

Analysts' Ideas of the Week – Graphite One Close to Completing a \$4M Financing

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## **Graphite One Close to Completing a \$4M Financing**

On September 10, 2014, Graphite One Resources Inc. (TSXV: GPH) announced that it intends to complete the final tranche of a \$4 million financing on or around September 22, 2014. A total of 30.77 million units will be issued at a unit price of \$0.13. Each unit consists of a common share and common share purchase warrant (exercise price of \$0.20 for the first two years, and \$0.25 per share in years three and four). This new financing puts Graphite One in a strong cash position to complete the recently announced exploration program on its Graphite Creek property in western Alaska. We have been covering GPH since March 2013. Our fair value at the time of our previous report, in January 2014, was \$0.50 per share. GPH shares are currently at \$0.17 per share.

The Graphite Creek deposit, we believe, is the largest discovered graphite deposit in North America in development. In January 20, 2014, the company announced an updated resource estimate which is summarized on the next page.



Cut-Off Grade (% Cg) by LECO	Tonnage (Million Tonnes)	Graphite % (Cg) by LECO	In Situ Graphite (Tonnes)
2014			
2	284.71	4.5	12,756,000
$3^{\mathrm{b}}$	186.86	5.5	10,346,000
5	95.93	7.2	6,906,000
7	37.68	9.2	3,467,000
10	8.63	12.8	1,103,000
2012			
2	164.5	4.61	7,583,450
$3^{\mathrm{b}}$	107.2	5.78	6,196,160
5	54.98	7.66	4,211,468
7	25.44	9.69	2,465,136
10	7.8	13.49	1,052,220

<sup>\*</sup> Graphite concentrate with average selling price of \$1200 /tonne.

\*b = base-case

The new estimate, based on a 2% Cg cut-off, increased by 73% to 285Mt. In-situ graphite increased by 68% to 12.76 Mt. As for the base-case estimate, which used a 3% cut-off, in-situ graphite increased by 67% to 10.35 Mt. The high-grade in-situ resource (based on a cut-off of 7%) increased by 41% 3.47 Mt. The resource increase was a result of 2013 drilling, which increased the strike length to 4.8 km, up from the previous estimate of 2.2 km.

Metallurgical testing results announced in April 2014 confirmed the results announced in 2013, and showed the project's potential to produce high quality flake graphite.

The company has just commenced an infill drill program on the property, with the objective to convert a portion of its inferred resources to measured/indicated categories.

The graphite sector got a boost from an announcement made by Tesla Motors (NASDAQ: <u>TSLA</u>) in May 2014. Tesla announced their plans to build a \$5 billion lithium-ion battery manufacturing facility in the U.S., which they have named as the "Gigafactory". The facility is expected to be operational in 2017. Tesla's facility is expected to consume approximately 90,000 tons of flake graphite a year, compared to the current global consumption of 80,000-90,000 tons per year. Therefore, Tesla's facility is expected to more than double the demand for flake graphite in batteries.

We are currently working on an update report on GPH. Interest parties can download the report from <a href="https://www.researchfrc.com">www.researchfrc.com</a> or subscribe to be notified as new reports are published.





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## **Update on Canola pricing**

In our last update for Input Capital (TSX-V: INP), we mentioned that canola prices were softening and lowered our price per tonne of Canola. Since then, Canola prices have continued the downward trend. The price decline has been attributed to a poor quality of canola and a record year for soybeans in the U.S.

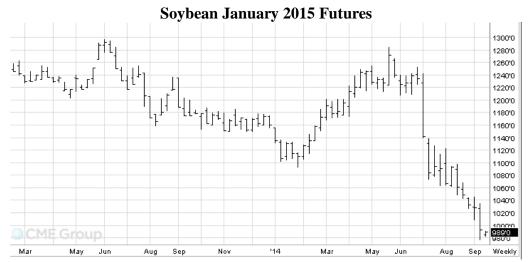
The Canadian seeding period experienced inconsistent weather with untimely rain. This has led to disease and sprouting for some canola crops. Statistics Canada is estimating that this year ,the canola harvest will be more in line with the average than last year's record harvest. From the July 22 crop report, they estimate 13.9 million tonnes of canola down 22.6% from 2013's harvest. We had previously anticipated that the lower harvest would lead to higher prices than those seen in 2014; however, due to a forecasted record soybean crop, prices are continuing to trend down.

The United States Department of Agriculture (USDA) released their forecast of crops in the U.S. last week, boosting their estimates for soybeans and corn. Soybean production is estimated at 3.91 billion bushels, which is a 19% increase over last year. The anticipated record harvest has led to soybean futures being at a 4 year low. This decline has dragged down canola prices as they are seen as substitutes and are highly correlated. Canola and soybean Jan 2015 future prices are shown below.



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Source: CME Group

We feel that the weakening canola price is a risk to Input in the short term. Farmers are just starting to harvest their canola crops and we feel investors should look to reports on quality, yields and pricing.



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