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"Striking while the iron is hot" Century Iron Mines Corporation

PwC is pleased to share the highlights of a recent discussion with Sandy Chim, president and CEO of Century Iron Mines Corporation, about his recent deal with WISCO International—one of China's leading steel mills.

Background

A closer look at Century Iron Mines

Century Iron Mines Corporation ("Century Iron") is Canada's largest holder of iron ore land claims with interests in several properties in Quebec and Labrador. Subsequent to its recent graduation from the TSX Venture Exchange to the Toronto Stock Exchange in September 2011, Century Iron announced it had concluded a joint venture with China based Wuhan Iron and Steel ("WISCO"). Having already successfully raised funds from WISCO as well as MinMetals Exploration and Development on its major financing in early 2011, the deal was the company's second successful arrangement with WISCO.

The deal with WISCO

In addition to WISCO's initial investment, Century Iron received an additional $120 million from WISCO on executing the JV agreements. Following these investments, WISCO:

- held an approximate 25% equity stake in Century Iron (corporate level);
- will participate in a 40/60 joint venture in three projects (Duncan Lake, Attikamagen and Sunny Lake), which entitles them to 40% of production;
- has the rights to an additional 20% of production (at market prices) via an off-take agreement; and
- will support debt financing of development.

Highlights of our conversation

What are the benefits of working with a China-based steel mill?

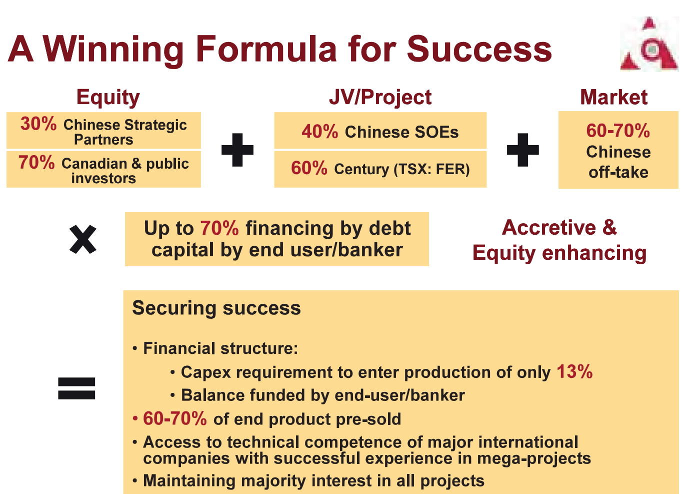
Scale: In seeking to build a world-class iron ore business, Mr. Chim wanted access to a quantum of capital that could finance aggressive project exploration and development goals. Suffice to say that Mr. Chim believes that scale is the most critical value driver for an iron ore producer: *"iron ore is all about scale and scale is all about capital."* He cited Cliff's recent acquisition of Consolidated Thompson for close to $5 billion during 2011 as a clear-cut example of the value of scale. Consolidated Thompson controlled close to 580 million tonnes of proven and probable iron ore reserves and produced close to $8 million tonnes a year of iron ore concentrate at the time of acquisition. While the $5 billion price tag is enviable in the industry, Mr. Chim aptly noted that *"it cost Consolidated Thompson probably $1.5 billion to get there."* With this in mind, while building Century Iron, Mr. Chim was mindful that he needed *"to have a capital structure in place to permit access to a substantial amount of capital."* He turned to well capitalized strategic partners, like WISCO, as a result of his view that the capital required to achieve his desired scale would be outside the realm of comfort for most traditional capital providers.

Shareholder value: It was quite clear to Mr. Chim that in order to build a world class iron ore operation he would not only require access to significant capital immediately, but also additional capital injections throughout the life of several projects. A "plain vanilla" process, involving conventional equity and debt sources along each stage of mine life would be dilutive and restrictive. Indeed, he stated that: *"Traditional financing may make it difficult to maximize the value of the company you are building."* This concept is partially illustrated in the accompanying figure "A Winning Formula for Success" that graphically represents Mr. Chim's accretive and equity enhancing capital structure.

Protection against market volatility: As the old adage goes, it is impossible to "time the market." Similarly, according to Mr. Chim, it is nearly impossible to find the "best time to finance" iron ore projects based on market conditions. In completing piecemeal financings, miners run the risk of having to raise capital during a temporary market downturn (which can result in having to accept a less than desirable equity valuation in order to complete a project). This was experienced by a number of miners during the 2009 downturn. According to Mr. Chim: *"Often you have to take "any price" to finish a project… we figured that the most important part of building a multi-billion dollar project from a junior stage was to put a capital structure in place at the beginning of our venture that would ensure we could gain access to capital along each stage of development. This is why we sought a strategic partner. We did not want to be left scrambling for financing."*

The right end product: In what is a little appreciated fact, Mr. Chim pointed out that steel mills need to work with a consistent supply of iron ore (in terms of ore characteristics). *"Blast furnaces are calibrated to supplies from particular mines. As such, stability and consistency of supply is critical for a buyer of iron ore."* Mr Chim highlighted that in the exploration and development stage, it can be easy to overlook the final customer's needs. *"It is wrong to think that iron ore is just a shippable commodity."* Having a strategic partner, who is also a customer, involved in mine development and production, can mean that a project will produce ore that is perfect for its blast furnace. This can help to foster a longer term sales relationship and create a competitive advantage.

Access to technical competence: Supplementing the latter point, Mr. Chim shed light on the fact that, in striking



deals with both MinMetals and WISCO, Century Iron was also gaining access to decades of experience with large scale iron ore mining. Each of Mr. Chim's China-based partners has owned and operated large scale iron ore operations. This accumulated experience has an intangible value in that Mr. Chim has access to constructive guidance. "*Because China uses one billion tonnes of iron ore a year, the accumulated experience of Century Iron's Chinese investors is very useful as a reference and for guidance*".

Pre-production sale guarantees: The off-take portion of a strategic partnership (over and above the production rights associated with a joint venture) can be one of the most attractive aspects of a strategic partnership in today's market. While these types of agreements were once struck at fixed prices or discounts to market, today the norm is to agree to sell production at future market prices, basically a "guaranteed future sale."

Access to Chinese markets: In working with WISCO and MinMetals, Century Iron was able to secure access to the Chinese market. These partners are two of China's largest end-users, importers and traders. Mr. Chim noted: "China represents 45% of the global steel market in terms of crude steel production, and they buy 60%-70% of total seaborne iron ore. Any new iron ore mine that comes into production cannot afford to ignore a final market in China."

How can a junior miner get a deal done with a Chinese partner?

The benefits of transacting with a China-based steel mill are clear. But how can a junior miner attract a Chinese partner? Mr. Chim shed light on some of the key factors that allowed him to strike a successful partnership:

Project diversification: Mr. Chim's strategy from day one was to create a *"one stop solution"* to attract China-based customers. He realized that many juniors focus on one project at a time, largely due to limited financial resources. However, if aiming to attract customers from China, one project is often not enough (largely for the aforementioned reasons, with regard to quality of supply). In building

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>
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> President and CEO, Century Iron Mines Corporation

Century Iron, Mr. Chim amassed a project portfolio encompassing different types of ores, spread across different locations. By building with the Chinese customer in mind, Mr. Chim also became an attractive partnership target.

A "Chinese mindset": In aiming to build a business relationship with a Chinese partner, a critical step is to understand Chinese thinking and approach. This may seem like a rather simple concept, but according to Mr. Chim, *"you need to be mindful that what the Chinese see as benefits, may not be quite obvious or logical from a Western point of view."* For example, as Westerners, we are accustomed to investment in TSX Venture exploration stage companies and we focus on these projects in terms of capital markets valuations. A Chinese mill, on the other hand, is thinking about tangible products and process. *"They are a steel mill. They are very used to running cost efficient factories and are very practical. But, before you see production it is not real, so there are lots of unknowns that need to be addressed in order to attract investor interest."* Westerners would bode well to frame initial conversations with this Chinese value proposition in mind. Effectively, it's all about articulating how you plan to deliver the right production to the customer, at the right price.

Build the right transaction team: Suffice to say, it helps to have the right transaction team. Mr. Chim ensured that his team included competent translators from technical, commercial and legal perspectives. He noted "social conversation is one thing, *but when it comes to due diligence, competent translation is key.*" Mr. Chim also noted that literal translation is not the only challenge. Very often, Chinese investors and potential partners from other cultures can be challenged to understand concepts that may be fairly straightforward to one of the parties. For example, Chinese corporate law does not define what a limited partnership is. Defining the concept was a challenging experience, in that it had to be explained from a variety of angles in order to "make sense" from a Chinese perspective.

Have patience! Mr. Chim claims that patience is paramount in the due diligence process. *"Anyone who has completed a transaction with a Chinese company can understand this. Contrary to common belief, China is very advanced with regard to internal controls. Many people outside China don't understand that Chinese entities have more internal controls than typical Western style companies."* Mr. Chim advises that Western partners should be prepared to answer hundreds of questions at various stages of due diligence spanning financial, technical, geological and legal. An added complexity is government approvals. For example, in China, the National Development and Reform Committee, Ministry of Commerce, Foreign Exchange Control Department and other government bodies need to approve transactions. *"One needs to be prepared to go through all of these procedures"* Mr. Chim noted.

Century Iron is an excellent example of how a company with mining properties in the West can "get it right" with China. We thank Century Iron and Sandy Chim for contributing their insightful perspectives to our annual review.