

# Graphite One – Attack of the Midtown Trolls

The SEC and its research “settlement” of early last decade has quite a lot to answer for. The initial pushback against past practices during the DotCom Bubble was due to a few egregious (mainly Bulge Bracket) analysts that not only crossed the line, but managed to rub it out in the process. The result was an attempt to put analysts on the straight and narrow (which combined with rules forcing fund managers to seek the lowest commission) effectively eviscerated the analytical “profession” and left the door open for the “seat of the pants” school of analysis which has flourished in places where those with a hidden agenda can dress up their real goals in the gauzy raiment of pseudo-analysis.

## Volume – Catnip for Hedge Funds

Having once been on the “darkside” running a hedge fund in New York from 2004 to 2008 I know the game works. Shorting needs two things, firstly volume and secondly a catalyst. For a TSX-V stock Graphite One has a rather startling level of daily volume which thereby ticks one of the key boxes for a putative shorter. I would note that while volumes are always in the several hundreds of thousands of shares per day, this has gone up to much higher amounts in recent days.



The other is a catalyst. With the market so down and out the generalised meltdown is already factored in and having recently closed a financing the company is not prone to the most common fatality these days for a junior explorer which is running out of money. Therefore the only reasonable catalyst one can look for in the stock for a downward movement is some sort of concerted bear raid. Shorters love people to think

that the adage “no smoke without fire” can be applied to their plays. In the case of Graphite One (TSXV: GPH | OTCQX: GPHOF), they have collected a bunch of kindling and are now furiously blowing on some embers in the hope that the flame will take. Let’s see if this fluffer is up to the ice-bucket challenge of cold hard facts.

## **The Author**

Maybe it is simplistic to regard LinkedIn as the modern day Who’s Who of business as it includes massively the Who’s Not Who as well.. However, even more simplistically we have come to regard those who aren’t in it as in some way troglodytic or Young Fogies or suffering from an inflated sense of their own attraction to stalkers. Thus in tracking down people these days, this is one of our first stops. A quick search brings up not too many names, and the most likely suspect is one from whom I have a mere two degrees of separation. The intriguing thing is that while he lashes the company’s management for having too much gold experience and not enough graphite experience, this seems to be also true of himself.

## **The Rationale – On Shaky Legs**

**Location** – when the author wanders into the territory of questioning the mineability of the Seward Peninsula he crosses swords with the wrong person. Earlier this year in my work on the tin deposits of Alaska I highlighted that that as far back as the First World War the alluvial and pegmatite tin deposits of the Seward Peninsula had been exploited by miners, with the product being sent down to navigable waters on narrow-gauge railways before being barged out. Indeed he even admits that there is: “an old and now overgrown road Expanded Graphite Creek Inferred Mineral Resource, Alaska (developed and used in the early 1900s) extends about 3 km from the shore of Windy Cove on the south side of Imuruk Basin to some of the historic showings/workings. The Imuruk Basin is an intertidal water body with an outlet to Grantley Harbour on Seward Peninsula’s

west coast”.

That admission undercuts all claims that the project is location challenged or at least so challenged as to be unexploitable. If crusty old prospectors could mine tin (and graphite) in the olden days then with all today's technological advances arguments to the contrary are spurious indeed.

**Management** – the arguments against the “lack of experience” on the board are the most facile. This is what exposes the author as somewhat of a rube in the mining space. It is well known that explorers explore then the baton is passed to mining engineers who build it and then operate it. To expect a development project to be run by mining engineers is to expect somewhat of a unicorn. Not that we are advocates of geologists running companies either. However, between the main board and the advisory board the company has a mixture of big mining company and small mining company skillsets, engineers, managers and explorationists. What really does the author of this diatribe expect?

**Timeline** – frankly to paraphrase the classics “you are a braver man than I, Gunga Din”... if you are a mine planner that goes out more than one year. The author makes himself sound rather churlish is demanding that the company, in this day and age, predicts what will happen after the end of 2015. As so much depends on finding an offtaker partner in ALL the graphite space, timelines are subject to change and potential acceleration depending on which suitor one encounters.

**Share Count** – The company just pulled off a successful financing which again is rather a triumph in the current environment. And yet our critic finds this distasteful too as it boosts the share count. You cannot make an omelette without breaking eggs and I would certainly rather be positioned in a company that finds it can do a sizable financing at the darkest hour, rather than in the 90% of other companies that

cannot.

The company just raised CAD\$6mn. He claims that it will need to raise a "lot more capital" to get a PEA done and more drilling. With a resource already in the bag, the only drilling that must be done is geo-technical drilling and that would be at the point that a PFS was commissioned. Going by what I know of industry costs these days, I would suggest that the company has more than enough money in the till for finishing off a PEA and a PFS.

Share count is one of the least vexing problems these days and that the author does not know this should be vexing to those relying upon his advice.

### **Conclusion**

Being an inveterate cynic, the first thing I looked for when alerted to this article was to go in search of a disclaimer at the end of the piece. I could not find one...So maybe the author does not have a long or short position in the stock. Maybe..