



Mercenary Alert: Flinders Resources Ltd Gets the Grip on Graphite

A Special Alert Musing from Mickey the Mercenary Geologist

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Golf clubs, baseball bats, and bike frames aside, graphite seems destined to be the next big thing in the junior resource sector ([Mercenary Interview, November 26, 2011](#)). I was lucky enough to get into a private graphite company via two private placements last year. [Flinders Resources Ltd \(FDR.V\)](#) will commence trading tomorrow, February 27, and I expect its debut to be very well-received.

Flinders was spawned from a capital pool company and comes onto the Venture Exchange board with 35.1 million shares outstanding and 49.0 fully diluted, including 10.4 million warrants exercisable at 75 cents until December 2013. Cash position is \$5.2 million.

The stock is tightly-held by insiders, family, and friends with only about 2.4 million shares in the public float. Another equity raise is expected this year to finance the restart of its fully permitted and constructed graphite mine in central Sweden.

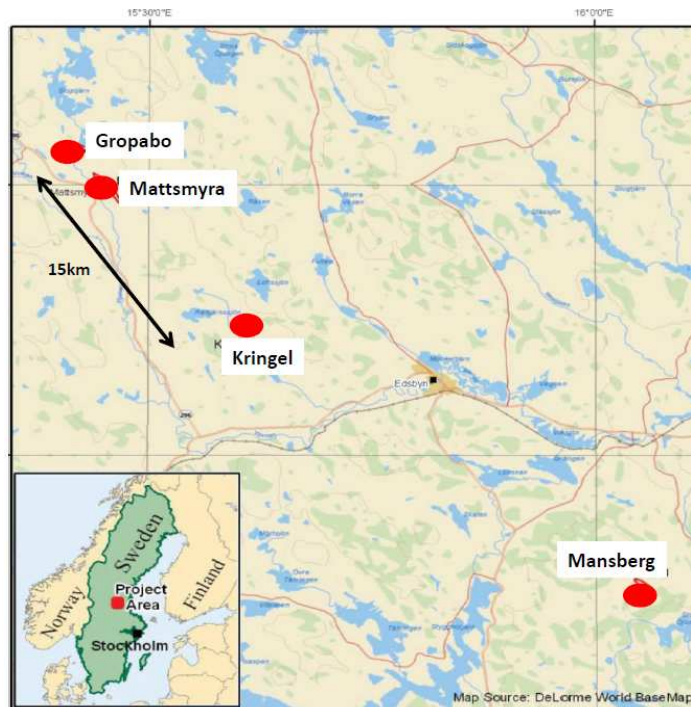
Flinders Resources has a strong management team led by CEO and chemical engineer Martin McFarlane, who brings 25 years of mining project development and business acumen to the table. Chairman is Swedish mining lawyer Mikael Ranggard and Directors include Robert Atkinson, Michael Hudson, Mark Saxon, and Nick De Mare, who are also principals of Mawson Resources Ltd and Tasman Metals Ltd. The team also includes accountant Folke Soldestrom, environmental scientist Dr. Henning Holdstrom, and mining engineer Gil Leathley.

The company's project is Kringel, located in central Sweden. It was a flake graphite mine from 1997-2001 when production ceased due to low prices. The historic resource inventory is large and high-grade and there is existing infrastructure from past mining and processing. The project is serviced by power, road, and water, and it is 15 km from a railhead, 75 km from a harbor, and 150 km from a container port. Sweden is a very mining-friendly jurisdiction with an experienced mining labor force and favorable business and taxation regimes ([Mercenary Interview, June 29, 2011](#)).



Kringel Graphite Project, Central Sweden

The Kringel project consists of four shallow deposits (all < 65 meters depth) with a combined historic resource of 6.9 million tonnes grading 8.8% carbon as graphite, sufficient for 30 years of production utilizing existing plant capacity. Overall strip ratio is projected at 3:1 and there are no known deleterious impurities. All four deposits have been granted mining licenses and the processing plant, tailings dam, dumps, and Kringel pit are fully permitted:



Kringel Project Deposits, Central Sweden

The processing technique is simple and consists of crushing, milling, flotation, screening, and packing. It graded 85-95% graphite with a high large flake component at 40%, medium flake at 28%, and small flake at 32%. These sizes can be blended to meet exact customer specifications.

Flinders is committed to employing industry-standard environmental practices. The company intends to upgrade the tailings facility so it will not be a future acid rock drainage issue and will improve the wastewater treatment facility. FDR is currently in consultation with the pro-mining local community to ensure it is fully aware of plans to resume graphite mining and processing.

FDR's business plan is to ramp up and fast-track the project to commercial production in two years. It plans on completing a major financing in 2012 to completely fund the project thru feasibility, refurbishment of the mill, mining, processing, and delivery of graphite to consumers.

Starting this year Flinders Resources intends to reprocess and sell stockpiled graphite, drill and table a 43-101 qualified resource, develop a mine plan, implement environmental improvements, and hire key development staff.

The company anticipates achieving annualized commercial production of 13,000 tonnes of flake graphite in 2014. It will evaluate a higher mining/processing rate and a high-purity graphite (>99.5% graphite) circuit over the next two years. Also note there is significant exploration upside, in particular below the current 50 meter nominal drill depth.

In my opinion, graphite will be 2012's big junior resource story. I evaluated several other junior graphite companies over the past year and a half and concluded that Flinders Resources Ltd has a chance to be the best of the best.

Flinders' closest peers in the graphite sector seem to be Focus Metals (FMS.V) with a current market capitalization of \$80-85 million and Northern Graphite (NGC.V) at \$65-70 million. However, the capital expenditures required to produce graphite are estimated at \$65-75 million by FMS and \$70-80 million by NGC. Compare this to FDR's \$20 million capital estimate to commercial production.

Please note that I own shares at a relatively low cost basis, and my opinion is undoubtedly biased. Although Flinders is tightly held and low liquidity could be an issue, there may be original capital pool and initial private placement holdings sold before the second private placement tranche becomes free-trading in late June. In my opinion, caution is required for the next few months with shareholders from previous financings at 10c, 30c, and 50c likely to take money off the table and depress the stock price at any time. My [Power of Two](#) trading philosophy demands that I do the same in due course.

Before speculating in this or any venture capital stock, please do your own research and due diligence to determine if you concur with my opinions on Flinders Resources Ltd.

Ciao for now,

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The [**Mercenary Geologist Michael S. "Mickey" Fulp**](#) is a Certified Professional Geologist with a B.Sc. Earth Sciences with honor from the University of Tulsa, and M.Sc. Geology from the University of New Mexico. Mickey has over 30 years experience as an exploration geologist searching for economic deposits of base and precious metals, industrial minerals, uranium, coal, oil and gas, and water in North and South America, Europe, and Asia.

Mickey has worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for the past 24 years, specializing in geological mapping, property evaluation, and business development. In addition to Mickey's professional credentials and experience, he is high-altitude proficient, and is bilingual in English and Spanish. From 2003 to 2006, he made four outcrop ore discoveries in Peru, Nevada, Chile, and British Columbia.

Mickey is well-known and highly respected throughout the mining and exploration community due to his ongoing work as an analyst, writer, and speaker.

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