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Interview with Sandy Chim, President and CEO of Century Iron Mines Corporation

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Asian Metal: Hello, Sandy, and thank you for agreeing to do this interview with Asian Metal. I would like to start out by posing a question regarding some of the projects that Century Iron is currently developing. The Duncan Lake property alone offers over 8Mt of reserves according to the mineral resource estimate. While no resource estimates have yet been performed on the Attikamage n and Sunny Lake properties, they are of substantial size. Is there any opinion on the prospective tonnage or quality of material that could be held at these two properties?

Sandy: The updated Duncan Lake resources were just published [this week]. In terms of measured and indicated we have [30] times more in those two categories than what we previously had published. The total [tonnage] is double from published resources over the last [3] years. To advance Duncan Lake a step closer to reality, we are very encouraged by that. To answer your question about Sunny Lake and Attikamagen, they are also of very substantial size in the Labrador trough. For instance, we can use some benchmarking companies to get an idea of the size of possible tonnage we are talking about. New Millenium, which is a long- standing company of good management, has two option agreements with Tata Steel for a very large tonnage of taconite, which is what the state has been mining for the last half-century. Taconite feeds very well into American blast furnaces, making up roughly 50% of blast furnace fuel. The experience of using taconite is something that has not been done in Canada [previously]. Our neighbor, New Millennium, has a project called LabMag (Labrador magnetic), and the other contiguous one is KeMag (Quebec Magnetite). Added together, these two have a total tonnage of some [10] billion tons. We are along strike with them and we have done a lot of drilling already. We published some results earlier in the year, which were very encouraging and the drill thickness is very good, better than normal for natural currents of this type. At the Full Moon target at Sunny Lake, we targeted several billion tons and we are in the process of finishing our joint program in a matter of weeks, when we will move to resource calculation mode.

We will do the first pass, then update as we go to improve tonnage as much as we have with Duncan Lake. We had [800] million tons to start, and now we have [1.6] billion. So that is the process as we develop and grow tonnage. Taconite is one type of iron ore that we are working on. Another type of iron ore is direct-shipping ore (DSO), which you can free-dig and ship without processing, or with minimal processing except for crushing, screening and washing, so there is no concentration needed. For the DSO, we are working on several targets across Sunny Lake and Attikamagen as well. We have now nailed a particular target area called Joyce Lake where we have done significant drilling. These two major types of iron ore are the focus at Sunny Lake and Attikamagen.

Asian Metal: Joint ventures and acquisitions by Asian companies have been surging over the past year and Century itself has agreements with Wuhan Iron and Steel [WISCO] and Minmetals. What is the importance of these agreements to the Canadian minerals industry and do you believe that the industry would be growing as healthily without them?

Sandy: I think it is very important to have joint venture partners for projects, particularly in base metals, where huge capital is required to build mines. We are talking about emerging markets where these countries need very large amounts of metals to build. In order to open those projects, one also needs excessive capital. The way the developed capital markets work is that the capital providers and the end-users historically are separated in Western capital markets. But now, they are caught in a situation where the European debt crisis, and the fact that other Western economies are not recovering as fast as we want, is having an effect on the sentiment in the capital markets. A lot of resource companies are finding it very difficult to raise funds in order to expand projects. On the one hand, there is huge potential for the emerging market, which needs metals and which will have a huge demand. Even today, China talks about a slow-down to [7.5%] of a five trillion dollar economy, so without question the demand is going to continue.

At the same time, they have an issue with access to funding because of the capital market in general, and because of sentiment. Even with big companies like Rio Tinto, share prices have taken a toll with the market sentiment and [shares] are trading at a low valuation, and that is not to mention early-stage companies that are without revenue. This is where the question is very appropriate: Why, at this point, do we have so many countries [in Asia] coming into Canada, and looking for [project] partners? Because, with this market sentiment, it is hard to raise funds to develop projects in the general capital market, and although the market is not running out of funds, institutions and managers of funds are sitting on the sidelines on piles of cash in order to not take a hit with the downward sentiment. What is being demonstrated in this particular market condition is that companies from the source market are looking to raise funds from where demand is generated. So you see, as a result, that Century, specifically, has WISCO, which came in with a [25%] interest position and is also committing to provide us with [CAD120] million over the course of the next two years all the way to a bankable feasibility study. That is why – it makes sense for us, because funding, in our case from China, is [CAD3.2] trillion in foreign exchange reserves, and [the country] has a huge demand for commodities. Being a vast country starting almost with nothing [30] years ago, there is a lot to build, so that huge demand will sustain the growth. In the context of economics in China, for the last few decades, China was export driven. They have not been able to rely on exports, so they need internally-generated demand. With the conventional wisdom of rolling out fiscal policy, they issued a stimulus for [CNY600] billion into the market so that the internally-generated demand can sustain growth and maintain the growth of country.

Many people lost jobs due to the decline of the export market, so although I see some slowdown, I do see that as a blip on the map. There are no fundamental issues with China, although there are short-term profitability issues with steel mills because, as result of tightening of credit policy, they tried to target and control real estate. Though the government does not particularly want to control the money supply, they have been trying not to lend too much into real estate development projects in coastal areas. In doing that, they were basically maintaining general health but they were bound to have a fever in the short term.

I think it will, as much as last year, be similar to the blip at beginning of Q4, 2011 when the market took a dive and then went back up; it is adjusting down again, so one will see that volatility. Attracting foreign capital comes from emerging countries where they have foreign exchange reserves to put to good use investing in projects, rather than just holding onto foreign currency, which is still subject to currency risk. To put it into companies and assets, that makes sense. On the other side of the table, corporations, such as Century need to raise capital, however, this market condition does not allow the general market to provide. The best choice is to go to the final end-user market, so you will see more of that as we go forward.

Asian Metal: Chinese corporations have been looking seriously at the prospect of vertical integration, not only through securing long-term supply but also by streamlining their domestic industry by ensuring that buyers are working on behalf of mills, as opposed to independently. What sort of effect, long- or short-term, could this have on the global industry?

Sandy: That is a good observation. I think that traders are finding themselves in a different role, or maybe being forced into a different role or, something that is not very visible in the market, perhaps being forced out altogether.

About 2003-2004, the actual commodity market started to take off, including iron ore, and the price went through roof. At that time the global iron ore market worked on annual negotiated benchmark prices. Because of the long-term heavy capital investment, people did not want to deal with price fluctuations as they do today. Prices were set just once per year. My point about the role of traders is that they were surviving on that and not making a large margin. There was some disconnect which happened when traders made a larger margin when the market took off. The forever-increasing price curve negotiated at begin of the year was, let us say, [USD1.0/t] and by the middle of the year it had already increased by [10-20%]. To lock in a supplier in those days, Rio Tinto, Vale, BHP Billiton were just negotiating with traders to avoid the headache of securing freight. When the cycle started in 2003-2004, the role of the trader was based on that model of making more money. So you will probably notice that by about the time leading up to financial crisis around 2007, chief executives were saying they should go to spot-based deals because big companies were losing to traders due to that set price at the beginning of the year. Afterward, traders got squeezed because big suppliers were willing to deal directly with mills instead. Traders are still getting squeezed as a large majority of the market deals on a spot basis. With major suppliers selling on a spot basis, there is really not much room for [traders]. Their original role was to buy FOB from these providers, then take the tonnage and arrange shipment and lock in a contract, sometimes taking the risk of sitting on goods. Large suppliers are now selling CIF to China, so the traders' role is shrinking because no one needs to have a trader to take the shipping risk, lock in the rate, book the window, etc., and they have less of a role to play. Large corporations are also coming directly to [suppliers]. For instance, Tata Steel went to New Millennium, and Alderon and Hebei [Iron and Steel Group] have an agreement; mills are actually doing direct investment rather than using a trading vehicle.

Asian Metal: How does that change the role of the leading iron ore companies? Is their role also being marginalized?

Sandy: The dynamics between new, emerging corporations and big companies, in the case of iron, is that the advantage of corporations like Vale, Rio Tinto and BHP Billiton is still there. Their operations have already been built so more new tonnage is much easier to provide and less financially costly in sense of just extending the mine. These big corporations have access to capital and already have huge cash flow, and so, in terms of developing new mines, they are in a role of strength when compared to, what I like to categorize as independents, or companies not associated with the large players. Their strength is still there and they are exercising it rightfully by going to spot-based sales. They also have the advantage of being able to play the spot market more strongly than emerging independent companies, with capital on the lower part of the cost curve. Emerging independent companies have advantages as well, in different ways. They play a balancing role in terms of the end-user market, and China is a good example of that. [Independent companies] are helping to diversify sources of supply away from the oligopoly. Even about eight years ago now, exports depended so much on the oligopoly. Vertical integration is a survival game for the steel mill industry. ArcelorMittal has [150] million tons of capacity, and they had to buy into iron ore resource companies. Vertical integration, starting with ArcelorMittal, is a classic example of market dynamics. When faced with an oligopoly as an extreme industry player, you have to move up the chain.

Asian Metal: What are some of the challenges that the Canadian iron ore market will be facing as it continues to grow exponentially over the next 5-10 years? What are possible challenges for Century, specifically?

Sandy: We already have a few boxes checked for some of the more pressing issues, which is working to our advantage. That includes finding a strategic partner and an off-taker. To put billions of dollars into a project without a secure customer would be a big hurdle. So that box is checked. Access to capital is extremely important for iron ore companies to build up mines. We now have an off-taker as a strategic partner as well as an investor so that we have access to capital. WISCO has [65] million tons per year of steel-making capacity and will need [100] million tons of ore for their blast furnaces. With that size, they have access to capital from the Chinese banking system and also international foreign exchange reserves in US dollars. So we have that box checked. What is remaining is to work on our assets – we have a great project, have the resources, and quite a lot more is targeted. The challenge now is to work through the process and develop a flow-sheet for engineering and proper mine building. Like any other project, we also have to look after the environment, and commit to sustainable development, which is important in Canada. Canada is one of leading regions, as is the States, in terms of having very good environmental framework to encourage sustainable development, and the challenge is to work on technology.

Asian Metal: What makes Century unique in the Canadian iron ore market and what role does the company expect to play in the global market over the next few years?

Sandy: It is part of our vision that we are in a point of history where we see a huge, sustainable demand, for iron ore into the future, and that demand comes from emerging markets. We have attracted, on the strength of our asset base, a strategic partner to form some kind of alliance and affiliation. Our uniqueness comes from the way we structure our capital mix. We have [25%] with WISCO at the corporate level, and Minmetals has [5%] at the corporate level with equity interest as well as [10%] of the Duncan Lake off- take, which they would be free to sell to the seaborne iron ore market. At same time, we also have a joint venture at the asset level, with WISCO earning in 40% off-take of the three projects, being Attikamagen, Sunny Lake and Duncan Lake.

We have built a scenario in which the Chinese would have interest in, though not control over, the project, so we do not have those types of [control] issues. The Chinese interest is also in direct and indirect financial assets. So far, we have locked-in [60%] of our future supply, selling to WISCO and we still have [40%] of our goods to play in the spot market to maximize our profit margin. An effective capital structure is the key to take on a multibillion dollar project. As I said, China will need [100Mt] in [2-3] years, so this capital strategic partner will be a strong base for us to take the company to a global level in terms of scale, meeting part of the total [100Mt] demand. On those strengths, Century will be able to become a major international company.

Asian Metal: Thank you for your time today, Sandy!

Sandy: Thank you!