

Labrador Iron Ore Royalty Corporation - 2017 Results of Operations

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TORONTO, March 8, 2018 /CNW/ - [Labrador Iron Ore Royalty Corp.](#) ("LIORC") (TSX: LIF) announced the results of its operations for the year ended December 31, 2017.

To the Holders of Common Shares of [Labrador Iron Ore Royalty Corp.](#)

80 Years in Labrador West

[Labrador Iron Ore Royalty Corp.](#) has been involved in Labrador West for 80 years. Under a Statutory Agreement with Newfoundland made in 1938, a predecessor company, Labrador Mining and Exploration Limited, was granted extensive exploration and mining rights in Labrador West. LM&E found the iron ore bodies that now constitute the mine operated by the Iron Ore Company of Canada. LM&E received grants of leases and licences under the Statutory Agreement. It also received surface rights to establish the town site that became Labrador City. LM&E sublet the leases to IOC and IOC, with major companies as original shareholders, built the infrastructure, mine, railway and port. Under the sublease, LIORC receives gross overriding royalty on iron ore products produced and sold by IOC.

Financial Performance

The Shareholders' cash flow from operations for the year ended December 31, 2017 was \$167.0 million or \$2.61 per share compared to \$63.5 million or \$0.99 per share for 2016.

The Shareholders' consolidated net income for the year ended December 31, 2017 was \$157.3 million or \$2.46 per share compared to \$78.2 million or \$1.22 per share in 2016. Equity earnings from Iron Ore Company of Canada ("IOC") amounted to \$74.3 million compared to \$24.7 million in 2016. LIORC received an IOC dividend in the fourth quarter of 2017 in the amount of \$19.3 million or \$0.30 per share compared to \$15.1 million or \$0.23 per share in the fourth quarter of 2016. IOC's 2017 sales for calculating the royalty to LIORC totaled 19.2 million tonnes compared to 18.2 million tonnes in 2016. Royalty income increased to \$156.4 million as compared to \$113.1 million in 2016.

The cash flow from operations, equity earnings and net income for the year were higher than last year mainly due to higher prices for concentrate, particularly in the first quarter of 2017, high premiums for concentrate and pellets, plus higher concentrate and pellet sales tonnages. Prices and premiums in 2017 were higher than most forecasts with the Chinese government implementing and enforcing measures to reduce pollution; these measures favoured higher quality products such as the concentrate ("CFS") and pellets produced by IOC.

The average index price for 62% fines increased 22% year-on-year to US\$71 per tonne CFR China in 2017. The pellet price also increased year-on-year, particularly in the last few months of 2017, approaching approximately US\$60 per tonne in October and November. The average price realized by IOC for CFS and pellets, FOB Sept-Îles, was approximately C\$108 per tonne in 2017 compared to C\$80 per tonne in 2016, an increase of 35%. The higher premiums for 65% Fe concentrate and pellets were driven by the changes in environmental policy by the Chinese governments, which caused Chinese steel producers to increase the usage of higher value-in-use iron ore, such as the concentrate and pellets produced by IOC. With improving pellet prices in 2017, IOC again focused on maximizing pellet production to the extent possible, given that two pellet lines were refurbished in 2017 with none in 2016. The sales tonnage of pellets in 2017, for calculating the royalty to LIORC, was 4% higher than in 2016. The CFS tonnages in 2017 were higher than in 2016 by 6%.

Iron Ore Company of Canada Operations

Production

Total concentrate production of 20.2 million tonnes in 2017 was 5% higher as compared to 2016 of 19.2 million tonnes, but below the 22 million tonnes objective for 2017. In the fourth quarter of 2017, IOC experienced two site-wide power outages, weather conditions required the suspension of pit mining activities due to poor visibility, and the conveyor belt of the parallel ore delivery system split along several kilometers. The parallel ore delivery system ("PODS") was not operational for 21 days in December while repairs to the conveyor were undertaken. Quarterly concentrate production records were set in the first and third quarters of 2017 which drove the 5% improvement in concentrate production in 2017. Pellet production was 7% higher in 2017 as compared to 2016. While two pellet lines were down for several weeks for refurbishment, the annual pellet production improved with increased throughput being achieved in both lines once they returned to service.

The cost per tonne of concentrate produced declined by 5% in 2017 as compared to 2016. The total cash cost in Canada was well controlled and increased by only 2.4%. The overall IOC employee productivity improved by 3% in 2017.

Sales as Reported for the LIORC Royalty

Total iron ore tonnage sold by IOC (CFS plus pellets) of 19.2 million tonnes was 5% above the total sales tonnage in 2016. Pellet sales tonnage was 4% higher and CFS sales tonnage was 6% higher than in 2016. The increase in the sales of pellets and CFS was achieved despite the repair over a 34-day period in July and August on the dumper for the rail wagons that transport the iron ore products to the port at Sept Isles. IOC crews are to be commended for the dumper repair work and the reduction of the high concentrate inventories at Carol Lake at the end of the third quarter to normal levels by year end.

As noted above, pellet premiums were strong in 2017 and IOC maximized pellet production, while still meeting CFS sales commitments.

Capital Expenditures

Capital expenditure for IOC in 2017 was \$265 million in total as compared to \$99 million in 2016. The capital program was set when the price outlook was poor and the expansion program had been largely completed. Therefore the capital budget was set for minimal sustaining capital. For 2017, the total capital budget was increased to \$245 million as the price outlook in December 2016 was much improved. The 2017 budget included some \$40 million as development capital for the Wabush 3 pit (total budget \$79 million in 2017 and 2018). The sustaining capital included the refurbishment of the No. 2 and 5 pellet lines, capital to improve air emissions from the pellet plant, the refurbishment of track and the remediation of high wall rock cut along the route of the Quebec North Shore and Labrador Railway. The planned capital programs were executed largely on budget. In late 2017 IOC purchased some \$20 million of leased equipment to reduce future operating costs which added to the budget.

Outlook

Many forecasts for seaborne iron ore, 62% Fe, CFR China, are for the price to decline and average below US\$60 per tonne in 2018. Reportedly, the Office of the Chief Economist of Australia predicted in January 2018 that iron ore prices will average US\$55 per tonne (FOB Australia) in 2018, and \$49 in 2019. Most forecasts note the anticipated increased supply, particularly from the S11D mine in Brazil. It is also increasing likely that the Samarco operation in Brazil could re-open in late 2018 or in 2019, which would likely adversely affect pellet premiums. However, some forecasts note the Chinese policies on pollution and the resulting tight margins for Chinese producers as being supportive of iron ore prices and premiums for higher grade iron ore.

Rio Tinto has released guidance for 2018 of between 11.5 million to 12.5 million tonnes for their 58.7% share of IOC's saleable production (pellets and CFS tonnage). This would result in 19.6 million to 21.3 million tonnes of saleable production on a combined basis. With the strong pellet premiums, IOC will continue to prioritize pellet production in 2018. The IOC objective is 22 million tonnes of concentrate production with sales of approximately 12.5 million tonnes of pellets and 8.4 million tonnes of CFS.

The capital expenditures for 2018 are expected to be \$220 million, lower than the \$265 million in 2017. The refurbishment of the induration machine in the pellet plant is planned for 2018. Production of ore from the Wabush 3 pit is on track as planned for 2018. The six-year collective agreements with the United Steelworkers of America union employees expired on February 28, 2018. IOC expects to earn revenue from hauling product from the Bloom Lake mine of Quebec Iron Ore Inc., with mine operations planned to start March 2018.

The price of iron ore early in 2018 has again exceeded forecasts. If the improved prices and premiums continue in 2018,

achieves the production guidance, and the Canadian dollar does not appreciate materially against the US dollar, the 2017 cash flows for LIORC will be continued strong cash flows.

I would like to take this opportunity to thank our Shareholders for their interest and loyalty and my fellow Directors for their support.

Respectfully submitted on behalf of the Directors of the Corporation,

William H. McNeil
President and Chief Executive Officer
March 8, 2018

Corporate Structure

LIORC is a Canadian corporation resulting from the conversion of the Labrador Iron Ore Royalty Income Fund (the "Fund") under an Arrangement effective on July 1, 2010. LIORC is also the successor by amalgamation under the Arrangement of Labrador Iron Ore Mining Company Limited, formerly a wholly-owned subsidiary of the Fund.

LIORC, directly and through its wholly-owned subsidiary Hollinger-Hanna Limited, holds a 15.10% equity interest in IOC. IOC receives a 7% gross overriding royalty and a 10 cent per tonne commission on all iron ore products produced, sold and shipped by IOC. Generally, LIORC pays cash dividends from its net income to the maximum extent possible, subject to the maintenance of appropriate levels of working capital. The common shareholders receive quarterly dividends on the common shares on the 15th day of the month following the end of each quarter.

Eight Directors are responsible for the governance of the Corporation and also serve as directors of Hollinger-Hanna. The eight Directors, in addition to managing the affairs of the Corporation and Hollinger-Hanna, oversee the Corporation's interests in IOC. Two of the eight Directors sit on the board of IOC and the five independent Directors serve as members of the Audit, Nominations and Compensation Committees. Scotia Managed Companies Administration Inc., pursuant to an administration agreement, acts as the administrator of the Corporation and Hollinger-Hanna.

Taxation

The Corporation is a taxable corporation. Dividend income received from IOC and Hollinger-Hanna is received tax free. Royalty income is subject to income tax and Newfoundland royalty tax. Expenses of the Corporation include administrative and professional fees. Hollinger-Hanna is a taxable corporation.

Income Taxes

Dividends to a shareholder that are paid within a particular year are to be included in the calculation of the shareholder's income for that year. All dividends paid in 2017 were "eligible dividends" under the Income Tax Act.

Review of Operations

Iron Ore Company of Canada

The income of the Corporation is entirely dependent on IOC as the only assets of the Corporation and its subsidiary are the shares of IOC and its operations. IOC is one of Canada's largest iron ore producers, operating a mine, concentrator and pellet plant in Labrador City, Newfoundland and Labrador, and is among the top five producers of seaborne iron ore pellets in the world. IOC has been producing and processing iron ore concentrate and pellets since 1954. IOC is strategically situated to serve markets throughout the world from its year-round port facilities at Sept-Îles, Quebec.

IOC has ore reserves sufficient for approximately 25 years at current production rates with additional resources of a greater magnitude. It currently has the nominal capacity to extract around 55 million tonnes of crude ore annually. The crude ore is

processed into iron ore concentrate and then either sold or converted into many different qualities of iron ore pellets to customers' needs. The iron ore concentrate and pellets are transported to IOC's port facilities at Sept-Îles, Quebec via wholly-owned Quebec North Shore and Labrador Railway, a 418 kilometer rail line which links the mine and the port. From the products are shipped to markets throughout North America, Europe, the Middle East and the Asia-Pacific region.

IOC's 2017 sales totaled 19.0 million tonnes, comprised of 10.4 million tonnes of iron ore pellets and 8.6 million tonnes of concentrate. Production in 2017 was 10.5 million tonnes of pellets and 8.5 million tonnes of CFS. IOC generated ore sales revenues (excluding third party ore sales) of \$2,249 million in 2017 (2016 - \$1,620 million).

Selected IOC Financial Information

	2017	2016	2015	2014	2013
	(\$ in millions)				
Operating Revenues	2,315	1,676	1,495	1,794	2,194
Cash Flow from Operating Activities	923	456	267	455	781
Net Income	499	170	21	273	549
Capital Expenditures	256	99	143	187	275

IOC Royalty

The Corporation holds certain leases and licenses covering approximately 18,200 hectares of land near Labrador City. IOC has leased certain portions of these lands from which it currently mines iron ore. In return, IOC pays the Corporation a 7% overriding royalty on all sales of iron ore products produced from these lands. A 20% tax on the royalty is payable to the Government of Newfoundland and Labrador. For the five years prior to 2017, the average royalty net of the 20% tax has been \$94.2 million per year and in 2017 the net royalty was \$125.1 million (2016 - \$90.5 million).

Because the royalty is "off-the-top", it is not dependent on the profitability of IOC. However, it is affected by changes in iron ore volumes, iron ore prices and, because iron ore prices are denominated in US dollars, the United States - Canadian dollar exchange rate.

IOC Equity

In addition to the royalty interest, the Corporation directly and through its wholly owned subsidiary, Hollinger-Hanna, owns a 15.10% equity interest in IOC. The other shareholders of IOC are [Rio Tinto Ltd.](#) with 58.72% and Mitsubishi Corporation with 26.18%.

IOC Commissions

Hollinger-Hanna has the right to receive a payment of 10 cents per tonne on the products produced and sold by IOC. Pursuant to an agreement, IOC is obligated to make the payment to Hollinger-Hanna so long as Hollinger-Hanna is in existence and operating. In 2017, Hollinger-Hanna received a total of \$1.9 million in commissions from IOC (2016 - \$1.8 million).

Quarterly Dividends

Dividends of \$2.65 per share including special dividends of \$1.65 per share were declared in 2017 (2016 – dividends of \$1.00 per share). These dividends were allocated as follows:

Period	Payment	Dividend	Total
Ended	Date	Income	Dividend
per Share (\$ Million)			

Mar. 31, 2017	Apr. 25, 2017	\$0.25	\$ 16.0
Special Dividend	Apr. 25, 2017	0.25	16.0
Jun. 30, 2017	Jul. 25, 2017	0.25	16.0
Special Dividend	Jul. 25, 2017	0.35	22.4
Sep. 30, 2017	Oct. 25, 2017	0.25	16.0
Special Dividend	Oct. 25, 2017	0.75	48.0
Dec. 31, 2017	Jan. 25, 2018	0.25	16.0
Special Dividend	Jan. 25, 2018	0.30	19.2
Dividend to Shareholders - 2017			
		\$2.65	\$169.6

Mar. 31, 2016	Apr. 25, 2016	\$0.25	\$16.0
Jun. 30, 2016	Jul. 25, 2016	0.25	16.0
Sep. 30, 2016	Oct. 25, 2016	0.25	16.0
Dec. 31, 2016	Jan. 25, 2017	0.25	16.0
Dividend to Shareholders - 2016			
		\$ 1.00	\$64.0

The quarterly dividends are payable to all shareholders of record on the last day of each calendar quarter and are paid on the 25th day of the following month.

Management's Discussion and Analysis

The following is a discussion of the consolidated financial condition and results of operations of the Corporation for the years ended December 31, 2017 and 2016. This discussion should be read in conjunction with the consolidated financial statements of the Corporation and notes thereto for the years ended December 31, 2017 and 2016. This information is prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and all amounts are shown in Canadian dollars unless otherwise indicated.

The Corporation is a Canadian corporation resulting from the conversion of the Fund under an Arrangement effective on July 1, 2010. LIORC is also the successor by amalgamation under the Arrangement of Labrador Mining Company Limited, formerly a wholly-owned subsidiary of the Fund.

General

The Corporation is dependent on the operations of IOC. IOC's earnings and cash flows are affected by the volume and mix of iron ore products produced and sold, costs of production and the prices received. Iron ore demand and prices fluctuate and are affected by numerous factors which include demand for steel and steel products, the relative exchange rate of the US dollar, global and regional demand and production, political and economic conditions and production costs in major producing areas.

Liquidity and Capital Resources

The Corporation had \$40.5 million (2016 - \$23.9 million) in cash as at December 31, 2017 with total current assets of \$82.6 million (2016 - \$62.9 million). The Corporation has working capital of \$33.1 million (2016 - \$38.8 million). The Corporation's cash flow from operations was \$167.0 million (2016 - \$63.5 million) and dividends paid during the year were \$150.4 million, resulting in cash balances increasing by \$16.6 million during 2017.

Cash balances consist of deposits in Canadian dollars and US dollars with Canadian chartered banks. Accounts 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 Company 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, 2020 with provision for annual one-year extensions. No amount is currently drawn under this facility leaving \$50.0 million available to provide for any capital required by IOC or requirements of the Corporation.

Operating Results

The following table summarizes the Corporation's 2017 operating results as compared to 2016 results (in '000's).

Revenue	2017	2016
IOC royalties (net of 20% Newfoundland royalty tax)	\$ 125,094	\$ 90,465
IOC commissions	1,885	1,793
Other	374	233
	127,353	92,491
Expenses		
Administrative expenses	2,938	2,743
Income taxes expense – current	37,283	26,821
	40,221	29,564
Net Income before undernoted items	87,132	62,927
Non cash revenue (expense)		
Equity earnings in IOC	74,300	24,723
Deferred income taxes	2,204	(4,343)
Amortization	(6,352)	(5,134)
	70,152	15,246
Net income for the year	157,284	78,173
Other comprehensive gain	2,060	699
Comprehensive income for the year	\$ 159,344	\$ 78,872

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

	First Quarter 2017	Second Quarter 2017	Third Quarter 2017	Fourth Quarter 2017	Total Year 2017	Total Year 2016
Pellets	2.48	2.44	2.78	2.78	10.48	10.06
Concentrates ⁽¹⁾	2.19	1.60	2.23	2.66	8.67	8.17
Total	4.67	4.04	5.00	5.44	19.15	18.23

(1) Excludes third party ore sales.

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

IOC's 2017 iron ore sales for calculating the royalty to LIORC, totaled 19.2 million tonnes compared to 18.2 million tonnes in 2016. Royalty revenue increased to \$156.4 million as compared to \$113.1 million in 2016. Equity earnings from IOC amounted to \$74.3 million compared to \$24.7 million in 2016. The higher royalty revenue and equity earnings achieved in 2017 as compared to 2016 was mainly due to improved prices for concentrate, particularly in the first quarter of 2017, high premiums for concentrate and pellets, plus higher concentrate and pellet sales tonnages. Prices and premiums were higher than most forecasts with the Chinese governments enacting and enforcing measures to reduce pollution, which favoured higher value-in-use products, such as the concentrates and pellets produced by IOC.

The average index price for 62% fines increased 22% year-on-year to US\$71 per tonne CFR China in 2017. The pellet premiums also increased year-on-year, particularly in the last few months of 2017, approaching approximately US\$60 per tonne in October and November. The average price realized by IOC for CFS and pellets, FOB Sept-Iles, was approximately C\$108 per tonne in 2017 compared to C\$80 per tonne in 2016, an increase of 35%. The higher premiums for 65% Fe concentrate and pellets were driven by the changes in environmental policy by the Chinese governments, which caused Chinese steel producers to increase the usage of higher value-in-use iron ore, such as the concentrate and pellets produced by IOC. With improving pellet premiums in 2017, IOC again focused on maximizing pellet production to the extent possible, given that two pellet lines were refurbished in 2017 with none in 2016. The sales tonnage of pellets in 2017, for calculating the royalty to LIORC, was 4% higher than in 2016. The CFS tonnages in 2017 were higher than in 2016 by 6%.

Capital expenditure for IOC in 2017 was \$265 million in total as compared to \$99 million in 2016. The capital program for 2016 was set when the price outlook was poor and the expansion program had been largely completed. Therefore the capital budget was set for minimal sustaining capital. For 2017, the total capital budget was increased to \$245 million as the price outlook in December 2016 was much improved. The 2017 budget included some \$40 million as development capital for the Wabush 3 pit (total budget \$79 million in 2017 and 2018). The sustaining capital included the refurbishment of the No. 2 and 5 pellet lines, capital to improve air emissions from the pellet plant, the refurbishment of track and the remediation of high wall rock cuts along the route of the Quebec North Shore and Labrador Railway. The planned capital programs were executed largely on budget. In late 2017 IOC purchased some \$20 million of leased equipment to reduce future operating costs which added to the budget.

The Shareholders' consolidated net income for the year ended December 31, 2017 was \$157.3 million or \$2.46 per share compared to \$78.2 million or \$1.22 per share in 2016. Equity earnings from IOC amounted to \$74.3 million compared to \$24.7 million in 2016. The main cause of IOC's higher earnings for 2017 as compared to 2016 was the improved iron ore prices and premiums, and increased sales tonnages.

Administrative expenses for the year ended December 31, 2017 include a non-cash foreign exchange loss of \$0.3 million on the conversion of the dividend received from IOC in December 2016. Amortization expense for royalty and commission interests increased \$1.2 million for the year ended December 31, 2017 due to an increased amortization rate reflecting lower estimated total mineral resources over the prior year.

Fourth quarter 2017 CFS sales were much improved year-over-year, but pellet sales were lower as a result of the refurbishment of the No. 5 pellet line. However, the achieved sales prices of CFS and pellets were significantly improved, resulting in royalty income of \$40.0 million for the quarter as compared to \$38.0 million for the same period in 2016. Fourth quarter 2017 cash flow from operations was \$39.6 million or \$0.62 per share compared to 2016 of \$28.3 million or \$0.44 per share. LIORC received an IOC dividend in the fourth quarter of 2017 in the amount of \$19.3 million or \$0.30 per share (2016 - \$15.1 million or \$0.23 per share). Equity earnings from IOC amounted to \$16.6 million in the fourth quarter 2017 compared to \$18.0 million for the same period in 2016 in part as a result of a decline in the gross margin owing to higher product unit costs due to lower production overall for the quarter offset by higher iron ore prices and premiums achieved and increased sales tonnages.

Selected Consolidated Financial Information

The following table sets out financial data from a Shareholder's perspective for the three years ended December 31, 2017, 2016 and 2015.

Description	Years Ended December 31		
	2017	2016	2015
	(in millions except per share information)		
Revenue	\$158.6	\$115.1	\$101.7
Net Income	\$157.3	\$78.2	\$54.7
Net Income per Share	\$2.46	\$1.22	\$0.85
Cash Flow from Operations	\$167.0 ⁽¹⁾	\$63.5 ⁽²⁾	\$59.9
Cash Flow from Operations per Share	\$2.61 ⁽¹⁾	\$0.99 ⁽²⁾	\$0.94
Total Assets	\$750.0	\$737.0	\$714.1
Dividends Declared per Share	\$2.65	\$1.00	\$1.00
Number of Common Shares outstanding	64.0	64.0	64.0

(1) Includes IOC dividends totaling \$76.7 million or \$1.20 per Share.

(2) Includes IOC dividend totaling \$15.1 million or \$0.23 per Share.

The following table sets out quarterly revenue, net income, cash flow and dividend data for 2017 and 2016. Due to seasonal weather patterns the first and fourth quarters generally have lower production and sales. Royalty revenues and equity earnings in IOC track iron ore spot prices, which can be very volatile. Dividends, included in cash flow, are declared and paid by IOC irregularly according to the availability of cash.

		Net Income	Net Income per Share	Cash Flow	Cash Flow from Operations per Share	Adjusted Cash Flow per Share ⁽¹⁾	Dividends Declared per Share
	Revenue						
(in millions except per share information)							
2017							
First Quarter	\$43.4	\$42.9	\$0.67	\$28.2 ⁽²⁾	\$0.44 ⁽²⁾	\$0.53 ⁽²⁾	\$0.50
Second Quarter	\$34.2	\$32.3	\$0.50	\$45.6 ⁽³⁾	\$0.71 ⁽³⁾	\$0.53 ⁽³⁾	\$0.60
Third Quarter	\$40.4	\$43.8	\$0.69	\$53.6 ⁽⁴⁾	\$0.84 ⁽⁴⁾	\$0.85 ⁽⁴⁾	\$1.00
Fourth Quarter	\$40.6	\$38.3	\$0.60	\$39.6 ⁽⁵⁾	\$0.62 ⁽⁵⁾	\$0.65 ⁽⁵⁾	\$0.55
2016							
First Quarter	\$22.3	\$11.0	\$0.17	\$12.5	\$0.19	\$0.19	\$0.25
Second Quarter	\$25.8	\$8.3	\$0.13	\$7.5	\$0.12	\$0.22	\$0.25
Third Quarter	\$28.4	\$21.2	\$0.33	\$15.2	\$0.24	\$0.24	\$0.25
Fourth Quarter	\$38.6	\$37.7	\$0.59	\$28.3 ⁽⁶⁾	\$0.44 ⁽⁶⁾	\$0.57 ⁽⁶⁾	\$0.25

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

(2) Includes \$10.0 million IOC dividend.

(3) Includes \$15.2 million IOC dividend.

(4) Includes \$32.2 million IOC dividend.

(5) Includes \$19.3 million IOC dividend.

(6) 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 \$2.61 for 2017 (2016 - \$0.99). Cumulative standardized cash flow from inception of the Corporation is \$25.15 per share and total cash distributions

since inception are \$24.59 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 distributions to Shareholders.

The following reconciles standardized cash flow from operating activities to adjusted cash flow (in '000's).

	2017	2016
Standardized cash flow from operating activities	\$166,960	\$63,473
Changes in amounts receivable, accounts and interest payable and income taxes recoverable and payable	(3,116)	14,570
Adjusted cash flow	\$163,844	\$78,044
Adjusted cash flow per share	\$2.56	\$1.22

Disclosure Controls and Internal Control over Financial Reporting

The President and CEO and the CFO are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the Corporation. Two directors serve as directors of IOC and IOC provides monthly reports on its operations to them. The Corporation also relies on financial information provided by IOC, including its audited financial statements, and other material information provided to the President and CEO, the Executive Vice President and Secretary and the CFO by officers of IOC. IOC is a private corporation, and its financial statements are not publicly available.

The Directors are informed of all material information relating to the Corporation and its subsidiary by the officers of the Corporation on a timely basis and approve all core disclosure documents including the Management Information Circular, the annual and interim financial statements and related Management's Discussion and Analyses, the Annual Information Form, any prospectuses and all press releases. An evaluation of the design and operating effectiveness of the Corporation's disclosure controls and procedures was conducted under the supervision of the CEO and CFO. Based on their evaluation, they concluded that the Corporation's disclosure controls and procedures were effective in ensuring that all material information relating to the Corporation was accumulated and communicated for the year ended December 31, 2017.

The President and CEO and the CFO have designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. An evaluation of the design and operating effectiveness of the Corporation's internal control over financial reporting was conducted under the supervision of the CEO and CFO. Based on their evaluation, they concluded that the Corporation's internal control over financial reporting was effective and that there were no material weaknesses therein for the year ended December 31, 2017.

The preparation of financial statements requires the Corporation's management to make estimates and assumptions that affect the reported amounts of the assets, liabilities, revenue and expenses reported each period. Each of these estimates varies with respect to the level of judgment involved and the potential impact on the Corporation's reported financial results. Estimates are deemed critical when the Corporation's financial condition, change in financial condition or results of operations would be materially impacted by a different estimate or a change in estimate from period to period. By their nature, these estimates are subject to measurement uncertainty, and changes in these estimates may affect the consolidated financial statements of future periods.

No material change in the Corporation's internal control over financial reporting occurred during the year

ended December 31, 2017.

Outlook

Many forecasts for seaborne iron ore, 62% Fe, CFR China, are for the price to decline and average below US\$60 per tonne in 2018. Reportedly, the Office of the Chief Economist of Australia predicted in January 2018 that iron ore prices will average \$53 per tonne (FOB Australia) in 2018, and \$49 in 2019. Most forecasts note the anticipated increased supply, particularly from Vale's S11D mine in Brazil. It is also increasing likely that the Samarco operation in Brazil could re-open in late 2018 or in 2019, which would likely adversely affect pellet premiums. However, some forecasts note the Chinese policies on pollution and the strong steel margins for Chinese producers as being supportive of iron ore prices and premiums for higher grade iron ore.

Rio Tinto has released guidance for 2018 of between 11.5 million to 12.5 million tonnes for their 58.7% share of IOC's saleable production (pellets and CFS tonnage). This would result in 19.6 million to 21.3 million tonnes of saleable production on a 100% basis. With the strong pellet premiums, IOC will continue to prioritize pellet production in 2018. The IOC objective is 22.2 million tonnes of concentrate production with sales of approximately 12.5 million tonnes of pellets and 8.4 million tonnes of CFS in 2018.

The capital expenditures for 2018 are expected to be \$220 million, lower than the \$265 million in 2017. The refurbishment of one induration machine in the pellet plant is planned for 2018. Production of ore from the Wabush 3 pit is on track as planned for July 2018. The six-year collective agreements with the United Steelworkers of America union employees expired on February 28, 2018. IOC expects to earn revenue from hauling product from the Bloom Lake mine of Quebec Iron Ore Inc., with mine production planned to start March 2018.

The price of iron ore early in 2018 has again exceeded forecasts. If the improved prices and premiums continue in 2018, IOC achieves the production guidance, and the Canadian dollar does not appreciate materially against the US dollar, the 2018 outlook for LIORC will be continued strong cash flows.

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 8, 2018 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.

Additional information

Additional information relating to the Corporation, including the Annual Information Form, is on SEDAR at www.sedar.com. Additional information is also available on the Corporation's website at www.labradorironore.com.

William H. McNeil
President and Chief Executive Officer
Toronto, Ontario
March 8, 2018

LABRADOR IRON ORE ROYALTY CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at	
	December 31,	
(in thousands of Canadian dollars)	2017	2016
Assets		
Current Assets		
Cash	\$ 40,498	\$ 23,937
Amounts receivable	42,092	38,487
Income taxes recoverable	-	490
Total Current Assets	82,590	62,914
Non-Current Assets		
Iron Ore Company of Canada ("IOC")		
royalty and commission interests	259,032	265,384
Investment in IOC	408,691	408,680
Total Non-Current Assets	667,723	674,064
Total Assets	\$ 750,313	\$ 736,978
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	\$ 8,601	\$ 8,073
Dividend payable	35,200	16,000
Taxes payable	5,703	-
Total Current Liabilities	49,504	24,073
Non-Current Liabilities		
Deferred income taxes	127,220	129,060
Total Liabilities		

176,724

Shareholders' Equity

Share capital	317,708	317,708
Retained earnings	264,272	276,588
Accumulated other comprehensive loss	(8,391)	(10,451)
Approved by the Directors,	573,589	583,845
Total Liabilities and Shareholders' Equity	\$ 750,313	\$ 736,978

Signed: William H. McNeil Patricia M. Volker
 Director Director

LABRADOR IRON ORE ROYALTY CORPORATION

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	For the Year Ended	
	December 31,	
(in thousands of Canadian dollars)	2017	2016
Revenue		
IOC royalties	\$ 156,367	\$ 113,081
IOC commissions	1,885	1,793
Interest and other income	374	233
	158,626	115,107
Expenses		
Newfoundland royalty taxes	31,273	22,616
Amortization of royalty and commission interests	6,352	5,134
Administrative expenses	2,938	2,743
	40,563	30,493
Income before equity earnings and income taxes	118,063	84,614
Equity earnings in IOC	74,300	24,723
Income before income taxes	192,363	109,337
Provision for income taxes		

Current	37,283	26,821
Deferred	(2,204)	4,343
	35,079	31,164
Net income for the year	157,284	78,173
Other comprehensive income		
Share of other comprehensive income of IOC that will not be reclassified subsequently to profit or loss (net of income taxes of 2017 - \$364; 2016 - \$47)	2,060	699
Comprehensive income for the year	\$ 159,344	\$ 78,872
Net income per share	\$ 2.46	\$ 1.22

LABRADOR IRON ORE ROYALTY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended	
	December 31,	
(in thousands of Canadian dollars)	2017	2016
Net inflow (outflow) of cash related to the following activities		
Operating		
Net income for the period	\$ 157,284	\$ 78,173
Items not affecting cash:		
Equity earnings in IOC	(74,300)	(24,723)
Current income taxes	37,283	26,821
Deferred income taxes	(2,204)	4,343
Amortization of royalty and commission interests	6,352	5,134
Common share dividend from IOC	76,713	15,117
Change in amounts receivable	(3,605)	(17,979)
Change in accounts payable	528	3,658
Income taxes paid	(31,090)	(27,071)
Cash flow from operating activities	166,961	63,473
Financing		
Dividends paid to shareholders	(150,400)	(64,000)
Cash flow used in financing activities	(150,400)	(64,000)
Increase (decrease) in cash, during the year	16,561	(527)
Cash, beginning of year	23,937	24,464
Cash, end of year	\$ 40,498	\$ 23,937

LABRADOR IRON ORE ROYALTY CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share	Retained	Accumulated other comprehensive	
(in thousands of Canadian dollars)	capital	earnings	loss	Total
Balance as at December 31, 2015	\$ 317,708	\$ 262,415	\$ (11,150)	\$ 568,973
Net income for the year	-	78,173	-	78,173
Dividends declared to shareholders	-	(64,000)	-	(64,000)
Share of other comprehensive income from investment in IOC (net of taxes)	-	-	699	699
Balance as at December 31, 2016	\$ 317,708	\$ 276,588	\$ (10,451)	\$ 583,845
Balance as at December 31, 2016	\$ 317,708	\$ 276,588	\$ (10,451)	\$ 583,845
Net income for the year	-	157,284	-	157,284
Dividends declared to shareholders	-	(169,600)	-	(169,600)
Share of other comprehensive income from investment in IOC (net of taxes)	-	-	2,060	2,060
Balance as at December 31, 2017	\$ 317,708	\$ 264,272	\$ (8,391)	\$ 573,589

The complete consolidated financial statements for the year ended December 31, 2017, including the notes thereto, are posted on sedar.com and labradorironore.com.

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

Contact
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