

Fundamental Research Corp.

Investment Analysis for Intelligent Investors

January 31, 2014

Graphite One Resources Inc. (TSXV: GPH / OTCQX: GPHOF) – Reports strong resource growth

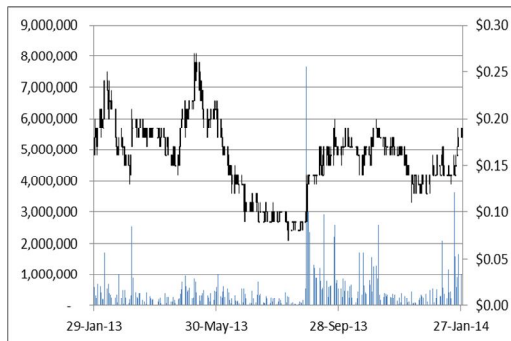
Sector/Industry: Junior Exploration/Mining

www.graphiteoneresources.com

Market Data (as of January 31, 2014)

Current Price	C\$0.18
Fair Value	C\$0.50
Rating*	BUY
Risk*	5 (Highly Spec)
52 Week Range	C\$0.07 - C\$0.27
Shares O/S	117.80 mm
Market Cap	C\$21.20 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	3.1x
YoY Return	5.9%
YoY TSXV	XXX%

*see back of report for rating and risk definitions



Investment Highlights

- An updated inferred resource estimate, announced on January 20, 2014, showed a 67% increase of in-situ graphite to 10.35 Mt @ 5.5% Cg.
- The Graphite Creek deposit, we believe, is now clearly the largest discovered graphite deposit in North America in development.
- Infill drilling is planned this year to upgrade resources to measured/indicated resources.
- Initial metallurgical results are promising as they show the ability to produce a 99.2% Cg product.
- Appoints Doug Smith as the new Executive Chairman of the Board.
- Management expects to complete a preliminary economic assessment by Q1-2015.
- Results from the ongoing metallurgical studies will be very critical.
- The company can raise up to \$4.51 million if the outstanding ‘in-the-money’ options/warrants are exercised.

Key Financial Data (FYE - Sept 30)

(C\$)	2012	2013
Cash	767,511	1,512,856
Working Capital	672,984	1,075,514
Mineral Assets	4,444,125	5,513,217
Total Assets	5,757,680	7,302,220
Revenue	-	-
Net Income	(6,776,181)	(1,686,631)
EPS	(0.09)	(0.02)

Graphite One Resources Inc. is focused on the Graphite Creek property in western Alaska. It is considered to be the largest known, high-grade, large flake, graphite deposit in North America. The property has a NI 43-101 compliant base-case inferred resource estimate of 187Mt grading 5.5% graphite containing 10.3 million tonnes of in situ graphite. The resource includes 3.5 Mt of in situ graphite @ 9.2%. The property is 18 miles from a seasonal road, and 24 miles from a newly proposed deep sea port.

Significant increase in resource

On January 20, 2014, the company announced an updated resource estimate, calculated by APEX Geoscience Ltd. The table below shows the updated resource, and the initial resource announced in 2012.

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^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^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

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

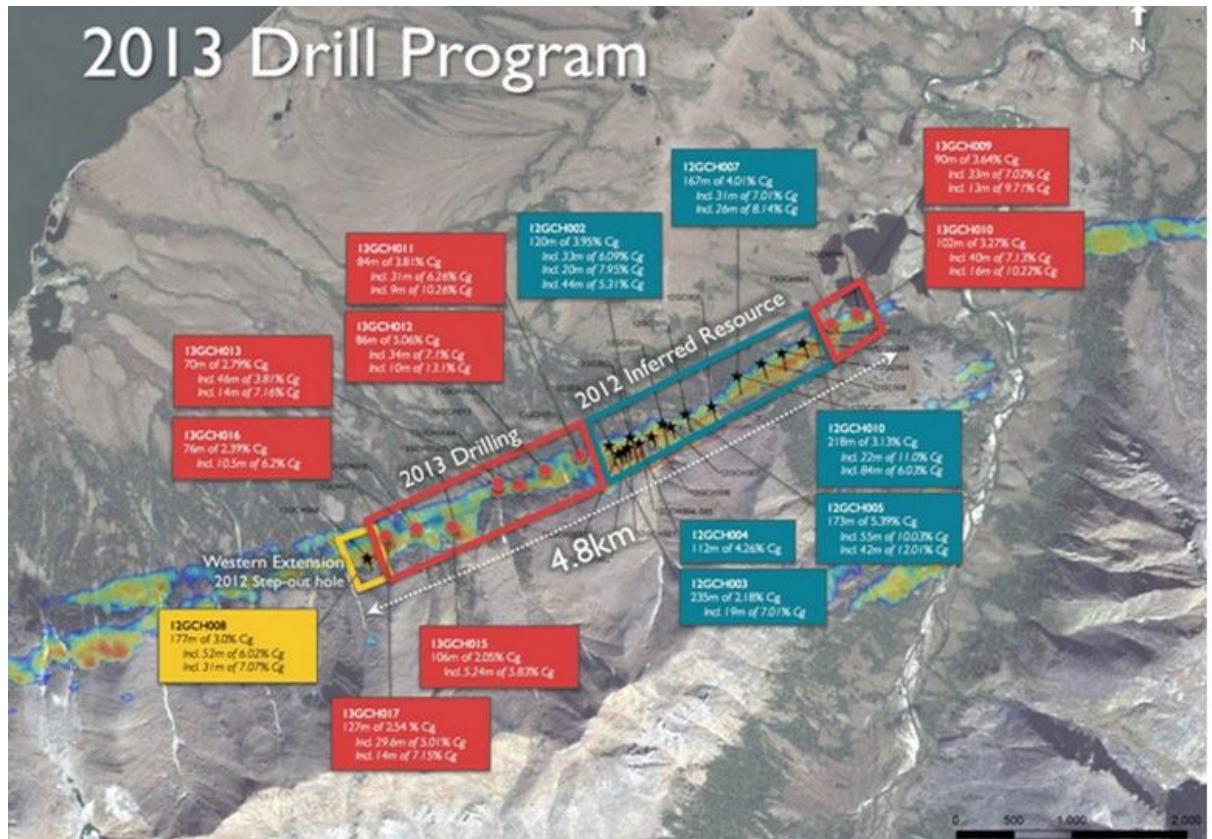
*b = base-case

The new resource estimate, based on a 2% Cg cut-off, increased by 73%, to 285 Mt. 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 the 2013 drilling, which increased the strike length to 4.8 km, up from the previous estimate of 2.2 km.**

The company drilled a total of 28 holes (5,272 m) in 2012, and 2013, along the 4.8 km strike. **The total trend is estimated to be 18 km.** The updated resource is based on 4.8 km strike, 230 m across the strike to the south east, and 320 m below surface. Management believes the deposit remains open along strike, and to the east / west, and down dip.

An infill drill program, planned in 2014, is planned to upgrade a portion of the inferred to measured or indicated categories, and de-risk the project. According to management, their consultants estimate a 8,000 m, 65 hole drill program, costing approximately \$4.80 million.

The map below shows the resource area.



Source: Company

The table below shows a summary of the drill results that were incorporated into the new resource estimate.

DRILL HOLE	Depth		Intersection (m)	Graphite (% Cg) *
	From (m)	To (m)		
12GCH008	6	183	177	3.00%
.....including	6	58	52	6.02%
13GCH009	15	115.25	90.25	3.64%
.....including	41.84	75	33.16	7.02%
13GCH010	11.89	114	102.11	3.27%
.....including	55.15	95	39.85	7.13%
13GCH011	11.89	95.71	83.82	3.81%
.....including	11.89	42.37	30.48	6.26%
13GCH012	15.42	101.8	86.38	5.06%
.....including	36	46	10	13.07%
13GCH013	22.86	92.66	69.8	2.79%
.....including	22.86	69	46.14	3.81%
13GCH014A	30.18	49.99	19.81	2.80%
13GCH014B	28.65	110.95	82.3	1.40%
.....including	28.65	44	15.35	4.04%
13GCH015	7.85	114	106.15	2.05%
.....including	30.76	36	5.24	5.83%
13GCH016	6.1	81.99	75.89	2.39%
.....including	37.49	48	10.51	6.20%
13GCH017	20.45	147.22	126.77	2.54%
.....including	36	50	14	7.15%

Source: Company press releases

Metallurgical testing shows purity of 99.2%

Last spring, Graphite One announced the **initial results from their metallurgical testing program on the Graphite Creek property.** A first pass beneficiation test was performed by Activation Laboratories Ltd. in Thunder Bay, Ontario. This showed that a purity of 99.2% graphitic carbon (“Cg”) is achievable by leaching of a rough concentrate. Ongoing metallurgical testing will be conducted to develop a process for the production of 99.9% Cg.

The ability to produce a high purity graphite product is significant as high tech applications

Signs MOU with the Alaska Department of Natural Resources

require purities above 99%. GPH has stated that their long term plan is to supply graphite to the spherical graphite market. This means that they will be competing against synthetic graphite, which has a purity of 99.9%. The fact that the initial tests have returned a purity of 99.2% is positive for GPH, but we believe that they will need to get the purity higher if they are going to be competitive with synthetic graphite.

Management expects to announce additional metallurgical results by the end of this quarter.

In October 2013, the company announced it signed a Memorandum Of Understanding (“MOU”) with the Office of Project Management and Permitting (“OPMP”) of the Alaska Department of Natural Resources (“DNR”). DNR will provide the following to GPH as a part of the pre-permitting process.

1. *Dialog with Graphite One regarding the development of a Quality Assurance Program Plan (“QAPP”);*
2. *Review and comment on applications and numerous State permit requirements; and*
3. *Review, analyze, and evaluate complex technical documents for adequacy and soundness.*

Development Plan

GPH has commissioned JDS Energy and Mining Inc. of Vancouver, BC to conduct engineering and logistic studies. The company is also continuing with metallurgical tests, with the goal of producing a 99.9% Cg graphite product. This will involve developing concentration and leaching processes. **The results will be used in the Preliminary Economic Assessment on the Graphite Creek property. The company has yet to pick an engineering firm to do the PEA.** The chart below shows the plans for the next 24 months.



Source: Company

**Management /
Board update**

On January 29, 2014, the company announced the appointment of Anthony Huston as Chief Executive Officer (“CEO”), and Doug Smith as Executive Chairman of the Board of Directors. Charles Chebry, CEO and Chairman, resigned from his positions. Anthony Huston was previously the President of the company. In November 2013, the company announced the appointment of James Currie to the board.

Brief biography of the new members, Doug Smith and James Currie, as provided by the company, follows:

Doug Smith, Executive Chairman

Doug Smith has over 35 years of experience in the international coal industry as a senior executive and corporate director. He was General Manager of Xstrata Coal Canada from August 2011 to June 2013, a role assumed following Xstrata Coal's purchase of First Coal Corporation in August 2011. Doug had been President, CEO and Director of First Coal since May 2007 where he raised over \$50 million in equity and directed its sale to Xstrata. For the 12 years prior to joining First Coal, Doug was President and Director of Andalex Resources Inc., a U.S. private coal company with extensive surface mining operations in western Kentucky and underground operations in Utah. In 2006, he successfully directed the sale of Andalex. During this period, Doug also served as Chairman and Director of Los Angeles Export Terminal Inc., an export coal loading and handling facility at San Pedro, California.

In his prior work experience at Luscar Ltd., in Edmonton, Alberta, Doug moved through successive positions to Senior Vice President responsible for program management in all company areas including marketing, transportation, legal affairs, environmental protection, and public relations. He negotiated numerous coal supply contracts with domestic and international customers and served as Vice Chair and Director of Neptune Bulk Terminals, Canada Ltd. Doug holds a B.Sc. in Electrical Engineering and a B.Sc. in Biology, both from the University of Alberta. He has completed the Program for Management Development at the Harvard Graduate School of Business Administration and has earned the ICD.D certification from the Institute of Corporate Directors. He has been a director of the Mining Associations of BC and Utah as well as the Coal Associations of Canada and Kentucky. He is a member of the Association of Professional Engineers and Geoscientists of Alberta and numerous professional organizations.

James Currie, Director

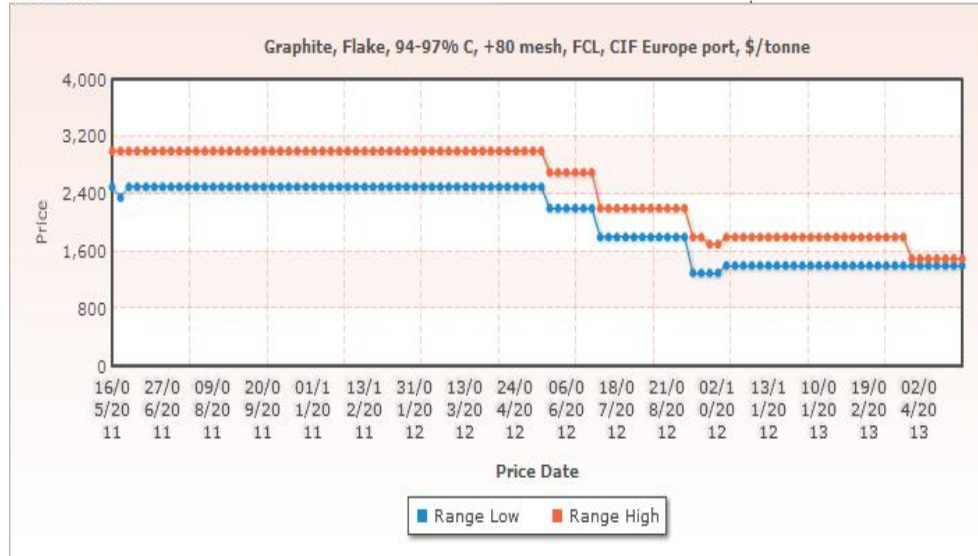
Mr. Currie is a mining engineer with over 34 years of experience in the mining industry, having worked on projects in many countries around the world. His experience encompasses exploration, feasibility studies, construction and operation of mining projects. Over his career Mr. Currie has worked for Placer Development (now Barrick Gold), Noranda, First Quantum Minerals and New Gold, amongst others. At New Gold where he was COO, he oversaw the development of the New Afton Mine, which is the key producing asset in New Gold's portfolio. Mr. Currie has a Bachelor of Science in Mining from Queen's University,

Graphite prices

and has been a Professional Engineer since 1982.

Graphite prices have dropped significantly from the highs of 2011 and 2012, as shown in the chart below.

Graphite, Flake, 94-97% C, +80 mesh, FCL, CIF Europe port, \$/tonne



Source: Industrial Minerals

The drop in prices raises concerns over the ability of most North American graphite players to produce economically, if prices stay low, or drop further. GPH has not yet completed an economic study on the Graphite Creek project; however, the property does have some key advantages. **Firstly, the high-grade mineralization is close to the surface, reducing mine operating costs and waste.** Also, as per the January 2013 technical report, “the graphite-bearing rocks are exposed at surface along a dip slope of approximately 40° to 75° providing an ideal scenario for a low waste to ore strip ratio in an open pit operation.”

The property is also near the coast of Alaska (see map below), providing access to ports throughout the Pacific. The most significant obstacle for GPH is that there is no road in place to get the graphite off the property to the nearest port. There are currently two options:

- a) truck the graphite concentrate to Nome - a Nome-Teller road is about 30 km west of the property; there is currently no road from the property to the Nome-Teller road – management estimates it will cost approximately \$20 million to construct the road.
- b) barge the concentrate to Nome or Teller (one of the proposed locations for a new deep sea port) during summer seasons. The property is three km inland from intertidal waters at Windy Cove (Imuruk Basin), which can be used to barge concentrate to Teller or Nome. In winter seasons, they will have to rely on seasonal (ice) roads.



Source: Graphite Creek 43-101 Technical Report January 18, 2013

We believe the results from the ongoing metallurgical studies, and completion of the PEA, will be very critical catalysts for the company over the next 12 - 18 months.

Financials

At the end of FY2013 (ended September 30, 2013) the company had cash and working capital of \$1.51 million and \$1.08 million, respectively.

The company reported a net loss of \$1.69 million (EPS: -\$0.02) in FY2013. We estimate the company had a burn rate (cash spent on operating and investing activities) of \$0.15 million per month in FY2013, versus \$0.49 million in FY2012. The following table summarizes the

company's liquidity position at the end of FY2013.

	2012	2013
Cash	767,511	1,512,856
Working Capital	672,984	1,075,514
Current Ratio	3.12	3.20
LT Debt	-	-
LT Debt/Asset	-	-
Cash flows from Financing	5,893,805	2,596,740
Monthly Burn Rate (incl. investing activities)	(491,192)	(154,283)

According to management, their consultants estimate CAPEX for 2014 to be approximately \$10 million, including \$4.8 million for infill drilling, \$1.2 million for met studies, and the rest for PEA, engineering studies, etc.

Options and Warrants - The company currently has 47.84 million warrants (weighted average exercise price of \$0.21), and 16.18 million options (weighted average exercise price of \$0.20) outstanding. **At this time, 27.38 million warrants and 6.60 million options are in the money; which means the company can raise up to \$4.51 million if these options/warrants are exercised.**

The following table shows a comparison of the graphite projects held by the key players in the Canadian junior graphite space. The companies are arranged based on their enterprise values.

Company	Location	Stage	Enterprise Value (\$,mm)	In-Situ Graphite		Grade	% Large Flake (+80 mesh)
				M&I (Mt)	Inferred (Mt)		
Zenyatta Ventures	Ontario	Resource	\$100	0.98	0.44	3.40%	59% - 94%
Focus Graphite	Quebec	PEA	\$52	1.41	0.41	14.60%	34%
Mason Graphite	Quebec	PEA	\$51	7.80	2.03	15.90%	29%
Energizer Resources	Madagascar	PEA	\$33	5.30	2.50	6.30%	48%
Northern Graphite	Ontario	FS	\$30	1.21	0.40	1.70%	77%
Graphite One	Alaska	Resource	\$22		10.35	5.50%	59% - 94%
Flinders Resources	Sweden	PEA	\$11	0.30		10.70%	40%
Average							

* Resource = 100% of M&I + 50% of Inferred

The purity levels shown in the table above, of most companies, are based on very preliminary studies.

Valuation and Rating

As shown in the table, it is not possible to clearly state a favorite, as each project has its own advantages and disadvantages. **For example, Graphite One clearly has the highest in-situ graphite tonnage. Mason Graphite has the highest grade, while Northern Graphite seems to have the higher large-flake distribution.**

Discounted Cash Flow (DCF): We have continued to evaluate the Graphite Creek project based on its high-grade potential. The updated high-grade in situ resource is 3.5Mt @ 9.2% Cg, up from 2.5Mt @ 9.7% Cg. We have discounted this estimate by 50%, for conservatism, as they are in the inferred category.

We made the following key changes to our DCF model:

- adjusted our long-term weighted average graphite price estimate from US\$1,760 to US\$1,525 per tonne
- based on the significant increase in resource, we have raised our average annual production estimate (from 40,500 to 45,000 tonnes of concentrate), and mine life from 25 to 30 years
- the increase in high-grade near-surface material, with potential for a low stripping ratio, have prompted us to lower our operating cost estimate from US\$800 to US\$650 per tonne.

Note that these estimates are still very preliminary; we will have much more clarity on these inputs when a PEA is completed.

Our revised valuation, shown below, is \$0.47 per share versus our previous estimate of \$0.50 per share.

DCF Valuation Summary	
Production Commencement	2017
Annual Production (concentrate)	45,000
Weighted Average Grade	9.2%
Recovery	87.5%
Mine Life (in years)	30
Average Operating Costs (US\$/tonne - produced)	\$650
Capital Costs (in US\$)	130,000,000
Discount Rate	11.63%
Fair Value (after-tax @ 11.6%) - C\$	\$58,576,106
Working Capital (C\$)	\$535,524
Number of Shares *	126,709,406
Value Per Share (C\$)	\$0.47

*calculated based on the treasury stock method

The sensitivity of our fair value estimate to discount rates, and graphite prices is shown below.

Valuation Sensitivity		Discount Rate (%)		
		8.0%	11.6%	15.0%
Weighted Average Graphite Price (US\$/t)	\$1,225	\$0.41	\$0.06	-\$0.11
	\$1,325	\$0.61	\$0.20	-\$0.01
	\$1,425	\$0.82	\$0.33	\$0.09
	\$1,525	\$1.02	\$0.47	\$0.19
	\$1,625	\$1.22	\$0.61	\$0.28
	\$1,725	\$1.43	\$0.74	\$0.38
	\$1,825	\$1.63	\$0.88	\$0.48

As there has not been a significant change in our fair value, we maintain our BUY rating, and fair value at \$0.50 per share.

The following risks, though not exhaustive, may cause our estimates to differ from actual results:

- The company currently has no operating mines.
- The value of the company depends on commodity prices.
- Success of economic studies is important to the long-term growth of the company.
- All of the NI 43-101 compliant resources are in the inferred category.
- Access to capital and share dilution.

Risks

- Access to the Graphite Creek property is seasonal, and limited to 3-4 months each year. This limits exploration/development activities, and potentially, mining operations on the property. Management intends to conduct seasonal mining and processing year round.

We rate the company's shares a RISK of 5 (Highly Speculative).

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company’s capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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The distribution of FRC’s ratings are as follows: BUY (68%), HOLD (8%), SELL (5%), SUSPEND (19%).

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