

TORONTO, May 2, 2017 /CNW/ - [Labrador Iron Ore Royalty Corp.](#) ("LIORC", TSX: LIF) announced today its operation and cash flow results for the first quarter ended March 31, 2017.

Royalty revenue for the first quarter of 2017 amounted to \$42.8 million as compared to \$21.8 million for the first quarter of 2016. The shareholders' cash flow from operations for the first quarter was \$28.2 million or \$0.44 per share as compared to \$12.5 million or \$0.19 per share for the same period in 2016. Net income was \$42.9 million or \$0.67 per share compared to \$11.0 million or \$0.17 per share for the same period in 2016. Equity earnings (losses) from Iron Ore Company of Canada ("IOC") amounted to \$22.2 million as compared to (\$0.5) million in 2016. LIORC received an IOC dividend in the first quarter of 2017 in the amount of \$10.0 million or \$0.67 per share.

The cash flow from operations, equity earnings and net income for the first quarter of 2017 were higher than the first quarter of 2016 mainly due to improved prices for concentrate, and improved production and sales tonnages. As reported by Bloomberg, the benchmark iron ore price of 62% Fe, CFR China averaged US\$86 per tonne in the first quarter of 2017 and reached a high of US\$99 in February. The comparable average price in the first quarter of 2016 was US\$49 per tonne. Total sales tonnage of concentrate for sale ("CFS") plus pellets improved by 10% in the first quarter of 2017 compared to the same period in 2016.

LIORC's results for the three months ended March 31 are summarized below:

	2017	2016
(in millions except per share information)		
	(Unaudited)	
Revenue	\$43.4	\$22.3
Cash flow from operations	\$28.2	\$12.5
Operating cash flow per share	\$0.44	\$0.19
Net income	\$42.9	\$11.0
Net income per share	\$0.67	\$0.17

#### Iron Ore Company of Canada Operations

##### Production

In terms of production tonnages, IOC recorded a good start to 2017. Total concentrate production in the first quarter of 2017 of 4.8 million tonnes was 12% higher than the first quarter of 2016 and was the best first quarter production on record.

Pellet production in the first quarter of 2017 was 25% higher than the first quarter of 2016. In the first quarter of 2017 all six pellet lines operated and pellet production was as planned, whereas in the first quarter of 2016 there were availability issues in the pellet plant. CFS production was 11% lower than in the first quarter of 2016 as more concentrate was consumed as pellet feed to support higher pellet production. Strong pellet demand in the quarter supported maximizing pellet production.

##### Sales

First quarter 2017 sales tonnage by IOC slightly exceeded production. In the first quarter of 2017, pellet sales tonnage was 21% higher than production and CFS sales tonnage was 1% lower than the corresponding quarter in 2016.

The benchmark price for 62% Fe CFR China was 77% higher in the first quarter of 2017 as compared to the first quarter of 2016 and pellet premiums were also much improved. The Canadian dollar was 4% stronger in the first quarter of 2017 as compared to the first quarter of 2016. As a result of the stronger CFR prices and pellet premiums, despite the stronger Canadian dollar, the royalty revenue for LIORC in the first quarter of 2017 was almost double the revenue in last year's first quarter.

A summary of IOC's sales for calculating the royalty to LIORC in millions of tonnes is as follows:

	3 Months Ended	3 Months Ended	Year Ended Dec. 31, 2016
	Mar. 31, 2017	Mar. 31, 2016	

Pellets	2.48	2.11	10.06
Concentrates <sup>(1)</sup>	2.19	2.05	8.17
Total	4.67	4.16	18.23

(1) Excludes third party ore sales

## Outlook

As is usual for LIORC, the results for the balance of 2017 will be largely determined by the iron ore price. The benchmark prices for iron ore have fallen precipitously in the last few weeks, reportedly driven by concerns on a number of factors, including:

- Increasing supply of seaborne iron ore and increasing Chinese domestic supply.
- High inventory of iron ore product at Chinese ports.
- Lower Chinese steel consumption in 2017 with reduced margins for steelmakers which is resulting in low-grade ores being favoured.

None-the-less looking forward, there are favourable factors to consider, including:

- The expected improvement in production at IOC and the expected reduction in unit operating costs.
- The strong pellet premiums being achieved.
- Potentially a weaker Canadian dollar.

Production and costs are the main variables that can be controlled by IOC. The IOC employees and management have been making concerted efforts to increase production and reduce unit operating costs. We are encouraged by their progress and the good start to 2017. With the strong first quarter production performance, IOC expects to meet the 2017 plan of 22 million tonnes of concentrate produced.

The LIORC directors decided to use the recent IOC dividends and the strong royalty performances in the fourth quarter of 2016 and the first quarter of 2017 to replenish the Corporation's cash balance and to pay the regular dividend and a special dividend. The LIORC cash balance at March 31, 2017 stood at \$36.1 million. The regular and special dividend of \$32 million, declared on March 2, 2017 and paid on April 25, 2017, was more than offset by the IOC royalty payment received on the same date. With a strong cash balance, iron ore prices above US\$60 per tonne, the exchange rate at present, and the expected increased production, LIORC is in a good position to maintain the regular dividend.

Respectfully submitted on behalf of the Directors of the Corporation,

William H. McNeil  
President and Chief Executive Officer  
May 2, 2017

## 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 Corporation's 2016 Annual Report and the financial statements and notes contained therein. 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 to the 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 closing of the St. Lawrence Seaway and general winter

operating conditions and are usually 15% &ndash; 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.

Royalty revenue for the first quarter of 2017 amounted to \$42.8 million as compared to \$21.8 million for the first quarter of 2016. The shareholders' cash flow from operations for the first quarter was \$28.2 million or \$0.44 per share as compared to \$12.5 million or \$0.19 per share for the same period in 2016. Net income was \$42.9 million or \$0.67 per share compared to \$11.0 million or \$0.17 per share for the same period in 2016. Equity earnings (losses) from IOC amounted to \$22.2 million as compared to (\$0.5) million in 2016. LIORC received an IOC dividend in the first quarter of 2017 in the amount of \$10.0 million or \$0.16 per share.

The cash flow from operations, equity earnings and net income for the first quarter of 2017 were higher than the first quarter of 2016, mainly due to improved prices for concentrate, and improved production and sales tonnages. As reported by Bloomberg, the benchmark iron ore price of 62% Fe, CFR China averaged US\$86 per tonne in the first quarter of 2017 and reached a high of US\$95 in February. The comparable average price in the first quarter of 2016 was US\$49 per tonne. Total sales tonnage of CFS plus pellets improved by 10% in the first quarter of 2017 compared to the same period in 2016.

Administrative expenses for the quarter include a foreign exchange loss of \$0.3 million on the conversion of the dividend received from IOC in December 2016.

Royalty and commission interests amortization expense increased \$0.4 million for the quarter due to an increased amortization rate reflecting lower estimated total mineral resources over the prior year.

In terms of production and sales tonnages, IOC recorded a good start to 2017. Total concentrate production in the first quarter of 2017 of 4.8 million tonnes was 12% higher than the first quarter of 2016 and was the best first quarter production on record.

Pellet production in the first quarter of 2017 was 25% higher than the first quarter of 2016. In the first quarter of 2017 all six pellet lines operated and pellet production was as planned, whereas in the first quarter of 2016 there were availability issues in the pellet plant. CFS production was 11% lower than in the first quarter of 2016 as more concentrate was consumed as pellet feed to support higher pellet production. Strong pellet demand in the quarter supported maximizing pellet production.

First quarter 2017 sales tonnage by IOC slightly exceeded production. In the first quarter of 2017, pellet sales tonnage was 21% higher and CFS sales tonnage was 1% lower than the corresponding quarter in 2016.

The benchmark price for 62% Fe CFR China was 77% higher in the first quarter of 2017 as compared to the first quarter of 2016 and pellet premiums were also much improved. The Canadian dollar was 4% stronger in the first quarter of 2017 as compared to the first quarter of 2016. As a result of the stronger CFR prices and pellet premiums, despite the stronger Canadian dollar, the royalty revenue for LIORC in the first quarter of 2017 was almost double the revenue in last year's first quarter.

The following table sets out quarterly revenue, net income and cash flow data for 2017, 2016 and 2015.

			Net Income per Share	Cash Flow	Cash Flow from Operations per Share	Adjusted Cash Flow per Share <sup>(1)</sup>	Dividends Declared per Share
	Revenue	Net Income					

(in millions except per Share information)

#### 2017

First Quarter	\$43.4	\$42.9	\$0.67	\$28.2 <sup>(2)</sup>	\$0.44 <sup>(2)</sup>	\$0.53 <sup>(2)</sup>	\$0.50
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#### 2016

First Quarter	\$22.3	\$11.0	\$0.17	\$12.5	\$0.19	\$0.19	\$0.25
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Second Quarter	\$25.8	\$8.3	\$0.13	\$7.5	\$0.12	\$0.22	\$0.25
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Third Quarter	\$28.4	\$21.2	\$0.33	\$15.2	\$0.24	\$0.24	\$0.25
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Fourth Quarter	\$38.6	\$37.7	\$0.59	\$28.3 <sup>(3)</sup>	\$0.44 <sup>(3)</sup>	\$0.57 <sup>(3)</sup>	\$0.25
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#### 2015

First Quarter	\$23.7	\$10.0	\$0.16	\$15.2	\$0.24	\$0.20	\$0.25
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Second Quarter	\$24.0	\$15.4	\$0.24	\$12.5	\$0.20	\$0.21	\$0.25
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Third Quarter	\$32.0	\$19.0	\$0.30	\$12.2	\$0.19	\$0.28	\$0.25
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Fourth Quarter	\$22.0	\$10.3	\$0.15	\$20.0	\$0.31	\$0.19	\$0.25
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(1) "Adjusted cash flow" (see below)

(2) Includes \$10.0 million IOC dividend.

(3) Includes \$15.1 million IOC dividend.

#### 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 \$0.44 for the quarter (2016 - \$0.19). Cumulative standardized cash flow from inception of the Corporation is \$22.98 per share and total cash distributions since inception is \$22.44 per share, for a payout ratio of 98%.

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 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.

	3 Months Ended Mar. 31, 2017	3 Months Ended Mar. 31, 2016
Standardized cash flow from operating activities	\$28,182,002	\$12,489,465
Excluding: changes in amounts receivable, accounts payable and income taxes recoverable and payable	5,441,488	(227,503)
Adjusted cash flow	\$33,623,490	\$12,261,962
Adjusted cash flow per share	\$0.53	\$0.19

## Liquidity and Capital Resources

The Corporation had \$36.1 million in cash as at March 31, 2017 (December 31, 2016 - \$23.9 million) with total current assets of \$84.4 million (December 31, 2016 - \$62.9 million). The Corporation had working capital of \$40.5 million (December 31, 2016 - \$38.8 million). The Corporation's cash flow from operations was \$28.2 million and the dividend paid during the quarter was \$16.0 million, resulting in cash balances increasing \$12.2 million during the first quarter of 2017.

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 intends to pay cash dividends of the net income derived from IOC to the maximum extent possible, subject to the maintenance of appropriate levels of working capital.

The Corporation has a \$50 million revolving credit facility with a term ending September 18, 2019 with provision for annual one-year extensions. No amount is currently drawn under this facility (2016 &ndash; nil) leaving \$50.0 million available to provide for any capital required by IOC or requirements of the Corporation.

## Outlook

As is usual for LIORC, the results for the balance of 2017 will be largely determined by the iron ore price. The benchmark prices for iron ore have fallen precipitously in the last few weeks, reportedly driven by concerns on a number of factors, including:

- Increasing supply of seaborne iron ore and increasing Chinese domestic supply.
- High inventory of iron ore product at Chinese ports.
- Lower Chinese steel consumption in 2017 with reduced margins for steelmakers which is resulting in low-grade ores being favoured.

None-the-less looking forward, there are favourable factors to consider, including:

- The expected improvement in production at IOC and the expected reduction in unit operating costs.
- The strong pellet premiums being achieved.
- Potentially a weaker Canadian dollar.

Production and costs are the main variables that can be controlled by IOC. The IOC employees and management have been making concerted efforts to increase production and reduce unit operating costs. We are encouraged by their progress and the good start to 2017. With the strong first quarter production performance, IOC expects to meet the 2017 plan of 22 million tonnes of concentrate produced.

The LIORC directors decided to use the recent IOC dividends and the strong royalty performances in the fourth quarter of 2016 and in the first quarter of 2017 to replenish the Corporation's cash balance and to pay the regular dividends and a special dividend. The LIORC cash balance at March 31, 2017 stood at \$36.1 million. The regular and special dividend of \$32 million, declared on March 2, 2017 and paid on April 25, 2017, was more than offset by the IOC royalty payment received on the same date. With a strong cash balance, iron ore prices above US\$60 per tonne, the exchange rate at present, and the expected increased production, LIORC is in a good position to maintain the regular dividend.

## 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 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 2, 2017 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 CORPORATION

## INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

	As at	
	March 31,	December 31,
Canadian \$	2017	2016
	(Unaudited)	
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 36,118,990	\$23,936,988
Amounts receivable	48,276,254	38,487,316
Income taxes recoverable	-	490,345
<b>Total Current Assets</b>	<b>84,395,244</b>	<b>62,914,649</b>
<b>Non-Current Assets</b>		
Iron Ore Company of Canada ("IOC"),		
royalty and commission interests	263,840,153	265,383,753
Investment in IOC	420,787,357	408,679,560
<b>Total Non-Current Assets</b>	<b>684,627,510</b>	<b>674,063,313</b>
<b>Total Assets</b>	<b>\$ 769,022,754</b>	<b>\$ 736,977,962</b>

Liabilities and Shareholders' Equity

Current Liabilities

Accounts payable	\$ 9,813,386	\$ 8,072,608
Dividend payable	32,000,000	16,000,000
Taxes Payable	2,116,327	-
Total Current Liabilities	43,929,713	24,072,608

Non-Current Liabilities

Deferred income taxes	130,430,000	129,060,000
Total Liabilities	174,359,713	153,132,608

Shareholders' Equity

Share capital	317,708,147	317,708,147
Retained earnings	287,501,894	276,588,207
Accumulated other comprehensive loss	(10,547,000)	(10,451,000)
	594,663,041	583,845,354

Total Liabilities and Shareholders' Equity	\$ 769,022,754	\$ 736,977,962
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Approved by the Directors,

William H. McNeil

Director

Patricia M. Volker

Director

## LABRADOR IRON ORE ROYALTY CORPORATION

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Three Months Ended	
	March 31,	
Canadian \$	2017	2016
	(Unaudited)	
Revenue		
IOC royalties	\$ 42,836,753	\$ 21,835,878
IOC commissions	460,115	410,313
Interest and other income	58,842	47,646
	43,355,710	22,293,837
Expenses		
Newfoundland royalty taxes	8,567,350	4,367,176
Amortization of royalty and commission interests	1,543,600	1,188,467
Administrative expenses	1,049,245	676,076
	11,160,195	6,231,719
Income before equity earnings and income taxes	32,195,515	16,062,118
Equity earnings (losses) in IOC	22,236,844	(463,597)
Income before income taxes	54,432,359	15,598,521
Provision for income taxes		
Current	10,131,672	4,988,623
Deferred	1,387,000	(388,000)
	11,518,672	4,600,623
Net income for the period	42,913,687	10,997,898
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 2017 - \$17,000; 2016 - \$32,000)	(96,000)	(188,000)
Comprehensive income for the period	\$ 42,817,687	\$ 10,809,898
Net income per share	\$ 0.67	\$ 0.17



## LABRADOR IRON ORE ROYALTY CORPORATION

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended	
	March 31,	
Canadian \$	2017	2016
	(Unaudited)	
Net inflow (outflow) of cash related to the following activities		
Operating		
Net income for the period	\$ 42,913,687	\$ 10,997,898
Items not affecting cash:		
Equity (earnings) losses in IOC	(22,236,844)	463,597
Current income taxes	10,131,672	4,988,623
Deferred income taxes	1,387,000	(388,000)
Amortization of royalty and commission interests	1,543,600	1,188,467
Common share dividend from IOC	10,016,047	-
Change in amounts receivable	(9,788,938)	936,916
Change in accounts payable	1,740,778	(296,115)
Income taxes paid	(7,525,000)	(5,401,921)
Cash flow from operating activities	28,182,002	12,489,465
Financing		
Dividends paid to shareholders	(16,000,000)	(16,000,000)
Cash flow used in financing activities	(16,000,000)	(16,000,000)
Increase (decrease) in cash, during the period	12,182,002	(3,510,535)
Cash, beginning of period	23,936,988	24,463,512
Cash, end of period	\$ 36,118,990	\$ 20,952,977

LABRADOR IRON ORE ROYALTY CORPORATION

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

			Accumulated other comprehensive	
Canadian \$	Share capital	Retained earnings	loss	Total
Balance as at December 31, 2015	\$ 317,708,147	\$ 262,415,545	\$ (11,150,000)	\$ 568,973,69
Net income for the period	-	10,997,898	-	10,997,898
Dividends declared to shareholders	-	(16,000,000)	-	(16,000,000)
Share of other comprehensive loss from investment in IOC (net of taxes) -	-	-	(188,000)	(188,000)
Balance as at March 31, 2016	\$ 317,708,147	\$ 257,413,443	\$ (11,338,000)	\$ 563,783,59
Balance as at December 31, 2016	\$ 317,708,147	\$ 276,588,207	\$ (10,451,000)	\$ 583,845,35
Net income for the period	-	42,913,687	-	42,913,687
Dividends declared to shareholders	-	(32,000,000)	-	(32,000,000)
Share of other comprehensive loss from investment in IOC (net of taxes) -	-	-	(96,000)	(96,000)
Balance as at March 31, 2017	\$ 317,708,147	\$ 287,501,894	\$ (10,547,000)	\$ 594,663,04

The complete consolidated financial statements for the first quarter ended March 31, 2017, including the notes thereto, are posted on [sedar.com](http://sedar.com) and [labradorironore.com](http://labradorironore.com).

SOURCE [Labrador Iron Ore Royalty Corp.](http://Labrador Iron Ore Royalty Corp.)

Contact

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