# LABRADOR IRON ORE ROYALTY INCOME FUND

**P R E S S R E L E A S E**

**Toronto, May 04, 2010**

## RESULTS FOR THE FIRST QUARTER ENDED MARCH 31, 2010

Labrador Iron Ore Royalty Income Fund (TSX: LIF.UN) announced its results for the first quarter ended March 31, 2010.

Royalty income for the first quarter of 2010 amounted to $16.37 million as compared to $16.27 million for the first quarter of 2009. The Fund's cash flow from operating activities after adjustments for changes in amounts receivable, accounts payable and income taxes payable/recoverable (adjusted cash flow) for the first quarter was $22.33 million or $0.70 per unit as compared to $11.11 million or $0.35 per unit for the same period in 2009. Net income was $15.41 million or $0.48 per unit compared to $16.53 million or $0.52 per unit for the same period in 2009.

The first quarter sales of Iron Ore Company of Canada (IOC) are traditionally adversely affected by the closing of the St. Lawrence Seaway and general winter shipping conditions and are not indicative of the full year's sales.

The strengthening of the iron ore markets which started in the fourth quarter of 2009 continued into the first quarter of 2010. Markets are approaching the peak levels that occurred in early 2008 with demand currently exceeding supply and spot prices exceeding the record levels of 2008. IOC sales volume in the first quarter was appreciably above the first quarter of 2009 and approached a more normal first quarter level. IOC sales, and thus our revenue, were recorded at 2009 benchmark prices as 2010 prices are still under negotiation. Unfortunately the strength of the Canadian dollar, which is currently about 25% higher against its U.S. counterpart than a year ago, offset the increased sales volume. Had the exchange rate remained unchanged, royalty revenue would have been about $4 million higher for the first quarter.

When settled, 2010 pricing will be retroactive to January 1, 2010 and, accordingly, the second quarter results should include a substantial adjustment relating to the first quarter. Press reports indicate that some settlements appear to be taking place at 80% to 100% above 2009 levels and that settlements are moving from annual to quarterly pricing. IOC is still in the process of negotiating 2010 pricing.

Equity earnings from IOC amounted to $4.5 million ($0.14 per unit) as compared to $6.8 million ($0.21 per unit) in 2009. Principal cause of the lower earnings was the strength of the Canadian dollar. Assuming pricing for 2010 is concluded as currently anticipated, the retroactive price adjustment will cause a substantial improvement in our equity earnings from IOC.

The cash flow for the quarter was higher than 2009 as IOC declared a dividend of which our share was $11.5 million or $0.36 per unit.

Results for the three months ended March 31 are summarized below:

| | 2010 | 2009 |
|---|---|---|
| | (Unaudited) | |
| Revenue (in millions) | $16.67 | $16.59 |
| Adjusted cash flow (in millions) | $22.33 | $11.11 |
| Adjusted cash flow per unit | $ 0.70 | $ 0.35 |
| Net income (in millions) | $ 15.41 | $ 16.53 |
| Net income per unit | $ 0.48 | $ 0.52 |

"Adjusted cash flow" (defined as cash flow from operating activities as shown on the attached financial statements adjusted for changes in amounts receivable, accounts payable and income taxes payable/recoverable) is not a recognized measure under Canadian GAAP. The Trustees believe that adjusted cash flow is a useful analytical measure as it better reflects cash available for distributions to Unitholders.

A summary of IOC's sales in millions of tonnes is as follows:

| | 3 Months Ended Mar. 31, 2010 | 3 Months Ended Mar. 31, 2009 | Year Ended Dec. 31, 2009 |
|---|---|---|---|
| Pellets | 2.67 | 1.21 | 9.01 |
| Concentrates | 0.31 | 0.92 | 5.23 |
| Total | 2.98 | 2.13 | 14.24 |

Respectfully submitted on behalf of the Trustees of Labrador Iron Ore Royalty Income Fund,

Bruce C. Bone

Chairman and Chief Executive Officer

May 4, 2010

# Management's Discussion and Analysis

The following discussion and analysis should be read in conjunction with the Management's Discussion and Analysis section of the Fund's 2009 Annual Report and the interim financial statements and notes contained in this report. Although management believes that expectations reflected in forward-looking statements are reasonable, such statements involve risk and uncertainties including the factors discussed in the Fund's 2009 Annual Report.

The Fund's revenues are entirely dependent on the operations of Iron Ore Company of Canada (IOC) as its principal assets relate to the operations of IOC and its principal source of revenue is the 7% royalty it receives on all sales of iron ore products by IOC. In addition to the volume of iron ore sold, the Fund's royalty revenue is affected by the price of iron ore and the Canadian – U.S. dollar exchange rate.

The sales of IOC are usually 15% – 20% of the annual volume in the first quarter, with the balance spread fairly evenly throughout the other three quarters. Because of the size of individual shipments some quarters may be affected by the timing of the loading of ships that can be delayed from one quarter to the next.

Royalty income for the first quarter of 2010 amounted to $16.37 million as compared to $16.27 million for the first quarter of 2009. The Fund's cash flow from operating activities after adjustments for changes in amounts receivable, accounts payable and income taxes payable/recoverable (adjusted cash flow) for the first quarter was $22.33 million or $0.70 per unit as compared to $11.11 million or $0.35 per unit for the same period in 2009. Net income was $15.41 million or $0.48 per unit compared to $16.53 million or $0.52 per unit for the same period in 2009.

The strengthening of the iron ore markets which started in the fourth quarter of 2009 continued into the first quarter of 2010. Markets are approaching the peak levels that occurred in early 2008 with demand currently exceeding supply and spot prices exceeding the record levels of 2008. IOC sales volume in the first quarter was appreciably above the first quarter of 2009 and approached a more normal first quarter level. IOC sales, and thus our revenue, were recorded at 2009 benchmark prices as 2010 prices are still under negotiation. Unfortunately the strength of the Canadian dollar, which is currently about 25% higher against its U.S. counterpart than a year ago, offset the increased sales volume. Had the exchange rate remained unchanged, royalty revenue would have been about $4 million higher for the first quarter.

When settled, 2010 pricing will be retroactive to January 1, 2010 and, accordingly, the second quarter results should include a substantial adjustment relating to the first quarter. Press reports indicate that some settlements appear to be taking place at 80% to 100% above 2009 levels and that settlements are moving from annual to quarterly pricing. IOC is still in the process of negotiating 2010 pricing.

Equity earnings from IOC amounted to $4.5 million ($0.14 per unit) as compared to $6.8 million ($0.21 per unit) in 2009. Principal cause of the lower earnings was the strength of the Canadian dollar. Assuming pricing for 2010 is concluded as currently anticipated, the retroactive price adjustment will cause a substantial improvement in our equity earnings from IOC.

The cash flow for the quarter was higher than 2009 as IOC declared a dividend of which our share was $11.5 million or $0.36 per unit.

The following table sets out quarterly revenue, net income and cash flow data for 2010, 2009 and 2008.

| | Revenue | Net Income | Net Income per Unit | Adjusted Cash Flow[1] | Adjusted Cash Flow per Unit[1] | Distributions Declared per Unit |
|---|---|---|---|---|---|---|
| | *(in millions except per Unit information)* | | | | | |
| **2010** | | | | | | |
| First Quarter | $16.7 | $15.4 | $0.48 | $22.3[2] | $0.70 | $0.75 |
| **2009** | | | | | | |
| First Quarter | $16.6 | $16.5 | $0.52 | $11.1 | $0.35 | $0.50 |
| Second Quarter | $19.7 | $17.8 | $0.55 | $12.6 | $0.39 | $0.50 |
| Third Quarter | $15.8 | $13.6 | $0.43 | $18.8[3] | $0.59 | $0.50 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Fourth Quarter | $24.9 | $27.2 | $0.85 | $15.8 | $0.49 | $0.50 |
| **2008** | | | | | | |
| First Quarter | $16.6 | $10.8 | $0.34 | $10.4 | $0.32 | $0.35 |
| Second Quarter | $58.1 | $73.9 | $2.31 | $32.9 | $1.03 | $1.00 |
| Third Quarter | $43.7 | $65.6 | $2.05 | $104.1[(4)] | $3.25 | $3.00 |
| Fourth Quarter | $45.0 | $26.2 | $0.82 | $27.5 | $0.86 | $0.50 |

Notes: (1) "Adjusted cash flow" (see below)

(2) Includes an $11.5 million IOC dividend

(3) Includes an $8.2 million IOC dividend

(4) Includes a $77.9 million IOC dividend

## Standardized Cash Flow and Adjusted Cash Flow

For the Fund, standardized cash flow is the same as cash flow from operating activities as recorded in the Fund's cash flow statements as the Fund does not incur capital expenditures or have any restrictions on distributions. Standardized cash flow per unit was $0.87 for the quarter (2009 - $0.08). Cumulative standardized cash flow from inception of the trust is $24.44 per unit and total cash distributions since inception are $23.68 per unit, for a payout ratio of 97%.

"Adjusted cash flow" is defined as cash flow from operating activities as shown on the attached financial statements adjusted for changes in amounts receivable, accounts payable and income taxes payable/recoverable. It is not a recognized measure under Canadian GAAP. The Trustees believe that adjusted cash flow is a useful analytical measure as it better reflects cash available for distributions to Unitholders.

The following reconciles cash flow from operating activities to adjusted cash flow.

| | 3 Months Ended Mar. 31, 2010 | 3 Months Ended Mar. 31, 2009 |
|---|---|---|
| Standardized cash flow from operating activities | $27,859,313 | $2,521,897 |
| Excluding: changes in amounts receivable, accounts payable and income taxes payable/recoverable | (5,527,017) | 8,592,557 |
| Adjusted cash flow | $22,332,296 | $11,114,454 |
| Adjusted cash flow per unit | $0.70 | $0.35 |

## Liquidity

The Fund has a $50 million revolving credit facility to September 18, 2012 with provision for annual one-year extensions. No amounts are currently drawn under this facility (2009 – nil) leaving $50 million available to provide for any capital required by IOC or other Fund requirements.

## Transition to International Financial Reporting Standards ("IFRS")

The CICA Accounting Standards Board requires all Canadian publicly accountable enterprises to adopt International Financial Reporting Standards for the years beginning on or after January 1, 2011. The objective of the change is to move towards the use of a single set of world-wide accounting standards, thereby facilitating and improving global cash flows, as well as improving financial reporting and transparency. The Fund will adopt IFRS starting January 1, 2011.

The current focus of the Fund's transition plan to IFRS relates to its investment in shares of IOC accounted for under the equity method. In co-ordination with IOC and its advisors, a plan has been developed including preliminary study, project set-up, component evaluations, preparation of IFRS financial statements and finally, integration. Component evaluations are underway to analyze IFRS/Canadian GAAP accounting differences. Certain accounting principles currently followed by IOC that differ from IFRS standards have been identified in the following significant areas:

- Property, plant and equipment
- Deferred stripping costs
- Impairment of assets
- Asset retirement obligations
- Employee benefits

The project is expected to be completed in the third quarter of this year, at which point IOC will be in a position to make final decisions as to what impact the change to IFRS will have on their earnings and hence the Fund's reported share of those earnings.

Further updates on implementation progress and any changes to reporting impacts from the adoption of IFRS will be provided during the implementation period leading up to January 1, 2011.

## Outlook

Iron ore markets which had weakened substantially last year have recovered with Asia remaining very strong and most of the rest of the world returning closer to normal operating levels. With IOC expecting to sell all the iron ore it can produce and pricing in U.S. dollars approaching record levels, we expect 2010 to be a very satisfactory year. The strength of the Canadian dollar against its U.S. counterpart will have a negative affect on revenue but should only marginally offset the positive affect of increased volume and pricing.

Bruce C. Bone
Chairman and Chief Executive Officer
Toronto, Ontario
May 4, 2010

## LABRADOR IRON ORE ROYALTY INCOME FUND
## CONSOLIDATED BALANCE SHEETS

| | As at | |
|---|---|---|
| | March 31 2010 (Unaudited) | December 31 2009 |
| **Assets** | | |
| Current | | |
| Cash and cash equivalents | $ 18,062,326 | $ 6,203,013 |
| Amounts receivable | 16,722,657 | 24,987,043 |
| Income taxes recoverable | 448,313 | - |
| | 35,233,296 | 31,190,056 |
| Deferred charges | 289,333 | 310,000 |
| Iron Ore Company of Canada ("IOC"), royalty and commission interests | 296,192,473 | 297,489,943 |
| Investment in IOC | 203,960,454 | 210,950,091 |
| | $ 535,675,556 | $ 539,940,090 |
| **Liabilities and Unitholders' Equity** | | |
| Current | | |
| Accounts payable | $ 3,453,735 | $ 5,233,229 |
| Income taxes payable | - | 509,562 |
| Distributions payable to unitholders | 24,000,000 | 16,000,000 |
| | 27,453,735 | 21,742,791 |
| Future income tax liability | 103,660,000 | 105,050,000 |
| | 131,113,735 | 126,792,791 |
| Unitholders' equity | | |
| Trust units | 317,708,147 | 317,708,147 |
| Retained earnings | 86,853,674 | 95,439,152 |
| | 404,561,821 | 413,147,299 |
| | $ 535,675,556 | $ 539,940,090 |

## LABRADOR IRON ORE ROYALTY INCOME FUND
## CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME AND UNDISTRIBUTED INCOME

| | For the Three Months Ended March 31, 2010 | 2009 |
|---|---|---|
| | (Unaudited) | |
| **Revenue** | | |
| IOC royalties | $ 16,374,491 | $ 16,265,101 |
| IOC commissions | 293,725 | 209,529 |
| Interest and other income | 4,743 | 118,970 |
| | 16,672,959 | 16,593,600 |
| **Expenses** | | |
| Newfoundland royalty taxes | 3,274,898 | 3,253,020 |
| Amortization of royalty and commission interests | 1,297,470 | 682,137 |
| Administrative expenses *(note 2)* | 722,230 | 318,278 |
| Interest expense | 113,129 | 113,132 |
| | 5,407,727 | 4,366,567 |
| **Income before equity earnings and income taxes** | 11,265,232 | 12,227,033 |
| **Equity earnings in IOC** | 4,515,415 | 6,795,575 |
| **Income before income taxes** | 15,780,647 | 19,022,608 |
| **Provision for (recovery of) income taxes** | | |
| Current | 1,756,125 | 1,815,383 |
| Future | (1,390,000) | 680,000 |
| | 366,125 | 2,495,383 |
| **Net income and comprehensive income for the period** | 15,414,522 | 16,527,225 |
| **Retained earnings, beginning of period** | 95,439,152 | 84,370,152 |
| **Distributions to unitholders** | (24,000,000) | (16,000,000) |
| **Retained earnings, end of period** | $ 86,853,674 | $ 84,897,377 |
| **Net income per unit** | $ 0.48 | $ 0.52 |

**LABRADOR IRON ORE ROYALTY INCOME FUND**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | For the Three Months Ended March 31, 2010 | 2009 |
|---|---|---|
| | (Unaudited) | |
| **Net inflow (outflow) of cash related to the following activities** | | |
| Operating | | |
| Net income for the period | $ 15,414,522 | $16,527,225 |
| Items not affecting cash: | | |
| Equity earnings in IOC | (4,515,415) | (6,795,575) |
| Future income taxes | (1,390,000) | 680,000 |
| Amortization of royalty and commission interests | 1,297,470 | 682,137 |
| Amortization of deferred charges | 20,667 | 20,667 |
| Common share dividend received from IOC | 11,505,052 | - |
| Change in amounts receivable, accounts payable and income taxes payable/recoverable | 5,527,017 | (8,592,557) |
| Cash flow from operating activities | 27,859,313 | 2,521,897 |
| Financing | | |
| Distributions paid to unitholders | (16,000,000) | (16,000,000) |
| **Increase (decrease) in cash and cash equivalents during the period** | 11,859,313 | (13,478,103) |
| **Cash and cash equivalents, beginning of period** | 6,203,013 | 27,795,570 |
| **Cash and cash equivalents, end of period** | $ 18,062,326 | $14,317,467 |
| **Cash and cash equivalents are comprised of:** | | |
| Cash in bank | $ 11,948,430 | $ 865,534 |
| Term deposits | 6,113,896 | 13,451,933 |
| | $ 18,062,326 | $14,317,467 |
| **Cash income taxes paid** | $ 2,714,000 | $27,295,147 |
| **Cash interest paid** | $ 94,521 | $ 94,521 |

For further information, please contact:

Bruce C. Bone

Chairman & Chief Executive Officer

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