



Metals & Minerals

Recommendation: **SPEC. BUY**
Unchanged

Risk: **SPECULATIVE**

12-Month Target Price: **C\$0.55↓**

Prior: **C\$0.75**

12-Month Total Return: **175.0%**

Market Data (C\$)

Current Price	\$0.20
52-Wk Range	\$0.13-\$0.45
Mkt Cap (f.d.)(mm)	\$46.8
Dividend per Share	--
Dividend Yield	--
Avg. Daily Trading Vol. (3mths)	47,846

Financial Data (C\$)

Fiscal Y-E	March
Shares O/S (f.d.)(mm)	233.8
Shares O/S (basic)(mm)	174.4
Float Shares (mm)	128.5
Net Debt/Tot Cap	--
Cash (\$mm)	\$4.5
NAVPS (current)(f.d.)	\$0.57

All figures in C\$, unless otherwise specified.

Craig Miller
416 982 2753
craig.miller@tdsecurities.com

Craig Hutchison, P. Eng.
416 982 3474
craig.hutchison@tdsecurities.com

Oceanic Iron Ore Corp.
(FEO-V) C\$0.20

Hopes Advance Pre-feasibility Study Shows a Viable Project

Event

Oceanic Iron Ore announced the summary results of an independent pre-feasibility study (PFS) for its wholly owned Hopes Advance project in Nunavik, Quebec.

Impact

MIXED. The company's financial analysis for the PFS shows that the Hopes Advance project 1) is economically viable at the company's assumed iron ore price of \$100.00/tonne; 2) will be one of the lowest cost producers in the Labrador Trough; and 3) does not rely on any third-party infrastructure. However, our NAV and NAVPS estimates declined with our new operating and financing assumptions. Our target price has been reduced to \$0.55/share from \$0.75/share, but we are maintaining our SPECULATIVE BUY rating.

Details

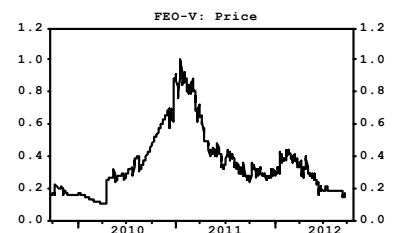
The company released details of its PFS for its Hopes Advance project prepared by Micon International Ltd on September 19, before the market open. The PFS incorporates and updates elements of the company's Preliminary Economic Assessment (PEA) released in September 2011, along with recent resource estimates, metallurgical test results, and power supply assumptions.

Summary of key operating parameters outlined in the PFS (Exhibit 1):

- The project is based on proven and probable reserves of 1,359 million tonnes (mmt) grading 32.2% iron, enough for a 31-year mine life.
- An initial production rate of 10mmtpa of 66.5% Fe concentrate commencing in 2017 using self-generated power, followed by a \$1.6bln expansion to 20mmtpa in 2027 (funded from operating cash flows), to coincide with the availability of grid hydroelectric power in 2025 (year 9). It is assumed that the transmission line is financed by Hydro Quebec and amortized through the power rate charged to the company.
- Concentrate will be shipped from a company-owned port to be constructed at Pointe Breakwater near the community of Aupaluk.

Company Profile

Oceanic Iron Ore Corp. is a Canadian emerging iron ore producer focused on its large Ungava project located close to the coast in Nunavik, northern Quebec. The company has completed a positive Preliminary Economic Assessment on the Hopes Advance deposit.



Please see the final pages of this document for important disclosure information.

Key Economic assumptions outlined in the PFS (Exhibit 1):

- Base case after-tax 8%NPV of \$3.2bln at a life-of-mine (LOM) realized price of \$100/tonne FOB for a 66.5% Fe concentrate, versus our previous estimate of \$4.4bln at a LOM price of \$86/t FOB.
- LOM operating cost of approximately \$30/tonne.
- A pre-production capital cost estimate of \$2.85bln.
- Scheduled expansion capital costs of \$1.61bln in 2025-2026.
- LOM sustaining capital expenditures of \$770mm.
- LOM capital costs now total \$5.2bln, versus our previous estimate of \$4.6bln. A significant component of the increase in capital costs includes the addition of concentrate drying and concentrates storage infrastructure and equipment which had not been accounted for in the PEA, higher indirect costs, and the addition of a power plant.

Outlook

Following the results of the PFS, we have made a number of changes to our operating and financing assumptions of the life of mine as described below and shown in Exhibit 1.

Operating assumptions:

- We have incorporated two stages of development starting at 10mmtpa in 2017 (Stage 1) and increasing to 20mmtpa from 2025-2027 (Stage 2) to be consistent with the PFS.

Financing Assumptions:

- At the end of fiscal Q1/13 (June 30, 2012), the company had cash and working capital of \$4.5mm and \$5.5mm, respectively. To fund near-term project commitments (outlined below) and general working capital requirements, we assume the company will need to raise \$10mm in equity in fiscal Q3/13 at a share price of \$0.20 that adds 50mm shares issued. Previously, we assumed the company would need to do a near term top-up financing of \$25mm at a share price of \$0.33 (75.8mm shares added).
- **Project financing** – We assume the company finances its development capex estimates using equity of \$1.14bln (previously \$1.55bln) financed at \$0.50/share (unchanged) for 2,283mm shares added (previously 3,095mm). We assume a further \$2.3bln (unchanged) will need to be financed through debt in two tranches. The first tranche of \$1.7bln would be raised in 2014 to fund pre-production capex and the second tranche of \$600mm would be borrowed in 2025 to fund an expansion. Our FOB Fe price assumption does not generate enough cash flow to fund the expansion from operations.

Near-term (12-18 months) milestones highlighted by the company include:

- Pelletizing test work in Q4/12.
- Strategic partnering and project financing 2012-2013.
- Fast-track completion of the feasibility study in Q3/13, including a final shipping logistics study.

Longer-term potential milestones of the company include:

- Complete the environmental impact assessment and permitting process in 2013-2014.
- Negotiate stakeholder Impact and Benefits Agreement in 2013-2014.
- Construction during 2014-2016.
- Concentrate shipments from 2017-2047.

Valuation

We have updated our valuation to reflect the changes to our estimates noted above. Our base case after tax 12%NPV for Hopes Advance decreased to \$1.43bln from \$2.74bln previously. Using the company's 8% discount rate, we calculated an after-tax NPV of \$2.72bln versus the PFS estimate of \$3.2bln, primarily due to our lower FOB price assumption. Oceanic shares are trading at a discount of 65% to our 12% NAVPS estimate of \$0.57 (previously \$0.82). Our revised financing assumptions increased the FDIM share count to about 2.51bln shares (previously 3.35bln shares) from the current 179.8mm. The lower dilution reflects the fact that \$1.6bln in capital costs for the expansion have been deferred, which the company assumes can be funded by operating cash flows. At our lower FOB price assumption, the company has to borrow another \$600mm to



fund the expansion. Even with this extreme level of dilution, the project is still accretive to value per share from current levels. Our detailed valuation is presented in Exhibit 2.

Exhibit 1. Hopes Advance Development Assumptions

Parameter	Units	Sep 2012 PFS	TDS Previous	TDS Revised	Variance
Tonnes of Ore in DCF (100%)	mm tonnes	1,359	1,231	1,359	10%
Grade Fe	% Fe	32.2	32.2	32.2	0%
Contained Fe (100%)	mm tonnes	438	397	438	10%
Ownership	%	100%	100%	100%	0%
Initial Start Up to 10 mmtpa	calendar	2017	2017	2017	0%
Expansion to 20 mmtpa		2027	2018	2027	0%
Mine Life	years	31	25	31	24%
Average LOM Throughput	tonnes/day	120,000	135,000	120,000	-11%
LOM Throughput	mm tonnes	1,359	1,231	1,359	10%
Tonnage Factor (Mass Recovery)	%	37.3%	38.8%	37.3%	-4%
Tonnes Ore perTonne Conc		2.68	2.58	2.68	4%
Grade Concentration Factor	%		206%	207%	0%
Annual Avg. LOM Fe Conc Production	mmtpa	16.3	19.1	16.4	-14%
LOM Fe Conc Production	mm tonnes	507	478	507	6%
Concentrate Grade	% Fe	66.5	66.5	66.5	0%
Recovered Fe	mm tonnes	337	318	337	6%
Avg Fe Recovery	%	73.1%	80.1%	77.0%	-4%
LT Price Assumption, FOB	C\$/t	\$100	\$86	\$86	0%
Mine Site Cash Cost/t Fe Conc., FOB	C\$/t	\$30	\$30	\$31	2%
Transportation Costs, FOB to CFR	C\$/t	ND	\$33	\$33	0%
Total Cash Costs, CFR	C\$/t	ND	\$63	\$64	1%
Preproduction Capex	C\$ mm	\$2,854	\$3,881	\$2,855	-26%
Expansion Capex	C\$ mm	\$1,610	\$0	\$1,610	
LOM Sustaining Capex	C\$ mm	\$770	\$765	\$770	1%
LOM Capex	C\$ mm	\$5,234	\$4,646	\$5,235	13%
LOM Operating Margin	%	ND	63%	62%	-1%
NSR Royalty	%	2.0%	2.0%	2.0%	0%
Effective Tax Rate	%	ND	25%	25%	0%
Financing Assumptions					
Equity ***	C\$ mm	ND	\$1,573	\$1,152	-27%
Debt	C\$ mm	ND	\$2,322	\$2,313	0%
Other	C\$ mm	ND	\$0	\$0	
Total	C\$ mm	ND	\$3,894	\$3,465	-11%
Additional Shares Added***	mm shares	ND	3,171	2,333	-26%
Current Shares FDIM	mm shares	ND	183	180	-2%
Shares in DCF FDIM	mm shares	ND	3,354	2,513	-25%
Net Asset Value (8%) after tax	C\$ mm	\$3,200	\$4,417	\$2,718	-38%
Net Asset Value (10%) after tax	C\$ mm	ND	\$3,435	\$1,929	-44%
Net Asset Value (12%) after tax	C\$ mm	ND	\$2,742	\$1,430	-48%

ND = Not Disclosed

*Benchmark, 62% Fe Iron Ore Concentrate, CFR China

** Company assumes a LT CAD/USD of 1.0 vs. TDS of 0.95

*** Project Equity Financed at C\$0.50 /share

Source: company reports, TDS

**Exhibit 2. Net Asset Value Estimate**

Current Shares FDIM	179,808,231		Recent Price C\$0.20			
Estimated Shares Used in DCF	2,512,733,831		Target Price C\$0.55			
			Upside Potential 175%			
	8%		10%		12%	
	AMOUNT	PER	AMOUNT	PER	AMOUNT	PER
	(\$000's)	SHARE	(\$000's)	SHARE	(\$000's)	SHARE
MINING ASSETS (funded & after-tax)						
Hopes Advance (100%)	\$ 2,717,921	1.08	\$ 1,928,559	\$ 0.77	\$ 1,430,011	\$ 0.57
TOTAL PROJECT NAV	\$ 2,717,921	1.08	\$ 1,928,559	\$ 0.77	\$ 1,430,011	\$ 0.57
OTHER TANGIBLE ASSETS						
Additional Resources not in DCF	\$ 0	0.00	\$ 0	\$ 0.00	\$ 0	\$ 0.00
TOTAL OTHER ASSETS	\$0	0.00	\$0	0.00	\$0	0.00
	Fiscal Period	Q1/13				
	Calendar Per.	Jun-12				
CORPORATE ADJUSTMENTS						
Working Capital	\$5,508	0.00	\$ 5,508	\$ 0.00	\$ 5,508	\$ 0.00
Long Term Debt	\$0	0.00	\$ 0	\$ 0.00	\$ 0	\$ 0.00
In the Money Options and Warrants	\$ 507	0.00	\$ 507	\$ 0.00	\$ 507	\$ 0.00
NET DEBT	\$ 6,014	0.00	\$ 6,014	\$ 0.00	\$ 6,014	\$ 0.00
TOTAL NAV (CAD)	\$ 2,723,935	1.08	\$ 1,934,573	\$ 0.77	\$ 1,436,025	\$ 0.57
PREMIUM (DISCOUNT) to NAV		-82%		-74%		-65%
P/NAV		0.18		0.26		0.35

Source: TDS

Justification of Target Price

Our rounded, risk-adjusted target price of \$0.55 (\$0.75/sh previously) is based on 1.0x (previously 0.9x) our 12%NAVPS estimate for the company. We have increased our NAVPS target multiple to reflect the lower risk associated with a PFS.

Key Risks to Target Price

Relative to other companies in our equity coverage universe, we believe that an investment in Oceanic Iron Ore is subject to a SPECULATIVE level of risk. Our recommendation is subject to forecast, financial, technical, infrastructure, political and permitting risks. Specific risks are related to iron ore concentrate markets and off-take agreements; capital and operating costs; inflationary pressures, including fuel costs; costs and availability of project financing; risks related to deposit size, grade, mine-ability and metallurgy; impurity levels of concentrates; infrastructure, including access to power and port facilities; severe winter weather conditions; changes to governing fiscal and legislative regimes; the timing of key developments; foreign exchange rates; permitting, environmental approvals, and surface rights; community social relations and agreements with indigenous people; and staffing and key personnel retention. A specific risk for the small market-cap company is to find a strategic partner on acceptable terms to advance the \$4.5bln project.

Investment Conclusion

Oceanic's Hopes Advance project has a large resource base that could produce a substantial amount of low-cost, acceptable-quality concentrates or pellets per year for export on the seaborne market. Although it is in a remote Arctic location, it has a low waste-to-ore ratio, is close to the coast, is not reliant on third-party infrastructure, and will not have high rail transportation costs to get mine output onto Chinamax-size vessels. The size and scope of this project could be attractive to larger producers as the company continues to de-risk development through the feasibility and permitting stage. Although our estimates assume that the company goes it alone, it cannot do so in our opinion. We believe that it will have to find a strategic partner as Consolidated Thompson and Alderon have done, or sell itself or the project.

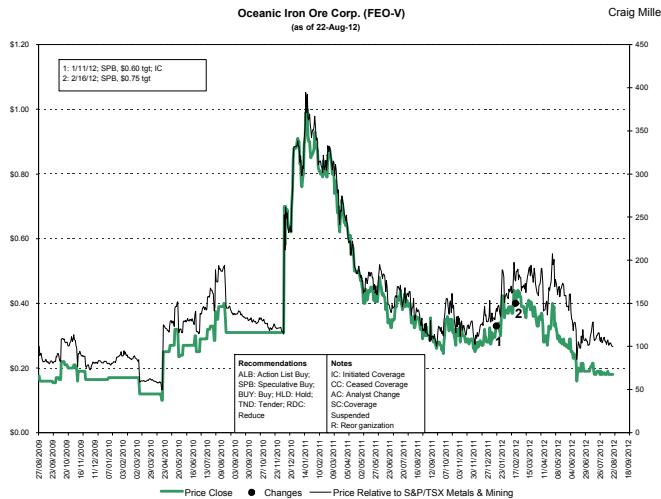


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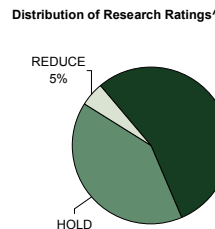
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Oceanic Iron Ore Corp.	FEO-V	n/a

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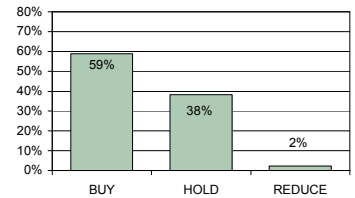
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