



# **LABRADOR IRON ORE ROYALTY CORPORATION**

## **ANNUAL GENERAL MEETING**

**MAY 16, 2019**

# NOTICE TO READER

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

The information contained in this presentation is derived from publicly available sources, such as annual and quarterly financial reports and the annual information form filed by Labrador Iron Ore Royalty Corporation (“**LIORC**”) in accordance with applicable securities laws, Rio Tinto reports and releases, news reports and analysts’ reports. Certain market and pricing data contained in this presentation has been obtained from S&P Global Platts.

This presentation may contain "forward-looking" statements that involve risks, uncertainties and other factors that may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Words such as "may", "will", "expect", "believe", "plan", "intend", "should", "would", "anticipate" and other similar terminology are intended to identify forward-looking statements. These statements reflect current assumptions and expectations regarding future events and operating performance as of the date of this presentation. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to vary significantly, including iron ore price and volume volatility, exchange rates, the performance of IOC, market conditions in the steel industry, mining risks and insurance, the renewal of the mining leases, outcomes of existing or future legislation, relationships with aboriginal groups, changes affecting IOC's customers, competition from other iron ore producers, estimates of reserves and resources and government regulation and taxation. A discussion of these factors is contained in LIORC's annual information form dated March 7, 2019 under the heading, "Risk Factors". Although the forward-looking statements contained in this presentation are based upon what management of LIORC believes are reasonable assumptions, LIORC cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this presentation and LIORC assumes no obligation, except as required by law, to update any forward-looking statements to reflect new events or circumstances. This presentation should be viewed in conjunction with LIORC's other publicly available filings, copies of which can be obtained electronically on SEDAR at [www.sedar.com](http://www.sedar.com).

# 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

	December 31		
	2018	2017	2016
	(\$ in million except per share information)		
Revenue	130.9	158.6	115.1
Net Income	128.5	157.3	78.1
Cash Flow from Operations	148.8 <sup>(1)</sup>	167.0 <sup>(2)</sup>	63.5 <sup>(3)</sup>
Net Income per Share	\$2.01	\$2.46	\$1.22
Cash Flow from Operations per Share	\$2.32 <sup>(1)</sup>	\$2.61 <sup>(2)</sup>	\$0.99 <sup>(3)</sup>
Dividends Declared per Share	\$1.75	\$2.65	\$1.00

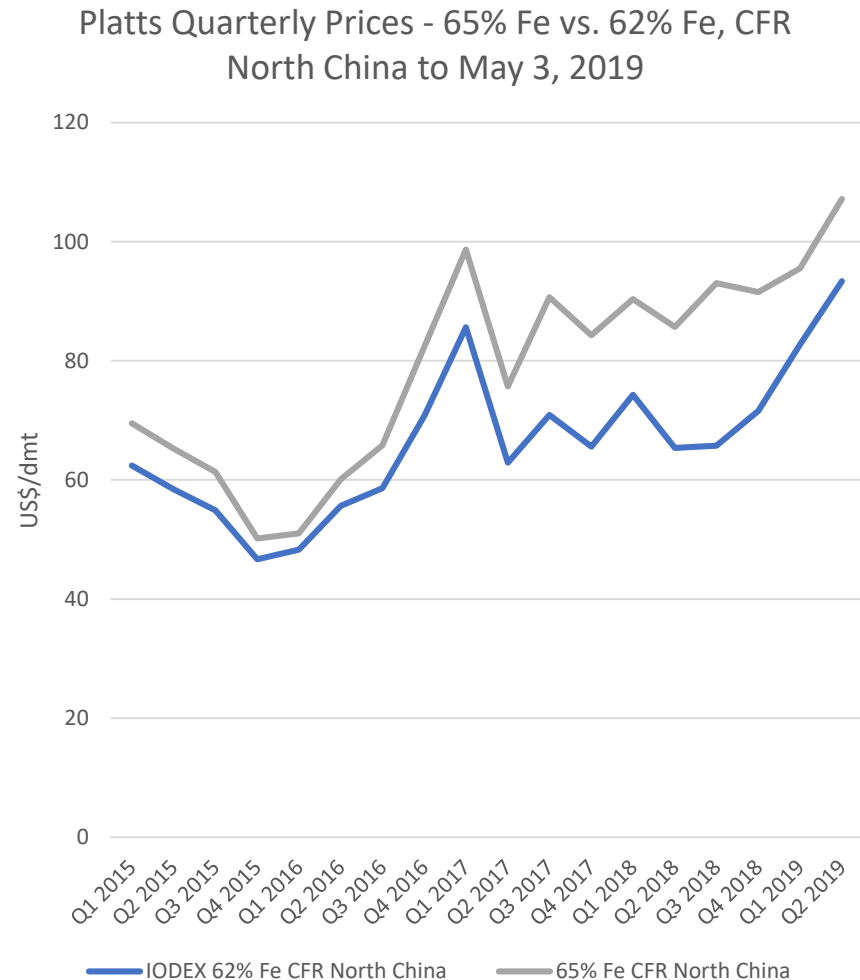
(1) Includes IOC dividends totaling \$83.9 million or \$1.31 per share.

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

(3) Includes IOC dividend totaling \$15.1 million or \$0.23 per share.

# IRON ORE PRICES AND PREMIUMS

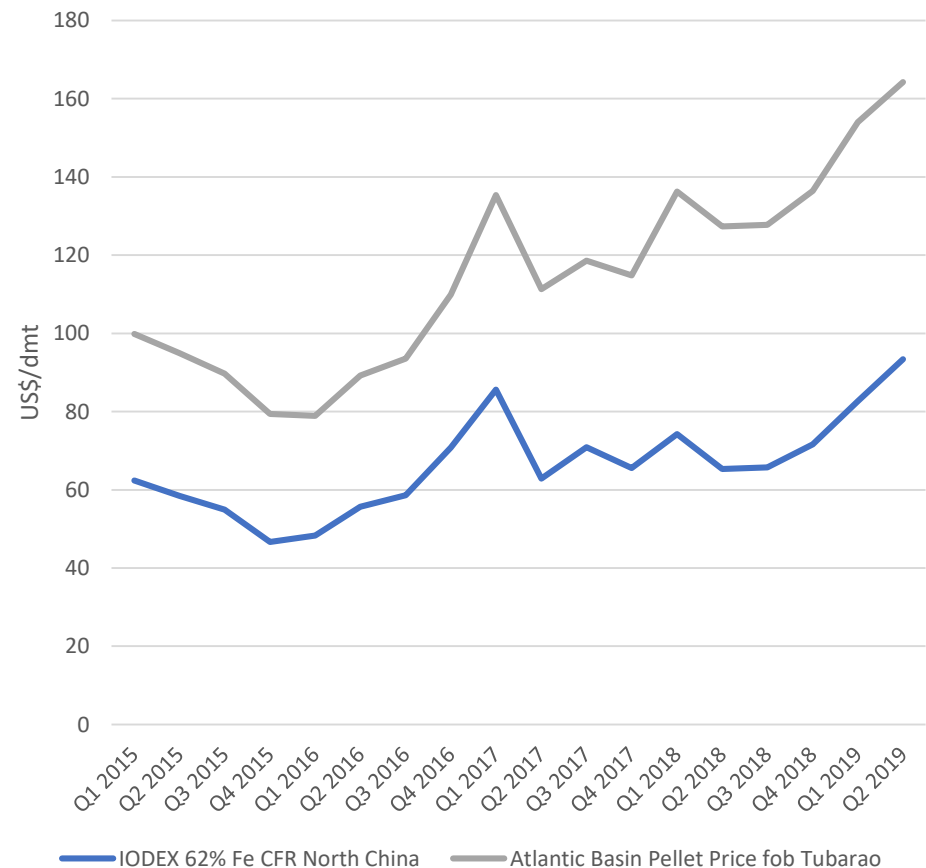
- Vale disaster on January 25, 2019 caused the 62% Fe index price to spike up to plus US\$90 per tonne
- The 62% Fe price remains about US\$90 per tonne
- Current premium for higher quality 65% Fe concentrate approx. US\$16 per tonne
- The 65% Fe and 62% Fe spread compressed recently due to reduced margins for steel makers
- Strong demand for IOC's high quality, low phosphorus and low alumina iron ore
- Continued focus by steelmakers for high quality iron ore
  - Improve efficiency
  - Reduce emissions
  - Produce higher quality steel



# PELLET PREMIUM

- Pellet premiums continued to remain strong in 2018 and early 2019 due to the Vale disaster and Chinese government measures to reduce pollution
- Pellet premium for Atlantic Basin BF pellets averaged US\$67 per tonne in Q1 2019. The DR pellet premium averaged US\$72 per tonne

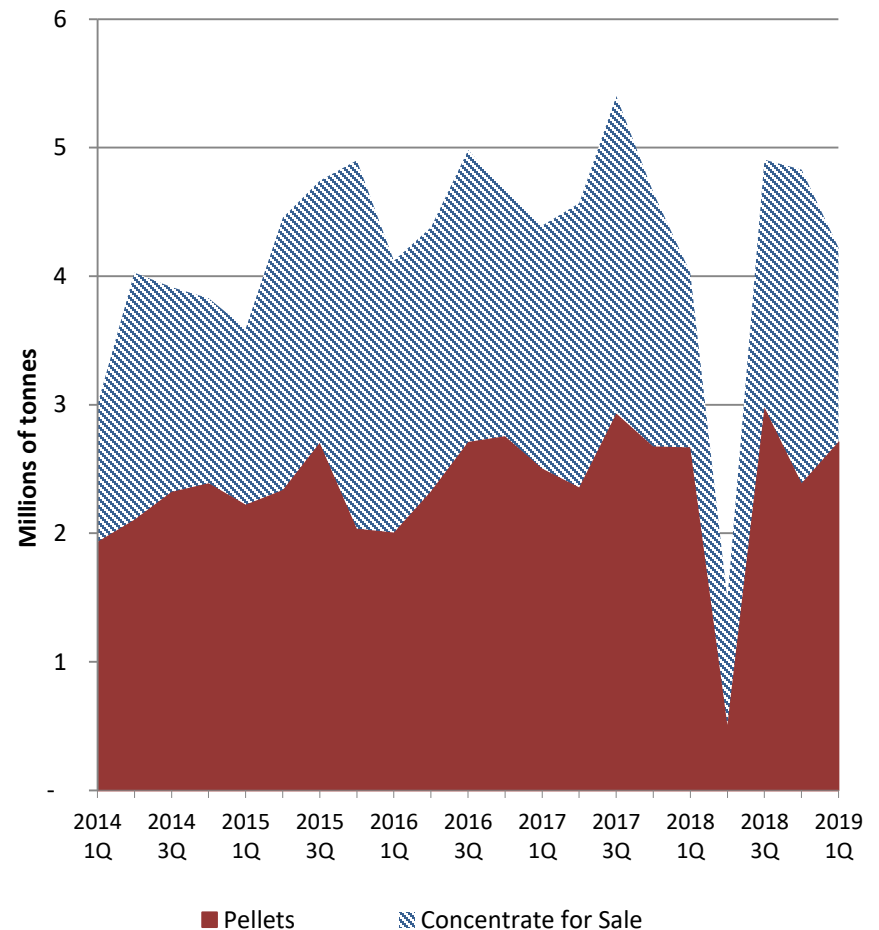
Platts Quarterly Prices - Atlantic Basin Pellets vs. Concentrate 62% Fe, CFR North China to May 3, 2019



# IOC PRODUCTION

- 2018 annual saleable production (CFS and pellets) of 15.2 million tonnes was impacted by a nine week labour strike in Q2
- IOC's saleable production in Q1 2019 was 4.2 million tonnes
- Future CFS production should be aided by:
  - Moss Pit (Wabush 3) which began production in Q3 2018
  - Spiral plant productivity improvement project in Q3 2018
- Pellet plant operating well after refurbishment of two lines in 2017 and one in Q4 2018
- Growth potential as capacity reached
  - Concentrator 23 million tonnes p.a.
  - Pellet Plant 12.5 million tonnes p.a.

## IOC Quarterly Production



# 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 CAPITAL EXPENDITURES

	2019 Forecast	2018	2017	2016
Capital Expenditures (\$ in millions)	224 to 245	205	265	99

- 2019 capital expenditures planned by IOC
  - Refurbishment of one pellet line
  - New rope shovel for the mine
  - Productivity improvements in concentrator and pellet plant
  - Additional locomotive capacity for QNS&L
- 2018 capital expenditures
  - Refurbishment of one pellet line
  - Completed development of Moss Pit (Wabush 3)
  - QNS&L track replacement project
  - Dewatering for Luce Pit
- 2017 capital expenditures
  - Refurbishment of two pellets lines
  - Development of Moss Pit (Wabush 3)

## IOC STRENGTHS

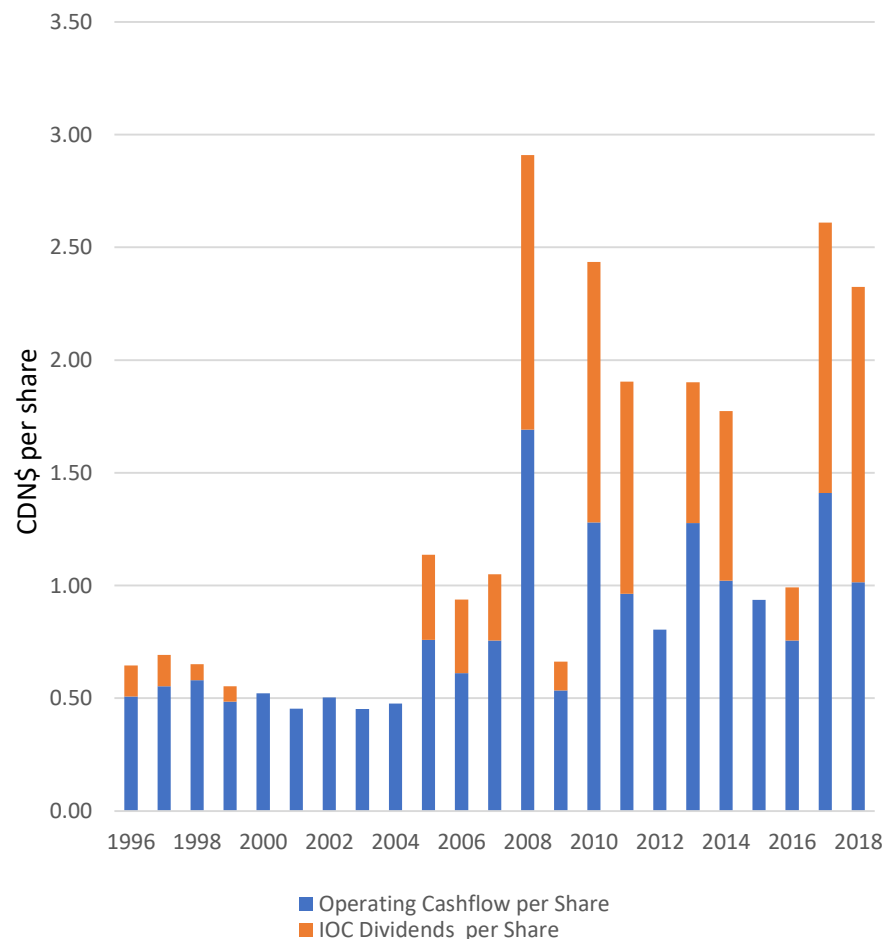
- High quality iron ore products (65% Fe) including higher margin pellets
- Large, high quality resource with a long mine life (>25 years based on reserves only)
- Stable jurisdiction
- World class operator
- Operating for over 50 years without a shut down due to market conditions
- Valuable infrastructure in place
  - Pellet Plant
  - Wholly-owned railway and port facility

## LIORC STRENGTHS

- Great 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
- Cash flow largely paid out as dividends
  - No additional capex
- Debt-free balance sheet
  - LIORC's net working capital position was \$30.4 million as at March 31, 2019

# LIORC CASH FLOW

- Royalty and commissions have historically provided stable and growing after-tax cashflow per share
  - Over last 5 years this annual cashflow has never been below \$0.76 per share and has averaged \$1.03 per share
  - Over 3% CAGR since 1996
- IOC equity has provided significant additional upside in years where iron ore prices have been strong
  - 7 out of the last 10 years
- Since inception, 98% of all cashflows have been paid to shareholders in the form of cash distributions



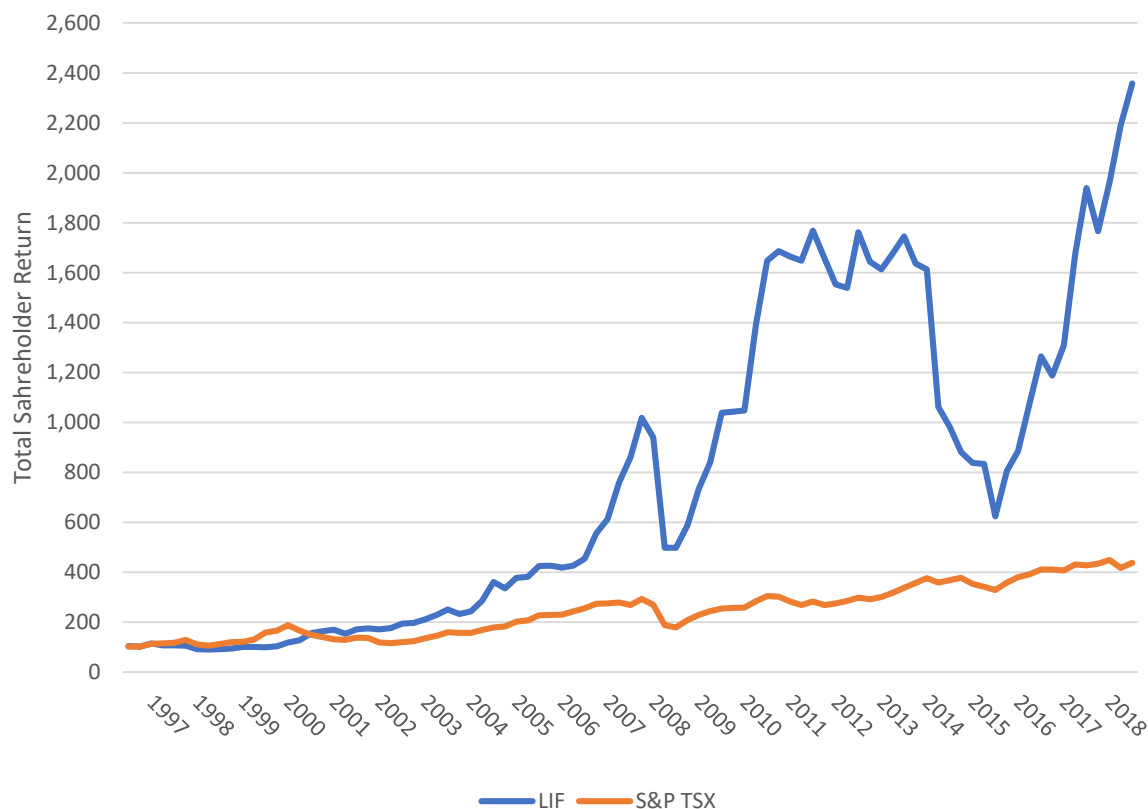
Notes:

(1) Adjusted for Stock Split

(2) Operating Cashflow refers to all cashflow from operations less the IOC Dividends

# LIORC TOTAL SHAREHOLDER RETURN

- Total shareholder return<sup>(1)</sup> since issuance of LIF units in 1996 is 2257%
  - Represents a CAGR of 15.26%
- Over the same period of time the total shareholder return of the S&P/TSX Index is 337%
  - Represents a CAGR of 6.86%



Notes: (1) Based on a Q1 2019 average LIF price of \$28.84  
 (2) Distributions reinvested on ex-dividend date  
 (3) Average quarterly returns

Source: Bloomberg

# OUTLOOK

- IOC outlook for production and sales tonnages remains positive
  - Rio Tinto's 2019 guidance for IOC total saleable production (CFS plus pellets) remains unchanged at between 19.2 to 20.9 million tonnes
  - The Moss Pit (formerly called Wabush 3 Pit) has opened and is expected to improve production, costs and blending and extend the mine life
- The price outlook for high quality iron ore products continues to be positive as a result of major supply disruptions
  - Robe Valley fines fire
  - Vale disaster
  - Recent cyclones in the Pilbara impacting Rio Tinto, FMG and BHP
- Longer term we continue to believe there will be strong demand by steelmakers for IOC's high quality, low impurity iron ore and pellets
- Third-party haulage on QNS&L continues to benefit IOC
- Weaker Canadian dollar keeps operating costs lower in US dollar terms
- On May 9, 2019 IOC declared a US\$125 million dividend. LIORC's portion is US\$18.9 million (or approximately C\$0.40 per LIORC share, assuming the closing USD/CAD exchange rate on May 9)

# QUESTIONS

