

Labrador Iron Ore Royalty Corporation - 2018 Results of Operations

08.03.2019 | [CNW](#)

TORONTO, March 7, 2019 - [Labrador Iron Ore Royalty Corp.](#) ("LIORC") (TSX: LIF) announced the results of its operations for the year ended December 31, 2018.

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

81 Years in Labrador West

[Labrador Iron Ore Royalty Corp.](#) has been involved in Labrador West for 81 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 a 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, 2018 was \$148.8 million or \$2.32 per share compared to \$167.0 million or \$2.61 per share for 2017. The financial results for LIORC in 2018 were adversely affected by a nine-week labour strike from March 26 to May 29, 2018, which halted all iron ore production at IOC.

The Shareholders' consolidated net income for the year ended December 31, 2018 was \$128.5 million or \$2.01 per share compared to \$157.3 million or \$2.46 per share in 2017. Equity earnings from Iron Ore Company of Canada ("IOC") amounted to \$57.0 million compared to \$74.3 million in 2017. LIORC received dividends from IOC in 2018 totaling \$83.9 million or \$1.20 per share compared to \$76.7 million in 2017, or \$1.20 per share. Post the labour strike, IOC drew down its cash balance to fund a higher annual dividend. LIORC received an IOC dividend in the fourth quarter of 2018 in the amount of \$25.3 million or \$0.30 per share compared to \$19.3 million or \$0.30 per share in the fourth quarter of 2017. IOC's 2018 iron ore sales for calculation of royalty to LIORC totaled 15.10 million tonnes compared to 19.15 million tonnes in 2017. Royalty revenue decreased to \$115.4 million as compared to \$156.4 million in 2017 due to the labour strike in the second quarter of 2018.

The cash flow from operations, equity earnings and net income for the year were lower than last year mainly due to the lower sales tonnages for concentrate and pellets caused by the labour strike. As in 2017, prices and premiums were higher than forecasts, with the Chinese governments continuing to enforce measures to reduce pollution; these measures favoured quality products such as the concentrate for sale ("CFS") and pellets produced by IOC.

While the Platts index for 62% Fe, CFR China averaged US\$69 per tonne in 2018 compared to US\$71 per tonne in 2017, despite a decline, the Platts index for 65% Fe, CFR China averaged US\$90 per tonne in 2018 compared to US\$87 per tonne in 2017, an increase. Since the CFS sold by IOC is priced on the 65% Fe, CFR China benchmark, the stronger prices for the 65% Fe somewhat offset the lower CFS sales tonnages in 2018. The monthly Atlantic Blast Furnace 65% Fe pellet premium index quoted by Platts, averaged US\$59 per tonne for 2018, and was 31% higher than in 2017. Blast Furnace pellet premium was stable at approximately US\$58 per tonne for most of 2018 but increased to US\$62 per tonne in November and December. The strong year-over-year increase in pellet premiums was supported by generally healthy margins for steel producers.

The average price realized by IOC for CFS and pellets, FOB Sept-Îles, net of selling costs and royalties was approximately C\$108 per tonne in 2018 compared to C\$108 per tonne in 2017. Increased freight rates and lower sales tonnages affected the realized price FOB Sept-Îles in 2018. The premiums for 65% Fe concentrate and pellets continued to be supported by the environmental policies of the Chinese governments, which, as in 2017, caused Chinese steel producers to favour the use of quality products.

higher value-in-use iron ore, such as the concentrate and pellets produced by IOC. With strong pellet premiums in 2018, IOC again focused on maximizing pellet production to the extent possible, given the labour strike and the refurbishment of the pellet line in 2018, as compared to two lines in 2017. The sales tonnage of pellets in 2018, for calculating the royalty to LIORC, was 20% lower than in 2017. The CFS tonnage in 2018 was lower than in 2017 by 23%.

Iron Ore Company of Canada Operations

Production

Total concentrate production of 15.73 million tonnes in 2018 was 22% lower as compared to 2017 of 20.21 million tonnes due to the labour strike in the second quarter of 2018. The Moss Pit (formerly known as Wabush 3) commenced production in the third quarter. Monthly concentrate production records were set in July and October of 2018. However, third quarter production was adversely affected by maintenance and the commissioning of a productivity improvement project on the spiral plant, which temporarily restricted throughput. Fourth quarter production at IOC was 4% higher than the corresponding period of 2017. Overall IOC saleable production (CFS plus pellets) was slightly below Rio Tinto's lower revised guidance, provided after the labour strike.

The unit operating costs for concentrate and pellets were higher than in 2017 due to the labour strike and the fixed costs during the suspension of production. The total cash costs were lower in 2018 than in 2017 by 6%.

Haulage by the Quebec North Shore and Labrador Railway Company, Inc. ("QNS&L") for the iron ore concentrate from the Lake Mine, owned by [Champion Iron Ltd.](#) ("Champion"), began in March 2018, as scheduled by Champion. As reported by Champion, the dry metric tonnes of iron ore concentrate sold totaled 5.4 million tonnes in the nine months ending December 2018.

Sales as Reported for the LIORC Royalty

Total iron ore tonnage sold by IOC (CFS plus pellets) of 15.10 million tonnes was 21% below the total sales tonnage in 2017. Pellet sales tonnage was 20% lower and CFS sales tonnage was 23% lower than in 2017. The reduced sales tonnages were a result of the reduced production tonnages, as explained above.

As noted above, pellet premiums were strong in 2018 and IOC maximized pellet production. Pellet sales were comparable in the second half of 2018 to the same period in 2017. Production and sales in both periods were affected by the refurbishment of the pellet line. IOC is focused on restoring the capacity of the pellet plant to 12.5 million tonnes per annum by improving maintenance and operating practices.

Capital Expenditures

Capital expenditures for IOC in 2018 were \$205 million in total as compared to \$265 million in 2017. The 2018 capital expenditures were essentially on budget and included the completion of the development of the Moss Pit in September 2018, the refurbishment of the No. 4 Pellet Line, the track replacement program for 2018 for the QNS&L railway and dewatering of the Moss Pit.

Outlook

The collapse of the tailings dam and loss of human life at Vale's Corrego de Feijao mine in Brumadinho, Minas Gerais, Brazil ("Brumadinho") on January 25, 2019 had a profound influence on the seaborne iron ore market. The full impacts are uncertain at present. The initial price response for the 62% Fe, CFR China benchmark index was a sharp increase to over US\$100 per tonne from US\$74 per tonne the day prior to the disaster. However, low profit margins for Chinese steelmakers at present could limit the duration of the price spike. The benchmark price for the 62% Fe, CFR China index declined in mid-February 2019 to US\$84 per tonne, as steelmakers looked to purchase less expensive, lower grade products and reduce port stocks in response to the price spike.

Vale announced on January 29, 2019 plans to cut production of some 40 million tonnes per year, including the pellet feed, for the production of 11 million tonnes per year of pellets. Additional Vale production cuts of 30 million tonnes per annum were announced in February 2019 as a result of a civil court order which Vale is appealing.

As reported by Platts on February 13, 2019, in response to the Vale supply cuts, the National Australia Bank raised its forecast for iron ore from US\$62 to US\$80 per tonne for 2019 and from US\$60 to US\$70 per tonne for 2020. The forecast decline over the two years is because of the expectation of softer growth in Chinese demand.

As at mid-February there was uncertainty in the Atlantic pellet market, as the Brumadinho disaster caused delays in the annual pellet negotiations between Vale and the European steelmakers. In late 2019 steelmakers were faced with falling margins which causes them to purchase less expensive, lower quality iron ore. In addition, just prior to the disaster, Vale had been negotiating to change the annual pricing of pellet contracts to be based on the 65% index as opposed to the 62% index. The steelmakers judged that this would result in an increase in the cost of pellets and resisted the change. The Brumadinho disaster is expected to result in a decreased supply of pellets worldwide, and there are reports that Vale will fill Brazilian orders for pellets over other customers.

Prior to the Brumadinho disaster, the market was generally assuming the re-opening of the Samarco pellet plant in Brazil in 2020. This is now seen as highly unlikely. Some analysts are modelling a partial re-start of Samarco in 2021.

On February 2, 2019 Platts listed the February price index for the Atlantic Blast Furnace 65% Fe pellet premium at US\$67.50 per tonne, no change from the January 2019 price. Pellet producers were maximizing pellet production before the Brumadinho disaster, and therefore it is expected that pellet premiums will remain strong for the balance of 2019 at least, considering no likely Samarco production, the cuts to pellet production announced by Vale, and the limited ability of existing major producers to ramp up production. A potential brake on pellet price increases is the consideration that the margins for European steelmakers are relatively low at present.

Rio Tinto's guidance for 2019 is 11.3 million to 12.3 million tonnes for its 58.7% share of IOC's saleable production tonnage (CFS and pellets). This is 19.2 million to 20.9 million tonnes of saleable production on a 100% basis. With the strong pellet premiums, IOC is expected to continue to prioritize pellet production in 2019. The 2019 IOC objective is approximately 20 million tonnes of concentrate production with sales of up to 12.5 million tonnes of pellets and approximately 6 million tonnes of CFS.

The capital expenditures for 2019 at IOC are expected to be in the range of \$225 million to \$245 million, higher than the 2018 amount of \$205 million. The refurbishment of one induration machine in the pellet plant, a new rope shovel for the mine, productivity improvements in the concentrator and pellet plant, and additional locomotive capacity for the QNS&L railway are planned for 2019. IOC expects to earn revenue from hauling product from the Bloom Lake mine of Champion. The reported production capacity of the Bloom Lake is 7.5 million tonnes per annum of iron concentrate. Tacora Resources Inc. (Tacora) announced on November 27, 2018 that the financing for the re-start of the Scully Mine is complete. The concentrate produced by Tacora is to be hauled by the QNS&L.

The price of iron ore early in 2019 has exceeded forecasts. If the strong prices and premiums continue in 2019, the policies of the Chinese government on pollution are not materially relaxed, there are no major negative impacts from the China-US trade negotiations, IOC achieves the production guidance, and the Canadian dollar does not appreciate materially against the US dollar, the 2019 outlook for LIORC will be continued strong cash flows.

Responses to Shareholder Questions

On June 18, 2018 the Corporation announced in a press release that its Board of Directors had determined to call a special meeting of shareholders to seek approval of an amendment to LIORC's articles of incorporation to provide LIORC with the flexibility to invest in additional non-operating metal or mineral assets, including royalties and streams, and issue shares to finance such investments, for the specific purpose of allowing the Company to pursue a potentially compelling opportunity that it had been made aware of. That opportunity never materialized as anticipated and after extensive consultation with shareholders, in a press release dated February 6, 2019 it was stated that the directors wished to indicate that they have no intention of calling a special meeting on or before the upcoming Annual General Meeting, nor is a further special meeting currently contemplated. The directors also clarified that they have no intention of making an

acquisition without shareholder approval.

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. It was noted in the February 6, 2019 press release that there have been times when the directors have determined that it is appropriate to draw down on its cash reserves and other times where it has been prudent to build cash reserves back up. The recent increase in the cash balance was based on the directors' view that it was prudent at that particular time to have some additional financial flexibility. On March 7, 2019 the directors determined that the cash balance be reduced to a more typical level with excess cash distributed to shareholders by means of a special dividend to be paid on April 25, 2019.

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

Respectfully submitted on behalf of the Directors of the Corporation,

William H. McNeil
President and Chief Executive Officer
March 7, 2019

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 Mining Company Limited, formerly a wholly-owned subsidiary of the Fund.

LIORC, directly and through its wholly-owned subsidiary Hollinger-Hanna, holds a 15.10% equity interest in IOC and 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 25th 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 Directors, in addition to managing the affairs of the Corporation and Hollinger-Hanna, oversee the Corporation's interests in IOC. The Compensation and Nominating Committees are composed of five independent Directors. The Audit Committee is composed of four independent Directors. Effective January 1, 2019, Suske Capital 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 while royalty income is subject to income tax and Newfoundland royalty tax. Expenses of the Corporation include administrative expenses. 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 taxable income for that year. All dividends paid in 2018 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 related to IOC and its operations. IOC is one of Canada's largest iron ore producers, operating a mine, concentrator and pellet plant at Labrador City, Newfoundland and Labrador, and is among the top five producers of seaborne iron ore pellets in the world. It 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 24 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 meet its customers' needs. The iron ore concentrate and pellets are transported to IOC's port facilities at Sept-Îles, Quebec via its wholly-owned QNS&L, a 418 kilometer rail line which links the mine and the port. From there, the products are shipped to markets throughout North America, Europe, the Middle East and the Asia-Pacific region.

IOC's 2018 sales totaled 15.0 million tonnes, comprised of 8.4 million tonnes of iron ore pellets and 6.6 million tonnes of iron ore concentrate. Production in 2018 was 8.5 million tonnes of pellets and 6.7 million tonnes of CFS. IOC generated ore sales revenues (excluding third party ore sales) of \$1,815 million in 2018 (2017 - \$2,249 million).

Selected IOC Financial Information

	2018	2017	2016	2015	2014
(\$ in millions)					
Operating Revenues	1,930	2,315	1,676	1,495	1,794
Cash Flow from Operating	578	923	456	267	455
Activities					
Net Income	383	499	170	21	273
Capital Expenditures	205	265	99	143	187

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% gross 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 2018, the average royalty net of the 20% tax had been \$99.6 million per year and in 2018 the net royalty was \$103.0 million (2017 - \$125.1 million).

Because the royalty is "off-the-top", it is not dependent on the profitability of IOC. However, it is affected by changes in sales 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 solvent. In 2018, Hollinger-Hanna received a total of \$1.5 million in commissions from IOC (2017 - \$1.9 million).

Quarterly Dividends

Dividends of \$1.75 per share including special dividends of \$0.75 per share were declared in 2018 (2017 – dividends of \$2.65 per share including special dividends of \$1.65). These dividends were allocated as follows:

Period Ended	Payment Date	Dividend Total	
		Income per Share (\$ Million)	Dividend
Mar. 31, 2018	Apr. 25, 2018	\$0.25	\$ 16.0
Special Dividend	Apr. 25, 2018	0.10	6.4
Jun. 30, 2018	Jul. 25, 2018	0.25	16.0
Sep. 30, 2018	Oct. 25, 2018	0.25	16.0
Special Dividend	Oct. 25, 2018	0.30	19.2
Dec. 31, 2018	Jan. 25, 2019	0.25	16.0
Special Dividend	Jan. 25, 2019	0.35	22.4
Dividend to Shareholders - 2018		\$1.75	\$112.0
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

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, 2018 and 2017. This discussion should be read in conjunction with the consolidated financial statements of the Corporation and notes thereto for the years ended December 31, 2018 and 2017. 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 \$80.5 million (2017 - \$40.5 million) in cash as at December 31, 2018 with total current assets of \$127.0 million (2017 - \$82.6 million). The Corporation had working capital of \$76.3 million (2017 - \$33.1 million). The Corporation's operating cash flow was \$148.8 million (2017 - \$167.0 million) and dividends paid during the year were \$108.8 million, resulting in cash balances increasing by \$40.0 million during 2018.

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 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. As noted above, the Corporation increased its cash balance based on the directors' view that it was prudent at that particular time to have some additional financial flexibility. On March 7, 2019 the directors determined that the cash balance be reduced to a more typical level with excess cash distributed to shareholders by means of a special dividend to be paid on April 25, 2019.

The Corporation has a \$50 million revolving credit facility with a term ending September 18, 2021 with provision for annual one-year extensions. No amount is currently drawn under this facility leaving \$50 million available to provide for any capital required by IOC or requirements of the Corporation.

Operating Results

The following table summarizes the Corporation's 2018 operating results as compared to 2017 results (in '000's).

Revenue	2018	2017
IOC royalties (net of 20% Newfoundland royalty tax)	\$103,047	\$125,094
IOC commissions	1,486	1,885
Other	580	374
	105,113	127,353
Expenses		
Administrative expenses	3,503	2,938
Income taxes expense – current	30,521	37,283
	34,024	40,221
Net Income before undernoted items	71,089	87,132
Non cash revenue (expense)		
Equity earnings in IOC	56,987	74,300
Deferred income taxes	5,597	2,204
Amortization	(5,186)	(6,352)
	57,398	70,152
Net income for the year	128,487	157,284
Other comprehensive gain	775	2,060
Comprehensive income for the year	\$ 129,262	\$ 159,344

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

	First Quarter 2018	Second Quarter 2018	Third Quarter 2018	Fourth Quarter 2018	Total Year 2018	Total Year 2017
Pellets	2.54	0.48	2.79	2.59	8.41	10.48
Concentrates ⁽¹⁾	1.35	0.05	2.64	2.65	6.70	8.67
Total ⁽²⁾	3.89	0.53	5.43	5.24	15.10	19.15

(1) Excludes third party ore sales.

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

IOC's 2018 iron ore sales for calculating the royalty to LIORC totaled 15.10 million tonnes compared to 19.15 million tonnes in 2017. Royalty revenue decreased to \$128.8 million as compared to \$156.4 million in 2017. Equity earnings from IOC amounted to \$57.0 million compared to \$74.3 million in 2017. The lower royalty revenue and equity earnings achieved in 2018 as compared to 2017 was mainly due to the reduced sales tonnages for concentrate and pellets caused by the labour strike. As in 2017, prices and premiums were higher than most forecasts with the Chinese governments continuing to enforce measures to reduce pollution; these measures favoured higher quality products such as the concentrate for sale and pellets produced by IOC.

While the Platts index for 62% Fe, CFR China averaged US\$69 per tonne in 2018 compared to US\$71 per tonne in 2017, a 3% decline, the Platts index for 65% Fe, CFR China averaged US\$90 per tonne in 2018 compared to US\$87 per tonne in 2017, a 3% increase. Since the CFS sold by IOC is priced on the 65% Fe, CFR China benchmark, the stronger prices for the 65% Fe product somewhat offset the lower CFS sales tonnages in 2018. The monthly Atlantic Blast Furnace 65% Fe pellet premium index, as quoted by Platts, averaged US\$59 per tonne for 2018, and was 31% higher than in 2017. Blast Furnace pellet premiums were stable at approximately US\$58 per tonne for most of 2018 but increased to US\$62 per tonne in November and December 2018. The strong year-over-year increase in pellet premiums was supported by generally healthy margins for steel producers in 2018.

The average price realized by IOC for CFS and pellets, FOB Sept-Îles, net of selling costs and royalties was approximately C\$110 per tonne in 2018 compared to C\$108 per tonne in 2017. Increased freight rates and lower sales tonnages affected the average realized price FOB Sept-Îles in 2018. The premiums for 65% Fe concentrate and pellets continued to be supported by the environmental policies of the Chinese governments, which, as in 2017, caused Chinese steel producers to favour the usage of higher value-in-use iron ore, such as the concentrate and pellets produced by IOC. With strong pellet premiums in 2018, IOC again focused on maximizing pellet production to the extent possible, given the labour strike and the refurbishment of one pellet line in 2018, as compared to two lines in 2017. The sales tonnage of pellets in 2018, for calculating the royalty to LIORC, was 20% lower than in 2017. The CFS tonnage in 2018 was lower than in 2017 by 23%.

Capital expenditures for IOC in 2018 were \$205 million in total as compared to \$265 million in 2017. The 2018 capital expenditures were essentially on budget and included the completion of the development of the Moss Pit in September, the refurbishment of the No. 4 Pellet Line, the track replacement program for 2018 for the QNS&L railway and dewatering for the Luce Pit.

The Shareholders' consolidated net income for the year ended December 31, 2018 was \$128.5 million or \$2.01 per share compared to \$157.3 million or \$2.46 per share in 2017. Equity earnings from IOC amounted to \$57.0 million compared to \$74.3 million in 2017. The main cause of IOC's lower earnings for 2018 as compared to 2017 was the labour strike in the second quarter.

Administration expenses for the year ended December 31, 2018 totaling \$3.5 million include cash bonuses and grants of restricted share units accrued to date totaling \$0.3 million. Amortization expense for royalty and commission interests decreased \$1.1 million for the year ended December 31, 2018 due to the decrease in production as a result of the labour strike in the second quarter of 2018.

Fourth quarter 2018 CFS sales were basically flat year-over-year, but pellet sales were lower by 7% as a result of the refurbishment of the No. 4 pellet line, which required more downtime than expected. However, the achieved sales prices of CFS and pellets were improved, resulting in royalty income of \$45.9 million for the quarter as compared to \$40.0 million for the same period in 2017. Fourth quarter 2018 cash flow from operations was \$53.3 million or \$0.83 per share compared to 2017 of \$39.6 million or \$0.62 per share. LIORC received an IOC dividend in the fourth quarter of 2018 in the amount of \$25.3 million or \$0.40 per share (2017 - \$19.3 million or \$0.30 per share). Equity earnings from IOC amounted to \$17.8 million or \$0.28 per share in the fourth quarter 2018 compared to \$16.6 million or \$0.26 per share for the same period in

2017.

Selected Consolidated Financial Information

The following table sets out financial data from a Shareholder's perspective for the three years ended December 31, 2018, 2017 and 2016.

Description	Years Ended December 31		
	2018	2017	2016
	(in millions except per share information)		
Revenue	\$130.9	\$158.6	\$115.1
Net Income	\$128.5	\$157.3	\$78.2
Net Income per Share	\$2.01	\$2.46	\$1.22
Cash Flow from Operations	\$149.0 ⁽¹⁾	\$167.0 ⁽²⁾	\$63.5 ⁽³⁾
Cash Flow from Operations per Share	\$2.32 ⁽¹⁾	\$2.61 ⁽²⁾	\$0.99 ⁽³⁾
Total Assets	\$763.6	\$750.0	\$737.0
Dividends Declared per Share	\$1.75	\$2.65	\$1.00
Number of Common Shares outstanding	64.0	64.0	64.0

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

⁽²⁾ Includes IOC dividend totaling \$76.7 million or \$1.20 per Share.

⁽³⁾ 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 2018 and 2017. 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. There were limited sales in the second quarter of 2018 due to the labour strike.

		Net			Cash Flow Adjusted		Dividends
	Net	Income		from	Cash Flow	Declared per	
	Revenue	Income per Share	Cash Flow	Operations per Share	(¹) Share		
				per Share			
(in millions except per share information)							
2018							
First Quarter	\$34.3	\$30.3	\$0.47	\$20.3	\$0.32	\$0.29	\$0.35
Second Quarter	\$5.2	\$(3.3)	\$(0.05)	\$15.5	\$0.24	\$0.04	\$0.25
Third Quarter	\$44.6	\$58.1	\$0.91	\$59.7 ⁽²⁾	\$0.93 ⁽²⁾	\$1.30 ⁽²⁾	\$0.55
Fourth Quarter	\$46.8	\$43.4	\$0.68	\$53.3 ⁽³⁾	\$0.83 ⁽³⁾	\$0.79 ⁽³⁾	\$0.60
2017							
First Quarter	\$43.4	\$42.9	\$0.67	\$28.2 ⁽⁴⁾	\$0.44 ⁽⁴⁾	\$0.53 ⁽⁴⁾	\$0.50
Second Quarter	\$34.2	\$32.3	\$0.50	\$45.6 ⁽⁵⁾	\$0.71 ⁽⁵⁾	\$0.53 ⁽⁵⁾	\$0.60
Third Quarter	\$40.4	\$43.8	\$0.69	\$53.6 ⁽⁶⁾	\$0.84 ⁽⁶⁾	\$0.85 ⁽⁶⁾	\$1.00
Fourth Quarter	\$40.6	\$38.3	\$0.60	\$39.6 ⁽⁷⁾	\$0.62 ⁽⁷⁾	\$0.65 ⁽⁷⁾	\$0.55

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

(2) Includes \$58.6 million IOC dividend.

(3) Includes \$25.3 million IOC dividend.

(4) Includes \$10.0 million IOC dividend.

(5) Includes \$15.2 million IOC dividend.

(6) Includes \$32.2 million IOC dividend.

(7) Includes \$19.3 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 \$2.32 for 2018 (2017 - \$2.61). Cumulative standardized cash flow from inception of the Corporation is \$27.47 per share and total cash distributions since inception are \$26.34 per share, for a payout ratio of 96%.

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).

	2018	2017
Standardized cash flow from operating activities	\$148,797	\$166,960
Changes in amounts receivable, accounts and interest payable and		(3,116)
income taxes recoverable and payable	6,377	
Adjusted cash flow	\$155,174	\$163,844
Adjusted cash flow per share	\$2.42	\$2.56

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, 2018.

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, 2018.

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, 2018.

Outlook

The collapse of the tailings dam and loss of human life at Vale's Corrego de Feijao mine in Brumadinho, Minas Gerais state, Brazil ("Brumadinho") on January 25, 2019 had a profound influence on the seaborne iron ore market. The full impacts are uncertain at present. The initial price response for the 62% Fe, CFR China benchmark index was a sharp increase to over US\$90 per tonne from US\$74 per tonne the day prior to the disaster. However, low profit margins for Chinese steelmakers at present could limit the duration of the price spike. The benchmark price for the 62% Fe, CFR China index declined in mid-February 2019 to US\$84 per tonne, as steelmakers looked to purchase less expensive, lower grade products and reduce port stocks in China.

Vale announced on January 29, 2019 plans to cut production of some 40 million tonnes per year, including the pellet feed needed for the production of 11 million tonnes per year of pellets. Additional Vale production cuts of 30 million tonnes per annum were announced in February 2019 as a result of a civil court order which Vale is appealing.

As reported by Platts on February 13, 2019, in response to the Vale supply cuts, the National Australia Bank raised its forecast for iron ore from US\$62 to US\$80 per tonne for 2019 and from US\$60 to US\$70 per tonne for 2020. The forecast decline over the two years is because of the expectation of softer growth in Chinese demand.

As at mid-February there was uncertainty in the Atlantic pellet market, as the Brumadinho disaster caused delays in the annual pellet negotiations between Vale and the European steelmakers. In late 2019 steelmakers were faced with falling margins which causes them to purchase less expensive, lower quality iron ore. In addition, just prior to the disaster, Vale had been negotiating to change the annual pricing of pellet contracts to be based on the 65% index as opposed to the 62% index. The steelmakers judged that this would result in an increase in the cost of pellets and resisted the change. The Brumadinho disaster is expected to result in a decreased supply of pellets worldwide, and there are reports that Vale will fill Brazilian orders for pellets over other customers.

Prior to the Brumadinho disaster, the market was generally assuming the re-opening of the Samarco pellet plant in Brazil in 2020. This is now seen as highly unlikely. Some analysts are modelling a partial re-start of Samarco in 2021.

On February 2, 2019 Platts listed the February price index for the Atlantic Blast Furnace 65% Fe pellet premium at US\$67.50 per tonne, no change from the January 2019 price. Pellet producers were maximizing pellet production before the Brumadinho disaster, and therefore it is expected that pellet premiums will remain strong for the balance of 2019 at least, considering no likely Samarco production, the cuts to pellet production announced by Vale, and the limited ability of existing major producers to ramp up production. A potential brake on pellet price increases is the consideration that the margins for European steelmakers are relatively low at present.

Rio Tinto's guidance for 2019 is 11.3 million to 12.3 million tonnes for its 58.7% share of IOC's saleable production tonnage (CFS and pellets). This is 19.2 million to 20.9 million tonnes of saleable production on a 100% basis. With the strong pellet premiums, IOC is expected to continue to prioritize pellet production in 2019. The 2019 IOC objective is approximately 20 million tonnes of concentrate production with sales of up to 12.5 million tonnes of pellets and approximately 6 million tonnes of CFS.

The capital expenditures for 2019 at IOC are expected to be in the range of \$225 million to 245 million, higher than the 2018 amount of \$205 million. The refurbishment of one induration machine in the pellet plant, a new rope shovel for the mine, productivity improvements in the concentrator and pellet plant, and

additional locomotive capacity for the QNS&L railway are planned for 2019. IOC expects to earn revenue from hauling product from the Bloom Lake mine of Champion. The reported production capacity of the Bloom Lake is 7.5 million tonnes per annum of iron concentrate. Tacora Resources Inc. (Tacora) announced on November 27, 2018 that the financing for the re-start of the Scully Mine is complete. The concentrate produced by Tacora is to be hauled by the QNS&L.

The price of iron ore early in 2019 has exceeded forecasts. If the strong prices and premiums continue in 2019, the policies of the Chinese government on pollution are not materially relaxed, there are no major negative impacts from the China-US trade negotiations, IOC achieves the production guidance, and the Canadian dollar does not appreciate materially against the US dollar, the 2019 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 7, 2019 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 7, 2019

LABRADOR IRON ORE ROYALTY CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at

December 31,

(in thousands of Canadian dollars)

2018

2017

Assets

Current Assets

Cash and short-term investments	\$ 80,495	\$ 40,498
Amounts receivable	46,548	42,092
Total Current Assets	127,043	82,590

Non-Current Assets

Iron Ore Company of Canada ("IOC")

royalty and commission interests	253,846	259,032
Investment in IOC	382,704	408,691
Total Non-Current Assets	636,550	667,723

Total Assets	\$ 763,593	\$ 750,313
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Liabilities and Shareholders' Equity

Current Liabilities

Accounts payable	\$ 9,969	\$ 8,601
Dividend payable	38,400	35,200
Taxes payable	2,613	5,703
Total Current Liabilities	50,982	49,504

Non-Current Liabilities

Deferred income taxes	121,760	127,220
Total Liabilities	172,742	176,724

Shareholders' Equity

Share capital	317,708	317,708
Retained earnings	280,759	264,272
Accumulated other comprehensive loss	(7,616)	(8,391)
	590,851	573,589

Total Liabilities and Shareholders' Equity	\$ 763,593	\$ 750,313
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Approved by the Directors,

William H. McNeil

Director

Patricia M. Volker

Director

LABRADOR IRON ORE ROYALTY CORPORATION
 CONSOLIDATED STATEMENTS OF INCOME
 AND COMPREHENSIVE INCOME

	For the Year Ended	
	December 31,	
(in thousands of Canadian dollars except for per share information)	2018	2017
Revenue		
IOC royalties	\$ 128,809	\$ 156,367
IOC commissions	1,486	1,885
Interest and other income	580	374
	130,875	158,626
Expenses		
Newfoundland royalty taxes	25,762	31,273
Amortization of royalty and commission interests	5,186	6,352
Administrative expenses	3,503	2,938
	34,451	40,563
Income before equity earnings and income taxes	96,424	118,063
Equity earnings in IOC	56,987	74,300
Income before income taxes	153,411	192,363
Provision for income taxes		
Current	30,521	37,283
Deferred	(5,597)	(2,204)
	24,924	35,079
Net income for the year	128,487	157,284
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 2018 - \$137; 2017 - \$364)	775	2,060

Comprehensive income for the year	\$ 129,262	\$ 159,344
Net income per share	\$ 2.01	\$ 2.46

LABRADOR IRON ORE ROYALTY CORPORATION
 CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended	
	December 31,	
(in thousands of Canadian dollars)	2018	2017
Net inflow (outflow) of cash related to the following activities		
Operating		
Net income for the period	\$ 128,487	\$ 157,284
Items not affecting cash:		
Equity earnings in IOC	(56,987)	(74,300)
Current income taxes	30,521	37,283
Deferred income taxes	(5,597)	(2,204)
Amortization of royalty and commission interests	5,186	6,352
Common share dividend from IOC	83,886	76,713
Change in amounts receivable	(4,456)	(3,605)
Change in accounts payable	1,368	528
Income taxes paid	(33,611)	(31,090)
Cash flow from operating activities	148,797	166,961
Financing		
Dividends paid to shareholders	(108,800)	(150,400)
Cash flow used in financing activities	(108,800)	(150,400)
Increase in cash, during the year	39,997	16,561
Cash, beginning of year	40,498	23,937
Cash, end of year	\$ 80,495	\$ 40,498

LABRADOR IRON ORE ROYALTY CORPORATION
 CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of Canadian dollars)	Share capital	Retained earnings	Accumulated other	Total
			comprehensive loss	
Balance as at December 31, 2016	\$ 317,708	\$ 276,588	\$ (10,451)	\$ 583,845
Net income for the period	-	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, 2018	\$ 317,708	\$ 264,272	\$ (8,391)	\$ 573,589
Balance as at December 31, 2017	\$ 317,708	\$ 264,272	\$ (8,391)	\$ 573,589
Net income for the period	-	128,487	-	128,487
Dividends declared to shareholders	-	(112,000)	-	(112,000)
Share of other comprehensive income from investment in IOC (net of taxes)	-	-	775	775
Balance as at December 31, 2018	\$ 317,708	\$ 280,759	\$ (7,616)	\$ 590,851

The complete consolidated financial statements for the year ended December 31, 2018, including the notes thereto, are posted on sedar.com and labradorironore.com.

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

Contact
 William H. McNeil, President & Chief Executive Officer, (416) 863-7133

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