

Apple deal to buy cobalt directly from miners could provide path for struggling Canadian companies

It's the type of deal that Fortune Minerals Ltd.'s chief executive Robin Goad has been trying to broker for years



Core samples in Cobalt, Ontario. *Cole Burston/Bloomberg*



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With cobalt prices soaring and fears of a potential shortage mounting, reports emerged Wednesday that Apple Inc. is in talks with a mining company to secure a direct supply of the scarce metal — a critical component of batteries.

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Since 1996, Goad has raised tens of millions of dollars and completed a feasibility study that showed his project in the Northwest Territories could produce 1,615 tonnes of cobalt annually — about 37 per cent of what Canada produced in 2017. But he couldn't obtain financing to build the mine, so now he's hired the consulting firm PwC to find a strategic investor to help finance construction in exchange for a share of the cobalt production.

"This has been a 25-year instant success," he joked. "We have the major mine permits (and) we spent \$125 million to getting to where we are today."

Part of the mine's problems relates to its location: About 150 kilometres from Yellowknife. To operate, the mine needs a road, which is currently awaiting environmental review, and has not yet been permitted, let alone financed and built.

Still, Goad hasn't given up. His company is working on a new feasibility study to show the mine could produce 2,000 metric tonnes of cobalt per year, in addition to gold and bismuth, an ingredient in antacid medicine Pepto-Bismol and other products.

In 2014, the estimated cost of the mine was \$580 million. By now, that price tag is likely higher and the company said several undisclosed parties, including well-known battery producers, are looking at investing in Fortune Minerals and its construction costs. As an owner of the mine, it would receive a fixed-supply of the cobalt, according to investor relations manager Troy Nazarewicz.

"If we're able to secure this ... we could be active in the early 2020s," Nazarewicz said.

The situation illustrates the peculiar economics of cobalt — whose price has tripled to US\$38 per pound in the past 18 months — as executives at tech companies and in the automotive industry prepare for a transition from fossil fuel to electrical vehicles in the

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Most of the world's cobalt comes from the Democratic Republic of Congo (DRC), which produced 64,000 of 110,000 tons of cobalt in 2017, according to the U.S. Geological Survey. Canada produced 4,300 tons, about 3.9 per cent of the world's total, behind Russia and Australia, at 5,600 and 5,000 respectively.

Still, in the DRC, concerns about child labour are rampant, according to a 2017 report by UNICEF, the United Nation's children welfare agency.

Although that raises ethical concerns, finding new sources of cobalt is difficult, according to Colin Hamilton, global commodities analyst at BMO Capital Markets.

"Cobalt cannot fund its own projects," Hamilton said.

That's because it is generally found in extremely scarce quantities, usually as a byproduct where copper, nickel or another metal is the primary mineral being mined.

Even if cobalt rises to US\$50 per pound, where it was in 2007, it may be irrelevant, he said. If cobalt is just a byproduct and the price of the main mineral being mined isn't high enough, it won't make sense to finance a cobalt mine, said Hamilton.

That dynamic may be what's driving companies that need cobalt, such as Apple, BMW, Tesla Inc. and others, to seek strategic investments with mining companies, he added.

On Wednesday, Bloomberg reported that Apple Inc. — which is developing an autonomous driving system — is in direct talks with a mining company to secure its own cobalt supply, although the article did not have any other details on the deal.

In Canada, one of the most likely places to explore is Cobalt, Ontario.

Contrary to what its name implies, the area was primarily silver mines with cobalt appearing as a byproduct. Sometimes, the cobalt was discarded next to the mines, according to Trent Mell, chief executive of First Cobalt, which has been purchasing properties around Cobalt.

Mell said it's easy to find trace quantities of cobalt in the area because the mineral turns a pink hue when it reacts with oxygen.

"You can see lots of pink on the surface, but you've got to find tons of it," he said.

That hasn't happened yet. But in the meantime, Mell's company is sampling "the muckpiles," hoping the cobalt it does find will generate enough cash to explore for the jackpot reserve.

"It's hard to figure out where to go next," he said. "But I like to point out we as miners have never really looked for cobalt."

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