

# CHINA'S FIGHT FOR CLEANER AIR CREATES AN UNPARALLELED OPPORTUNITY FOR INVESTMENT IN CANADIAN SUPER CLEAN IRON ORE

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If strict air pollution laws in China continue to evolve at present pace, the quality of life and air pollution experienced by more than a billion people will be transformed for the better.

 @mjmorabito

The photo above was taken exactly one year ago, during a mission to Beijing, China, where Alderon executives met Chinese engineering firms, equipment suppliers and Chinese banking institutions and HBIS Group Co., Ltd.

China's ongoing war on air pollution is a big win for Canada's high-grade iron ores produced abundantly in Canada's Labrador Trough region.

Chinese President Xi Jinping's push to improve air quality creates a new opportunity for Canadian iron ore projects to enter the market offering an alternative to lower grade product with higher impurities. China's post-2016 supply side reforms have encompassed capacity reductions, replacement of inefficient, highly-polluting smaller blast furnaces with larger units, elimination of illegal substandard steel production and tougher restrictions on pollution. Steel mills that meet the country's ultra-low emission standards won't be subject to these heating-season production restrictions.

Generally speaking, lower-grade ores with higher fractions of impurities require increased amounts of coking coal, a key ingredient used in blast-furnace steel manufacturing. Therefore, higher-grade ores help steel mills reduce harmful emissions. The use of higher-grade ores also reduces the hot metal conversion cost as more iron units enter the blast furnace.

This has led to a price gap emerging in the iron ore market that didn't exist prior to China's environmental crackdown. Back then, premium-grade iron ore was priced roughly the same as lower-grade ores that predominantly came out of Australia, one of the largest iron-ore producing regions in the world. – Not so anymore.

Chinese steel mills have moved towards premium products with higher iron content and low levels of deleterious materials.

## Today, China is trying to balance appetite for growth with need for clean air



After Beijing's "airpocalypse" in 2014, President Xi Jinping pledged to protect the environment with an "iron hand"

Source: Bloomberg, March 2019. Photo: CNN

Although a relatively small player by volume in the seaborne market, Canada produces some of the highest-grade, cleanest iron ores in the world. More than 90% of Canada's iron ore is produced in the Labrador Trough region, which straddles the border between the provinces of Québec and Newfoundland and Labrador. The products from this region are not only recognized for their high iron content but they are also renowned for their ultra-low levels of impurities which make them a very attractive value proposition for steelmakers who seek to strike a balance between productivity, profitability and emissions.

Between the start of 2016 and 2018, the premiums commanded by the 65% Fe and 66% Fe indices have risen to record highs. The gap between the benchmark 62% Fe and the high-grade iron ores that are 65 per cent or higher iron content, has increased three-fold in this period. The premium reached a record high of 45 per cent in July 2018 and now sits around 15 per cent.

Higher-grade iron ores diverging in price from the lower grade, has renewed an interest companies developing projects in the Labrador Trough region. One such company is Alderon Iron Ore Corp. – a TSX-listed development stage company that has restarted its Kami Iron Ore Project in the Labrador Trough after putting it on hold when iron-ore prices tanked in 2014-15. Last year, Alderon saw the return of Tayfun Eldem as President, CEO, and Director, a role he served from 2011 until iron-ore prices tanked 2014-15. Since returning, he has proven to be the perfect person to implement a strategic plan to realize the Kami Project's massive economic potential for Québec, Newfoundland and Labrador and all of Canada.



Source: @markets – Bloomberg Markets Twitter

Given that the handful of high-grade iron ore producers with existing production and revenue are already trading at high valuation multiples, investors may want to consider companies that are still in the development stage but are close to commercialization, while offering exposure to the Labrador Trough.

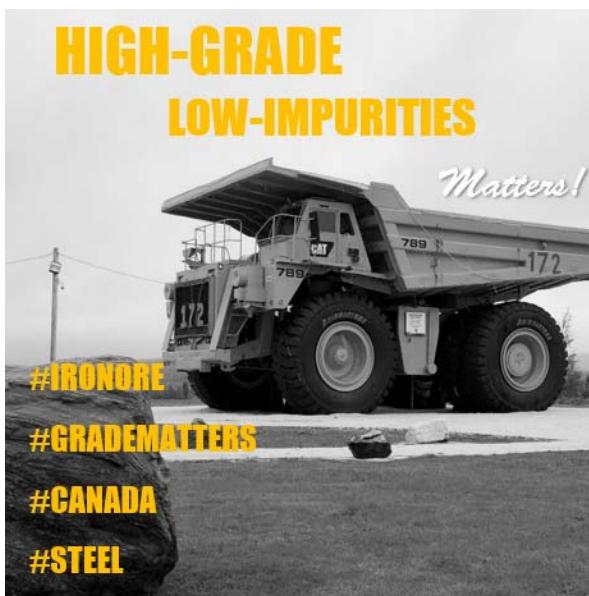
"Kami is a rare development opportunity. It offers more upside to investors because it is situated near three producing iron ore mines but has yet to start production," said Tayfun. "It's ready to go but for the final phase of financing, which we are currently in the process of raising."

The ultra-low levels of impurities found at Kami make its concentrates ideal for blending with ores with higher levels of contaminants like alumina and phosphorus. This allows Chinese steelmakers to improve the overall quality of the blend fed into their blast furnaces, thereby striking the delicate balance between quality and input cost.

Investor interest is returning to iron ore, primarily for producing assets, or near-producing assets which is what Tayfun found after meeting with investors since the beginning of January 2019 to raise US\$982.41 million needed to develop the mine. So far, up to C\$220 million has been committed through existing agreements with its joint venture partner the HBIS Group, China's second largest steelmaker. "Alderon's strategy is to look for financing through both traditional and non-traditional sources," stated Alderon CFO Kate-Lynn Genzel. The rest will come from a combination of strategic partnerships, project finance and institutional and retail investors.

**"It's not only just about the grade of iron ore, it's also about not having impurities, which are frowned upon when you are making steel. The Labrador Trough iron ores offer some of the lowest levels of impurities, globally."**

**Tayfun Eldem**  
*President, CEO and Director of Alderon Iron Ore Corp. and 30 years of experience in the mining industry*



The Kami Project has been almost entirely de-risked. It's been released from environmental assessment and is practically shovel-ready, pending finance. Alderon has secured the key regulatory approvals and mining and surface leases. They have 100 per cent of the production sold, and concluded majority of their stakeholder agreements.

For much of the past two years China's preference has been towards higher-grade ores which has led to a widening of premium and discount spreads. Kami will produce a premium-quality iron-ore product, ideal for blending and China's clean air requirements.

**Canada's Labrador Trough region, which straddles the border between the provinces of Québec and Newfoundland and Labrador.**



With the drive for clean air in China, the uptick in prices and increasing demand for high-grade iron ore, I think we will see a brighter spotlight shining on Canadian iron ore production from the Labrador Trough. Optimism in the iron-ore market opens a window to finance the Kami Project, located in the Labrador Trough region, which stands to benefit most from the boom in high-grade iron ore.

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