



# LABRADOR IRON ORE ROYALTY CORPORATION

January 2020

# NOTICE TO READER

**All dollar figures are stated in Canadian (“CDN”) dollars unless noted otherwise.**

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# AGENDA

- ❖ LIORC Financial Highlights
- ❖ Iron Ore Market Update
- ❖ IOC Update
- ❖ IOC and LIORC Strengths
- ❖ LIORC Cash Flow and Total Return
- ❖ Outlook
- ❖ Questions

# LIORC FINANCIAL HIGHLIGHTS

	Third Quarter		Fiscal Year	
	2019	2018	2018	2017
	(\$ in millions except per share information)			
Revenue	46.2	44.6	130.9	158.6
Net Income	57.5	58.1	128.5	157.3
Cash Flow from Operations	72.6 <sup>(1)</sup>	59.7 <sup>(2)</sup>	148.8 <sup>(3)</sup>	167.0 <sup>(4)</sup>
Net Income per Share	\$0.90	\$0.91	\$2.01	\$2.46
Cash Flow from Operations per Share	\$1.13 <sup>(1)</sup>	\$0.93 <sup>(2)</sup>	\$2.32 <sup>(3)</sup>	\$2.61 <sup>(4)</sup>
Dividends Declared per Share	\$1.00	\$0.55	\$1.75	\$2.65

(1) Includes IOC dividends totaling \$40.1 million or \$0.63 per share.

(2) Includes IOC dividends totaling \$58.6 million or \$0.92 per share.

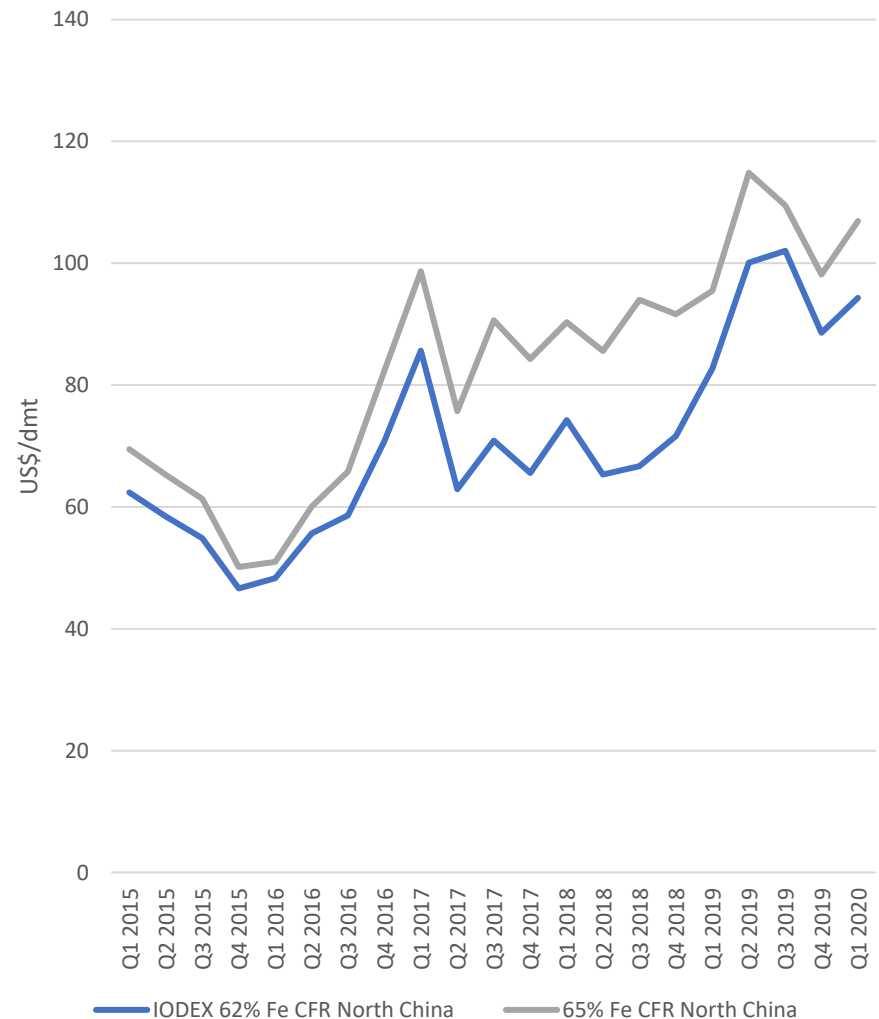
(3) Includes IOC dividends totaling \$83.9 million or \$1.31 per share.

(4) Includes IOC dividends totaling \$76.7 million or \$1.20 per share.

# IRON ORE PRICES AND PREMIUMS

- Iron ore prices showing strength at start of 2020
- Platts 62% Fe price averaged US\$94.34 per tonne to Jan 15 up from US\$88.61 in Q4 2019
- Platts 65% Fe averaged US\$106.90 to Jan 15 up 8.9% from Q4 2019 average
- Price increases due to demand from China and no major increases in supply
- Average premium for 65% Fe rose to 9.7% in Q4 up from 7.2% in Q3. Year to date, the quality spread has widened further to 11.7%
- Better steel margins increased steelmakers' demand for high quality product to improve yield and maximize profits
- Continued trend by steelmakers for high quality iron ore
  - Improve efficiency
  - Reduce emissions
  - Consumer demand for higher quality steel

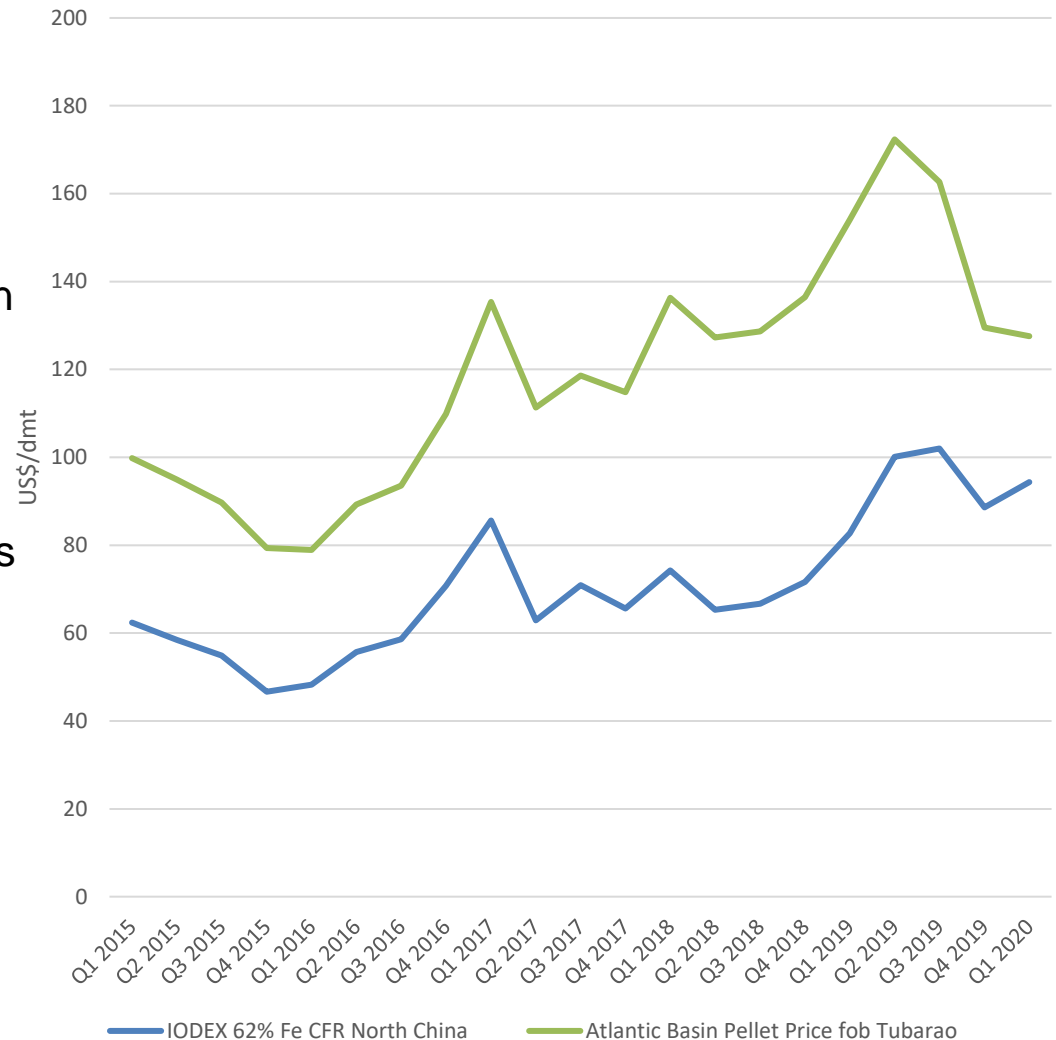
Platts Quarterly Prices - 65% Fe vs. 62% Fe, CFR North China January 15, 2020



# PELLET PREMIUM

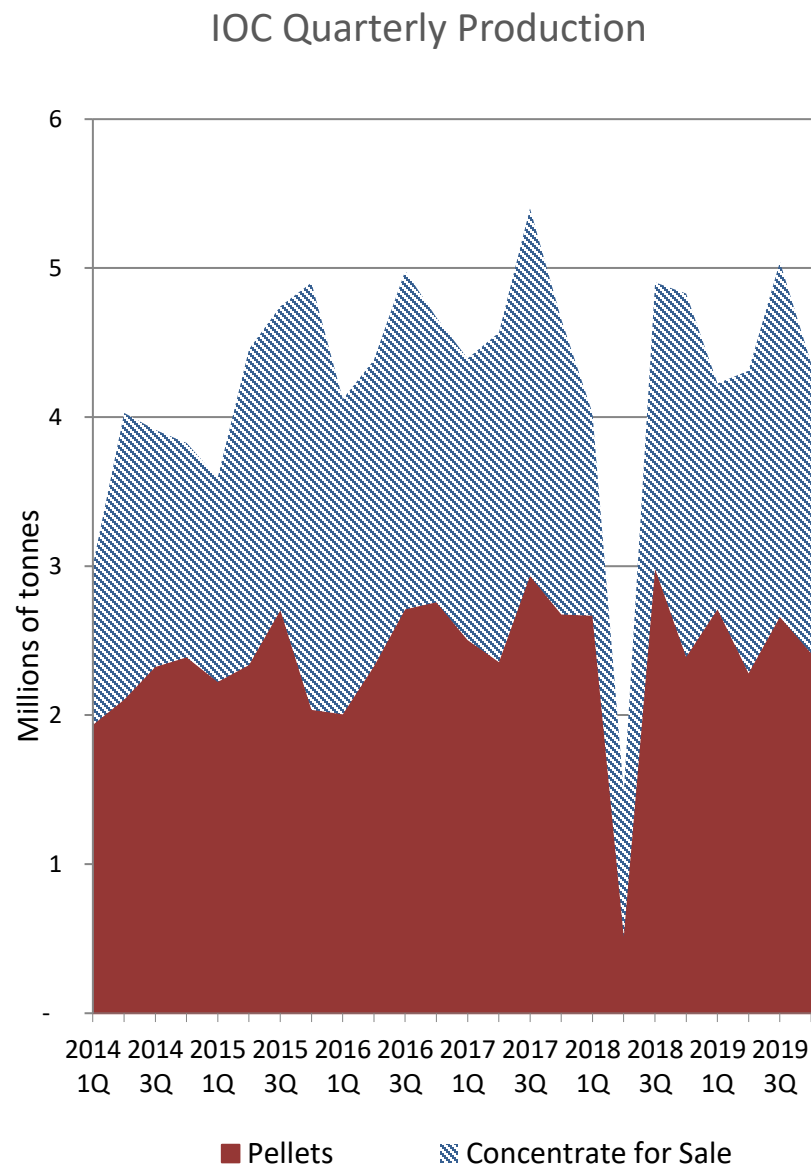
- Platts pellet premium for Atlantic Basin BF pellets averaged US\$37 per tonne in Q4 2019, down from US\$56 in Q4 2019 and was set at US\$29 on Jan 1
- The DR pellet premium averaged US\$40 per tonne for Q4 2019 down from US\$61 in Q3 2019 and was set at US\$37 on Jan 1
- Pellet premiums decreased since peak in Q2 2019 peak given excess supply from lack of demand for pellets
- Weak economy and low margins caused European steelmakers to reduce production
  - Renegotiated pellet contracts or did not take contracted volumes

Platts Quarterly Prices - Atlantic Basin Pellets vs. Concentrate 62% Fe, CFR North China to January 15, 2019



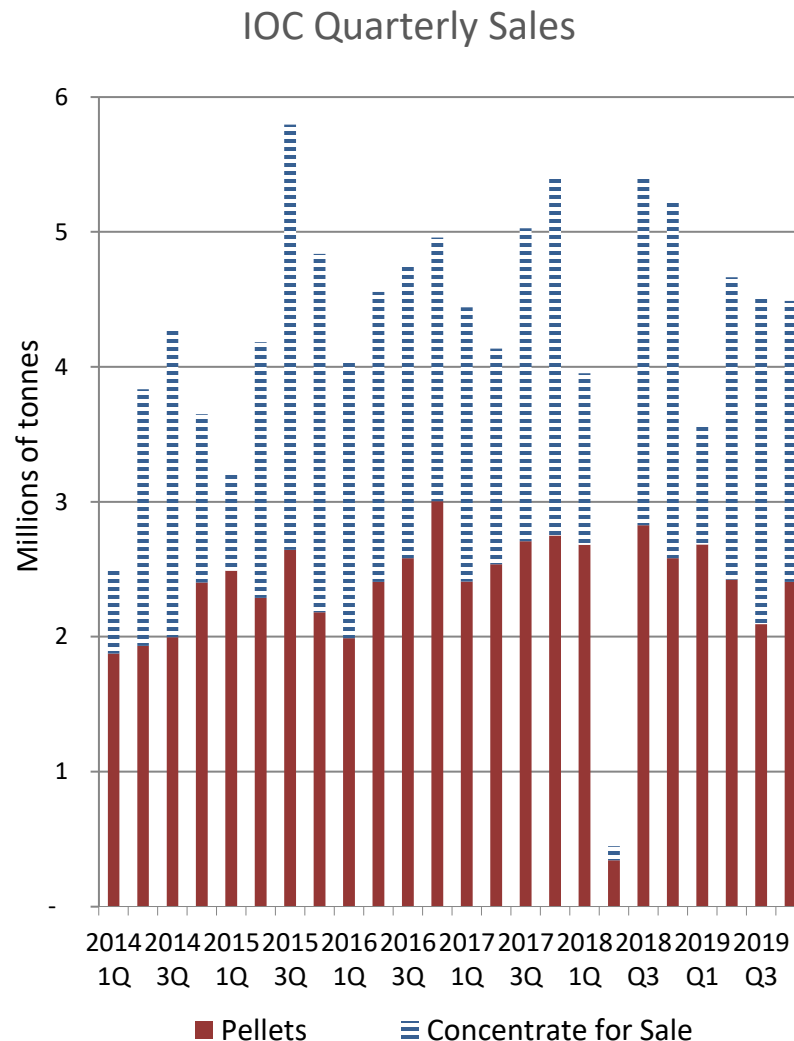
# IOC PRODUCTION

- IOC's saleable production (CFS and pellets) for the full year 2019 was 17.9 million tonnes up 17.7% from 2018 (which was impacted by a nine week strike)
- Saleable production in Q4 2019 was 4.4 million tonnes down 13% from Q3 2019
- Pellet production was 9% below Q3 2019 impacted by downtimes and repairs to indurating machines
- Concentrate production was 18% below Q3 2019 due to downtimes and repairs to the AG Mill offset by better weight yield
- Rio Tinto's 2020 guidance for IOC total saleable production is 17.9 to 20.4 million tonnes
- Growth potential as capacity reached
  - Concentrator 23.3 million tonnes p.a.
  - Pellet Plant 12.5 million tonnes p.a.



# SALES REPORTED FOR THE LIORC ROYALTY

- Total iron ore sold by IOC (CFS plus pellets) of 4.5<sup>(1)</sup> million tonnes for Q4 2019 in line with Q3 2019
- Shipments were affected by breakdowns on reclaiming and shiploading equipment
- Q4 pellet sales were affected by lower pellet production and changes in customer demand as steel producers faced reduced margins
- Increased inventories at the port are expected to be reduced to more typical levels in the future



(1) IOC Total Sales as reported in Rio Tinto's 4th Quarter Production Report



# IOC UNIT OPERATING COSTS

- IOC working towards target cash operating cost of US\$30-33 per tonne FOB Sept-Îles (excludes royalty and selling costs)
- As production increases to nameplate capacity of 23.3 million tonnes per year, unit costs expected to improve
- IOC has high margins given its high quality concentrate and pellets which partly offset its higher operating costs relative to low cost producers BHP, Rio Tinto and Vale

## IOC STRENGTHS

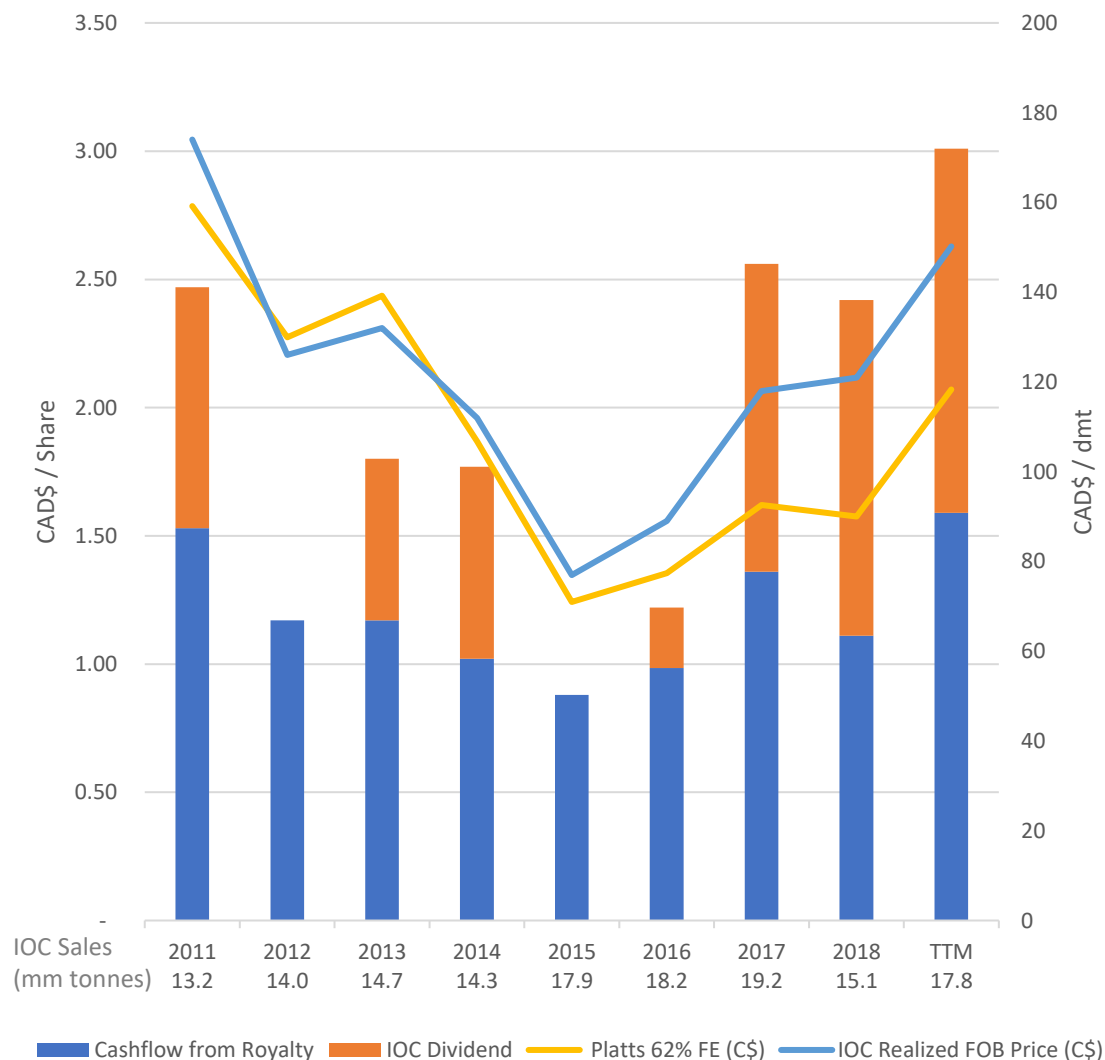
- Leading producer of high quality, low impurity iron ore products (65% Fe) including higher margin pellets
- Large, high quality resource with a long mine life (>25 years based on reserves only)
- Stable jurisdiction
- World class operator - Rio Tinto
- Competitive operating costs and high margins (over 50 years without a shut down due to market conditions)
- Significant wholly owned infrastructure in place
  - Concentrator, pellet plant, 418 km railway and port facilities

## LIORC STRENGTHS

- Impressive underlying asset in IOC
- Attractive 7% top line royalty
  - Royalty limits operational risk
- 15.1% equity investment in IOC provides additional upside to iron ore markets
- 10¢ per tonne commission on all IOC sales
- Cash flow largely paid out as dividends
  - IOC paid LIORC dividends of approx. C\$100.5 million in 2019
  - No additional capex
- Debt-free balance sheet
  - LIORC's net working capital position was \$29.2 million as at September 30, 2019

# STRONG LIORC CASHFLOW

- Strong base of after-tax cash flow per share from royalty and commissions with upside from IOC dividends
- Over the past 8 years (2011 – 2018) cash flow from royalty and commissions averaged \$1.15 per share and in the weak 2015 iron ore market was \$0.88 per share
- IOC's realized prices reflect strong demand for high quality product
- LIORC benefits from all IOC production growth



## Notes:

- (1) Cashflow from Royalty means total Adjusted Cashflow less IOC Dividend
- (2) Trailing twelve month (TTM) – October 1, 2018 to September 30, 2019

# AVERAGE ANNUAL RETURNS OUTPERFORM

	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>10 Year</u>	<u>15 Year</u>	<u>20 Year</u>
Labrador Iron Ore Royalty Corporation (TR)	17.3%	23.2%	16.8%	9.7%	14.3%	16.7%
TSX Global Mining Index (TR)	25.4%	12.5%	8.8%	0.3%	n/a	n/a
S&P TSX Composite Index (TR)	22.9%	6.9%	6.3%	6.9%	7.1%	6.2%

- The average annual return for LIORC has outperformed the TSX Global Mining Index and the S&P TSX Composite Index in each period other than the most recent year

# OUTLOOK

- IOC outlook for production and sales remains positive
- China's stimulus for infrastructure spending and property construction expected to support continued strong steel production
  - Offsetting potential weaker U.S. and European steel production
- Iron ore supply growth expected to be limited
  - Vale production increases more conservative than predicted. Samarco restart in 2020 could add up to 22 to 24 million tonnes of pellet supply in total but ramp up is planned to extend over 10 years, slower than industry commentators expected
  - Domestic Chinese producers at top end of cost curve respond quickly to price moves
- Benchmark prices for concentrate remain attractive relative to historical levels
- Longer term expectation by many industry commentators that there will be continued strong demand by steelmakers for high quality, low impurity iron ore and pellets
- Third-party haulage on QNS&L benefits IOC
- Weaker Canadian dollar keeps operating costs lower in US dollar terms which provides IOC some protection from low iron ore prices

# QUESTIONS

