

Today's Notes:

1. Northern Graphite (NGC TSXV)

It has indeed been a tough couple of weeks. The markets are struggling and the natural resource juniors have been impacted. But here's one company that we think has great potential. It is Northern Graphite (NGC TSXV) a Discovery Incubator that is rapidly maturing.

The company has a very large, very valuable large flake graphite project (Bissett Creek) in northern Ontario about half way between Ottawa and North Bay just off Trans-Canada highway. Graphite is one of those critical "metals" that every one of us has been in touch with since our elementary school days. Lead pencils are made from graphite, not lead, of course. Graphite's most important applications are many but I find it interesting that when Chernobyl's nuclear reactor exploded the graphite in the reactor burned for days. So graphite is a critical component of nuclear reactors because it moderates neutron absorption.

But graphite is also required in many other clean tech and renewable applications. Lithium ion batteries require significant amounts of graphite for anodes. Fuel cells also require significant graphite in their construction. Future demand for large flake graphite seems assured.

However there are graphites and then there are graphites. NGC's NI 43-101 resources at Bissett Creek consists of indicated resources of 14.6 million tonnes grading 2.24% Cg (graphitic carbon) at a 1.5% cutoff and inferred resources of 18 million tonnes grading 2.21% Cg at a 1.5% cutoff of large flake graphites.

By far the most valuable type of graphite is large flake graphite and this is exactly what Northern graphite has in its extensive resource.

Yesterday the company reported results of its recent drill program. Of 51 holes drilled 50 intersected significant graphite of the type identified in the current 43-101 resource. As a result, NGC's deposit has been significantly enlarged and remains open along strike to the north and south, and down dip to the east.

CEO Gregory Bowes, said

"The recent drill program met or exceeded all expectations. We have demonstrated that large flake, high purity graphite mineralization exists near surface in an area that is now over one square kilometer in size and it remains open. We believe future production could be scaled to much higher levels to meet anticipated demand from Li ion batteries and other rapidly growing applications."

With these drill results we think that graphite production at Bissett Creek can now be scaled up, significantly. The company will now proceed to a pre-feasibility study. We expect a very valuable a long-lived production potential in this mine that could come on stream soon.

The company predicts at least a 20 economic year mine life. We think 40 years mine life possible given recent results. The pre-feasibility study forthcoming within the next few months will provide this evaluation. We believe that the deposit is significantly longer lived but you can only discount so many years in a traditional DCF / NPV analysis.

The company recently completed its IPO at \$.50 and its share price has since risen to \$1.08.



There are a couple of additional points that we need to mention. First, China rears its controlling head once again. China controls 70% to 80% of the world's graphite supply. We expect China's graphite production will decline and she will begin to restrict exports as in other critical metals. There is limited production of graphite in the US and Europe and graphite is on the critical metal's list in the European Union.

Demand and pricing are uniformly positive for graphite developers today. According to a May 5th edition of *Industrial Minerals*,

“GraTech International Ltd, one of the world’s largest producers of graphite-based electrodes, reported first quarter sales of \$306m., a 42% increase from the same time a year ago.”

Price per tonne for large flake graphite has also soared. According to Industrial Minerals as of May 4th prices for different graphite classes were as follows:

- 1) Amorphous graphite powder (China) \$ 600 - \$ 800
- 2) Fine \$1,800 - \$2,200
- 3) Medium flake sold for \$1,800 - \$2,200
- 4) Crystalline large flake NGC's resource) \$2,275 - \$3,000.

It is apparent to us that Northern Graphite's resource is a company-maker. Management is also excellent but that shall be the topic of a future Morning Note. We own shares in NGC.

Bissett Creek 2010 Drilling Program- Composite Summary Highlights (based on a 1.5% cutoff)

Hole	From (M)	To (M)	Width (M)	Cg%	Hole Type
BC-10-03	30	54	24	1.95	south expansion
BC-10-04	18	33	15	2.69	south expansion
	56.9	80	23.1	2.62	
BC-10-05	54	76.3	22.2	2.97	south expansion
BC-10-07	35.6	51	15.4	1.9	South-east expansion
BC-10-08	27	45	18	2.03	South-east expansion
BC-10-09	21	45	24	2.43	South-east expansion
BC-10-10	44.6	48	33.4	2.87	South-east expansion
BC-10-11	36.4	51	14.6	3.45	South-east expansion
BC-10-13	8	46.7	38.7	2.49	infill
BC-10-14	33.25	50.95	17.7	3.18	infill
BC-10-18	38.5	60	21.5	2.33	infill
BC-10-24	21	51	30	2.69	North expansion
BC-10-25	1.5	38.2	36.7	2.33	North expansion
BC-10-28	24	60	36	2.35	North expansion
BC-10-34	1.7	30	28.3	1.92	North expansion
BC-10-35	33.35	57	23.65	2.44	North expansion
BC-10-36	51.7	69	17.3	2.91	North expansion
SGS-2010-03	6	33	27	2.16	Infill-twin
SGS-2010-03B	12	34.2	22.2	2.54	Infill-twin
SGS-2010-04	17.6	41.8	24.2	3.23	Infill-twin
SGS-2010-B1-1	13.9	36.3	22.4	3.31	infill
SGS-2010-B1-2	12	43.4	31.4	2.75	infill
SGS-2010-B1-4	10.6	37.2	26.6	2.21	infill
SGS-2010-B2-2	39	60.35	21.35	2.45	infill
SGS-2010-B2-3	17	38.35	21.35	2.89	infill
SGS-2010-B2-4	13	47.2	34.2	2.75	infill

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