

## Having patience pays off in mining tungsten

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Patience, stubbornness, however you want to describe it, Stephen Leahy's decision to stick with one of the world's most remarkable metals is finally paying off.

A decade ago, Leahy took custody of a Canadian landmark, an aging and no longer profitable tungsten mine in Northwest Territories, and another northern property with a potentially world-class tungsten deposit.

"We closed the deal in 1997," the chair and CEO of North American Tungsten recalled in a recent interview. "It was one month after Bre-X. Trying to raise money in the mining cycle for a mine that was not in the money at the time was difficult."

It wasn't just the Cantung mine -- a major international source of tungsten when it opened in the early 1960s but needing fresh infusions of capital -- or investors' reluctance to put capital into mining ventures post-Bre-X.

It was the metal itself. Its exceptional properties include a melting point so high that it serves as the filament in incandescent lights, and near-diamond hardness that supports high-grade drill bits, saw blades and armor piercing bullets.

The market for tungsten was flat, annual global demand volume only about 40,000 tonnes, and there was a widespread perception that there was no up side to consumption.

Leahy saw otherwise.

He saw China, responsible for 85 per cent of the world's annual production, becoming less inclined to export raw resources to major tungsten markets in Europe and the United States.

"I saw the geopolitical attributes of tungsten. They were amazing, to me. I've never seen anything like it, where one country owns 85 per cent of a strategic resource -- something the West definitely needs, and for which in some cases there is no substitute for its use.

"Yet no one in the west had looked for it for 30 years."

Even today, North American Tungsten operates the only tungsten mine in North America, and "one of only four outside of China and Russia."

"We alone produce about five per cent of the world's annual production of tungsten."

IMAGES



Bill Keay, Vancouver Sun  
Stephen Leahy is Chair and  
CEO of North American  
Tungsten.

Although the metal is known primarily for its use in incandescent lighting, that accounts for only three per cent of annual global consumption -- even a green energy-driven conversion to fluorescent lighting and LED lights can't harm its long-term prospects, Leahy said.

"I just had to believe that at some point in time, something was going to happen -- and of course several years ago China passed a law against exporting raw material tungsten. They are moving up the value chain.

"They want to do the refining in the first state. Pretty soon they will want to sell you the finished goods, the saw blades, the drill bits. If you in the West have no raw material, how are you going to make those things?"

As it turned out, he was too far ahead of the game. Prices stayed low and it was only at the urging of two industrial consumers of tungsten that he reopened in 2002.

In December 2003, less than two years later, he had to close down, and was forced to seek the protection of the B.C. Supreme Court in bankruptcy hearings.

It wasn't much fun, but he was successful in holding on to the company.

"We thought the tungsten price would rise a little faster than it did," he said.

Fortunately, the company came out of protection just as the market began to move up.

"We've seen the price rise from \$50 a unit (22 kilograms) to \$250 a unit in two and a half years."

Revenue vaulted from \$118,659 in 2005 to \$51.2 million in 2006.

The company's turnaround was remarkable enough to move it to the number-one spot among fastest-growing companies on the 2006 Top 100 list.

Net income was not robust in 2006 as the company spent millions in one-time costs to upgrade operations at the mine, which employs more than 200 workers.

"This mine started in the early 1960s and it has been taken care of quite well, but you are still dealing with very old equipment."

They have added a new tailings dam, new production systems, and since it's an underground mine, new loaders -- "at a quarter-million dollars a pop."

This year promises to be better and results through June 2007 show the company firmly in the black. "The fundamentals are very strong. The numbers just don't lie."

Leahy notes that even China may be challenged in future to maintain its output. Consumption is up as well -- more than 25 per cent since 2002 -- as tungsten gets caught in the updraft of global economic growth.

Overall global consumption is tiny compared to something like copper, but Leahy says it could be several years before any new major production comes on-stream, and his own company's Mactung project is a strong candidate to play that role.

Barring a major international economic meltdown, there's no reason to expect prices will collapse to their pre-2002 levels.

"China used to say it had an infinite amount of tungsten. Then a few years ago they said they had about 100 years supply at the current rate. Then last year at the tungsten conference [China] said they were less than 20 years and they better start looking. Their grade has been dropping as mines mature.

"They haven't been reinvesting. They have environmental issues, and you can't just bring a mine on in two months. Even over there it takes years. Their costs are rising, as ours are."

Illustration:

- Photo: Bill Keay, Vancouver Sun / Stephen Leahy is Chair and CEO of North American Tungsten.