capped at $120 million, having seen its share price increase from 9c to as high as 44c in June. In comparison, the majority of its peers have struggled to post gains as investors continue to steer clear of smaller resources companies.

Even more impressive is that Walkabout has achieved its price rise based on its flagship Lindi Jumbo graphite project in Tanzania, both a commodity and jurisdiction which have been on the nose in recent times.

Executive director Allan Mulligan told **Paydirt** Walkabout's 2019 performance was testament to the perseverance of both management and shareholders.

"We believe the market has seen the value in Walkabout because we've maintained our strategy of high-grade, reduced risk, premium products from the beginning," Mulligan said. "We have also achieved what we said we would – although there have been delays such as the mining licence – and, the signing of the binding offtake agreements is evidence that the revenue model [with the price structuring in the offtake] is now real."

In a sector ruled by multiple product lines, opaque pricing and confidential marketing agreements it is often difficult for developers to prove to financiers their project economics are based on something more than ambitious projections. Walkabout appears to have achieved this, locking in three binding offtake agreements over output from Lindi Jumbo in April.

In April, Walkabout struck binding offtake agreements with expandable graphite producer Inner Mongolia Qianxin Graphite Co Ltd (for up to 50% of planned production) and graphite products manufacturer Qingdao Risingdawn Graphite Technology Co. Ltd (25% annual production).

These offtake deals were followed by a sales, purchase and marketing agreements with Hong Kong trading house Wogen Pacific Ltd for 10-30,000 tpa of graphite concentrate from Lindi Jumbo.

Under the multilayered agreement, Wogen will make an advanced payment worth 80% of the value of each consignment on receipt of shipping documents.

Mulligan said the Wogen deal would not only reduce supply chain cash-flow risk but also open Walkabout up to the trader's international marketing networks.

"The agreement allows us to utilise all of their marketing facilities; from warehouses to their marketing team, which will be a huge benefit for us."

Access to a graphite marketing team adds another layer to the growing confidence within Walkabout that Lindi Jumbo will be the next graphite project into production. In May, the company announced it had raised $3.1 million via placement to fund an early start works programme at Lindi Jumbo. The early start programme is intended to have the project shovel-ready as soon as financing is settled.

"The early-start programme has started with our local Tanzanian mining contractor beginning earthworks on the road, plant site and tailings facility," Mulligan said. "Doing this ticks a number of boxes. It means we are the first ASX-listed company [in Tanzania] to start on-site works, it has validated the mining licence in the eyes of the Ministry and the Minerals Commission and it has allowed ourselves, the community and the contractor to learn about operations and reduce the amount of chaos and resolve any niggling issues well before the start of actual construction."

In China, the early-start work includes Yantai Jinpeng Mining and Machinery CO. Pty Ltd starting primary and long lead equipment procurement and manufacture for a $US500,000 down payment.

"Jinpeng is getting that procurement and manufacturing of the key plant equipment such as the major components of the mills and the flotation cells," Mulligan said. "We have sent an engineer and metallurgist to project manage that in China. So, while we wait for

continued on page 44

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funding negotiatons and processes to be worked through, we are getting a huge advantage on the long-lead items.

"There is no long-term risk in doing this work. If there is a fatal flaw in the market which forces the project to be put on hold – such as an international market event – these things will be just parked up. It is not like we would've started full construction and committed huge amounts of capital."

Walkabout has stated its intentions of financing Lindi Jumbo's build via a high-yield short-term debt instrument. Its intentions are to issue a quasi-debt instrument to wholesale and sophisticated investor and shareholder groups, secured by the mineral asset, and redeemed through equity conversions or repayment. A second option is to secure high-yield short-term debt by one or more institutions under similar terms.

"Funding discussions are well under way and we are in deep due diligence now on commercial, technical and legal terms across Australia, Tanzania and China," Mulligan said.

"We want to maximise the non-bank debt to reduce the equity by as much as possible, although there will be an equity component of some sort. The split will depend on the negotiated outcome which is a function of the due diligence."

While technical and commercial aspects appear in hand, the legal aspects of the due diligence may take longer to satisfy lenders.

"The legal aspects run across three jurisdictions and because of Tanzania's recent history it has the potential to be the longest lead time," Mulligan said.

Tanzania's standing among international mining investors has taken a beating in recent years thanks to its long-running dispute with Acacia Mining plc but Mulligan said Walkabout's in-country experience was very different to market perceptions.

"The comment we receive from government is that they are all systems go and are fully behind the project," he said. "They visited the site recently and were impressed by the work and encouraged us to move as quickly as possible. We also enjoy a positive and constructive working environment with them."

Mulligan also gleaned assurance from Strandline Resources Ltd's ability to secure debt finance for its Fungoni mineral sands project in Tanzania. In June, Strandline announced it had signed a term sheet for a $US26 million finance facility with Nedbank CIB.

"The securing of debt finance by Strandline from an African bank is a huge breakthrough for the aspiring industry over there," Mulligan said.

The fallout from the Acacia affair has been a new Mining Act in Tanzania which requires both 5% local ownership and a 16% free-carried interest for the Government.

Walkabout sees neither stipulation as a fundamental game-changer for Lindi Jumbo and has taken the climate of change to set the terms of its working relationship with the Government.

"When working in Africa you have to strive to be African. We have set Lindi Jumbo up as a standalone Tanzanian company through which all relationships – including marketing – go through," Mulligan said. "There is a single umbilical cord back to Walkabout in Australia which is used for funding and the repatriation of funds. We use local banks, local law firms and our insurance is through local firms.

"On the 5% local content requirement we have written to the minister and asked

Walkabout's focus on low-risk development has placed it at the front of the graphite queue

Walkabout's investment ensures Lindi Jumbo operates as standalone Tanzanian company

to set up a village trust, to be managed by the village elders, a company representative and a local councillor while for the free-carried interest we are in the process of executing shareholder approval to put in place a new class of share, entitling the Government to dividends when applicable."

While Walkabout is travelling serenely, the wider graphite development sector continues to face choppy waters. However, Mulligan sees positives on the horizon for Walkabout and its peers.

"We believe graphite will have another price run, subject to increased demand and limited supply in certain categories," he said. "The large volumes out of Syrah [Resources Ltd] in Mozambique are affecting certain categories and putting the squeeze on certain Chinese producers. The swing of China from exporter to importer is a result not only of Syrah's impact on the market but also domestic supply issues.

"We believe the growth in batteries will draw supply from other areas, creating demand in the traditional markets. Currently, 25% of our production will be suitable for the battery market but we would like to reduce our reliance on that market because we believe it will suffer some price movements. In the traditional and new era segments of the market, particularly expandable graphite and fire retardants, we see very strong demand."

The reference to Syrah is one few graphite companies can avoid. The ASX-listed miner is both a role model and elephant in the room for other developers as it highlights opportunities and downside risk at play in the sector.

Syrah's Balama mine in Mozambique was the first of a new generation of graphite mines to hit the market however it has since struggled to live up to expectations with ramp-up and customer problems slowing its progress.

Mulligan is hopeful Syrah will come through its current challenges but said there was little to compare between the massive Balama operation (245,000 tpa graphite concentrate in 2019) and Lindi Jumbo (40,000 tpa forecast production).

"Due to the high-grade nature of our project, the mining risk is negligible but there is always marketing and processing risk," he said. "We believe we have engineered the processing risk out of the project and we believe we are mitigating the marketing risk by extending the marketing beyond our current offtake agreements.

"We have expanded our marketing exposure by discussing future expansion with different groups and we have a scoping study ongoing for downstream processing once we are settled into operations. If you have offtake locked in as we have, it gives you opportunity to become a genuine swing supplier to other customers.

"It is quite clear the US will come aggressively into the graphite market. No one has foreseen that dimension yet but there is a lot of opportunity to be an international supplier of graphite as opposed to only supplying the Asian market."

– Dominic Piper