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PDAC-Zenyatta makes bull run on rare graphite deposit

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- * Top performing mining issuer in 2012 on TSX-V
- * Company says has rare vein type graphite deposit
- * Targets higher value synthetic graphite market
- * Resource estimate due in Sept., prefeasibility in 2014

By Julie Gordon

TORONTO, March 3 (Reuters) - Zenyatta Ventures Ltd, the top performing mining issuer on TSX Venture Exchange in 2012, is banking on a rare type of natural graphite that it says can compete on a quality level with synthetic graphite, while costing much cheaper to produce.

The Thunder Bay, Ontario-based company is in the very early stages of developing its Albany project in northern Ontario, a vein-type graphite deposit. Vein graphite, also known as lump graphite, is currently only produced in Sri Lanka.

The unique nature of the project has already captured the market's attention. Zenyatta's stock quintupled in value from 14.5 Canadian cents to 79 Canadian cents in 2012. In that same period, the broader S&P/TSX Venture Composite Index fell more than 17 percent.

Extending its bull run, the stock has nearly tripled in value so far this year to close at C\$2.14 on Friday.

"People recognize, even in a bad market, that certain things look amazingly good," Chief Executive Aubrey Eveleigh told Reuters ahead of the Prospectors and Developers Association of Canada convention, which started on Sunday. "What we pulled out here was extremely rare. The last time one of these was found was probably 200 years ago. People recognize that."

Graphite has gained popular attention in recent years mainly due to the development of graphene, the world's strongest and thinnest material, and for its use in advanced lithium-ion batteries to power tablets, smartphones and hybrid vehicles.

While the technology applications get the most attention, graphite - which is highly conductive and can withstand intense heat - is primarily used in steelmaking and metal work.

There are three basic types of natural graphite - amorphous, flake and vein. Amorphous graphite is the lowest quality and most abundant, while vein type is the rarest and most valuable.

Synthetic graphite, a man-made material prized for its consistency and quality, is the most valuable, though it is expensive to produce.

Zenyatta says that because its ore is naturally "cleaner" than most deposits, it can produce 99.99 percent pure graphite through a single crush and flotation circuit, followed by a relatively short leaching process. So far, the company has only proven the process on a bench scale.

While he would not give exact numbers on costs, Eveleigh said that because the refining process is so simple, Zenyatta can produce create high-purity graphite for just a fraction of the cost of synthetic graphite.

Synthetic costs around \$4,000-\$5,000 a tonne to produce and sells for around \$7,000-\$9,000 a tonne, while ultra high-purity graphite can sell for \$20,000 a tonne, the company said.

Zenyatta expects to be able to produce around 100,000 tonnes of high-purity graphite a year from its Albany project, which is in some 1,000 kilometers (620 miles) northwest of Toronto.

That is well above Sri Lanka's annual output of some 4,000 tonnes a year. To be sure, Zenyatta is still in the early days of development work, with its first resource estimate expected in September and a prefeasibility study due in early 2014.

MYSTERY METAL

The Zenyatta team discovered the graphite deposit by accident while surveying for copper and nickel. At first the company wasn't sure what it had found.

"We thought it was massive sulphides - copper nickel. We drilled into it, pulled out the core and I didn't know what it was," said Eveleigh. "I've been in the business for 30 years and I'd never seen anything like it."

They ended taking samples to a local university where it was tested using a powerful electron microscope and eventually identified as hydro-thermal, or vein, graphite.

With demand steadily rising, a swath of junior mining companies have popped up in recent years, with most promoting flake graphite deposits in Canada and around the world.

Zenyatta says it is unique in that its project is the largest, and only new, vein-type graphite deposit in the world.

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in the world.

"If there's 100 companies out there with graphite projects right now, 99 of them have flake and there's one with hydro-thermal or vein type," said Eveleigh.

CASHED UP

With some C\$5.5 million in cash on hand, and another C\$7 million expected from outstanding warrants, Eveleigh said the company has all the funds it needs to get through to a production decision.

Having proven its process on the bench scale, the next step is to ramp up to a pilot plant study, and provide potential customers with sample material. Zenyatta is also completing drill work on its deposit.

The plan is to build an open-pit mine, with the option of eventually going underground. Because the deposit is near existing infrastructure, Zenyatta expects capital costs to be around \$150 million, in line with other graphite projects.

While a [construction](#) decision is still at least a couple of years away, the company is already considering the merits of a strategic partnership, or a deal with an end user.

"We're been approached by many end users globally - out of Europe, out of Asia, out of the U.S.," said Eveleigh. "These things could materialize into a strategic partner or buyout. If not, there's enough value here - I don't think we'll have any issues raising money to put it into production."

[Cliffs Natural Resources Inc](#) holds a 12.75 percent stake in Zenyatta, according to Thomson Reuters data.