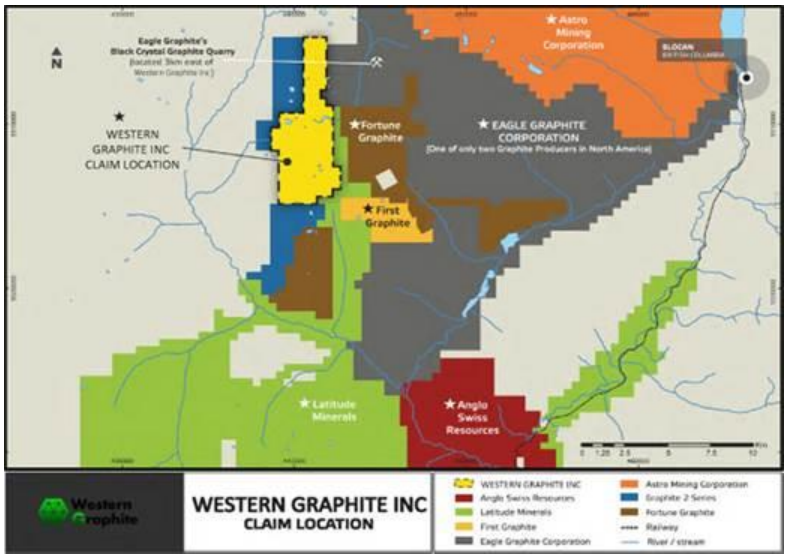
NBT Equities Research
April 22, 2013
Tobin S. Smith, Chief Research Officer

Initiating Coverage: Western Graphite, Inc. (WSGP)
Short Term Target: $5
Shares Outstanding: 58,000,000
Float: 30,000,000

We are initiating sponsored research coverage of Western Graphite, Inc. (WGSP) with a $5 short term target based on their preliminary high quality "flake" graphite reserve estimates at their 5000 acre Pure Flake mine in British Columbia, Canada and @1000 acres in Southern Turkey known as the "Amorf Graphite Property". We incorporate a $2500/t price for high purity large flake graphite and $10,000 a ton for processed spherical graphite. We DCF model 20,000 tons of graphite production for 20 years at full production.



Our Investment Thesis: We expect high purity (94-97%) large flake (80+ microns) graphite to double or triple in value over the next 12-24 months due to

- enormous strategic value to both the Western world and China/ India
- rarity of Western based high purity/large flake reserves relative to low/mid quality graphite

- Chinese demand for "nuclear grade" carbon graphite for its rapidly expanding nuclear power plant development
- Rapid expansion of lithium-ion battery production and graphene applications…all derived from high purity large flake graphite.

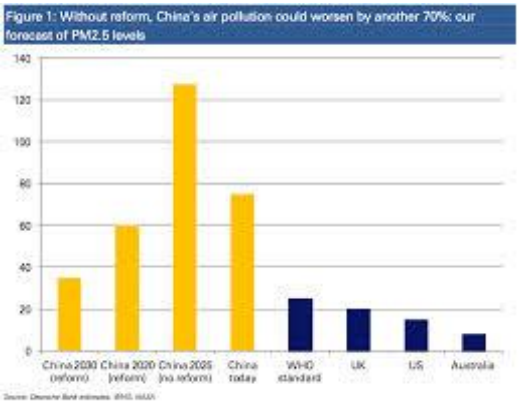
In short we are very bullish on very high grade/purity "flake" graphite…it's really one of the key resources of the 21st century.

China's Air Pollution Catastrophe Is Here Today.

Here are the facts:

1.2 million Chinese DEAD from air pollution according Global Burden of Disease 2013 report.

3.6 million estimated DEAD from poison air in 2012 in China and India from Health Effects Institute study.



When you add in the facts that

- China's massive air pollution tragedy has forced them to RACE to build 100+ new nuclear reactors over the next 20 years to HOPE their poisoned air (poisoned by emissions from their thousands of coal fired electrical power plants) and
- You need 10,000+ tons of ultra-high quality nuclear grade carbon graphite to construct EVERY nuclear power plant and
- 14,000 tons a year to RUN a nuclear power plant
- The VAST majority of China's graphite reserves (which represent 70% of the world's) is LOW quality carbon graphite
- China is already importing nuclear grade carbon graphite from Japan…which buys very high grade carbon graphite and then upgrades
- China's goal of one million electric cars on the road by 2015 requires lithium-ion batteries requiring another 100 thousand tons of graphite per year….

We are strongly convinced there is about to be a MASSIVE supply and price squeeze on high purity and large flake carbon graphite…3x-5X higher prices.

The entire high purity/large flake graphite production in 2012 was @560 tons (estimate from Northern Graphite).

Literally 100% of that graphite will be required just to RUN the 50 new nuclear plants under construction in China.

With 80 new plants under construction in China (and 20 operating by year end) the world's high purity/large flake carbon graphite production is going to have to double to meet JUST the Chinese demand.

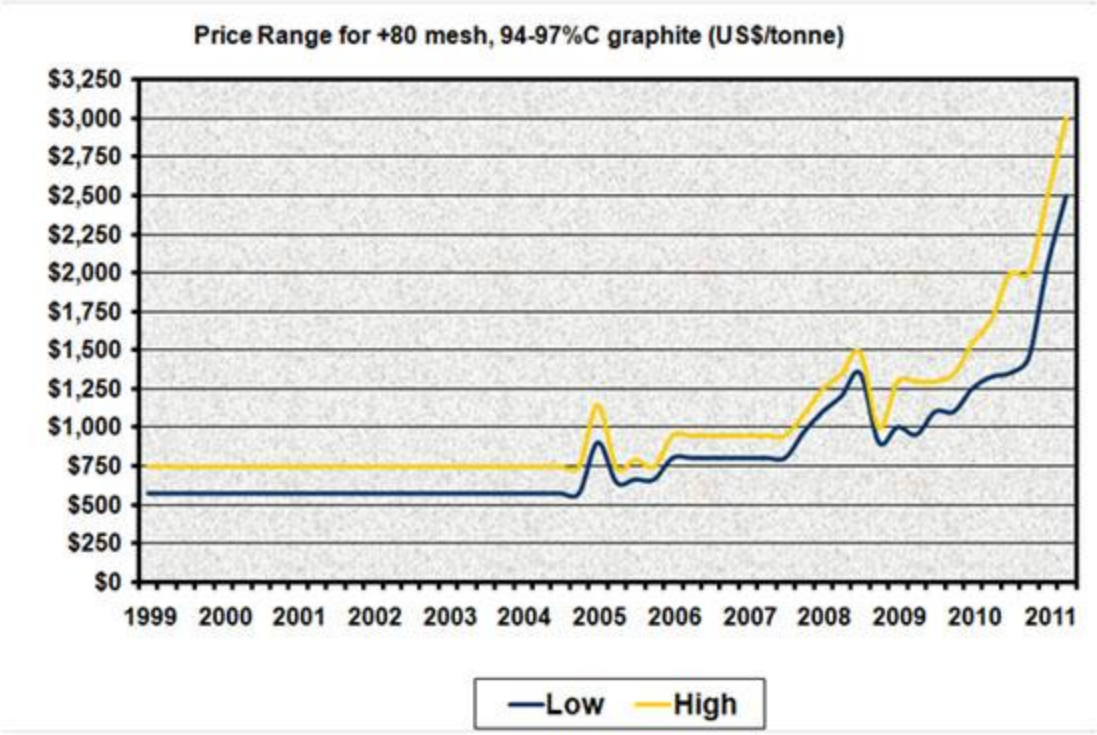
With the rapid growth of lithium-ion battery production AND the new demand from the wonder material graphene (single carbon graphite atom material) the world demand for high quality carbon graphite WILL double…and then double again…over the next 10 years.

NOW is the time to buy high quality large flake reserves and benefit from what we believe is the inevitable supply vs. crisis that's coming…and the huge spike in high quality graphite prices.

Graphite prices (in US$ per tonne product)

			Low $	High $
Amorphous Powder	80-85% C min	80-85%	600	800
Medium	85-87% C	100-80 mesh	1500	1900
Fine	90% C	-100 mesh	1400	1800
Medium flake	90% C	100-80 mesh	1500	2000
Large flake	90% C	80 mesh	2000	2500
Fine	94-97% C	-100 mesh	2000	2400
Medium	94-97% C	100-80 mesh	2200	2500
Large	94-97% C	+80 mesh	2500	3000
Synthetic	99.95% C		7000	20000

Source: www.megagraphite.com, Industrial Minerals, 2011



The Company: Western Graphite, Inc. (WGSP) is one of a small handful of high grade graphite producer's in North America that is a pure-play on our high grade carbon graphite supply squeeze/price explosion thesis.

Our conversations with management indicate production at their British Columbia mine most likely begins in early 2014.

Our assumption is that the major global refined graphite distributors will need to secure their high quality/large flake feed stock and acquire these relatively rare mining operations.

World Production of Graphite

According to Industrial Minerals (April 2011), world production of saleable graphite increased from 0.65Mt to 0.76Mt in 2002 (Taylor, 2006). Global graphite supply in 2009 totaled 1.2-1.5Mt, of which 0.4Mt was flake graphite.

Global consumption of natural graphite has increased from approximately 600,000 tons in 2000 to 1.1 million tons in 2011. Demand from BRIC (Brazil, Russia, India, China) and emerging economies has been growing at about 5% per annum between 2000 and 2010, contributing to the rising price of graphite today.

Global graphite reserves are thought to be around 71 million tons. China produces over 70% of the world's graphite or about 800,000 tons per year - mainly low-carbon, low value powder or small flake.

Although China produces 70% of the world's graphite…it is seeing production and export growth leveling off, costs increasing and quality declining. As a result, export taxes and a licensing system have been instituted and strict environmental and operational regulations have been imposed for both existing and new graphite mines. Graphite and the rare earth elements now share the same "security of supply" issues and for these reasons, the European Union and the USA have both named graphite a supply critical mineral.

Market for graphite

In the industrial applications of graphite, the underlying value per ton is determined by both the carbon content and the grain size and physical structure of the graphite. Graphite with carbon content below 94% is considered in the industry as fine-grained with lower carbon content, and is primarily used for more traditional applications. These applications use graphite as a raw material for the production of refractory products, lubricants, and pencils. The most significant demand growth is for high carbon (94/97), large flake (+80 micron) graphite which is predominantly used in newer-industry applications such as lithium ion battery use.

Availability of these grades of graphite is considered tight. Prices for large flake graphite increased by >100% from H1/09 to H1/11.

Current annual flake graphite production is 560,000 tons (estimates by Northern Graphite)

Graphite 101

One of two natural carbon polymers (diamonds)

- Highest natural strength/stiffness of any material
- Corrosion and heat resistant
- Excellent conductor of heat and electricity
- High lubricity
- Lightest weight of all reinforcements
- Almost no recycling or substitution

Lithium Battery 101

Graphite serves as the anode in lithium-ion batteries, and there is no substitute for it in this application. Due to their advantages relative to other battery types—including their comparatively light weight, lack of memory effect, slow self-discharge rate and environmental safety—the lithium-ion battery industry is growing 30 to 40% annually as products such as power tools, consumer electronics, and hybrid and all-electric vehicles switch from other, inferior battery technologies.

Graphite is the anode material – there ARE no substitutes

- There is 12 times more graphite than Li in a Li-ion battery and it takes 30-40 times more graphite to manufacture them due to losses during processing
- Current Li-ion battery demand is 30,000 TPY and is growing 20-30% annually
- Replacement of traditional battery technologies
- Li-ion batteries in cars will lead to rapid demand growth (2kg of graphite in HEV, 25-50kg in EV)
- 3 tons of graphite flake is required to make 1 ton of spherical graphite for Li-ion batteries

Already, plug-in electric vehicles like the Chevy Volt, Nissan Leaf and Tesla Roadster rely on lithium-ion batteries, and the gasoline-electric hybrid models that have used nickel-metal hydride batteries for the past decade are making the transition to lithium-ion technology. The electric vehicle market is expected to grow as much as 20% annually by 2020, with expectations that between 3–6M such vehicles will be manufactured in 2020, each of which will require approximately 40 pounds of graphite for the battery system alone. Both U.S. President Barack Obama and Chinese leaders have stated that they want to see 1 million electric vehicles on the roads by 2015.

An estimated 1 million tons of additional graphite will be needed annually by 2020 for electric vehicles and other emerging applications.

Chinese Graphite Industry

- State owned amorphous graphite monopoly formed
- 210 mines consolidating into 20
- production decline from 600,000 to 510,000tpy
- Strict regulations imposed on both existing and new graphite mines
- Government has banned new graphite plants in Quindao Province
- 20% export duty, 17% VAT, export license required

Graphite in Nuclear Power Plants

Nuclear grade graphite is THE key component in next-generation nuclear reactors, which are expected to reach temperatures of 1,000 degrees Celsius—triple the temperature inside today's commercial reactors.

Graphite is one of the few substances that can resist such heat, with initial tests by researchers at the Idaho National Laboratory indicating that it can actually absorb heat as high as 3,000 degrees Celsius.

The Chinese plan to develop traditional and “Pebble Bed” reactors. Pebble bed nuclear reactors are small, modular reactors that are safer than conventional reactors because they "die" on their own when shut down.

They are fueled by tennis-ball-sized graphite spheres with uranium embedded in them.

Substantial amounts of graphite are required to charge the reactor at startup (10k tons +), and a percentage of the balls must be replaced each year as the fuel is spent, which creates ongoing demand for graphite.

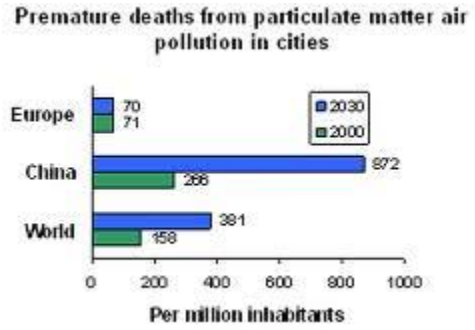
China has an operating prototype and is now building the first two commercial units, with plans to have 30 by 2020. These reactors are one of the top 16 priorities in China's 2020 strategic plan.

Traditional nuclear plants consume @14,000 tons of nuclear grade graphite each year—they absorb the uranium protons and improve heat dispersion.

EACH normal reactor or Pebble Bed reactor requires

- Up to 10,000 tons of nuclear grade graphite to build
- 14,000 tons of nuclear grade graphite a YEAR to run

China's air pollution is quite literally killing its economy.



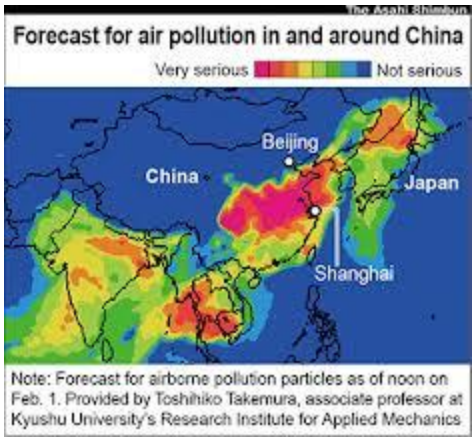
It's also fact the Chinese know. Over one billion Chinese live in areas whose air pollution makes Los Angeles on its WORST day look like a spring day AFTER a rain shower.

World Health Association ranks air pollution in most of China as “critical.” Even China’s famously secretive TV media declared 67 cities in China at “critical levels of air pollution.” 30 percent of more than 9000 patients a DAY (@3000) are treated in Beijing hospitals suffering from respiratory illness…that’s just Beijing...every day. Similar statistics come from China’s 50 OTHER cities with 5 million+ population.

China’s own statistics say 300,000 die each year from ambient air pollution via heart attack and lung cancer…Lord knows what the REAL numbers are…but the real annual premature death toll HAS to be in the millions.

China has NO choice But To Build 100+ Nuclear Power Plants…even in a Post-Fukushima world. This is Beijing China…in the middle of a summer day.

This is China air pollution from space.



70% of China's electrical power STILL comes from burning low grade coal…and it's choking and killing China's citizens…and its economy. The most conservative research says China's air pollution from coal power plants REDUCES GDP by 6% annually...and growing.

Nuclear power IS the only possible solution…MASSIVE construction and operation of 100+ nuclear power plants is the only way out of this catastrophic mess…

Western Graphite Management Team

Mr. Steven Kucuk, President, C.E.O. Director

Mr. Kucuk is a mining and graphite specialist who resided in Germany for 32 years before taking an interest in Canadian and Turkish graphite properties. Mr. Kucuk was employed by Deutsche Rohstoff AG and was entitled to act on behalf of Deutsche Rohstoff AG of Heidelberg, Germany mainly to identify offers for chrome, manganese and other ores and concentrates internationally. Mr. Kucuk attended school when he was a minor at Hohr-Grenzhausen and then attended post-secondary education in Montabaur City, Germany at Metal technical University. Mr. Kucuk's interest in graphite arose when working for Metzeler AG in Hohr-Grenzhause which a car spare parts producer in Germany. It was here that he began to realize how special graphite was and the many uses that it had in vehicles. Then upon travelling, he ended up in the U.S.A and also worked full time for Deutsche Rohstoff as a mine prospector. Now he has headed out Western Graphite and has brought two of his prize properties into Western Graphite. Mr. Kucuk will be heading out the mining operations with our team at the Pure Flake Graphite property in Canada and our Amorf Graphite property to ensure that both mines can be put into production as soon as possible.

Lauren Notar, Vice President, Director

Ms. Notar has worked in the investment community as an investment advisor for over a decade with BMO Nesbitt Burns and Canaccord Capital Corporation which was Canada's largest independent investment firm before going public. Subsequent to that, she became an advisor to small and medium sized enterprises. During her time as an advisor, Ms. Notar assisted these micro-to-small-cap companies in developing sales, marketing and fundraising strategies. Ms. Notar resides in Canada where she will spend all her efforts in getting our Pure Flake Graphite mine into production along with her Western Graphite team members. Being in the investment industry for over ten years, Ms. Notar is very versed in raising capital in order to continue our company's growth and many of her existing investment bank contacts are a major asset that can bring research and capital to our company.

Mr. Osmond Gulyurt, Head of Mining Operations

Mr. Gulyurt is an engineer who received his education in some of the most prestigious schools in the world. Mr. Gulyurt served in the military for many years before getting involved in the geotechnical engineering. Mr. Gulyurt has worked for various mining companies such as Bohemia copper mine which he put into production, also ADO mining where he worked as a business development and consulting manager. In addition he also worked for Anadolu mining company as well where he was a production manager and also as a general manager at EMT, which is a mining and energy company. Mr. Gulyurt has a very long and impressive resume and has vast experience in mining and is recognized as one of the leading engineers in his field.

Mr. Gulyurt will be applying his geotechnical engineering expertise to develop our Pure Flake Graphite property and Amorf property into world class producing mines. His love of Canada and geotechnical knowledge of Canadian soils makes him the perfect candidate to ensure our Canadian property has some of the best talent to ensure efficient production and highest possible production out of the property and our Turkish property alike. His main areas of expertise will include:

- Research Mining Licenses
- Law Process Mining License
- Organize Mining Team and Operation
- Fore Work in Mining Area
- Prepare Concentrate Material for Plant
- Prepare Export and Transport Documents in Ports of Turkey

These are just a few of his specialties and there are many more to this list.

Mr. Andrew Suozer, Manager of Operations

Mr. Suozer was born in Hildesheim, Germany where he went to school until University. He attended University in the United States and then resided thereafter completing his education.

Mr. Suozer is a mining specialist and has also joined the team of Western Graphite as he is a specialist in putting mines into production and the process required to get the raw ore to port and ready for export if need be. Mr. Suozer will be in charge of managing the daily crew on the Pure flake Graphite property and ensure that all employees are working diligently while ensuring that all rules and regulations of safe mining practices are followed as instructed by the Canadian and Turkish Govt. Mr. Suozer is very familiar with both Canadian and Turkish mining laws and will implement the best strategy to put the company's mines into production.

INVESTMENT RISKS

Exploration Risk: Our valuation is contingent on the successful initiation and expansion of production the Large Flake deposit. The existing production literally next door and the testing so far indicate similar producible high purity to existing geology.

Commodity Price Risk: Western Graphite's value is leveraged to the price of graphite. A sharp or sustained decrease in the price of graphite is likely to be reflected in Western Graphite's share price.

Political Risk: The Bissett Creek property is located in British Columbia in a relatively mining-friendly jurisdiction. We rate political risk as low.

Financing and Dilution Risk: The Company will have to undertake additional financings to expand operations. With high purity/large flake carbon graphite demand growing 5-10% a year and ready to hit a mass inflection point…we are highly confident equity investors in the mining space will be more than ready to assist WSGP in structured finance.

Summary

We expect high purity (94-97%) large flake (80+ microns) graphite to double or triple in value over the next 12-24 months due to

- enormous strategic value to both the Western world and China/ India

- rarity of Western based high purity/large flake reserves relative to low/mid quality graphite
- Chinese demand for “nuclear grade” carbon graphite for its rapidly expanding nuclear power plant development
- Rapid expansion of lithium-ion battery production and graphene applications…all derived from high purity large flake graphite.

High grade/purity “flake” graphite is without question one of the key resources of the 21st century. It is “the next big thing” in strategic natural materials…and WSGP is a pure play at a low valuation relative to other players.