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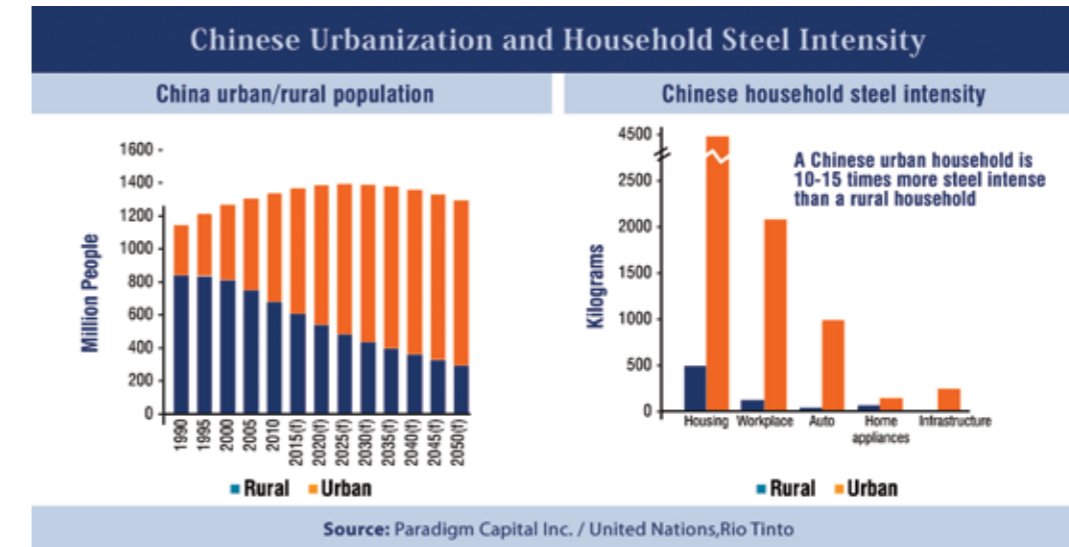
Oceanic's Hopes Advance project is meeting the growing global demand of high quality steel producers.

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Iron Ore

China accounts for over 60% of the seaborne iron ore market and was not exempt from the economic turmoil in 2012 and iron ore prices reflected this.



The price of iron ore hit a three year low in September at \$86.70/t CFR China breaching the \$120/t price that was projected to be the price floor. This was the lowest anticipated price Chinese producers can be profitable at given their cost structure. The price has since roared back and sits at over the \$150/t CFR China mark at the time of writing. Weakened steel prices over last summer led steel producers to cut back on production and destock, utilizing iron ore inventories and reducing cash expenditures. In spite of weaker economic conditions, the World Steel Association (WSA) is still projecting growth in steel consumption, albeit lower than recent years, of 2.1% and 3.2% in 2012 and 2013 respectively, compared to 6.2% growth in 2011. The destocking cycle has now turned into a restocking cycle as China's economic indicators are improving due to improved fundamentals. The restocking cycle accentuates the rebound in demand and as a result we have witnessed a violent upside price movement in a short-period of time.

Demand

We believe that long-term demand fundamentals for steel are still very

positive. China is expected to further urbanize, with 350M additional people projected to be living in urban environments by 2030. With housing as the largest end user of steel demand in China and urban housing using 10-15 times the amount of steel than rural housing, this is seen as a major demand growth driver. Rio Tinto projects a 4% CAGR increase in Chinese steel production from 2010 to 2020, followed by a 1% CAGR from 2020 to peak consumption in 2030. This is obviously positive for iron ore demand. As the following graph illustrates, BHP Billiton projects 3.5% iron ore demand CAGR from 2010 to 2020. China is expected to be the major demand driver until the 2020s when India and other developing countries are expected to take over from diminishing Chinese growth.

Supply

Future iron ore supply faces mounting challenges, which include: increasing opex and capex costs, grade degradation, logistical hurdles, increasing geopolitical risk and royalty/taxation penalties. Rio Tinto is projecting that 700Mt of iron ore production will be needed to meet demand in the next 7 years and with cost

Past and Projected World Iron Ore Consumption

China and ROW total iron ore consumption vs. seaborne iron ore demand
(Index, 2000 seaborne trade as 100)



Source: Paradigm Capital Inc. / BHP Billiton

escalations and recent capital deferrals, this supply gap may be difficult to fill.

Chinese domestic iron ore supply has been producing at lower-grade mines as their high-grade deposits are deteriorating, with the average iron ore grade slipping from 32% to 20% over the last decade. The lower grades both greatly increase opex and capex requirements and decrease overall production leading to increased Chinese import dependence and price support around \$120/t CFR China. As China continues to push domestic ore production, high-grade ore will continue to be more scarce, decreasing domestic supply and increasing their reliance on imports of seaborne ore.

Since the iron ore market is an oligopoly dominated by three companies, Rio Tinto, BHP and Vale, China is trying desperately to break free from their market dominance by investing overseas. This though will not be an easy feat as it is fraught with risks and timeline challenges which is a problem that money alone cannot solve. For example, Western Australia's iron ore sector has been challenging for several Chinese players with infrastructure difficulties and skills shortages leading to cost and schedule overruns. Most notable has been CITIC Pacific's Sino Iron project, which is now involved in a court battle with its local partner.

Industry costs continue to rise due to the inflationary environment and lower-grade ore, resulting in a inferior return on capital. Due to the lower returns,

companies are opting to retain their capital and are delaying or abandoning projects, adding to fears that there will be a supply gap in the future. Fortescue Metals Group recently cut a planned 55 Mtpa expansion, saving \$1.6B in capex, and Vale announced their capex number would be lower in 2013 compared to 2012 due to stricter capital allocation, focusing more on maximizing efficiency and lowering costs at current operations. As the next figure displays, bringing on new capacity is a challenge and meeting timelines and budgets is not a common occurrence. We expect the announced expansions for 2012-14 to develop as per the 2008-10 timeframe.

Outlook

The stock of iron ore held at Chinese ports fell below the average consumption ratio of 80Mt (4 weeks of consumption) for the first time since December 2010. The iron ore price recovery from ~\$86/t CFR China to over \$150/t was due to the restocking cycle ahead of the Chinese winter and to steel expectations rising as construction activity accelerates. The recent price behavior supports that an iron ore price below \$120/t is currently unsustainable as the ore stockpiles were drawn down to unsustainable levels. As we move into 2013, we anticipate prices to stabilize around the \$140/t CFR China as the restocking cycle comes to an end but fundamental demand remains intact as Chinese stimulatory action takes hold.

Asia Pacific Round Up



Mongolian "Ger"s. Photo courtesy of Entrée Gold.

Drought is normally seen as an agricultural risk, but in the Australian mining industry today there is a drought of cash and confidence that is proving to be as damaging to anything endured by farmers in the world's driest continent.

Just as a lack of rain shrivels crops and kills livestock so too is a shortage of capital combining with concern about rising costs, falling profits and political uncertainty, to dent a mining sector which was until recently the most buoyant in the world.

A decade-long resources boom, driven by China's industrial revolution and seemingly insatiable demand for raw materials, helped protect Australia from the worst effects of the 2008 global financial crisis and its aftershocks which continue to dog Europe and the U.S.

But, like the morning after all wild parties, Australian mining is now feeling the effects of a self-inflicted hangover that is likely to linger for

much of 2013 – despite early signs of recovery. Deloitte Access Economics, a consulting firm, said in a report late last year that the level of investment in the Australian mining and oil sectors would be "neutral" this year with many projects once under consideration now less likely to go ahead. "The construction leg of the mining boom is approaching its top, and likely to peak, in 2014," Deloitte said.

The tough outlook will make it difficult to structure the financial side of all projects with big developments in particular facing high investor and banking hurdles. Two projects stand out as examples of what's happened in 2012, and what could happen in 2013.

Author:
Tim Treadgold

complete will be the first in Quebec with a projected life of 11 years.

Osisko's Malartic gold project is promoted as a standard for the province and how to foster junior explorers into becoming significant producers. 18 months into commercial production, Malartic continues to improve its monthly production rates whilst reducing cost per ounce. A low grade, high volume open pit operation, the introduction of a second crusher should see annual production breach 650,000 ounces and cost per ounce come down to under \$600.

Eight years ago, in March 2005, Osisko commenced initial exploration drilling at Canadian Malartic. Over the course of the following four and a half years, the Company completed over 800,000 meters of definition drilling, feasibility studies and permitting. Construction of the Canadian Malartic Mine started in August 2009 and was completed in just 19 months, and dore bar 001 was poured at site on April 13th, 2011.

The exceptional speed with which Osisko achieved the above should not

be seen as the exception, but rather the rule. "The best thing about Quebec is the regulatory regime – it is well managed and stable. You know what it is going to be from the start of the project right through to completion. The lending market recognises this and gives credit for projects in that region," assures Stornoway's Manson.

With exports of just \$2.5 billion in 2008, iron ore has become an increasingly hot commodity for Quebec these past few years, home to 40% of Canada's total iron ore production. Based around the Labrador trough, the newest producer Labrador Iron Mines' (LIM) James mine completed its first full year of commercial production in April. Proudly promoting the fact that they are the only independent iron ore play in the area, LIM are ramping up production at James and a number of other deposits to eventually produce 5 million tonnes per annum.

Despite annual production hovering around 40 million tonnes, a drop in the ocean on a global scale, the trough has been attracting juniors eager to take advantage

of the potential from a resource and geographical perspective. Relatively close to the sea, and hence, world markets, the area has drawn global behemoths such as Rio Tinto and Arcelor Mittal along with a slew of less well known Chinese players. Although Arcelor Mittal recently announced plans to relinquish its Quebec investment, this is down to internal company economics rather than the economics of the property. Nevertheless, the mere presence of such global players underscores the importance of the raw material as well as the enormous sums required to realise any promising project.

Oceanic Iron Ore, a junior that only picked up its property two years ago and subsequently expended \$20 million getting it to PFS stage, highlights the potential and the hurdles involved. Not only is the estimated cost per tonne a low \$30, but without the need for rail infrastructure, the final product can be easily and cheaply loaded for export wherever that may be. However, with an initial capital cost of \$2.85 billion, the company needs a partner. "We are looking at a range of options but the most important priority at this point is getting the right strategic partner. Someone who will be instrumental in helping us attain financing at the right price," states company President and COO, Alan Gorman. "With the presence of well known names such as Tata and Arcelor Mittal, we believe that the story is already out there and we are confident of finding a match."

Gorman is keen to point out their advantage over the competition, especially when considering transportation, "We have no need for rail infrastructure and that is a big advantage when you consider other projects on the trough who are dependent on the feasibility study currently being undertaken by CN (Canadian National Railway)." With prices briefly dipping below \$100 a tonne during the summer, many caught a fright although Gorman remains sanguine, "You have about 250 million tonnes per annum that don't make money below \$100. Not only do we have some of the cheapest economics, but our ore has proven quality and proven to be compatible with a range of blast furnace requirements." With funds raised late in the year, Gorman is confident of the process of signing up a partner and being in a position to start construction in 2014.

Despite the brief wobble experienced over the summer, Quebec has clearly demonstrated that it will remain a destination of choice for miners for years to come. The regime is in place and stable, the total tax regime is one of the lowest in North America and the extent of government gathered geological information is unparalleled. Governments come and go, but it will take more than political grand standing to knock Quebec off its perch!

Company Snapshots

Bowmore Exploration (TSX-V: BOW)

"We were probably the last company to get listed in August 2008," muses company President and CEO, Paul Dumas, "after that time, the markets just became brutal for pretty much everyone." Four years down the line, Bowmore is very much in operation, nurtured by a recent darling of the mid-tier market, Osisko. In fact, walk into Bowmore's offices and that is just about all you see, Osisko.

"Our relationship with Osisko extends to before our involvement on a professional level. Their participation through a 33% stake in the company allows them to progress more grass roots projects that wouldn't otherwise be their focus," explains Dumas. Osisko is focused on 2 – 3 million ounce plus potentials, anything else is passed along to Bowmore for consideration. Senior Osisko employees are involved in Bowmore's operations as well as personally holding equity within the company which only adds confidence to potential investors.

The Bowmore philosophy is similar to that of Osisko, in identifying projects similar to Kinross' operation in Paracatu, Brazil and the Sukhoi Log gold mine in Russia. Both enjoy very high resources but at low grades, in the case of Paracatu, approximately 0.41 g/t gold. In 2011, Kinross produced over 450,000 ounces of gold for a cost of approximately \$720 per ounce, benefitting significantly from the upward trajectory of gold prices.

"Our strategy is to identify similar deposits that would support an open pit, large scale operation with the resulting economies of scale that would provide for an economically viable mine." Dumas is particularly excited by the results of the 2012 drill program at its 100% owned St Victor property; "We are very pleased by the results of Phase 2 drill program on our St Victor property. The results of our exploration work continue to be encouraging as they confirm the potential for a large bulk-tonnage gold deposit near the historic mining district of Asbestos and Thetford-Mines."

Aside from St Victor, the company has other properties in Canada but also in Mexico where it is following the same methodology. "If we do

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