



April 9, 2018

Senator Click Bishop, Chair
Senate Community and Regional Affairs Committee
The Alaska State Legislature
State Capitol
Juneau, AK 99801-1182

SB 203: AIDEA – Bonds for Graphite Creek Project

Dear Senator Bishop & Committee Members:

On behalf of Graphite One Resources, thank you for considering SB 203 during your hearing on February 27th. We appreciated the opportunity to attend by conference call and after reviewing the hearing's minutes, feel it important to provide the attached appendix responding to some of the statements to avoid possible inaccuracies or misunderstandings. We request that this letter and appendix be entered into the committee hearing record.

We are midway through the exploration program and have completed a Preliminary Economic Assessment. Our intent is to continue our exploration program this summer, and to continue collecting baseline environmental data that will be used in the permitting and environmental analysis of the project. We are committed to ensuring that our project will have minimal impacts on the environment and local communities, and our goal is to maximize the benefits of this project to the residents of the area.

We recognize this session of the 30th Legislature is quickly coming to its statutory close and members are concentrating on passing the necessary state budgets and priority legislation. We also realize that SB 203 is unlikely to advance in this schedule and are hopeful that we might have the opportunity to bring forward similar legislation in a future session.

Yours truly,

A handwritten signature in black ink, appearing to read 'Doug Smith', is written over a light blue horizontal line.

Doug Smith
Executive Chairman
604-240-6016
DougS@GraphiteOneResources.com

cc: Senator Pete Kelly, President of the Senate
Representative Bryce Edgmon, Speaker of the House
Senator Donny Olson
Representative Neal Foster

APPENDIX¹

Letter to Senate Community and Regional Affairs Committee

April 9, 2018

1. Concerns of Impacts to Subsistence Resources

- Graphite One is committed to understanding the concerns of local subsistence users, and to ensure that the project will have minimal impacts on subsistence resources.
- All stakeholders and Graphite One seek to understand the potential impacts, both positive and negative, of the project.
- We have not completed the necessary studies and analyses to identify potential negative impacts, and how to minimize them; or, potential positive impacts, and how to maximize them.
- Information is not expected to be available to share with the communities until at least the Pre-feasibility is completed.
- Details such as size and location of facilities, types and quantities of any chemicals used in the flotation circuits, etc. will also not be known until the studies are completed.
- These studies will be made available with the Pre-feasibility and Feasibility reports and will be reviewed as part of the public review in the permitting process.

2. Subsistence Advisory Council's have not been Active

- Graphite One requested Teller, Mary's Igloo and Brevig Mission nominate Subsistence Advisory Councils and received names of those appointed. Our intent is to continue the exploration program this summer and activate the councils.
- We have invited Kawerak's Subsistence Program Director to attend Subsistence Advisory Council meetings as an observer.
- We have met regularly since 2014 with the communities and leadership of Brevig Mission, Teller, Mary's Igloo and Nome.
- We have committed in writing to:
 - o Work with community leadership to address subsistence resources; environmental protection and mitigation, and workforce hiring and development.
 - o Hire locally to the maximum extent possible and invest in the training necessary to build strong workforces from each community.
 - o Maintain the Subsistence Advisory Councils to work closely with their communities.

3. Requirements for Environmental Analysis and Community Review

There will be a rigorous permitting and environmental analysis process that will evaluate the potential impacts of the project to the environment, communities, and subsistence resources, so that appropriate mitigation measures can be implemented.

Approximately 40 authorizations and permits will be required for the construction and operation of the mine. These authorizations and permits must be issued by numerous federal and state agencies and will include requirements to ensure protection of air and water quality, wetlands, cultural resources, subsistence resources, fish and wildlife, and other resources.

As part of the permitting process, the federal agencies will need to conduct an analysis of the environmental impacts in accordance with the National Environmental Policy Act. This analysis will require public involvement and comment, and will also require baseline environmental information, including:

- Air: baseline meteorological data
- Cultural resources analysis
- Geochemistry baseline analysis
- Hydrology: baseline on surface water, groundwater and water quality
- Fish and fish habitat
- Wildlife
- Birds
- Wetlands
- Subsistence
- Recreation: access
- Land Use
- Socioeconomic profile

The environmental analysis will allow the state and federal agencies to make appropriate decisions on each of their permits and will guide the development of mitigation measures that will address the potential impacts from the project on the environment and the communities.



4. Who Owns Graphite One?

- A wide range of shareholders from Canada, U.S and Europe. Several are Alaskans.
- Traded on the Canadian TSX-V stock exchange and the OTCQB exchange under the symbols "GPH" and "GPHOF" respectively.
- The TSX and TSX-V exchanges list 57% of the world's publicly traded mining companies.
- TSX-V gives emerging companies, like GPH, efficient access to capital and investors a regulated market for investing in them.

5. No Revenue in Financial Statements

- As an exploration company, all financing comes from equity investments by individual investors. No operating revenue is realized until there are sales from an approved, operating mine.
- The financial statements show investments directly from investors through periodic stock purchases (equity funding) which are closely regulated by security commissions and the TSX-V.
- Investors can buy and sell shares on the TSX-V. The ability to freely trade stocks in a well-regulated market attracts global mining investment to Canadian listed companies and has evolved Vancouver and Toronto into global mining centers.

6. Graphite One is Still Early in the Process

- We are midway through the exploration program and have completed the Preliminary Economic Assessment (PEA).
- Our intent is to continue the exploration program and baseline data collection this summer.
- Projects of Canadian public companies must progress through a series of technical reports complying with the "National Instrument 43-101 Standards of Disclosure for Mineral Projects". NI 43-101's required content and preparation standards are developed by the Canadian Institute of Mining and endorsed and monitored by the securities commissions and the TSX/TSX-V.
- An exploration project first conducts exploration to establish a resource with sufficient quality and quantity data (Indicated & Inferred Resources) to support a decision to continue development. Then a Preliminary Economic Assessment (PEA), is completed to determine if the resource has the potential to be economically viable assuming production methods, costs and selling prices. Additional drilling and evaluation is required to convert the

Indicated and Inferred Resources to Measured reserves (by completing infill drilling). A Pre-feasibility Study then narrows the assumptions and options using more precise engineering, costing and pricing. Finally, a Feasibility Study examines the chosen options with greater engineering, economic and marketing precision. Feasibility Studies are used to design, finance and construct the mine.

- Once a Feasibility Study, all permits and approvals and agreements for product sales are secured, the project proponent then seeks the necessary capital from the financial community to construct and operate the mine.
- 7. SB 203 Would Authorize Change in Possible AIDEA Financing for Project Infrastructure from \$25M to \$80M**
- AIDEA has authority to lend in the form of bonds up to \$25 million.
 - SB203 seeks increasing this limit to \$80 million for the project should AIDEA's board approve a future request from Graphite One to assist in financing the project infrastructure.
 - For AIDEA to loan up to \$80 million for the project's infrastructure requires:
 - o Legislative authorization to increase loan capacity from \$25M to \$80M;
 - o Graphite One's application accompanied by a Feasibility Study, project permits and possibly customer agreements;
 - o Recommendation by AIDEA's staff, following diligent review, to loan to the project;
 - o Approval of local authorities, in this case, a 5-member Regional Resource Advisory Council appointed by the Governor to review the project; and,
 - o AIDEA board approval.
- 8. The Graphite One Project**
- Proposed as a vertically integrated enterprise to:
 - o Mine and process 60,000 tonnes per year of graphite concentrate from the property on the Seward Peninsula about 37 miles north of Nome.
 - o Manufacture about 55,350 tonnes per year of graphite products, mainly for the electric vehicle and energy storage lithium-ion battery markets, at a facility whose location is being determined (not on the Seward Peninsula as low cost electricity is needed for high temperature electric furnaces to purify the graphite).
 - The mine and processing plant are forecast to cost \$233M and employ 269. The manufacturing plant is forecast to cost \$130M and employ 102.



- The Property consists of 176 state and 24 federal mining claims. The federal claims are in the final stages of being conveyed to the state.
- The federal claims and their successor state claims are leased from Kougarok LLC, a Tweet family company. The Tweet family mined graphite from the claims beginning in the early 1900s and remain active in the region.

9. The Project PEA

The project's PEA was completed in June 2017. Based on its assumptions, it concluded that:

- Sufficient resources are estimated to exist for a project life of 40 years;
- Full production would be 60,000 tonnes per year of graphite concentrate and 55,350 tonnes per year of manufactured graphite products;
- The project's resources have the potential to be economically viable with a projected after tax net present value of \$616 million (10% discount rate), internal rate of return of 22% and payback in the fourth year of production;
- Resource estimates include over 10 million tonnes of Indicated Resources grading 7.2 % graphitic carbon and 71 million tonnes of Inferred Resources at 7.0% Cg, using a 6% Cg mining cut-off grade.

The next steps are to conduct additional drilling to improve the accuracy of the resource calculation; begin the baseline environmental and other permit related studies; begin the detailed mine design, plant design, cost analysis and market review; and, summarize the findings in a Pre-Feasibility Report.

¹ This Appendix contains Forward Looking Statements. Readers are cautioned not to place undue reliance on it for investment purposes. The Company's financial statements and other filings are available at:

<https://www.sedar.com/DisplayCompanyDocuments.do?lang=EN&issuerNo=00025247>