



HALLGARTEN & COMPANY

Initiation of Coverage

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Blencowe Resources

(LSE: BRES)

Strategy: LONG

Key Metrics		
Price (GBP)	0.057	pence
12-Month Target Price (GBP)	0.22	pence
Upside to Target	286.0%	
12-mth hi-low (GBP)	0.525 to 0.925	pence
Market Cap (GBP)	£8.90	mns
Shares Outstanding	156.20	mns
Fully diluted	204.10	mns

Blencowe Resources

Accelerating the Graphite Race in Africa

- + A major new graphite developer in East Africa
- + Uganda is re-emerging as mining destination after 60 years absence from the scene
- + Preliminary Economic Assessment (PEA) just published giving greater market clarity
- + Net Present Value of US\$317mn and an IRR of 49% over an initial 13-year life of mine from 2025
- + Average nameplate production of 75,000 tpa graphite sold as concentrate
- + Capex of a modest and unchallenging US\$80mn
- + Recent over-Subscribed £2m financing makes company fully funded through to completion of PFS
- + Already holding a 21-year Mining License significantly derisks development
- ✘ Graphite price movements and stockpiled quantities remain essentially at the mercy of the Chinese until production elsewhere ramps up
- ✘ Transport is over a long trajectory and while in the process of upgrading, the rail connection from Uganda to Mombasa (Kenya) may still be several years from completion
- ✘ The financing scene for Graphite has dramatically improved, but is dependent upon broader investor perceptions of the battery metals/minerals space

Battery Metals Resurgent

The First Lithium Boom back in 2009-10 seems an eternity ago, and it was quickly squelched by the Rare Earth juggernaut. In reality it was somewhat ahead of its time with EV's being mainly a twinkle in the eye of Toyota, with the Chinese EV industry and Elon Musk's efforts being largely conceptual. In 2013 Graphite reared its head with investors suddenly realising that Lithium-Ion batteries contained more than just Lithium. Coming in the midst of the generalized mining malaise from 2012-19, it rapidly fizzled but created a small universe of Graphite plays. Then along came the Second Lithium Boom of 2017. This blazed bright and also fizzled, with the rain on the parade being misinformed Wall Street punditry. Finally though in 2020, a Third Unified Battery Metal Boom washed upon the shore with real EV demand/production as its driving force. This has lifted all battery metals projects to differing extents.

Graphite – A Key Chess Piece

Graphite's fortunes are not exclusively tied to the battery metals space as it has long had a plethora of other uses. However, the major new source of uptake of this particular mineral is and will be the surge in demand for Lithium-ion batteries driven by the Electric Vehicle (EV) transition. Graphite is a key component of the Lithium-Ion battery and cannot be replaced or substituted in this regard.

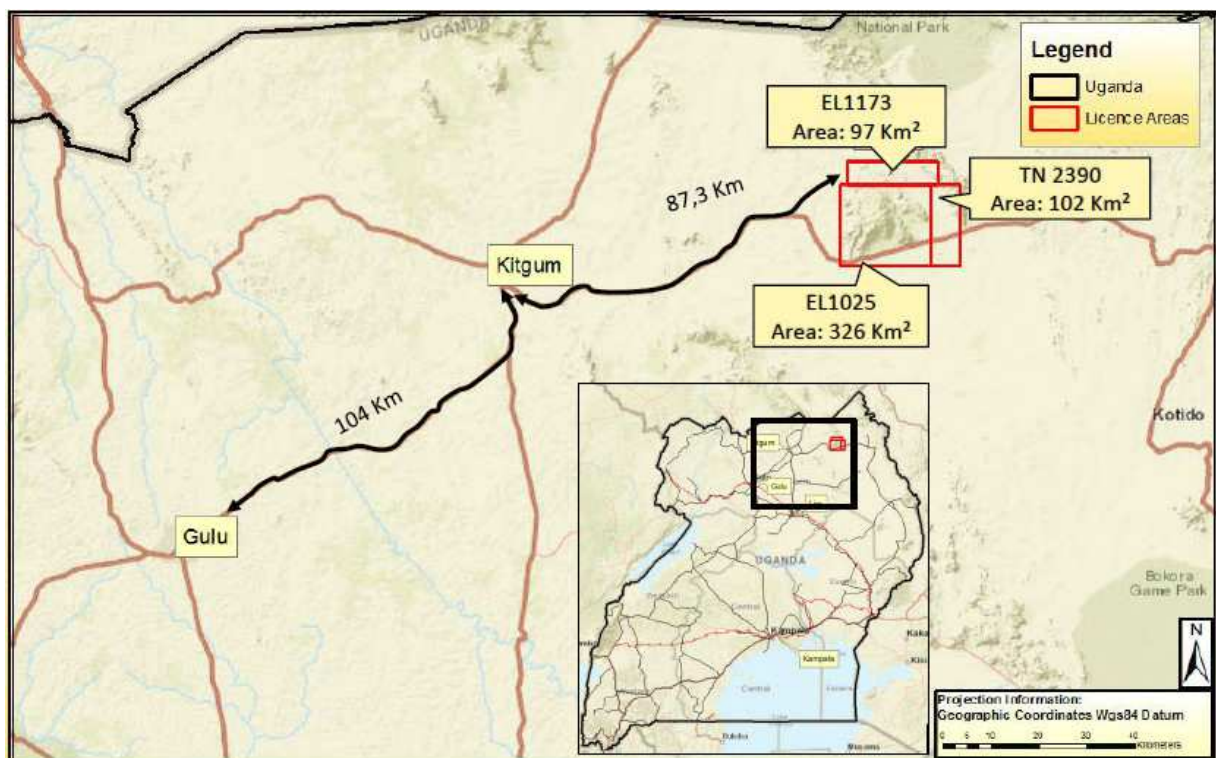
Blencowe moved into this space in 2020 at a timely juncture as graphite had been becalmed since 2013 and assets could be attractively acquired. Moreover, perceptions and activities towards the long ignored jurisdiction of Uganda were on the turn. The competitive advantage of Blencowe Resources is that it picked up a relatively mature project and advanced rapidly in a short time, allowing it to get ahead of many other graphite projects that will ultimately never get built, which has been the unfortunate saga for most listed wannabes over the last ten years.

In this initiation of coverage we shall look at the history of the project, recent work completed, the resurgence of Uganda as a mining destination, and then the implications of the Preliminary Economic Assessment which reveals the potential within the Orom-Cross project.

Orom-Cross Project

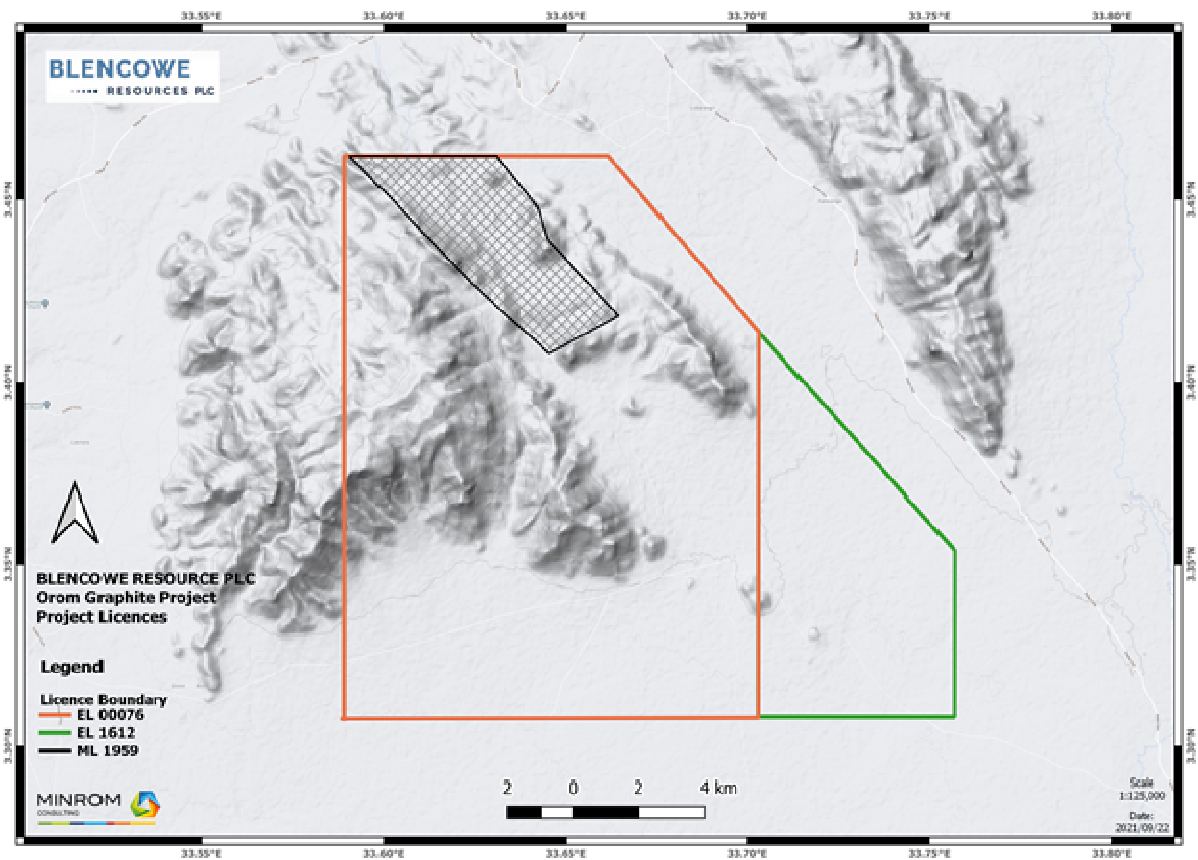
The Orom-Cross project is located in the Kitgum district of Northern Uganda. The deposit is notable both for its size and end-product quality, with ~75% of the *in situ* resource expected to comprise of the most desirable and high-value jumbo, extra-large and large flake product.

The project tenements encompass an area of approximately 50,000 hectares stretching from Latitude 3°18'40' to 3°30'40' N and from Longitude 33°31'50' to 33°45'40' E. The project's exploration target is within Mining Lease (ML1959) and a previous Exploration License which is now under application for a Retention License (RL1025).



Access to site is approximately 28km via the Kidepo-Gulu road from Orom consisting of unsealed gravel roads. The exploration license is located approximately 6.37 km East of Orom town and 75 km northeast of the town of Kitgum, northern Uganda. Kitgum town is accessed by the Kampala-Gulu-Kitgum highway which is a 432km drive and is tarmacked. Only the last 80kms to site from Kitgum is not tarmac but the company is lobbying the government to complete this before 2025 start date. The location of the project area is approximately 512 km from Kampala.

The mining license is shown below:



Background

The presence of graphite in the Kitgum area was first made known in 1969. The area had undergone pitting, trenching and drilling of one borehole in an exploration campaign carried out by the Department of Geological Survey and Mines, Entebbe. This exercise was documented by W. H. Morton in a published report (Morton, 1969).

The report discovered a graphite deposit located in the Rom Mountain area. The deposit was observed to have a NNW strike and stretched for 18kms, while being 1km wide, with minimal overburden.

Since then there has been no further work done until recently (2013) when Consolidated African Resources (CAR) (a company that trades on the second-tier National Stock Exchange in Australia) initiated a detailed geological study campaign which yielded promising results. CAR completed a feasibility study and an environmental assessment in order to apply for a Mining License to proceed with low-level graphite production.

A 21-year Mining License was awarded in 2019. However CAR ran low on cash and had to offload the project as it was unable to continue working the asset.

Blencowe Resources acquired the Orom-Cross Graphite Project from CAR in April 2020 via the acquisition of 100%-owned Ugandan subsidiary (Consolidated African Resources, Uganda). The acquisition was achieved for consideration of £2m through the issue of 33,333,333 shares, of these 25,000,000 Ordinary Shares were issued to Consolidated African Resources and 8,333,333 Ordinary Shares to New Energy Minerals Africa Pty Ltd, at a price of £0.06 per share.

These vendor shares were locked-in for 12 months (and were retained by Blencowe during this period). The current share register shows the vendors as the holders of 16% of Blencowe's equity.



Geology

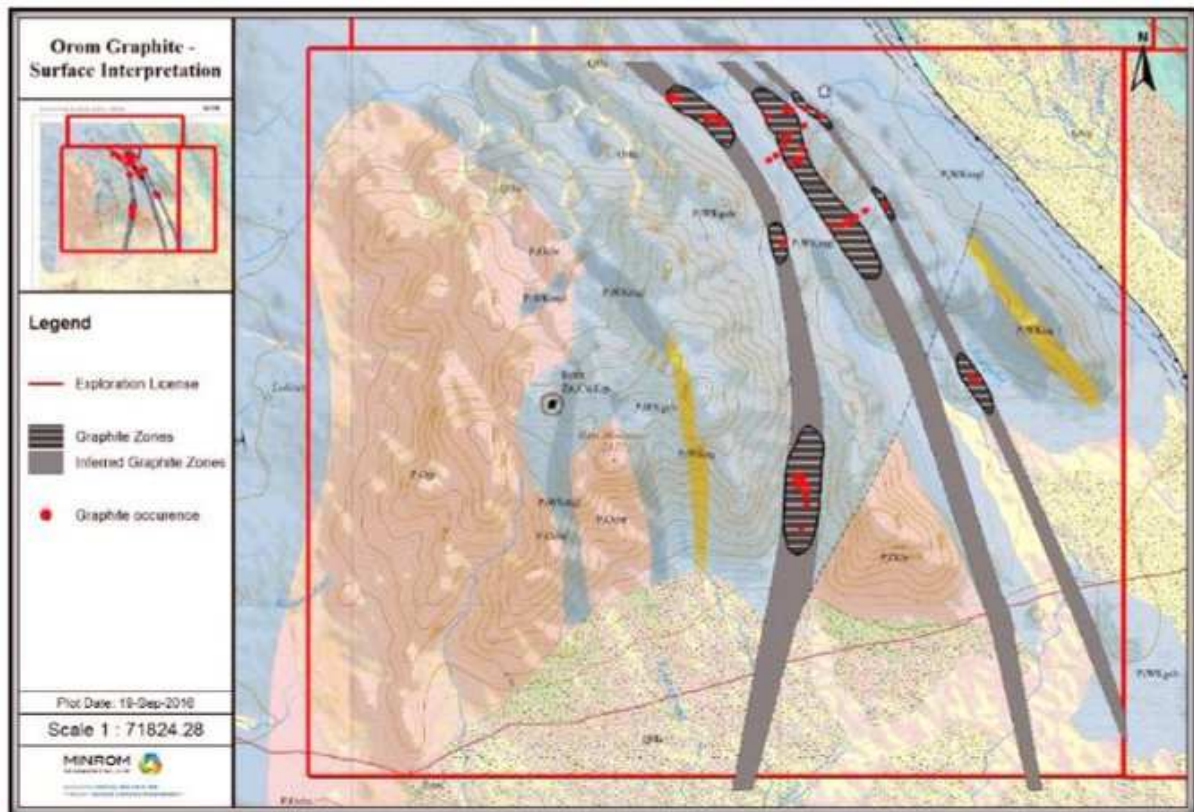
In Uganda, according to the British Geological Service, there are flake graphite occurrences in the Paleoproterozoic and Neoproterozoic metasedimentary rocks (gneiss, quartzite and schist) in the west and north of the country.

The geology of the project area is characterized by granulite or retrograded granulite facing regional

metamorphosed rocks belonging to the Karamoja Group. The rocks of Rom Mountain are granulite or retrograded granulite. The regional strike is NNW and the graphitic gneisses which contain the anomalous Zn and other base metals which are concordant with the regional strike. (Brock et. al G., 1969).

The project area is composed of three rock types, usually intimately interbanded, make up over 95% of the exposures. They are; graphitic gneiss, Quartzofelspathic rocks and acid to intermediate pyroxene and hornblende granulites.

The less common rock types include: Amphibolites and basic pyroxene granulites which form several outcrops in the Lochomo pitting area; intermediate medium to coarse grained hornblende bearing gneisses, uncommon in both areas, graphitic or graphite poor gneisses with a bright green diopsidic pyroxene and gneiss with abundant coarse orange garnets from one locality at Lochomo.



Source: Minrom Report 2015

Past Exploration

Work to date has outlined graphite mineralisation at the project associated with deformed Neoproterozoic graphitic gneisses and schists.

Prior to Blencowe acquiring Orom-Cross in 2020, Consolidated African Resources Uganda had previously undertaken field mapping, geophysical surveys (VTEM and Aeromagnetic) and geological logging/geochemical analyses of drill core and trench samples. They also did metallurgical test work of composites and determined exploration target ranges.

Below can be seen one of the early-stage exploration pits showing graphite layering:



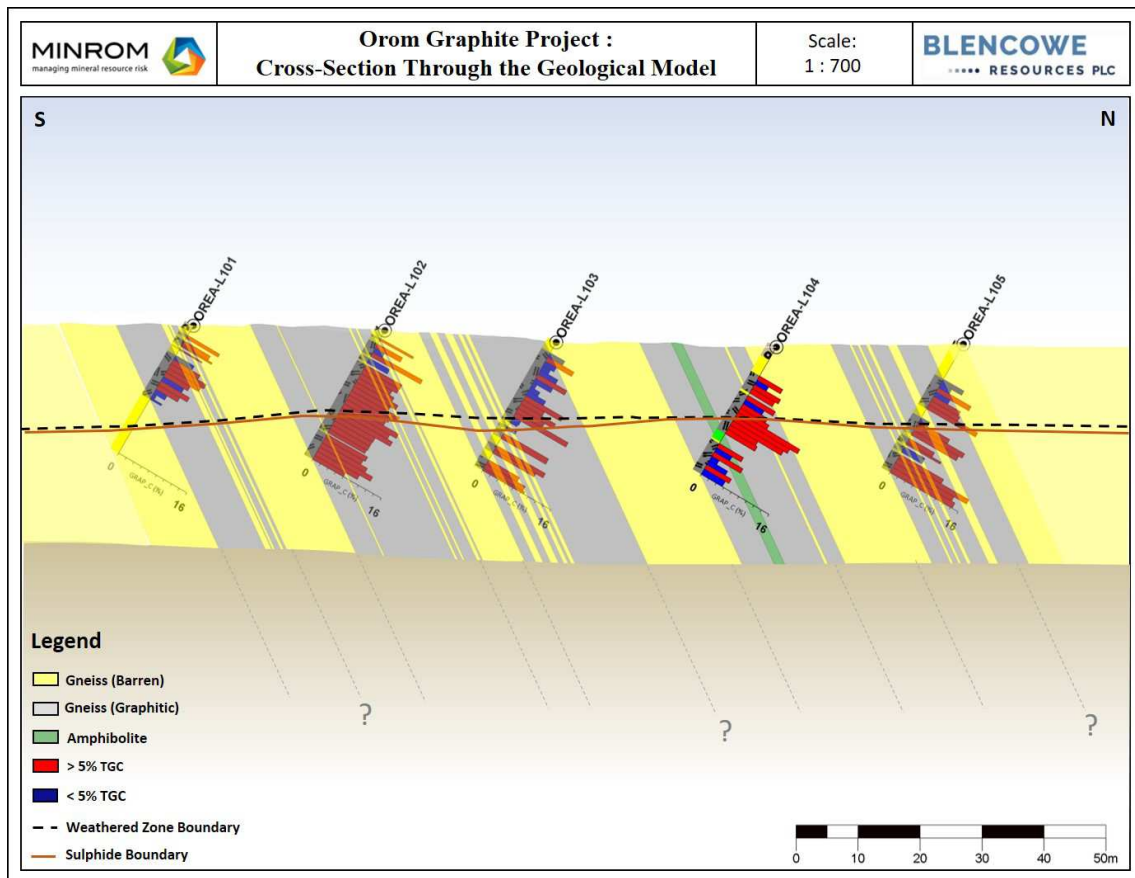
The previous holders had undertaken a 600-metre drilling program in July 2015. They had also carried out:

- Lithological and geotechnical logging, followed with sampling of the core material
- 3D geological model and subsequent interpretation of the overall subsurface ore body

Three samples were submitted to SGS for the following analysis:

- Assay test work for Graphitic carbon and total Sulphur by LECO
- XRD for major minerals assemblage
- Graphitic flake size distribution and grading analysis

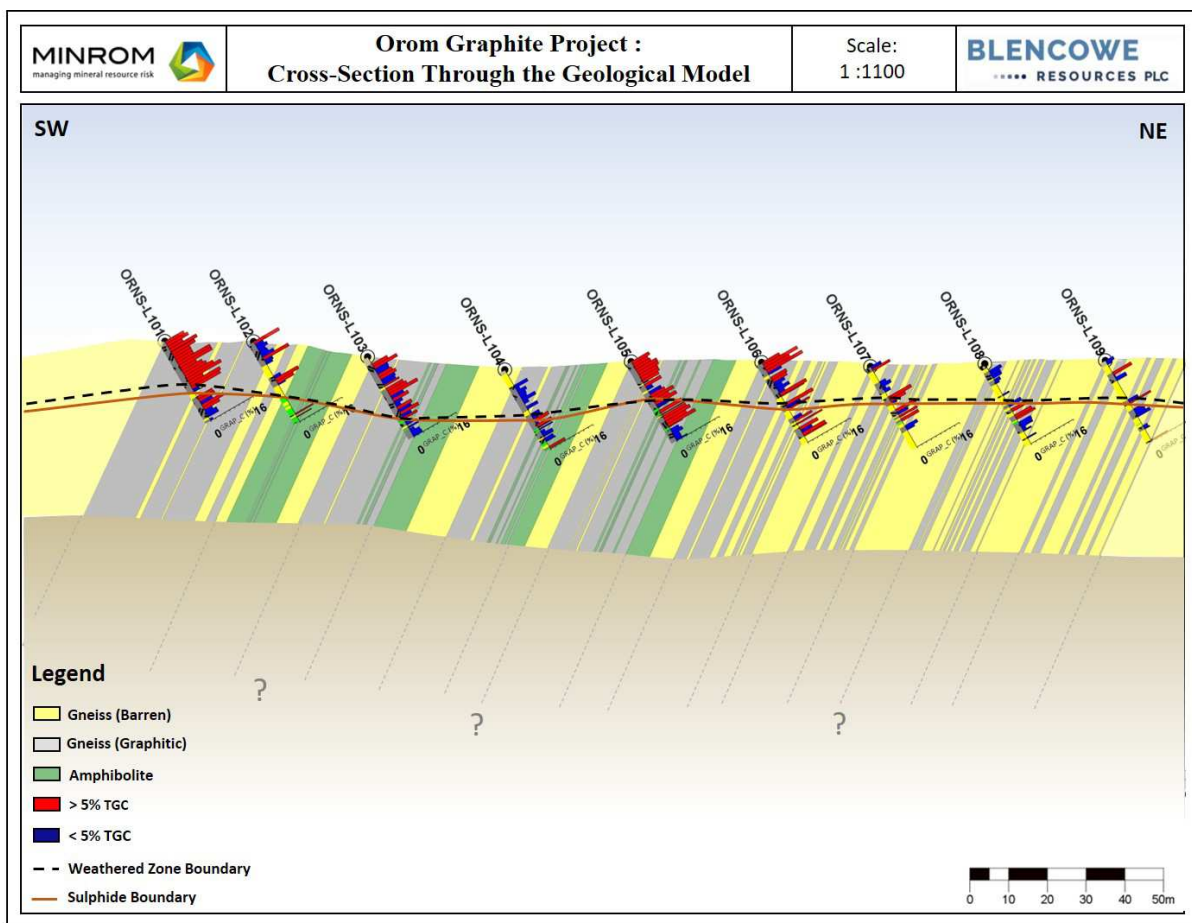
This work highlighted a considerable graphite deposit stretching over some 19kms length and two kilometres in width. The deposit is shallow in nature and contains up to 75% as jumbo-large flake size *in situ*. Below can be seen a cross-section through the Camp Lode.



The South African technical firm, MINROM, conducted detailed surface mapping, exploration drilling, metallurgical test work (grading analysis, flake size distribution and floatation), a VTEM geophysical survey, a trenching program, and follow up metallurgical test work (microscopy by SEM, flake size distribution, and floatation).

The data obtained from the VTEM system revealed the subsurface conductors within the survey area to a depth extension of approximately 250 m below surface. The geophysical survey outlined several large-scale anomalies which extended laterally across the license area.

Below can be seen a cross-section through the Northern Syncline deposit.



Since acquiring Orom-Cross, Blencowe has undertaken a substantial a work program including:

- an initial (2020) diamond drilling program of 2,200m to deliver a maiden JORC Standard (mainly Inferred) Resource
- a second (2021) in-fill diamond drill program of 2,000m to deliver a substantial JORC Standard Indicated Resource;

- substantial metallurgical test work to demonstrate upgrading mined graphite to a high grade concentrate for various end products that can be delivered to market; and
- completion of a Preliminary Economic Assessment on an initial 13-year mine life, including all mining, plant, infrastructure and logistics.

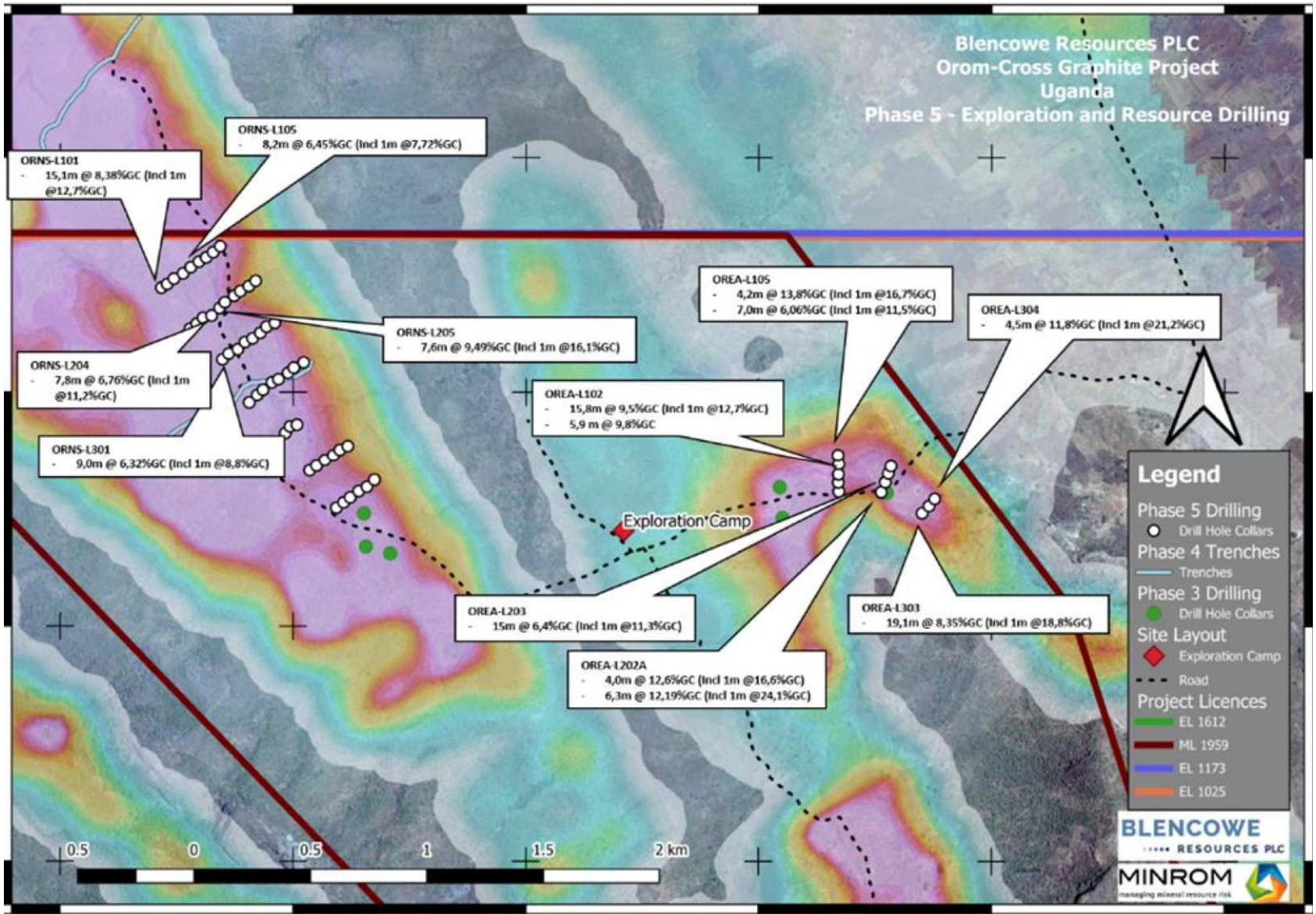
The development work above will underpin the Feasibility Studies Blencowe will perform on Orom-Cross from 4Q 2021 onwards to assess the commercial rationale for developing a substantial graphite mining operation at Orom-Cross.

The exploration activity identified and named at least five major graphite mineralised zones within the project property underpinned by Mining License (ML) 1959, namely:

- Northern Syncline
- Camp Lode
- Central Anticline
- Synformal Saddle
- Southern Anomaly

The most recent Resource Delineation Program aimed at investigating the near surface, free dig graphite material within a portion of the Northern Syncline and Camp Lode mineralised zones. Therefore, each mineralised zone was divided into four sub-zones based on the subsurface level of oxidation and weathering. Field observations and preliminary analyses suggest a mean global weathering depth of ~15m with a range of ~9m to ~25m in some instances.

The Graphitic Carbon (GC) grade population within the investigated mineralised zones indicates that the in situ graphite grade for the deposit ranges from 0.01% to 24.1% GC with a mean grade of 5.6% GC and a mode of 6.2% GC.



Resource Estimate

The maiden JORC-compliant resource estimate on Orom-Cross was published in April 2021. It was prepared by JP van den Berg of the South African consulting firm of Minrom Consulting (Pty) Ltd. The JORC compliant resource estimate relates to the Northern Syncline and Camp Lode mineralised zones.

Orom- Cross Mineral Resources					
Area	Category	Material	Cut-Off Grade	Tonnage	Total Carbon
Northern Syncline	Inferred	Weathered	4%	3,517,350	6.09%
	Indicated	Weathered	4%	<u>1,941,480</u>	5.82%
	Sub-Total		4%	<u>5,458,830</u>	5.99%
In-Situ	Inferred		4%	8,979,330	6.06%
In-Situ	Indicated		4%	1,911,300	5.80%
	Sub-Total		4%	<u>10,690,650</u>	6.01%
TOTALS	All Inferred		4%	12,496,700	6.07%
	All Indicated		4%	<u>3,353,140</u>	5.81%
Total			4%	<u>16,349,840</u>	6.01%

There is over 900,000 tonnes of contained graphite within this maiden JORC Resource, and included within this are two high-grade zones with 3mn tonnes at 8.1% TGC (for 250,000 tonnes of contained graphite). Geostatistical analysis of the data allowed for the Northern Syncline to be estimated and reported according to the JORC (2012) code. A resource block model was therefore constructed for the Northern Syncline. The block size for the model was dependent on the data spacing and a final block size of 10m x 20m x 3m was selected with a rotated grid to match the orientation of the graphite mineralisation zones.

An Ordinary Kriged estimation was performed and resulted in both Inferred and Indicated Resources being reported for the Northern Syncline. The Resources for the Northern Syncline have been tabulated at various cut-off grades starting at 3% GC. A 4% GC cut-off was determined to be appropriate based on preliminary economic analysis.

Looking forward there will be a revised JORC Resource delivered by end-2021. This will be driven by the recently completed Stage 2 drilling (2Q 2021) campaign. The goal of this will be to uplift the total JORC Resource to >20mn tonnes.

Hopefully, this will include bringing the 4mn tonnes of the Camp Lode into JORC Resource, which would be at a higher grade (~8-10%). It is also hoped to move significant tonnes into the Indicated & Measured Resource categories to take the total in these categories to >10mn tonnes to underpin the initial mine life for the project.

The PEA

In September 2021 the company published its Preliminary Economic Assessment on the Orom-Cross project. The study reinforced the low operating costs and robust financials for a mining operation. The key metrics included:

- Net Present Value (NPV8) of US\$317mn and an IRR 49% over 13-year life of mine from 2025, with ability to extend this if required after further drilling
- Average nameplate production of 75,000 tpa graphite sold as concentrate
- Life of mine C1 operating cost of US\$498/t (CIF Mombasa port) which would make Orom-Cross one of the lower cost graphite projects worldwide
- An initial capital cost of US\$80mn, inclusive of 15% contingency
- Cumulative post-tax net cash flow of US\$351mn generated over initial 13 years life of mine
- Four-year payback on capital

In summary, Orom-Cross should generate an average US\$40mn pa in EBITDA over life of mine at a weighted average selling price of US\$1,050/tonne for the full basket of all end-products sold from 2025 onwards.

Attractive size and scale of deposit with high quality end-product:

- Estimated 2-3 billion tonnes flake graphite deposit at Orom-Cross, with 16.3mn tonnes already drilled to JORC Resource standard, covering initial life of mine
- High grade 97-98% TGC (Total Graphite Content) concentrate proven, with low impurities, high recoveries and strong mix of jumbo/large flakes within overall end-product.

With the PEA behind it the company will now begin work on a Pre-Feasibility Study (PFS) using an independent technical consulting firm with graphite experience for third party sign-off. The PFS will include an upgraded JORC compliant Mineral Resource estimate and further metallurgical test work. Management will also undertake a sales & marketing analysis to source potential offtake partners to open discussions on product sales.

PEA - Metrics		
Life of Mine (LOM)	Initial 13 years	Further years will be added following additional resource drilling
Average Annual Production	75,000 tpa	End-product as concentrate, split into four separate mesh sizes for sales 65% sold into battery metals market
Recovery Rate (end-product)	90%	Composite product - per metallurgical test work
Capital Cost, including 15% contingency	US\$80mn	Plant, all infrastructure, vehicles and camp
C1 Cash Operating Cost	US\$498/t	CIF Mombasa (end-products as concentrate)
Weighted Average Selling Price	US\$1,050/t	Using 2025 forecast pricing - overall for all four end-products as assumed sold
EBITDA	US\$40mn pa	Average pre-tax earnings over life of mine
Cumulative Free Cash	US\$351mn	Generated over first 13 years life of mine, after repayment of all debt
Net Present Value	US\$317mn	Pre-tax (8%), inclusive of Government royalty
IRR	49%	Pre-tax (8%), inclusive of Government royalty
Payback period on capital invested	4 years	Assumes upfront capital raised as debt/equity Split 60% : 40% respectively

The Principal Production Scenario

The deposit presents as a large, shallow open-pittable mine, with anticipated low strip ratio and free dig operations, suggesting future OPEX and CAPEX within the lowest quartile when compared to other graphite producers worldwide.

The mine plan assumes an owner-operated mining operation using existing resources, delivering 1.4mn tpa ore on average for processing through the plant. Strip ratio is a low 1: 1.1.

The initial life of mine, as contemplated within the PEA, is just 13 years (18mn tonnes total throughput into plant) but this is expected to be considerably extended as the company has only drilled a small percentage of the total graphite available, and further drilling in subsequent years will provide additional JORC Resources for additional mining when considered necessary.

The plant will be located near to the first two major deposits of graphite to be mined and the flowsheet consists of a flash and rougher flotation stage followed by a primary cleaning circuit with a polishing mill followed by three stages of cleaner flotation. The intermediate concentrate is classified and then further upgraded in secondary cleaning circuits with stirred media mills followed by cleaner flotation.

In the recent PEA, plant recoveries were considered at 90% based upon the composite material most

likely to be fed into the plant, as derived from metallurgical test work conducted by graphite expert SGS in Toronto.

The plant will feature separate circuits that ultimately deliver an average of 75,000 tpa, made up from four distinct end-products, being jumbo, large, medium and small flakes size concentrates. Below can be seen the distribution:

End Product (Flake size)	Mesh Size	Purity % TGC	% of End Product	Tonnes pa End Product
Super Jumbo/Jumbo	32	98.10%	13.70%	10,275
	48	98.00%		
X-Large/Large	80	97.70%	22.50%	16,875
Medium	100	97.50%	24.70%	18,525
	150	97.00%		
Small	200	96.90%	39.20%	29,400
	325	96.60%		
	-325	95.70%		
Total				75,000

Manpower and Management

The intention is that the Orom-Cross mine will be owner-operated and managed by a workforce comprised of both national and expatriate personnel. Wherever possible locals will be employed, but the quality and experience of senior executives will not be compromised as necessary to ensure that all objectives are delivered.

A work force of ~45 will be on-site at any one time, some of whom will be fly-in, fly-out from international locations.

Road Transport Logistics

The product, as concentrate, will be bagged at site and loaded into containers for bulk transport by road through Uganda and Kenya, to the port at Mombasa, and thereafter shipped to final destination(s).

There are existing roads all the way from the Orom-Cross site through Uganda/Kenya to Mombasa port. The only section that is not currently a tarred road is the final 80kms from Kitgum to Orom. Blencowe is currently in discussions with the relevant Ugandan Government departments to assist the Orom-Cross development by upgrading and tarring this section of road. Currently hydro-generated electricity comes into Orom village approximately 4kms from the proposed mine site so the Project will connect into the grid (with other redundancy power options as backup, including renewable energy via solar panels), and

abundant fresh water is freely available in the area.

Blencowe's project potentially benefits from substantial container freight entering landlocked Uganda and South Sudan by road transport that currently returns underutilised (imports exceed exports) and potentially Blencowe could be in line to receive more favourable terms on back loading these containers to port.

All the key infrastructure is therefore either in place or readily available which makes a significant difference in cost savings to forecast capital expenditure to bring Orom-Cross into production.

The Rail Connection

There is a standard-gauge rail line currently under construction between Mombasa and Kampala (via Nairobi). The mooted completion date is anticipated to be 2025 but this remains subject, as always, to potential delays.

The extension to Uganda will link to a Chinese-funded line between the port of Mombasa and Nairobi that opened in 2017, built at a cost of US\$3.2bn. So far it has been underutilized for cargo services.

Upgrading Kenyan railways has been part of China's "One Belt, One Road" initiative, multi-billion dollar infrastructure projects aimed at improving land and maritime trade routes between China and Europe, Asia and Africa.

In April 2019, China refused to fund the planned US\$3.7bn extension from Naivasha to the Ugandan border town of Malaba. The Kenyan Transport Minister James Macharia said then that the government would spend US\$210mn to rehabilitate the colonial-era Malaba line instead.

In theory the planned completion date matches that of the Orom-Cross start-up, but in the interest of caution the PEA has not considered this rail option. Therefore for now only road transport has been factored in.

When this rail option is completed it may potentially reduce logistical costs further, which are currently ~18% of the total operating cost for the end-product as delivered to port (CIF Mombasa).

Operating Estimate

Blencowe management has built the PEA model based on an expected life of mine operating cost (C1) of US\$498/t (CIF Mombasa port).

Ongoing capital required to maintain the project has been included as well as a 5% royalty to Government of Uganda.

OPEX - Orom-Cross		
Operating Item	US\$ / tonne	% Total
Mining	103/t	20.70%
Processing	181/t	36.30%
Transport and logistics	92/t	18.50%
Corporate, admin & personnel (includes ESG)	65/t	13.10%
Sales commissions	10/t	2.00%
Royalties	47/t	9.40%
Total Cost (C1)	US\$498/t	100%

The design and capital requirement for the plant has been derived from external technical firm Battery Limits/Mining Metals Technology Limited, a company with considerable graphite plant design experience. Capital costs were estimated to an accuracy of 25-35% and each category includes a 15% contingency.

CapEx	Cost
	(US\$ mns)
Processing Plant/tailings	52
Site construction/EPCM	15
Vehicles & equipment	2
Camp & offices	5
Additional Resource Drilling	2
Mobilisation/demob & first fill	3
Community	1
TOTAL	US\$80mn

A suitable contingency has been applied to ensure adequate provision for a plant that can deliver ~1 million tpa throughput.

Further capital has been considered for all associated infrastructure required, including the following non-process infrastructure that will be constructed to support operations:

- Power sub-station and power distribution
- Raw water supply and water treatment
- Accommodation village
- Airstrip
- Offices, stores, and workshops

- Communications
- Bulk fuel storage
- Secondary roads (on-site)

Sales and Marketing

Sales and marketing are at a preliminary stage within Orom-Cross development as specific end-product specifications have only recently been formalised through metallurgical test studies. Blencowe has identified several experienced sales and marketing consultants worldwide and has engaged with them to identify the most likely channels to locate potential offtake partners. Once end-users are identified the management will engage with each party to assess their interest in Orom-Cross offtake.

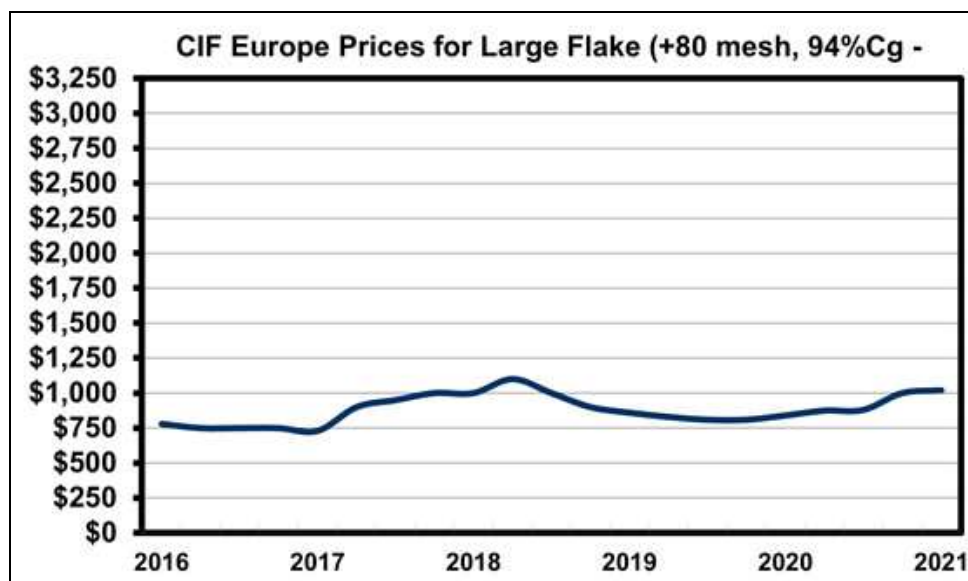
Product pricing has been evaluated using advice and reports generated by industry accepted graphite experts, including Benchmark Minerals Intelligence (BMI) and UBS, taking into consideration potential premiums that may be achieved for higher grade concentrates (over and above the entry level battery product of 94% GC) that Orom-Cross can deliver and future pricing as forecast from 2025 onwards.

As we have often noted, graphite pricing is largely opaque so forecast prices should be considered with some caution and Blencowe has chosen to adopt a conservative view on what prices may be achieved, to ensure reliability and credibility.

It is assumed for the PEA that 100% of the end-product that will be produced at Orom-Cross will be sold, although there are no off-take agreements currently in place with Blencowe that can confirm this. As the majority of end-product sold from the project will be in the category that is required for the battery metals market (for use within the anode inside lithium-ion batteries), and as we forecast that demand will outstrip supply in this category by the anticipated Orom-Cross start date in 2025, it was assumed within the PEA that all end-product produced will be sold. We feel this a reasonable assumption.

Graphite on the Rebound

As mentioned earlier, we are in the midst of a revived battery materials boom. Graphite is elemental to the Lithium-Ion battery model and is the one component that cannot be minimized or replaced. Long term prices (shown below) have been rather flat due to the so-called “Balama Effect” which we discuss anon. They have however started to perk up in recent weeks.



The table below is very illustrative of the mix of prospective product from the Orom-Cross mine, current pricing and some projected pricing from sources such as UBS and Benchmark Minerals. These estimates err on the side of caution.

Mesh Size	Concentrate (% TCG)	% End Product	2021 CIF China USD 94-95% TGC	2021 CIF China USD 97% TGC	Estimated 2025 CIF China USD 97/98% TGC
Jumbo +32 / +48	98.0%	13.7%	1,250	1,400	1,650
Large +80	97.7%	22.5%	850	1,000	1,250
Medium +100/+150	97.2%	24.7%	700	850	1,000
Small +200 / +325 / - 325	96.5%	39.1%	600	675	750
Weighted Average		100.0%			1,050

Source: UBS and Benchmark Minerals

The Balama Effect

One cannot grasp why prices have been so static in a rising usage scenario without considering the effects that one over-sized African project has had on the rest of the graphite space for several years now.

The British Geological Service (BGS) observed in 2019 that of the current 256,650 tonnes production of

graphite in Africa, the majority came from Mozambique (63%) and then Madagascar (27%), with smaller amounts from Namibia (8%) and Tanzania (2%). Development plans ahead could potentially see a six-fold increase in flake graphite production to 1.5mn tonnes per annum year over the next five to ten years.

Pivotal to the outlook for most of the graphite wannabes are the action of Syrah Resources, the 800lb gorilla of the graphite space. The capacity of its Balama mine in Mozambique is 2mn tpa of potential ore throughput, for an outcome of ~350ktpa graphite concentrate.

However since coming online several years ago it has not only being massively underperforming its nameplate capacity but it has loomed as a vast overhang of potential production over the tribe of mid-tier graphite wannabes. For this reason few projects have moved forward (excepting small-scale producers such as Tirupati and Ceylon Graphite) and some ASX-listed graphite plays in East Africa have given up the ghost and repurposed themselves in other metals.

From Feast to Famine....

.... for battery makers. This category of offtakers cannot believe their luck in recent years, with Syrah providing a big potential supply prices have been suppressed. Essentially a gift to end-users.

However, under a forecast scenario where the overhang of product from Balama could all be fully spoken for by the end of 2023 a “new Balama” would be needed in the next year and another in the next six months thereafter, and so forth for many years ahead in a geometric progression, just to meet anticipate graphite demand.

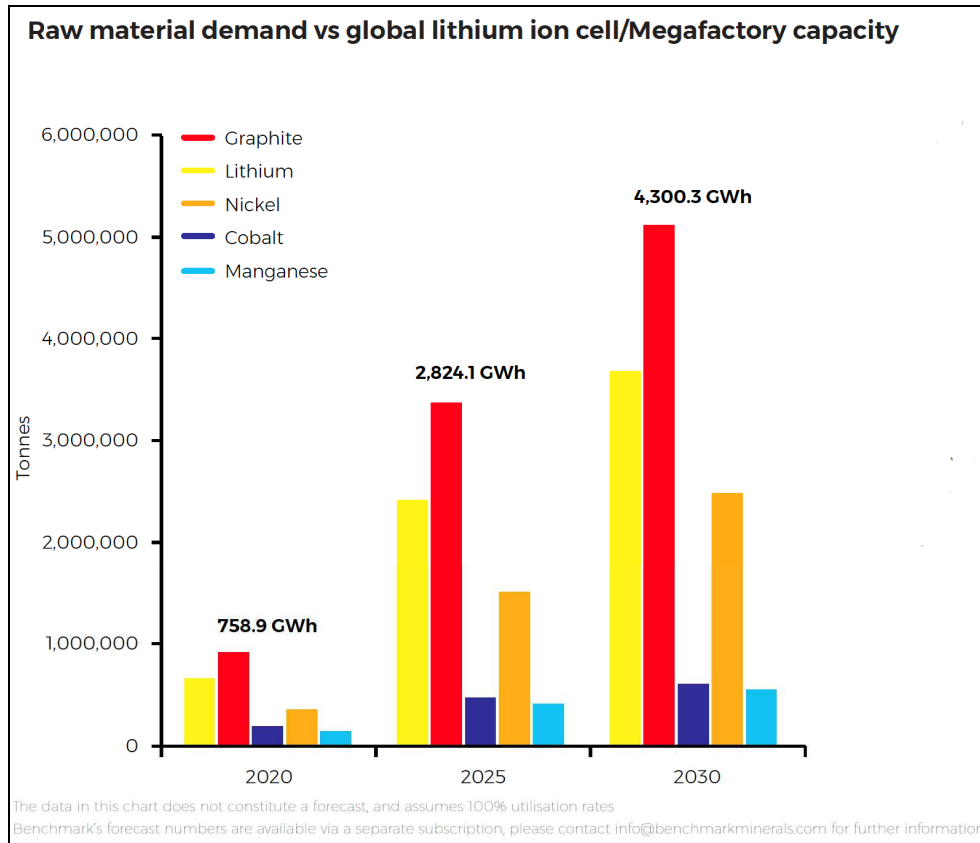
This raises some interesting issues as Balama lookalikes are not dangling from the trees ready to be plucked, and even if they were the construction time of two years plus (from decision to mine, assuming all funding in place) would mean that there might very well be a substantial gap in graphite supplies looming from 2024 onwards. Unless, of course, that the whole EV train has to slow down to accommodate shortages. Shortage of supply and surging demand may also lift prices as predicted by many graphite analysts.

On the supply side, besides Syrah (and two operators pursuing small-mine strategies), there is little happening currently, though some of the more promotional denizens of the graphite space might beg to differ.

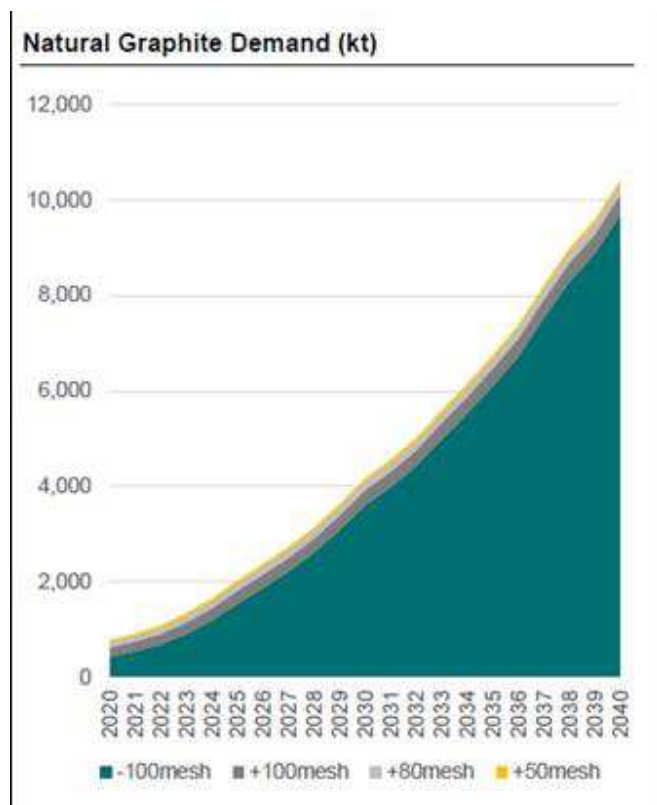
Opinions differ on what demand will be but all are linked to the increasingly frenzied prognostications about the pace of EV adoption. It is entirely legitimate to match one’s expectations of EV growth to graphite growth as the two are now joined at the hip. There is no other mass application of graphite on the horizon to muddy these waters.

The best representation of the potential deficit in graphite is shown within the following graphic, which shows the anticipated growth in Lithium-Ion battery Megafactory output (measured in Gigawatt

hours/GWh), which in turn requires substantial quantities of graphite as a key source input.



The chart that follows shows the projections of Benchmark Minerals Intelligence as to the likely escalation in graphite demand over the next 20 years to 2040. This incremental growth projection is almost entirely driven by increasing demand for graphite used within Lithium-Ion batteries to power Electric Vehicles.



Source: Benchmark Minerals Flake Graphite Forecast 2Q21

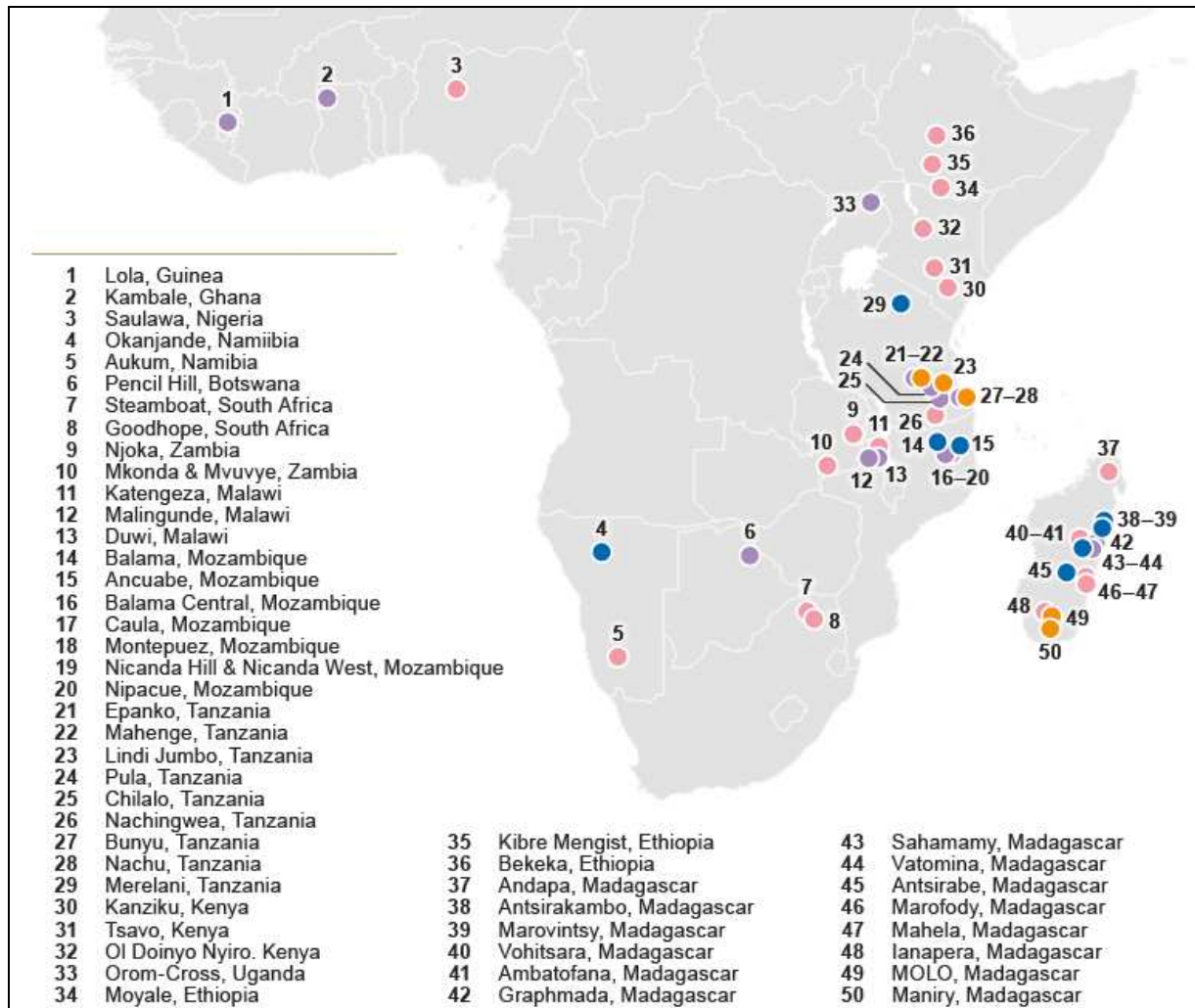
In light of the impending squeeze, insiders (i.e. battery makers in the know) should be buying up all of Balama’s excess product now at “lower” prices if they perceive such an upcoming shortage, and yet they are not. Are they whistling past the graveyard or do they know something that the pundits do not know?

Competition in Africa?

Below is an illustrative graphic produced by the BGS. The pink-coloured projects are early stage, the others are PEA or more advanced. Fortunately for Blencowe (and others) most of the Tanzanian projects are stuck in the starting gates (to use a horse-race metaphor) due to the erratic and frequently hostile actions and rhetoric of the government there.

Both Tanzania and Madagascar (the two African countries with the most potential graphite projects ahead) are volatile jurisdictions and are not easy places to do business, let alone deliver a complex graphite project into production. Resource funding does not easily follow higher risk destinations, which make the challenge even greater for these wannabes as they will need to secure considerable financing for plant and infrastructure if they are to break through and deliver graphite projects over the medium term. It is our opinion that the majority of the Tanzanian graphite projects illustrated below will simply not happen.

Meanwhile in Mozambique there has recently been an outbreak of militant Islamic insurgency in the north which gives cause for concern, not only for several wannabe graphite producers nearby but also for the giant Balama project (world’s largest graphite project) which is located in this area. Any long term closure of Balama at any stage ahead would send shockwaves through world graphite markets, and would have a direct impact on future EV rollouts as forecast.



Uganda

Like many countries in Africa Uganda has a history of artisanal gold mining that stretches back through the centuries. It has in the last fifty years hosted one of the world’s largest Cobalt mines (now exhausted). However a history of civil strife up to the mid-1980’s meant that it has largely fallen off the mining radar despite sharing excellent geology with some of its neighbours such as the DRC. The country’s list of minerals resources include: Rare Earths, Copper, Cobalt, Tin, Phosphates, Graphite, Vermiculite, Diamond, Gold, Petroleum, Chromite, Magnetite, Uranium and Iron ore, amongst others.

From a minimal level of mining activity ten years ago, the country has now clambered up the rankings as a gold exporter. In recent times, three more gold refineries have been built in Uganda, stimulating the country's processing capacity and allowing Uganda to slowly emerge as a regional gold trading (rather than mining) hub. The four refineries source their gold from regional countries, including the neighbouring Democratic Republic of Congo.

Uganda's Central Bank reported that Uganda shipped US\$1.25bn worth of gold in 2019, more than double its 2018 gold export values of US\$514.8mn. Gold massively outperformed other exports with cumulative earnings hitting US\$1.7bn (Shs6.3 trillion) for the period between December 2019 and November 2020.

The earnings represent a 44% contribution out of total exports, which during the period stood at US\$3.8bn (Shs14.3 trillion), according to data from Reserve Bank of Uganda. Gold has in the last five years become Uganda's largest export overtaking coffee, which during the period earned \$509m (Shs1.8 trillion), representing a percentage contribution of 13%.

Whatever its source, gold exporting has become a promotional point for the government and it has focused their minds on the country being more than just a narrow-focus agricultural exporter.

The country has a Mineral Act, which is under revision. Mineral exploration and exploitation is governed by several types of licenses. These are: the Prospecting License which is mineral or area specific and is valid for one year; under Exclusive Prospecting License (EPL), mineral specific. and is limited to an area of 20.48 square kilometres (7.91 sq mi) and the Special Exclusive Prospecting License (SEPL) is for a minimum area of 76.8 square kilometres (29.7 sq mi); Mining License for developers which could be location specific as Mining License is limited to an area of 16 hectares (40 acres) with validity of 1 year; in the case of large mining area the lease could be for 21 years for areas up to 251 hectares (620 acres); and Mineral Dealers License which is a permit to use water resources for mining operations with validity of one year ending December.

Financings

At the time as the acquisition of the Orom-Cross graphite asset by Blencowe in April 2020, the company raised gross proceeds of £2mn at 6p per share. Blencowe granted subscribers and placees 16,666,666 warrants to subscribe for shares at 8p per share, valid for five years.

Then in January of 2021 the company raised £500,000 in an oversubscribed placing at 8 pence per share. Placees also received an attaching half-warrant to subscribe for shares at 10 pence per share for a period of three years. This resulted in the issuance of 6,250,000 new shares.

In mid-July 2021 the company announced that it had raised £235,000 in a placing at 6 pence per share through the issue of 3,925,000 new ordinary shares. The placees received one warrant per every two placing share to subscribe for shares at 8 pence per share for a period of three years. This resulted in the issuance of a further 3,925,000 new shares.

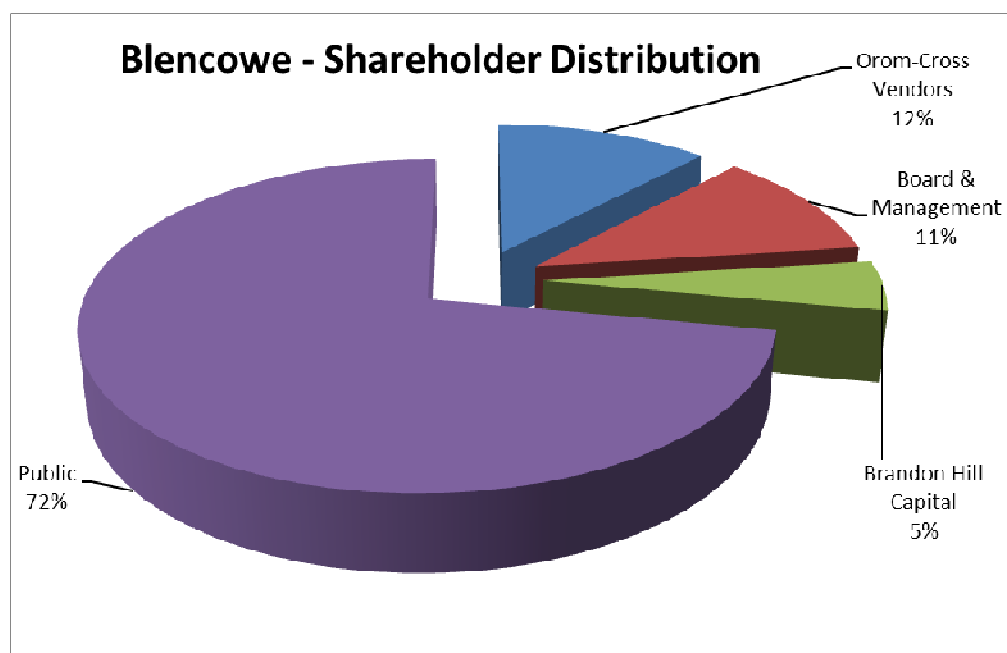
The Latest Financing

In the first half of November of 2021 the company the completion of an over-subscribed capital raise for £2 million at 5p through the issue of 40,000,000 new ordinary shares (“Fundraise”). This includes a subscription of £75,000 from the Directors and CEO.

These funds will be used primarily for an updated JORC Resource early next quarter and the delivery of a Pre-Feasibility Study by mid-2022.

The capital raise was managed by the Company’s brokers First Equity and Brandon Hill Capital and was completed at 5p per new ordinary share with half a warrant per new ordinary share that is exercisable at 8p for 3 years from admission to trading. This price represents a minimal discount to the 10-day VWAP and illustrates the strong support for both the project and the wider battery metals market. In the release it was revealed that several institutional funds had participated in the raise.

Assuming the shareholder meeting (to be held on the 8th of December) successfully accepts the new shares/warrants to be issued for the recent GBP2m then new split of shareholders as follows:



Directors & Management

Cameron Pearce – Executive Chairman, was a founder of Blencowe and has extensive professional experience in both the Australian and United Kingdom finance industries. In recent times he has provided corporate, strategic, financial and advisory assistance to private and public companies in both Australia and the United Kingdom. He is a member of the Australian Institute of Chartered Accountants and has been in commerce over twenty years holding senior financial and management positions in both publicly listed and private enterprises in Australia, Europe, Asia, Africa and Central America. Mr. Pearce has considerable corporate and international expertise and over the past decade has focused on mining and exploration activities.

Mike Ralston, Chief Executive Officer, is a Chartered Management Accountant with 25 years' experience successfully developing businesses worldwide, including in Africa. He has been a senior executive and board member for several junior listed resource companies over the past 15 years and he has raised >A\$300m in debt and equity over that period. He brings a wealth of corporate and management experience and he has been involved in developing at least three mining companies from start-up through to production. He was previously MD of Balamara Resources Ltd, which developed two large scale coal projects in Poland, and before that CFO of Kangaroo Resources Ltd, which developed several coal projects in Indonesia into production, before trade sale to a major Indonesian coal producer for AUD\$600m in 2010. He is currently Non-Executive Chairman of ASX-listed Trigg Mining Limited.

Iain Wearing – COO, is a Mining Engineer with 30 years' experience in the resource industry, including significant project experience in Africa. He has been involved in the technical management of African projects for several companies, including Rolute Mining and Barrick Gold, and he has managed studies for several major projects including the Kibali Gold Project for Moto Gold, Syama Project in Mali, and Golden Pride in Tanzania. He brings a wealth of technical expertise to the team. His knowledge in study management, operations planning and costing, as well as operations management, will be critical to the Orom Graphite Project moving forward as the Company moves towards first production.

Sam Quinn – Non-Executive Director, is a corporate lawyer with over a decade's worth of experience in the natural resources sector, in both legal counsel and executive management positions. He is currently the Director of Corporate Finance and Legal Counsel for the Dragon Group, a London-based natural resources venture capital firm and a partner of Silvertree Partners, a natural resource-focused back office outsourcing business. He has, in addition, held several management roles for listed and unlisted natural companies and has gained significant experience in the administration, operation, financing and promotion of natural resource companies. Prior to working in the natural resources sector, he worked as a corporate lawyer for Jackson McDonald Barristers & Solicitors in Perth, Western Australia and for Nabarro LLP in London.

Alex Passmore – Non-Executive Director, is a geologist and corporate executive with strong financial and technical background. He has managed the arrangement of debt for many well-known resources companies and has a wealth of experience in project evaluation. He also managed the WA natural

resources business of CBA which comprised a substantial portfolio of loan, hedge, trade finance and working capital products to ASX-listed and multi-national resource companies. Prior to this, he has held senior roles at Patersons Securities and was director of corporate finance and head of research. He holds a BSc (Hons) in Geology from the University of Western Australia and a graduate diploma of Applied Finance and Investments from the Institute of Securities Australia.

Risks

It is important to highlight general and specific risks which, in the case of Blencowe Resources, we perceive as being:

- ✘ Graphite price volatility
- ✘ Financing difficulties
- ✘ Country risk in Uganda
- ✘ Excessive supply from too many projects coming online mid-term

Price volatility is less a case of potential demand faltering (which is highly unlikely) but rather of some sort of malevolent price-spoiling action emanating from China or the likes of a resurgent Syrah Resources flooding the market. If it did it would be self-harming for either of them.

Financing is a perennial issue in mining markets. The improvement in the outlook for battery metals in general has brought graphite financings “in from the cold”. A key factor now is going to be progress to production (which clearly is a path Blencowe is on). The problem for the Canadian graphite sector has been that most financings are for “General & Admin purposes” which leaves investors tired and cynical. The relatively low capex cited by the Orom-Cross project has moved the company over into the “doable” column of most observers’ spreadsheets and thus should aid in funding efforts.

Exotic locations like Uganda come with a colourful history, but the memories of the Idi Amin period and the erratic economic policies that ruled for decades after independence are now long gone. The lessons have been learnt that these did not help the economy nor the mining sector in particular, and President Museveni has managed a strong and stable government since coming to power in 1986 – he has recently be voted back in for another term in early 2021.

As noted many of the wannabe African (and some Canadian) graphite projects won’t be going anywhere due to higher risk and/or excessive capex numbers attached to their aspirations. Syrah is the only “big” producer as yet to come to market to date, with the other likely entrants being non-disruptive smaller capex developers. Thus the potential exists for a small band of mid-tier producers (such as Blencowe), rather than a rash of bigger players, to cross the line into production ahead.

Conclusion

The Battery Metals “booms” of the past 12 years have been mere passing squalls compared to the typhoon that has now descended upon the space. In this latest instance the enthusiasms are actually

backed by a tailwind of real EV demand and, finally, a wave of construction of Lithium-Ion battery plants in China and in the West. In 2019 only 50 such factories were on the drawing boards, today that number has risen to over 230, each being a multi-billion dollar investment to cater for EV numbers which are forecast to grow from 14mn vehicles in the world today to somewhere between 150mn and 500mn in 2030. The overall graphite requirement by 2030 for these battery plants represents many multiples of the overall tonnes of graphite sold into world markets today. To mix a metaphor, the “rubber has met the road”, finally.

Blencowe is a relative new kid on the block in the graphite space, but veteran status has done few of the Canadian graphite developers (in particular) any good as most are stuck in a “2013 time-warp”. They have evolved their projects little from that point in time and many newer names (e.g. Tirupati or Ceylon Graphite) have achieved production while the pure promoters just jawbone. Times have been tough though. Financing projects was challenging and many of ASX-listed graphite developers in Africa (particularly Tanzania) desisted in pursuing graphite.

As a late arrival, Blencowe has recognized the need to get up to speed fast and is now advancing beyond the PEA stage with a 2025 production target (in the wake of a more thorough feasibility study ahead) being the prime goal. Seeing the errors of others has also helped in avoiding them, particularly compared to those working in more problematic jurisdictions like Tanzania.

Graphite prices have been relatively becalmed on the rising swell. However, a review of the share prices of listed graphite plays shows that they largely took off between December and February of 2020/21, with tripling not being uncommon, despite that graphite price not yet being as rip-roaring as the word “boom” might imply. The interest came from perceived “booming” ahead which may well still occur.

Uganda has now resurfaced as a mining destination and Blencowe (and the likes of Ionic Rare Earths) have positioned themselves as first movers within this highly prospective jurisdiction. Infrastructure is in the process of being reconditioned at the moment and is generally quite promising by African standards (including cheap hydro power). Transport costs still loom as a big challenge but if the railway upgrade is completed in the medium term Blencowe will have another option to transport product to market over the majority of the life of mine of this project.

As one of the most “doable” projects in the graphite space with a management experienced in, and dedicated to, making projects happen in Africa it is surprising the valuation remains at the bottom end of the graphite rankings. We feel this is destined to change. We have rated Blencowe Resources as a **LONG** with a twelve-month target price of GBP 22 pence per share.



Important disclosures

I, Christopher Ecclestone, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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