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## **At Copper Mountain, the race is on: Cash in before the cycle turns**

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With demand for metals strong, companies are investing heavily to reopen mines that failed in past downturns. The industry is rushing to make profits before the added supply weighs on prices. Brenda Bouw and David Ebner report from Copper Mountain, near Princeton, B.C.

BRENDA BOUW and DAVID EBNER

Nothing remains of the peak of Copper Mountain in southern British Columbia, destroyed by decades of mining that have left behind three gaping pits about 1,000 metres above sea level.

But it's been quiet up here since the mid-1990s, when the last operation was shuttered because of low commodity prices.

That's about to change, thanks to a roaring comeback in the price of the main metal produced here. Copper, used in everything from construction and cars to telecommunications and power, is on a record run.

Amid blustery wind and a fresh blanket of snow, the trucks and shovels are rumbling again at this site, home to the Copper Mountain project, located 270 kilometres east of the Port Metro Vancouver, where copper concentrate will be shipped to Japan for smelting.

Sparks from welders' torches crackle and fly inside the massive hangar-like processing mill that stands 10 storeys tall. Outside, several 240-tonne, seven-metre-tall trucks - price tag \$3.5-million each - bump along at 15 kilometres an hour, hauling away waste rock from the once-prolific pit 3, to once again get after the suddenly valuable copper-speckled ore.

"The best copper is the copper that has already been found," says Bill Dodds, the mine general manager. "And it's where you probably find more of it."

The Copper Mountain mine is one of a growing number of old, shuttered mines around the world that are being revisited, refurbished and reopened by companies hoping to cash in on the current surge in prices for copper, gold, nickel and a host of other metals.

The revival of old mines is part of the industry's push to meet soaring demand from China and other fast-growing nations that use the various metals in their surging industrial exports and to build out their own infrastructure.

Mining companies are spending billions to boost production on such projects. But it's a race: They must get the old mines operating as quickly as possible before the next downturn hits the notoriously cyclical industry. Some of the mines come with high costs that would quickly make them money-losers if metal prices were to slide.

Today, with copper trading comfortably above \$4 a pound, it appears that the comeback of the Copper Mountain mine couldn't have been better timed.

"We are extremely excited to be starting production this year," says Copper Mountain Mining Corp. chief executive officer Jim O'Rourke, who was also head of the former company that made the decision to shut the mine in the mid-1990s.

Copper Mountain has a rocky history. Ore was discovered by a father-and-son prospecting team in the 1880s. The first claim staked at Copper Mountain was by a fur buyer, R.A. Brown, in 1895, but it wasn't until 1920 that the first ore was shipped out from a mine. Low copper prices forced the nascent operation to shut down just two months later - the first of four times in the next eight decades that whipsaw commodity prices closed the doors.

When the mine officially reopens this summer, after some \$438-million of reconstruction spending, it will be the first commercial production to come out of the site in 15 years. When the mine last closed in 1996, copper was struggling to stay above \$1 (U.S.) a pound, making it difficult to not only turn a profit but replace the 20-year-old trucks and aging infrastructure.

Around the world, old mines like Copper Mountain are new again. Mine reopenings are running at a brisk clip - an average of about two per month over the past 21 months worldwide, according to Halifax-based Metals Economics Group. That includes four reopenings in March last year and three in each July and April.

The revitalization is bringing a variety of mines back to life. Once-dormant gold mines have been restarted in several resource-rich locations, including Northern Ontario, as the soaring metal trades near record highs. Canadian mining giant Teck Resources Ltd. is considering reopening an old metallurgical coal mine in B.C. amid relentless demand for the raw material used in steel making. In Papua New Guinea, talks are under way to reopen the massive Bougainville copper mine, closed for 20 years, at a cost of \$3-billion. Old uranium mines are reopening in parts of the western United States after years of sitting idle, as the price of the metal used as fuel for nuclear reactors climbs alongside rising global demand for energy.

While old mines reopen, mining companies are also furiously consolidating, in order to combine resources and capital to speed up development of new mines. In the past week alone, four substantial mining deals involving Canadian firms were announced, all with the goal of rapid growth.

Inmet Mining Corp., for example, characterized its merger with Lundin Mining Corp. as a must to "survive and thrive" in the copper business, while Cliffs Natural Resources Inc.'s \$4.7-billion bid for Consolidated Thompson Iron Mines Ltd. opens the door for Cliffs to the crucial Chinese market. HudBay Minerals Inc. is hoping to revitalize its growth plans by reaching into copper-rich Peru with a \$520-million deal for Norsemont Mining Inc.

But the rush to get bigger, faster brings risks. All the new waves of supply from reopened mines and new projects are likely to weigh on the market in coming years, some industry experts warn. Prices for copper, aluminum, nickel, coal and iron ore may still rise for a year or two, but amid

the fast growth in supply, many predict demand to level off, followed by prices. The possibility of a slowdown in China, as the country takes steps to rein in inflation and credit growth, adds to the risk.

In the case of copper, "as more supply comes on, the price will slowly come down," says Peter Campbell, a mining analyst with Jennings Capital. After a near-term rise, he sees copper prices tumbling back down to about \$2.50 a pound by 2015.

As prices decline, higher-cost producers will be hurt "because the margins are just too skinny," Mr. Campbell says.

"They don't call it a commodity cycle for nothing," he says. "Sometimes it ends in tears."

### Mine values

Old mines, though, can become company makers.

Vancouver-based Quadra FNX Mining Ltd. got its start from a once-shuttered mine discarded by mining giant BHP Billiton Ltd.

Australian-based BHP closed the Robinson copper mine in Nevada in 1999, when the 70-cent copper price meant the open-pit operation was no longer making enough money to satisfy its growth plans.

The state's Robinson Mining District had been producing copper since the early 1900s, and Quadra, confident copper would eventually rebound, bought the mine in April, 2004. Production began a few months later and has been operating since, with an expected mine life until 2016.

Today, Quadra FNX has mines and development projects in North America, Chile and Greenland.

"Robinson was a great starting project for a new company at the time," says Quadra FNX CEO Paul Blythe. But timing is everything, and Mr. Blythe says valuations of mine projects today have soared. Mines for sale today "tend to be sold by auction and they tend to command a price that would make a person cautious, I think, as to whether you wanted to get into a bid situation or not."

Consider Baffinland Iron Mines Corp.'s Mary River iron ore project in Canada's high Arctic. Construction hasn't even started and it already has sparked a bidding war between steel giant ArcelorMittal and a U.S. private equity firm. On Friday, the two companies came together to make a joint offer at \$1.50 a share, which is nearly double the original bid price made last fall.

### Seizing the advantage

Copper Mountain Mining's Mr. O'Rourke has lived through a number of commodity cycles in his more than 30 years of operating and developing mines across North and South America.

It's knowing just how quickly prices can fluctuate that has Mr. O'Rourke and his team working around the clock to ensure that the Copper Mountain mine is completed on time and on budget. With copper currently trading around \$4.30 a pound and forecasts it could surpass \$5 next year as demand outstrips supply, the months ahead could be the company's best chance to reap rich profits.

"If we take advantage of the time, take advantage of the revenue, do lots of exploration, the mine could be there for 15 to 20 years," says Mr. O'Rourke, who came out of "retirement" to make the project a reality.

Copper Mountain Mining is far ahead from where it started after buying the mine in 2006. Its production decision was based on a price of \$1.80 a pound.

"The extra \$2.50-per-pound margin on our planned 100-million-pound-per-year production provides huge upside for the mine," Mr. O'Rourke says.

What's more, the company is estimating production costs at the mine of around \$1.30 a pound. At today's prices, that's a gain of \$3 a pound, or about \$300-million a year in cash flow. While the company still has to pay off debt and other expenses, the higher the margin the more money it can set aside for future growth, including possibly a future acquisition.

"It's a great base for a junior company - to form the base for us to grow from," Mr. O'Rourke says.

#### Time pressure

If the commodity picture plays out as some predict over the next few years, Copper Mountain Mining has about 18 months to squeeze higher profits out from the revival of its B.C. mine. That's if there are no problems and production begins on time.

At the Copper Mountain site, about 350 construction workers are busy on the sprawling 18,000-acre property (7,300 hectares) amid the undulating mountain top above steep slopes.

The concrete was first poured last February. Crews know the pressure is on to make sure the June 1 opening date is not missed. "Getting it going June 1 is the minimum," says mine general manager Mr. Dodds.

One great advantage of resurrecting a dead mine is that some important infrastructure is already in place. Copper Mountain was already connected to the BC Hydro grid and, much more importantly, already had a tailing lake. At three kilometres long, this key but often controversial storage pit for mine processing waste - some 34,000 tonnes of ground ore dust each day - was the huge stumbling block that eventually sunk Taseko Mines Ltd.'s proposed Prosperity copper-gold mine in B.C. last fall.

While much of the work is done at the Copper Mountain mine, there are "lots of bits and pieces to go." Pieces come from everywhere. The shovels from Germany, the trucks from Illinois, loaders from Japan, the 34-tonne grinders in the mill made in Paraguay.

Seven of the big 240-tonne Komatsu 830E trucks are on site, with the other half dozen to arrive by February. They show up in pieces and are assembled on site. Stacked piles of \$40,000 tires, haul boxes in two, and truck chassis/frame/engine sit in the snow outside a maintenance shop. The trucks are part of 23 pieces of heavy equipment, worth a total of \$85-million.

On the precipice of pit 3, across the 200-metre deep chasm, drillers are at work to poke holes to fill with explosives to blow away waste rock, the last preparations for mining.

It is on this flat ground, above the pit, that once existed the town of Copper Mountain, back when Granby Consolidated Mining operated an underground mine below. There's no hint left of the buildings that housed the men who toiled below ground, the first to haul copper ore out of here.

The current plan calls for the mine to be in business until 2028. There's already hope for longer production, particularly after more positive exploration results were released on Thursday. Pits 1, 2 and 3 are individual gashes in the land; when Copper Mountain Mining Corp. is done, it will be one massive superpit.

Looking at the hardrock below, Mr. Dodds says: "In 17 years there'll be no trace of it."

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Copper Mountain regains its lustre

Shuttered since the mid-1990s, the B.C. mine officially reopens this summer, marking its first commercial

production in 15 years. It's one of a growing number of mines being revived around the world due to a surge in metal prices caused by demand from China and other fast-growing nations.

#### FAST FACTS

Ownership: 75% CCMC, 25% Mitsubishi

Mine type: Open pit

Annual production: 105 million lbs copper (first 12 years)

Expected mine life: 17 years

Employees on site: 260

PROJECT BALANCE SHEET

In millions of dollars

CAPITAL COSTS

Feasibility study.....\$413

Contingency.....\$25

Total.....\$438

FINANCING

Debt.....\$338

Equity.....\$111

Total.....\$449

MEET THE \$85-MILLION FLEET

HAULERS: 13

HYDRAULIC SHOVELS: 2

DOZERS: 2

GRADER: 1

LOADER: 1

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SOURCES: COPPER MINING CORP.; KOMATSU LTD.; GOOGLE EARTH