Armadale Capital, the investment company focused on natural resource projects in Africa, continues to advance its recently acquired Mahenge Liandu graphite project in Tanzania. The highly prospective Liandu project is in an area of proven coarse flake, high-grade graphite resources and is adjacent to Kibaran Resources’ (KNL.A) Epanko and Black Rock Mining’s (BKT.A) Mahenge graphite projects.

Armadale’s strategy is to build a portfolio of valuable resource projects with near-term revenue generation. With increased demand for graphite expected to be driven by the anticipated growth in lithium-ion batteries, we expect Armadale to capitalise on the demand for natural graphite moving forward. As such, we expect a re-rating of the stock once the maiden resource is completed by Q4 2016. In the meantime, we look forward to the upcoming metallurgical test-work results confirming the high-grade coarse flake mineralisation. We maintain a Speculative Buy rating on the stock and place our target price under review while we await the results from the metallurgical test-work and maiden resource estimate.

High-grade and long strike length

Wide zones of graphitic schist up to 500m have been sampled over a 2km strike length grading 1.8% to 24% total graphite content (TGC). Armadale has recently completed a successful drill campaign where 18 of 21 drill holes intersected high-grade coarse flake graphite mineralisation. The maiden resource is expected to be completed by Q4 2016.

Graphite demand set to expand

The key graphite end uses are anodes in lithium-ion batteries (a high growth market), high-quality lubricants, high-voltage capacitors, photovoltaic cells and numerous other products. Global demand for commercial graphite is expected to increase, fuelled by increasing production of EV, smart phones and developments in the energy storage industry.

JV to potentially develop and operate Mpokoto gold project

On 28 September, Armadale entered into a binding Heads of Agreement (HoA) with African Mining Services (AMS) to develop the Mpokoto gold project in the DRC. Subject to due diligence, the HoA will progress into a JV agreement; providing AMS completes its earn-in obligations (see RNS 28 Sept. 2016) and brings Mpokoto into commercial production Armadale will maintain at least a 15% interest. The Mpokoto project comprises four mining licences and has a combined mineral resource estimate of 678,000oz grading 1.45g/t Au.

Early stage but expect a re-rating on the back of maiden resource

With our Tanzania graphite peer group trading at a weighted average EV/t (contained graphite) of US$18.0, we expect a re-rating of Armadale’s stock once the company completes its maiden resource estimate by Q4 2016.
**Mahenge graphite project**

On 2 June 2016, Armadale signed an agreement to acquire the Mahenge Liandu graphite project located in the Ulanga District in south east Tanzania from Graphite Advancement Tanzania (GAT). The announced share purchase agreement acquired 100% of the issue share capital of GAT for total consideration of 57.5M ordinary shares of Armadale and £450,000 of unsecured convertible loan notes.

The highly prospective Liandu project is located in an area of proven coarse flake, high-grade graphite resources with up to 33.8% TGC having been recently demonstrated through chip samples. Armadale’s two tenements cover an area of 29.9km² with previous drill campaigns confirming high-grade mineralisation from surface intersecting 60m grading 10.7% TGC, including 24m grading 12.9% TGC and 5m grading 21.5% TGC. Armadale has recently completed its drill programme and reported 18 out 21 holes intersecting high-grade coarse flake graphite mineralisation.

Metallurgical test-work has commenced and a maiden resource estimate is expected by Q4 2016.

**Mahenge Liandu graphite location**

![Map of Mahenge Liandu graphite project](source: Bloomberg, Beaufort Securities. As at 25 October 2016.)

**Relative valuation: Armadale trades at a discount to its Tanzania peers**

When considering our Tanzania graphite developers peer group, we note that Armadale trades at a significant discount. The weighted average EV/total contained graphite is US$18.0/t. When excluding Magnis and its more advanced Nachu project with signed off-take agreements, our weighted average falls to US$4.2/t. Given Armadale’s recent successful drill campaign (18 of 21 drill holes intersected coarse flake mineralisation) we expect a re-rating of the stock once the maiden resource estimate is finalised.
Tanzania graphite peer comparison

<table>
<thead>
<tr>
<th>Company</th>
<th>Project</th>
<th>Stage</th>
<th>Market Cap USDm</th>
<th>Cash USDm</th>
<th>EV USDm</th>
<th>Resource Mt</th>
<th>Grade %</th>
<th>Contained graphite Mt</th>
<th>EV/contained graphite</th>
</tr>
</thead>
<tbody>
<tr>
<td>Magnis Resource</td>
<td>Nachu</td>
<td>BFS</td>
<td>242.4</td>
<td>5.4</td>
<td>237.0</td>
<td>174.0</td>
<td>5.4</td>
<td>9.4</td>
<td>25.2</td>
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<tr>
<td>Volt Resources</td>
<td>Nachingwea</td>
<td>PFS</td>
<td>56.5</td>
<td>0.4</td>
<td>56.1</td>
<td>446.2</td>
<td>5.0</td>
<td>22.4</td>
<td>2.5</td>
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<tr>
<td>Black Rock Mining</td>
<td>Mahenge</td>
<td>Scoping</td>
<td>38.5</td>
<td>1.9</td>
<td>36.6</td>
<td>162.5</td>
<td>7.8</td>
<td>12.7</td>
<td>2.9</td>
</tr>
<tr>
<td>Kibaran Resources</td>
<td>Epanko/Merelani</td>
<td>BFS</td>
<td>32.6</td>
<td>3.6</td>
<td>29.0</td>
<td>40.2</td>
<td>8.2</td>
<td>3.3</td>
<td>8.8</td>
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<tr>
<td><strong>weighted average</strong></td>
<td>**</td>
<td></td>
<td><strong>18.0</strong></td>
<td></td>
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</tr>
</tbody>
</table>

Source: Company data, Beaufort Securities

Mining and infrastructure in Tanzania

Tanzania is a politically stable country that uses the British Common Law System and is supportive of a well-established mining industry. Internationally, Tanzania rates 67 out of 107 for mining investment attractiveness, according to the 2015 Fraser Institute survey. In terms of infrastructure, the Mahenge Liandu graphite project is located 76km from the Tanzania-Zambia railway line to Dar es Salaam port, a major port for East and Central Africa.

Summary

Armadale offers investors exposure to the expanding global graphite market. With the demand for battery-grade spherical graphite set to growth significantly, we expect a re-rating of Armadale’s stock as the company continues to de-risk its Mahenge Liandu graphite project through metallurgical test-work and a maiden resource estimate.
Recommendations
During the three months to end-September 2016, the number of stocks on which Beaufort Securities has published recommendations was 314, and the recommendations were as follows: Buy - 117; Speculative Buy - 129; Hold - 64; Sell - 4.

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