

# Labrador Iron Ore Royalty Corporation - Results for the First Quarter Ended March 31, 2021

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TORONTO, May 6, 2021 - [Labrador Iron Ore Royalty Corp.](#) ("LIORC") (TSX: LIF) announced today its operation and cash flow results for the first quarter ended March 31, 2021.

## Financial Performance

In the first quarter of 2021, LIORC's financial results benefited from higher iron ore prices and pellet premiums, partially offset by lower volumes of pellet sales. Royalty revenue for the first quarter of 2021 amounted to \$65.2 million compared to \$57.0 million for the first quarter of 2020. Equity earnings from Iron Ore Company of Canada ("IOC") were \$57.0 million in the first quarter of 2021 compared to \$24.7 million in the first quarter of 2020. Net income per share for the first quarter of 2021 was \$1.35 per share, which was a 86% increase over the same period in 2020. The adjusted cash flow per share for the first quarter of 2021 was \$0.87 per share, which was 107% higher than in the same period in 2020, as a result of higher royalty revenues and the decision by IOC to pay a dividend. In the first quarter of 2021, LIORC received a dividend in the amount of \$19.0 million from IOC.

Increased demand for iron ore by steel producers and a lack of expected growth of supply led to higher iron ore prices in the first quarter of 2021. Increased steel demand, partly as a result of stimulus spending on infrastructure and construction, resulted in higher steel prices and strong profit margins for steel producers, which in turn translated to increased demand for seaborne iron ore. According to the World Steel Association, global crude steel production in the first quarter of 2021 increased 10% over the first quarter of 2020, and crude steel production in China, which accounts for over 70% of all seaborne iron ore demand, was 16% higher in the first quarter of 2021 compared to the same quarter of 2020. At the same time, the expected growth in supply of seaborne iron ore did not materialize as the world's three largest suppliers of seaborne iron ore all reported lower production in the first quarter of 2021, compared to the last quarter of 2020. Iron ore production at Rio Tinto and BHP was lower by 11% and 5%, predominantly due to adverse weather in Australia, and iron ore production at Vale was lower by 19.5%, predominantly due to maintenance work at its S11D mine.

IOC sells concentrate for sale ("CFS") based on the Platts index for 65% Fe, CFR China ("65% Fe index"). In the first quarter of 2021, the 65% Fe index averaged US\$191 per tonne, an 85% increase over the average of US\$104 per tonne in the first quarter of 2020. The monthly Atlantic Blast Furnace 65% Fe pellet premium index as quoted by Platts (the "pellet premium") averaged US\$43 per tonne in the first quarter of 2021, up substantially from an average of US\$29 in the same quarter of 2020, which had been negatively impacted by a reduction in demand from European steel producers due to COVID-19. Overall, the average price realized by IOC for CFS and pellets, FOB Sept-Îles, net of selling costs was approximately C\$145 per tonne in the first quarter of 2021, compared to approximately C\$145 per tonne in the first quarter of 2020.

## Iron Ore Company of Canada Operations

### Operations

Throughout 2021, IOC has continued to take measures in order to protect IOC's people and to prevent COVID-19 outbreaks within IOC's operations which could affect IOC's capacity to operate. These measures include limiting on-site presence of personnel to essential operational activities (remote work for administration and supports) and reducing the number of contractors on-site (favouring local rather than out-of-province when possible). In parallel, several protocols remain in place including strict approval processes for all travel between sites and out-of-province contractors, mandatory on-line health questionnaire linked to gate access, COVID-19 screening for all out-of-province contractors and employees and daily temperature checks at all site access points. As a result of these and other procedures and protocols, IOC has been able to continue to safely operate throughout 2021. The IOC saleable production (CFS plus pellets) of 4.0 million tonnes in the first quarter of 2021 was 8% lower than the same period in 2020, and 14% lower than the fourth quarter of 2020, predominantly due to the impacts of weather, loading unit availability on mine feed and reduced concentrator mill availability.

CFS production of 1.5 million tonnes was 6% lower than the same quarter last year and 33% lower than the fourth quarter of 2020.

2020 due to an increased focus on the production of pellets (the pellet plant returned to operating six lines in December resulting in a corresponding reduction in CFS), feed related issues from the mine (weather, loading unit utilization/availability and concentrator reliability). Pellet production of 2.5 million tonnes was 10% lower than the corresponding quarter in 2020, 2% higher than the fourth quarter of 2020, as reliability issues with filtering equipment, feed system motors and regrind restricted production throughput during the quarter.

#### Sales as Reported for the LIORC Royalty

Total iron ore sales tonnage by IOC (CFS plus pellets) of 4.1 million tonnes in the first quarter of 2021 was 12% lower than the total sales tonnage for the same period in 2020, and 6% lower than the fourth quarter of 2020, predominantly due to limited product availability, weather related delays and equipment reliability. Pellet sales were 19% lower than the same quarter last year and 4% lower than the fourth quarter of 2020. CFS sales were consistent with the same quarter last year and 7% lower than the fourth quarter of 2020.

#### Outlook

Rio Tinto's 2021 guidance for IOC's saleable production (CFS plus pellets) remains at 17.9 million to 20.4 million tonnes compared to 17.7 million tonnes of saleable production in 2020. At the end of March, there was a significant fire event at a port in Sept-Îles which will impact shipments in the second quarter of 2021. However, the 2021 saleable production guidance for IOC remains unchanged and IOC expects that any sales tonnage shortfalls will be recovered over the remainder of the year.

The price outlook for seaborne iron ore remains robust. Since the end of the first quarter iron ore prices have strengthened. So far in April (April 1, 2021 to April 28, 2021), the average price of the 65% Fe index has been US\$210 per tonne, or 10% higher than the average of the 65% Fe index for the first quarter of 2021. The pellet premium for April was US\$66 per tonne compared to the average of US\$43 per tonne in the first quarter of 2021. With a possible global economic recovery and positive outlook for domestic growth in China, the near-term outlook for global steel production looks positive. While there is expected to be some increase in the supply of seaborne iron ore over the remainder of 2021, any increase should be absorbed by the strong demand. In addition, as a result of higher steel prices and strong profit margins and in order to keep up with the downstream demand for steel, steel producers are utilizing higher grade iron ore products, like those sold by IOC in an effort to prioritize production efficiency.

LIORC is well positioned to continue to benefit from the strong iron ore pricing environment through royalty revenues and expected future dividends from IOC.

The LIORC cash balance at March 31, 2021 stood at \$33.6 million before LIORC dividends payable on April 26, 2021 of \$1.00 per share or \$64.0 million. The net royalty from IOC was received by LIORC on the same date, maintaining the Corporation's strong cash balance.

Respectfully submitted on behalf of the Directors of the Corporation,

John F. Tuer  
President and Chief Executive Officer  
May 6, 2021

#### Management's Discussion and Analysis

The following discussion and analysis should be read in conjunction with the Management's Discussion and Analysis section of [Labrador Iron Ore Royalty Corp.](#)'s ("LIORC" or the "Corporation") 2020 Annual Report, and the financial statements and notes contained therein and the March 31, 2021 interim condensed consolidated financial statements.

#### Overview of the Business

The Corporation's revenues are entirely dependent on the operations of 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

volume of iron ore sold, the Corporation's royalty revenue is affected by the price of iron ore and the Canadian - U.S. dollar exchange rate. The first quarter sales of IOC are traditionally adversely affected by the general winter operating conditions and are usually 15% - 20% of the annual volume, 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.

## Financial Highlights

	Three Months Ended	
	March 31,	
(\$ in millions except per share information)	2021	2020
	(unaudited)	
Revenue	65.7	48.3
Equity earnings from IOC	57.0	24.7
Net income	86.6	46.7
Net income per share	\$ 1.35	\$ 0.73
Dividend(s) from IOC	19.0	-
Cash flow from operations	42.7	10.7
Cash flow from operations per share	\$ 0.67	\$ 0.17
Adjusted cash flow <sup>1</sup>	55.4	26.8
Adjusted cash flow per share	\$ 0.87	\$ 0.42
Dividends declared per share	\$ 1.00	\$ 0.35

<sup>1</sup> This is a non-IFRS financial measure and does not have a standard meaning under IFRS.

Please refer to Standardized Cash Flow and Adjusted Cash Flow section in the MD&A.

The higher revenue, net income and equity earnings achieved in the first quarter of 2021 as compared to 2020 were mainly due to higher iron ore prices, partly offset by lower sales of pellets. The first quarter of 2021 sales tonnages (pellets and concentrate) were lower by 12% predominantly due to limited product availability, weather related delays and equipment reliability. Pellet sales were 19% lower and CFS sales were consistent with the same quarter last year. Pellet sales were lower mainly due to lower pellet production as a result of availability constraints on concentrate, as well as reliability issues with filtering equipment, feed system motors and regrind mills which restricted production throughput during the quarter.

However, the lower sales tonnages were more than offset by an increase in the realized sales price of pellets and CFS resulting in royalty income of \$65.2 million for the quarter as compared to \$47.6 million for the same period in 2020. First quarter 2021 cash flow from operations was \$42.7 million or \$0.67 per share compared to \$10.7 million or \$0.17 per share for the same period in 2020. LIORC received an IOC dividend in the first quarter of 2021 in the amount of \$19.0 million or \$0.35 per share. Equity earnings from IOC amounted to \$57.0 million or \$1.35 per share in the first quarter of 2021 compared to \$24.7 million or \$0.39 per share for the same period in 2020.

## Operating Highlights

	Three Months Ended	
IOC Operations	March 31,	
(in millions of tonnes)	2021	2020
Sales <sup>1</sup>		
Pellets	2.44	3.02
Concentrate for sale ("CFS") <sup>2</sup>	1.68	1.68
Total <sup>3</sup>	4.12	4.70
Production		
Concentrate produced	4.40	4.69
Saleable production		
Pellets	2.51	2.79
CFS	1.48	1.57
Total	3.99	4.36
Average index prices per tonne		
65% Fe index <sup>4</sup>	\$ 191	\$ 104
62% Fe index <sup>5</sup>	\$ 167	\$ 89
Pellet premium <sup>6</sup>	\$ 43	\$ 29

(1) For calculating the royalty to LIORC.

(2) Excludes third party ore sales.

(3) Totals may not add up due to rounding.

(4) The Platts index for 65% Fe, CFR China.

(5) The Platts index for 62% Fe, CFR China.

(6) The Platts Atlantic Blast Furnace 65% Fe pellet premium index.

IOC sells CFS based on the 65% Fe index. In the first quarter of 2021, the 65% Fe index averaged US\$191 per tonne, an 85% increase over the average of US\$104 per tonne in the first quarter of 2020. Iron ore prices increased as strong domestic steel demand in China and the beginnings of a global economic recovery from COVID-19 increased the demand for seaborne iron ore. At the same time, the expected growth in supply of the seaborne iron ore did not materialize as large producers experienced lower output because of weather issues in Australia and maintenance issues at Vale's S11D mine. The monthly pellet premium averaged US\$43 per tonne in the first quarter of 2021, up substantially from an average of US\$29 in the same quarter of 2020, which had been negatively impacted by a reduction in demand from European steel producers due to COVID-19.

The average price realized by IOC for CFS and pellets, FOB Sept-Îles, net of selling costs was

approximately C\$226 per tonne in the first quarter of 2021 compared to C\$145 per tonne in the first quarter of 2020. The increase in the average realized price FOB Sept-Îles in 2020 was a result of higher CFS prices and higher pellet premiums.

#### Standardized Cash Flow and Adjusted Cash Flow

For the Corporation, standardized cash flow is the same as cash flow from operating activities as recorded in the Corporation's cash flow statements as the Corporation does not incur capital expenditures or have any restrictions on dividends. Standardized cash flow per share was \$0.67 for the quarter (2020 - \$0.17). Cumulative standardized cash flow from inception of the Corporation is \$34.39 per share and total cash distributions since inception is \$34.39 per share, for a payout ratio of 100%.

The Corporation also reports "Adjusted cash flow" which is defined as cash flow from operating activities after adjustments for changes in amounts receivable, accounts payable and income taxes recoverable and payable. It is not a recognized measure under International Financial Reporting Standards ("IFRS"). The Directors believe that adjusted cash flow is a useful analytical measure as it better reflects cash available for dividends to shareholders.

The following reconciles standardized cash flow from operating activities to adjusted cash flow (in millions).

	3 Months Ended	
	Mar. 31, 2021	Mar. 31, 2020
Standardized cash flow from operating activities	\$42,686	\$10,653
Changes in amounts receivable, accounts payable and income taxes payable		
	12,724	16,173
Adjusted cash flow	\$55,410	\$26,826
Adjusted cash flow per share	\$0.87	\$0.42

#### Liquidity and Capital Resources

The Corporation had \$33.6 million in cash as at March 31, 2021 (December 31, 2020 - \$106.1 million) with total current assets of \$104.8 million (December 31, 2020 - \$164.4 million). The Corporation had working capital of \$22.4 million as at March 31, 2021 (December 31, 2020 - \$31.0 million). The Corporation's operating cash flow was \$42.7 million and the dividend paid during the quarter was \$115.2 million, resulting in cash balances decreasing by \$72.5 million during the first quarter of 2021.

Cash balances consist of deposits in Canadian dollars with Canadian chartered banks. Amounts receivable primarily consist of royalty payments from IOC. Royalty payments are received in U.S. dollars and converted to Canadian dollars on receipt, usually 25 days after the quarter end. The Corporation does not normally attempt to hedge this short-term foreign currency exposure.

Operating cash flow of the Corporation is sourced entirely from IOC through the Corporation's 7% royalty, 10 cents commission per tonne and dividends from its 15.10% equity interest in IOC. The Corporation normally pays cash dividends from its net income to the maximum extent possible, subject to the maintenance of appropriate levels of working capital.

The Corporation has a \$30 million revolving credit facility with a term ending September 18, 2022 with provision for annual one-year extensions. No amount is currently drawn under this facility (2020 - nil) leaving \$30.0 million available to provide for any capital required by IOC or requirements of the Corporation.

John F. Tuer  
President and Chief Executive Officer

Toronto, Ontario  
May 6, 2021

#### Forward-Looking Statements

This report 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 report.

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, relationships with indigenous groups, natural disasters, severe weather conditions and public health crises, changes affecting IOC's customers, competition from other iron ore producers, estimates of reserves and resources, government regulation and taxation and cybersecurity. A discussion of these factors is contained in LIORC's annual information form dated March 4, 2021 under the heading, "Risk Factors". Although the forward-looking statements contained in this report 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 report and LIORC assumes no obligation, except as required by law, to update any forward-looking statements to reflect new events or circumstances. This report 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).

#### Notice:

The following unaudited interim condensed consolidated financial statements of the Corporation have been prepared by and are the responsibility of the Corporation's management. The Corporation's independent auditor has not reviewed these interim financial statements.

#### [Labrador Iron Ore Royalty Corp.](#)

#### INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at	
	March 31,	December 31,
(in thousands of Canadian dollars)	2021	2020
	(Unaudited)	
<b>Assets</b>		
<b>Current Assets</b>		
Cash and short-term investments	\$ 33,577	\$ 106,091
Amounts receivable	71,194	58,336
<b>Total Current Assets</b>	<b>104,771</b>	<b>164,427</b>
<b>Non-Current Assets</b>		
Iron Ore Company of Canada ("IOC") royalty and commission interests	240,045	241,511
Investment in IOC	455,248	417,284
<b>Total Non-Current Assets</b>	<b>695,293</b>	<b>658,795</b>

Total Assets	\$ 800,064	\$ 823,222
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	\$ 14,567	\$ 12,533
Dividend payable	64,000	115,200
Taxes payable	3,791	5,691
Total Current Liabilities	82,358	133,424
Non-Current Liabilities		
Deferred income taxes	128,690	123,430
Total Liabilities	211,048	256,854
Shareholders' Equity		
Share capital	317,708	317,708
Retained earnings	284,648	262,000
Accumulated other comprehensive loss	(13,340)	(13,340)
	589,016	566,368
Total Liabilities and Shareholders' Equity	\$ 800,064	\$ 823,222

Approved by the Directors,

John F. Tuer  
Director

Patricia M. Volker  
Director

[Labrador Iron Ore Royalty Corp.](#)

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	For the Three Months Ended	
	March 31,	
(in thousands of Canadian dollars except for per share information)	2021	2020
	(Unaudited)	





Revenue

IOC royalties	\$ 65,248	\$ 47,615
IOC commissions	406	462
Interest and other income	65	222
	65,719	48,299

Expenses

Newfoundland royalty taxes	13,050	9,523
Amortization of royalty and commission interests	1,466	1,625
Administrative expenses	771	557
	15,287	11,705

Income before equity earnings and income taxes	50,432	36,594
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Equity earnings in IOC	56,977	24,669
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Income before income taxes	107,409	61,263
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Provision for income taxes

Current	15,501	11,393
Deferred	5,260	3,220
	20,761	14,613

Net income for the period	86,648	46,650
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Other comprehensive loss

Share of other comprehensive loss of IOC that will not be reclassified subsequently to profit or loss (net of income taxes of 2021 - nil; 2020 - \$40)	-	(226)
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Comprehensive income for the period	\$ 86,648	\$ 46,424
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Net income per share	\$ 1.35	\$ 0.73
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INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended
	March 31,
(in thousands of Canadian dollars)	2021
	(Unaudited)
Net inflow (outflow) of cash related to the following activities	
Operating	
Net income for the year	\$ 86,648
Items not affecting cash:	
Equity earnings in IOC	(56,977)
Current income taxes	15,501
Deferred income taxes	5,260
Amortization of royalty and commission interests	1,466
Common share dividend from IOC	19,013
Change in amounts receivable	(12,858)
Change in accounts payable	2,034
Income taxes paid	(17,401)
Cash flow from operating activities	42,686
Financing	
Dividend paid to shareholders	(115,200)
Cash flow used in financing activities	(115,200)
Decrease in cash, during the period	(72,514)
Cash, beginning of period	106,091
Cash, end of period	\$ 33,577

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INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of Canadian dollars)	Accumulated other comprehensive			Total
	Share capital (Unaudited)	Retained earnings	loss	
Balance as at December 31, 2019	\$ 317,708	\$ 230,005	\$ (10,376)	\$ 537,338
Net income for the period	-	46,650	-	46,650
Dividend declared to shareholders	-	(22,400)	-	(22,400)
Share of other comprehensive loss from investment in IOC (net of taxes)	-	-	(226)	(226)
Balance as at March 31, 2020	\$ 317,708	\$ 254,255	\$ (10,602)	\$ 561,361
Balance as at December 31, 2020	\$ 317,708	\$ 262,000	\$ (13,340)	\$ 566,368
Net income for the period	-	86,648	-	86,648
Dividend declared to shareholders	-	(64,000)	-	(64,000)
Balance as at March 31, 2021	\$ 317,708	\$ 284,648	\$ (13,340)	\$ 589,016

The complete consolidated financial statements for the first quarter ended March 31, 2021, including the notes thereto, are posted on [sedar.com](#) and [labradorironore.com](#).

SOURCE [Labrador Iron Ore Royalty Corp.](#)

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