Great Lakes Graphite – Going for the Value Added

The old truism of the California Gold Rush of the 1850s was that it was those selling the shovels, not those miners buying them, that made the money. In the mosh-pit that is graphite Great Lakes stands out because it has focused its efforts on "shovels" in the form of processing rather than scrabbling around in the dirt for the raw material. While Great Lakes Graphite Inc. (TSXV: GLK) does have some properties with graphite production potential, it seems to have resolved, wisely, in these days of tough financing that "production in king" and thus has focused on developing a side of the graphite business that is more likely to get it cashflow in the short term for the smallest possible capital outlay.

New Wine out of Old Bottles

The use, or reuse, of equipment or facilities by miners always perks up my interest. However, the material reused is almost always being repurposed from other mines or mills. In the case of Great Lakes though it has come across an agricultural chemicals processing plant that fits the bill for graphite processing as well.

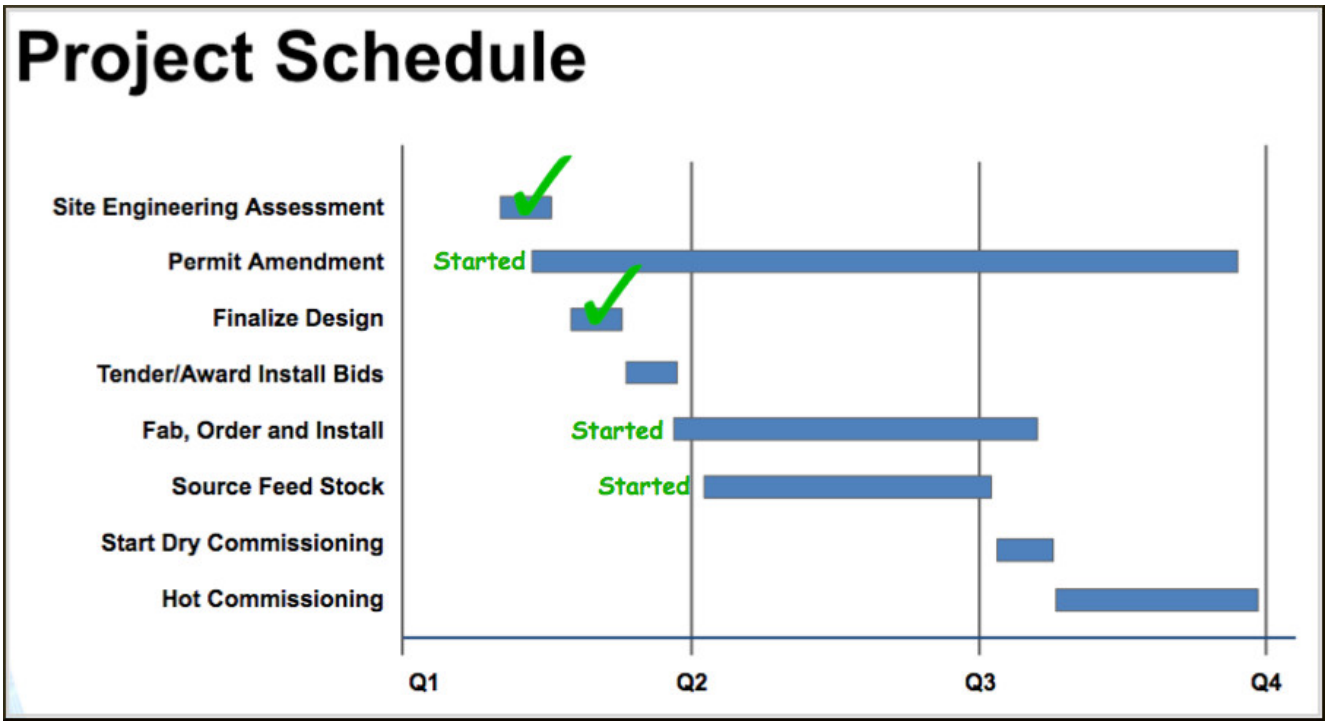
The Matheson Micronization Facility is located in Matheson, Ontario, 70 kilometres east of Timmins. The plant was originally built around ten years ago to process mainly vermiculite. The plant was very lightly used when functioning with only one shift per day. Most recently it passed into the hands of Northfil Resources, which is controlled by a group of ex-INCO managers.

In March 2015, Great Lakes entered into a Facilities Use Agreement with the owner of the property that provides for long-term access to the plant. The facility is fully

integrated and was designed and built for micronization with equipment that is suitable for processing flake graphite and other industrial minerals. Upon completion of refurbishment work, Great Lakes Graphite will begin commercial production of high quality, industry standard micronized graphite products for use in spray lubricants, refractory materials and powder coatings.

The main operating facility is adjacent to Highway 11, a major highway for Northern Ontario, and also has a rail spur to the site allowing product movement by that means. Certainly having infrastructure, a talented labor pool and a long history of mining and minerals processing should be major advantages to having an operating facility in this area.

The first step in the reboot is the dismantling of the equipment to be sent away to be overhauled. The costs of the whole refurbishment are expected to amount to only $800,000 in parts and labour. On top of this the company will need working capital to sustain inventory and work in progress.



Operations at the plant are scheduled to begin in the second half of 2015. Restart of the plant is contingent upon

successful recommissioning of the plant and a modification to the existing air/noise environmental permit. The plant will have low labour costs as it is highly mechanized with each shift expected to be only 3-4 workers with throughput of 10,000tpa with no waste. Even the dust collector fines are expected to be marketable.

Great Lakes have clearly been thinking outside the box in making this clever move. Frankly though it begs the question as to why so many of the other players have $100mn plus budgets for their operations when a graphite mine is essentially a quarry and GLK have shown how cheaply a plant can be refurbished.

The Relationship with DNI Metals (DNI)

Great Lakes has somewhat of a symbiotic relationship with another TSX-V listed company, DNI Metals. This was the old Dumont Nickel. While it is run by a Toronto banker, Dan Weir, it shares one board member with GLK, while one of its advisory board members is also a director of GLK.

In late March 2015, Great Lakes announced that it has entered into a five-year supply agreement with DNI for the procurement of natural flake graphite concentrate.

Under the terms of the agreement, GLK will have the ability to purchase up to 34,000 tonnes of material from DNI, which will be sent to the Matheson Micronization Facility for the production of micronized flake graphite. To ensure final product consistency and quality, all of the concentrate will be sourced from a mill that has met the testing requirements performed by the company over the previous six months.

While DNI has a graphite deposit of its own in Madagascar (a place we have lauded in the past) the material it is selling to Great Lakes will be sourced from several producers in South America. The move to intermediation, rather than production, in the short term shows that DNI are also into thinking

outside the box and would prefer to generate cashflow than wait around for their mine to eventually reach production. Cashflow is king.

One has to wonder if Great Lakes and DNI Metals may eventually become a double act, with one becoming the producer and the other the processor. Such an arrangement would certainly be more appealing to investors who like their miners *a la carte*.

Conclusion

In may be tempting fate to mention the only other company in the specialty metals space, Great Western, but not everything that the other "great" company did was all bad. Their smartest move and the one they should have stuck to was in their value-added business, Less Common Metals. Their mistake was to "bet it all on red" with their mining venture at Steenkampskraal. In contrast to that company, Great Lakes have also gone for the value-added part of the graphite food chain and have seemingly moved on from ambitions to actually dig the stuff up.

This is an approach that we cannot fault. The market is not rewarding those that find and mine metals and minerals, it is only interested in production and with its "cheap and cheerful" conversion of a plant from agricultural usage to graphite processing, Great Lakes may just have stumbled upon the way to be the smartest guys in the (graphite) room.