

EYES ON THE HORIZON



Flotation at the Copper Mountain Mine

On February 14, the LME settlement price for copper hit an unprecedented \$4.60 per pound. Heading into December, uncertainty about both the fate of the Eurozone and demand from China had shaved more than 25 per cent from that early-year high. For producers, the recent volatility is a distraction from long-term fundamentals.

One Canadian company counting on continuing Chinese demand is Capstone Mining Corporation. Capstone's Minto Mine, located in the Yukon, is expected to produce over 18,000 tonnes (40 million pounds) of copper this year, with the company's Cozamin Mine in Mexico producing a similar amount. Darren Pylot, Capstone's president and CEO, says that while the company's marketer is free to sell the concentrate anywhere in the world, since the company first started production in 2006, all of the copper has gone to clients in Asia.

"We're bullish on these economies continuing to expand," he adds. How bullish is evident from Capstone's growth targets: the company has an advanced development-stage project in British Columbia and another in Chile. If all goes according to plan, both will enter production in 2015, taking the company from 36,300 tonnes (80 million pounds) per year to more than 136,300 tonnes (300 million pounds).

A recent report by BNP Paribas estimates the supply shortfall for copper this year to total 300,000 tonnes (approximately 661 million pounds). For next year, the global banking group predicts a "barely balanced" market.

Securing a supply

End users of copper are understandably nervous about the supply shortfall, with some seeking more direct involvement as a way to ensure long-term access to the metal. The case of Copper Mountain Mining Corporation is one example. In order to finance its BC-based Copper Mountain Mine, the company entered into partnership with Mitsubishi Materials Corporation (MMC).

Jim O'Rourke, Copper Mountain's CEO, explains that MMC bought 25 per cent of the project – and the rights to purchase 100 per cent of the mine's copper output. MMC still pays market price, O'Rourke says, but adds that "this is one way that they can assure long-term availability of concentrate, and I think they're willing to help out to secure that stream."

No doubt, a guaranteed source of more than 47,700 tonnes (105 million pounds) of copper per year would go a long way towards relieving the Japanese partner's supply headaches.

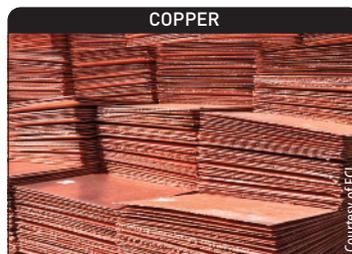
Growing pains

The surging copper price brought with it renewed attention from juniors and majors alike, and with that attention return familiar problems. Both Pylot and O'Rourke mention skilled labour shortages as an area of serious concern, but Pylot adds that in Capstone's experience, the problem is less acute in some countries. "In Mexico and Chile, mining is a larger part of their economies, so training has been going on throughout; we don't perceive that gap to be there in the medium and short term," he says.

Another challenge, O'Rourke adds, lies in sourcing supplies and equipment. "A lot of people are trying to get mines into production, and so we are in a bit of an inflationary period in terms of fuel prices, steel prices – a lot of our consumables," he explains.

Analysts predict the market stabilizing around 2013, but with so much of the market depending on China, there is an inherent risk. Even a slight slowdown in China's growth rate could have serious repercussions for the world copper markets. But Pylot points out another point in favour of copper. "On the supply side it's the most liquid commodity. You can hedge copper if you want to offset your risk over as much as 10 years," he says. **CIM**

by D. ZLOTNIKOV



CANADIAN PRODUCTION 2010 (tonnes)

Newfoundland & Labrador	46,536
New Brunswick	8,481
Quebec	23,935
Ontario	149,361
Manitoba	53,225
British Columbia	193,878
Yukon	23,034

Value = \$3.8 billion

Source: NRCan