

Labrador Iron Ore Royalty Corporation - 2019 Results of Operations

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TORONTO, March 5, 2020 - [Labrador Iron Ore Royalty Corp.](#) ("LIORC") (TSX: LIF) announced the results of its operations for the year ended December 31, 2019.

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

The Directors of [Labrador Iron Ore Royalty Corp.](#) ("LIORC" or the "Corporation") present the Annual Report for the year ended December 31, 2019.

82 Years in Labrador West

[Labrador Iron Ore Royalty Corp.](#) has been involved in Labrador West for 82 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, 2019 was \$224.6 million or \$3.51 per share compared to \$148.8 million or \$2.32 per share for 2018. The financial results for LIORC in 2019 benefited from higher iron ore prices and increased sales tonnages.

The Shareholders' consolidated net income for the year ended December 31, 2019 was \$205.3 million or \$3.21 per share compared to \$128.5 million or \$2.01 per share in 2018. Equity earnings from Iron Ore Company of Canada ("IOC") amounted to \$112.1 million compared to \$57.0 million in 2018. LIORC received dividends from IOC in 2019 totaling \$110.1 million or \$3.51 per share compared to \$83.9 million or \$1.31 per share in 2018. LIORC received an IOC dividend in the fourth quarter of 2019 of \$44.6 million or \$0.70 per share compared to \$25.3 million or \$0.40 per share in the fourth quarter of 2018. Iron ore sales for calculating the royalty to LIORC totaled 17.1 million tonnes compared to 15.1 million tonnes in 2018. Royalty revenue increased to \$175.4 million as compared to \$128.8 million due to higher realized iron ore prices and increased sales tonnages in 2019.

The cash flow from operations, equity earnings and net income for the year were higher than last year mainly due to: (i) increased sales tonnages for concentrate and pellets in 2019, as 2018 production and sales were negatively impacted by a work stoppage in the second quarter; and (ii) higher iron ore prices as a result of continued demand from China and reduced supply predominantly from Vale.

Total concentrate production of 19.0 million tonnes in 2019 was 21% higher as compared to 2018 of 15.7 million tonnes due to the work stoppage in the second quarter of 2018. Increased concentrate production led to increased pellet and concentrate for sale ("CFS") tonnages in 2019. Sales tonnage of pellets in 2019, for calculating the royalty to LIORC, was higher than in 2018 and the CFS tonnage in 2019 was higher than in 2018 by 12%.

IOC sells CFS based on the Platts index for 65% Fe, CFR China ("65% Fe index"). The average price for the 65% Fe index increased 16% to US\$104 per tonne in 2019 compared to the average price in 2018 of US\$90 per tonne. The seaborne iron ore prices were affected by a reduction of iron ore supply, predominantly from Vale as a result of the collapse of the tailings dam at Vale's Corrego do Feijao mine in Brumadinho, Minas Gerais state, Brazil ("Brumadinho") and the subsequent closure of

dams. The premium for the 65% Fe index compared to the Platts index for 62% Fe, CFR China ("62% Fe index"), which expanding over the last few years, declined to 12% in 2019 as compared to 30% in 2018. The 62% Fe index averaged tonne in 2019 compared to US\$69 per tonne in 2018. The monthly Atlantic Blast Furnace 65% Fe pellet premium index ("pellet premium"), as quoted by Platts, averaged US\$57 per tonne in 2019, compared to an average in 2018 of US\$59. Furnace pellet premiums were relatively stable for the first half of 2019 at approximately US\$67 per tonne, but decreased in the second half of 2019 as high underlying benchmark prices combined with weak margins for steel producers caused buyers, particularly in Europe, to reduce demand and substitute lower quality product for higher quality pellets. In the fourth quarter of 2019 the pellet premium averaged US\$37 per tonne compared to US\$61 per tonne in the fourth quarter of 2018.

The average price realized by IOC for CFS and pellets, FOB Sept-Îles, net of selling costs was approximately C\$148 per tonne in 2019 compared to C\$119 per tonne in 2018. Higher iron ore prices, particularly for CFS, together with a slightly lower Canadian dollar exchange rate increased the average realized price FOB Sept-Îles in 2019. Despite greater variability throughout the year, on average shipping costs for 2019 were similar to shipping costs in 2018.

Iron Ore Company of Canada Operations

Production

Total concentrate production of 19.0 million tonnes in 2019 was 21% higher as compared to 2018 of 15.7 million tonnes due to the work stoppage in the second quarter of 2018. Concentrate production in 2019 was adversely affected in the second quarter of 2019 by frozen material and blocked feeders in the ore barn and a delay in the restart after the planned annual outage as a result of a flooding issue. Fourth quarter concentrate production at IOC was 7% lower than the corresponding period of 2018 as a result of a derailment of an automated train and unscheduled autogenous mill repairs and tailings flume repairs.

The IOC saleable production (CFS plus pellets) of 17.9 million tonnes in 2019 was 18% higher than saleable production of 15.2 million tonnes in 2018, but slightly below the lower end of Rio Tinto's revised guidance of 18.2 to 19.3 million tonnes. Total concentrate production in 2019 of 10.1 million tonnes was 18% higher than pellet production of 8.5 million tonnes in 2018, largely due to the work stoppage in the second quarter of 2018. Pellet production in 2019 was at times adversely affected by lack of feed to the concentrator and unplanned induration machine maintenance.

The total cost of goods sold, excluding depreciation, was higher in 2019 than in 2018 by 14%, predominantly due to higher production. The unit cost of goods sold, excluding depreciation, in 2019 was 4% lower than in 2018.

Third party haulage by the Québec North Shore and Labrador Railway Company, Inc. ("QNS&L") in 2019 was 30% higher than in 2018, predominantly from increased shipments of iron ore concentrate from the Bloom Lake Mine, owned by Champion Iron Limited ("Champion"). Champion reported that it sold 7.4 million dry metric tonnes of iron ore concentrate in the twelve months ending December 31, 2019.

Sales as Reported for the LIORC Royalty

Total iron ore sales tonnage by IOC (CFS plus pellets) of 17.1 million tonnes in 2019 was 14% higher than the total sales tonnage of 15.0 million tonnes in 2018. The pellet sales tonnage was 14% higher and CFS sales tonnage was 12% higher than in 2018. The higher sales tonnages were the result of the higher saleable production, as explained above. Total iron ore sales tonnages were lower than saleable production in 2019, as a result of timing differences and breakdowns in reclaiming and ship loading equipment at the terminal. As a result, inventory levels of CFS and pellets at the terminal increased in 2019 by 1.3 million tonnes.

Capital Expenditures

Capital expenditures for IOC in 2019 were \$294 million in total as compared to \$205 million in 2018. At the beginning of 2019, IOC had forecasted that capital expenditures for 2019 would be in the range of \$225 million to \$245 million. Increased capital expenditures in 2019 included the purchase of five haul trucks, increased costs related to the induration machine #6 rebuild, and the electrical circuit redesign.

Outlook

Rio Tinto's 2020 guidance for IOC's saleable production tonnage (CFS and pellets) is 17.9 million to 20.4 million tonnes.

February 2, 2020 Platts listed the February price index for the Atlantic Blast Furnace 65% Fe pellet premium at US\$30 up from the January 2019 price of \$29 per tonne. At these pellet premiums, it is in IOC's economic interest to continue maximize pellet production in 2020. IOC's current pellet capacity is 12.5 million tonnes.

The capital expenditures for 2020 at IOC are forecasted to be approximately \$350 million, as compared to \$294 million in 2019. The 2020 forecast includes approximately \$115 million of growth and development projects, as compared to \$70 million in 2019. The 2020 growth and development capital expenditure projects include the implementation of the Mill 11 circuit redesign to increase weight yield, various improvements to debottleneck and increase the pellet plant rates and a redesign of the tailings system to increase the life of use and reduce electricity and water usage. The growth and development capital expenditure forecast also includes over \$40 million to increase third party haulage capacity, which includes the finalizing of the applicable third party service contracts.

The collapse of the Brumadinho tailings dam had a profound effect on the market for seaborne iron ore in 2019. Vale's iron ore fines and pellet production in 2019 fell 21.5% and 24.4% to 302 million tonnes and 41.8 million tonnes, respectively. While some growth in supply is expected, Vale production levels in 2020 are not expected to reach 2018 levels. Vale predicts that 25 million tonnes of capacity will come back online in 2020 followed by a further 25 million tonnes in 2021. In its fourth quarter 2019 production report, Vale maintained its iron ore fines production guidance for 2020 at 340 to 355 million tonnes, of which 300 million tonnes is expected to be pellet production.

The average price of the 65% Fe index from January 1, 2020 to February 13, 2020 was US\$104, the same as the average price of the 65% Fe index for 2019. However, China continues to represent over 70% of the total demand for seaborne iron ore and it is unclear what the long-term effect of the coronavirus ("COVID-19") will be on iron ore prices. From January 23, 2020 (the date of widespread concern about COVID-19) to February 13, 2020 the average price of the 65% Fe index dropped from US\$104 to US\$100.

If current iron ore prices and premiums continue for the rest of 2020 and IOC achieves its production guidance, LIORC is expected to continue to be the beneficiary of strong revenues at IOC.

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,

John F. Tuer
President and Chief Executive Officer
March 5, 2020

Corporate Structure

LIORC is a Canadian corporation formed to give effect to the conversion of the Labrador Iron Ore Royalty Income Fund ("Fund") into a corporation under a plan of arrangement completed on July 1, 2010. LIORC is also the successor by arrangement of a predecessor of LIORC with Labrador Mining Company Limited, formerly a wholly-owned subsidiary of the Fund, pursuant to the plan of arrangement.

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 15th day of the month following the end of each quarter.

Six Directors are responsible for the governance of the Corporation and also serve as directors of Hollinger-Hanna. In addition to managing the affairs of the Corporation and Hollinger-Hanna, they oversee the Corporation's interests in IOC. Compensation and Nominating Committees are composed of three independent Directors. On January 7, 2020 LIORC appointed two additional independent Directors to the Board. Effective January 1, 2019, Suske Capital Inc., pursuant to an administrative 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 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 income for that year. All dividends paid in 2019 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 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, Québec.

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 customers' needs. The iron ore concentrate and pellets are transported to IOC's port facilities at Sept-Îles, Québec via a wholly-owned QNS&L, a 418 kilometer rail line which links the mine and the port. From there, the products are shipped throughout North America, Europe, the Middle East and the Asia-Pacific region.

IOC's 2019 sales totaled 17.2 million tonnes, comprised of 9.6 million tonnes of iron ore pellets and 7.6 million tonnes of iron ore concentrate. Production in 2019 was 10.1 million tonnes of pellets and 7.9 million tonnes of CFS. IOC generated ore sales revenues (excluding third party ore sales) of \$2,558 million in 2019 (2018 - \$1,815 million).

Selected IOC Financial Information

	2019	2018	2017	2016	2015
(\$ in millions)					
Operating Revenues	2,719	1,930	2,315	1,676	1,495
Cash Flow from Operating Activities	1,302	578	923	456	267
Net Income	749	383	499	170	21
Capital Expenditures ⁽¹⁾	294	205	265	99	143

(1) Reported on an incurred basis

IOC Royalty

The Corporation holds certain leases and licenses covering approximately 18,200 hectares of land near Labrador City. The Corporation has subleased 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 Corporation.

Government of Newfoundland and Labrador. For the five years prior to 2019, the average royalty net of the 20% tax has been \$98.2 million per year and in 2019 the net royalty was \$140.4 million (2018 - \$103.0 million).

Because the royalty is "off-the-top", it is not dependent on the profitability of IOC. However, it is affected by changes in 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 Limited 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 2019, Hollinger-Hanna received a total of \$1.7 million in commissions from IOC (2018 - \$1.5 million).

Quarterly Dividends

Dividends of \$4.00 per share including special dividends of \$3.00 per share were declared in 2019 (2018 – dividends of \$1.75 per share including special dividends of \$0.75). These dividends were allocated as follows:

Period	Record	Payment	Dividend
Ended	Date	Date	(per Share)
Mar. 31, 2019	Mar. 31, 2019	Apr. 25, 2019	\$0.625
Special Dividend	Mar. 31, 2019	Apr. 25, 2019	0.180
Jun. 30, 2019	Jun. 30, 2019	Jul. 25, 2019	0.625
Jun. 30, 2019	Jun. 30, 2019	Jul. 25, 2019	0.166
Sep. 30, 2019	Sep. 30, 2019	Oct. 25, 2019	0.625
Special Dividend	Sep. 30, 2019	Oct. 25, 2019	0.875
Dec. 31, 2019	Dec. 31, 2019	Jan. 25, 2020	0.625
Special Dividend	Dec. 31, 2019	Jan. 25, 2020	0.180
Dividend to Shareholders – 2019			\$25.000
Mar. 31, 2018	Mar. 31, 2018	Apr. 25, 2018	\$0.625
Special Dividend	Mar. 31, 2018	Apr. 25, 2018	0.40
Jun. 30, 2018	Jun. 30, 2018	Jul. 25, 2018	0.625
Sep. 30, 2018	Sep. 30, 2018	Oct. 25, 2018	0.625
Special Dividend	Sep. 30, 2018	Oct. 25, 2018	0.930
Dec. 31, 2018	Dec. 31, 2018	Jan. 25, 2019	0.625
Special Dividend	Dec. 31, 2018	Jan. 25, 2019	0.235
Dividend to Shareholders - 2018			\$1.750

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, 2019 and 2018. This discussion should be read in conjunction with the consolidated financial statements of the Corporation and notes thereto for the years ended December 31, 2019 and 2018. 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 into a corporation under a plan of arrangement completed on July 1, 2010. LIORC is also the successor by amalgamation of a

predecessor of LIORC with Labrador Mining Company Limited, formerly a wholly-owned subsidiary of the Fund, that occurred pursuant to the plan of arrangement.

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 \$77.9 million (2018 - \$80.5 million) in cash as at December 31, 2019 with total current assets of \$114.0 million (2018 - \$127.0 million). The Corporation had working capital of \$28.2 million (2018 - \$76.1 million). The Corporation's operating cash flow was \$224.6 million (2018 - \$148.8 million) and dividends paid during the year were \$227.2 million, resulting in cash balances decreasing by \$2.6 million during 2019.

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.

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

Operating Results

The following table summarizes the Corporation's 2019 operating results as compared to 2018 results (in '000's).

Revenue	2019	2018
IOC royalties (net of 20% Newfoundland royalty tax)	\$ 140,360	\$ 103,047
IOC commissions	1,687	1,486
Other	1,126	580
	143,173	105,113
Expenses		
Administrative expenses	3,182	3,503
Income taxes expense – current	42,000	30,521
	45,182	34,024
Net Income before undernoted items	97,991	71,089
Non cash revenue (expense)		
Equity earnings in IOC	112,076	56,987
Deferred income taxes	1,417	5,597
Amortization	(6,145)	(5,186)
	107,348	57,398
Net income for the year	205,339	128,487
Other comprehensive gain	(2,760)	775
Comprehensive income for the year	\$ 202,579	\$ 129,262

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

	First Quarter 2019	Second Quarter 2019	Third Quarter 2019	Fourth Quarter 2019	Total Year 2019	Total Year 2018
Pellets	2.70	2.42	2.04	2.46	9.62	8.41
Concentrates ⁽¹⁾	0.83	2.14	2.46	2.08	7.51	6.70
Total ⁽²⁾	3.53	4.57	4.51	4.54	17.14	15.10

(1) Excludes third party ore sales.

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

IOC's 2019 iron ore sales for calculating the royalty to LIORC totaled 17.1 million tonnes compared to 15.1 million tonnes in 2018. Royalty revenue increased to \$175.4 million as compared to \$128.8 million in 2018. The Shareholders' consolidated net income for the year ended December 31, 2019 was \$205.3 million or \$3.21 per share compared to \$128.5 million or \$2.01 per share in 2018. Equity earnings from IOC amounted to \$112.1 million compared to \$57.0 million in 2018. The higher royalty revenue, net income and equity earnings achieved in 2019 as compared to 2018 were mainly due to: (i) higher sales tonnages for concentrate and pellets in 2019, as 2018 production and sales were negatively impacted by a work stoppage in the second quarter; and (ii) higher iron ore prices as a result of continued demand from China and reduced supply predominantly from Vale.

IOC sells CFS based on the 65% Fe index. The average price for the 65% Fe index increased 16% to US\$104 per tonne in 2019 compared to the average price in 2018 of US\$90 per tonne. The seaborne iron ore prices were affected by a reduction of iron ore supply, predominantly from Vale as a result of the collapse of the Brumadinho tailings dam and the subsequent closure of other dams. The premium for the 65% Fe index compared to the 62% Fe index, which had been expanding over the last few years, declined to 12% in 2019 as compared to 30% in 2018. The 62% Fe index averaged US\$93 per tonne in 2019 compared to US\$69 per tonne in 2018. The monthly Blast Furnace pellet premium, as quoted by Platts, averaged US\$57 per tonne in 2019, compared to an average in 2018 of US\$59. Blast Furnace pellet premiums were relatively stable for the first half of 2019 at approximately US\$67 per tonne, but decreased in the second half of 2019 as high underlying benchmark prices combined with weak margins for steel producers caused buyers, particularly in Europe, to reduce demand and substitute lower quality product for higher quality pellets. In the fourth quarter of 2019 the pellet premium averaged US\$37 per tonne compared to US\$61 per tonne in the fourth quarter of 2018.

The average price realized by IOC for CFS and pellets, FOB Sept-Îles, net of selling costs was approximately C\$148 per tonne in 2019 compared to C\$119 per tonne in 2018. Higher iron ore prices, particularly for CFS, together with a slightly lower Canadian dollar exchange rate increased the average realized price FOB Sept-Îles in 2019. Despite greater variability throughout the year, on average shipping costs for 2019 were similar to shipping costs in 2018.

Capital expenditures for IOC in 2019 were \$294 million in total as compared to \$205 million in 2018. At the beginning of 2019 IOC forecasted that capital expenditures for 2019 would be in the range of \$225 million to \$245 million. Increased capital expenditures in 2019 included the purchase of five haul trucks, increased costs related to the induration machine #6 rebuild, and the Mill 11 circuit redesign.

Administration expenses for the year ended December 31, 2019 totaling \$3.2 million include cash bonuses and grants of restricted share units accrued to date totaling \$0.3 million. Amortization expense for royalty and commission interests increased \$1.0 million for the year ended December 31, 2019, as 2018 production was negatively impacted by a work stoppage in the second quarter.

Fourth quarter 2019 CFS sales were lower year-over-year by 22%, and pellet sales were lower by 6% as a result of lower concentrate production due to a derailment of an automated train and unscheduled autogenous mill repairs and tailings flume repairs, as well lower shipments from the terminal due to breakdowns on reclaiming and ship-loading equipment. However, this was partially offset by an increase in the realized sales price of CFS, resulting in royalty income of \$38.9 million for the quarter as compared to \$45.9 million for the same period in 2018. Fourth quarter 2019 cash flow from operations was \$79.1 million or \$1.24 per share compared to 2018 of \$53.3 million or \$0.83 per share. LIORC received an IOC dividend in the fourth quarter of 2019 in the amount of \$44.5 million or \$0.70 per share (2018 - \$25.3 million or \$0.40 per share). Equity earnings from IOC amounted to \$23.7 million or \$0.37 per share in the fourth quarter 2019 compared to \$17.8 million or \$0.28 per share for the same period in 2018.

Selected Consolidated Financial Information

The following table sets out financial data from a Shareholder's perspective for the three years ended December 31, 2019, 2018 and 2017.

Description	Years Ended December 31		
	2019	2018	2017
	(in millions except per share information)		
Revenue	\$178.3	\$130.9	\$158.6
Net Income	\$205.3	\$128.5	\$157.3
Net Income per Share	\$3.21	\$2.01	\$2.46
Cash Flow from Operations	\$224.6 ⁽¹⁾	\$149.0 ⁽²⁾	\$167.0 ⁽³⁾
Cash Flow from Operations per Share	\$3.51 ⁽¹⁾	\$2.32 ⁽²⁾	\$2.61 ⁽³⁾
Total Assets	\$743.0	\$763.6	\$750.0
Dividends Declared per Share	\$4.00	\$1.75	\$2.65
Number of Common Shares outstanding	64.0	64.0	64.0

(1) Includes IOC dividends totaling \$110.1 million or \$1.72 per Share.

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

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

The following table sets out quarterly revenue, net income, cash flow and dividend data for 2019 and 2018. 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.

	Revenue	Net Income	Net Income per Share	Cash Flow	Cash Flow from Operations per Share	Adjusted Cash Flow per Share ⁽¹⁾	Dividends Declared per Share
(in millions except per share information)							
2019							
First Quarter	\$39.2	\$39.3	\$0.61	\$25.0	\$0.39	\$0.34	\$1.05
Second Quarter	\$53.3	\$61.1	\$0.95	\$47.8 ⁽²⁾	\$0.75 ⁽²⁾	\$0.86 ⁽²⁾	\$0.90
Third Quarter	\$46.2	\$57.5	\$0.90	\$72.6 ⁽³⁾	\$1.13 ⁽³⁾	\$1.02 ⁽³⁾	\$1.00
Fourth Quarter	\$39.6	\$47.4	\$0.74	\$79.1 ⁽⁴⁾	\$1.24 ⁽⁴⁾	\$1.03 ⁽⁴⁾	\$1.05
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 ⁽⁵⁾	\$0.93 ⁽⁵⁾	\$1.30 ⁽⁵⁾	\$0.55
Fourth Quarter	\$46.8	\$43.4	\$0.68	\$53.3 ⁽⁶⁾	\$0.83 ⁽⁶⁾	\$0.79 ⁽⁶⁾	\$0.60

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

(2) Includes \$25.4 million IOC dividend.

(3) Includes \$40.1 million IOC dividend.

(4) Includes \$44.6 million IOC dividend.

(5) Includes \$58.6 million IOC dividend.

(6) Includes \$25.3 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 \$3.51 for 2019 (2018 - \$2.32). Cumulative standardized cash flow from inception of the Corporation is \$30.98 per share and total cash distributions since inception are \$30.34 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).

	2019	2018
Standardized cash flow from operating activities	\$224,564	\$148,797
Changes in amounts receivable, accounts and interest payable and income taxes recoverable and payable	(16,459)	6,377
Adjusted cash flow	\$208,105	\$155,174
Adjusted cash flow per share	\$3.25	\$2.42

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 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, 2019.

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, 2019.

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, 2019.

Outlook

Rio Tinto's 2020 guidance for IOC's saleable production tonnage (CFS and pellets) is 17.9 million to 20.4 million tonnes. On February 2, 2020 Platts listed the February price index for the Atlantic Blast Furnace 65% Fe pellet premium at US\$30 per tonne, up from the January 2019 price of \$29 per tonne. At these pellet premiums, it is in IOC's economic interest to continue to maximize pellet production in 2020. IOC's current pellet capacity is 12.5 million tonnes.

The capital expenditures for 2020 at IOC are forecasted to be approximately \$350 million, as compared to \$294 million in 2019. The 2020 forecast includes approximately \$115 million of growth and development projects, as compared to \$70 million of growth and development projects in 2019. The 2020 growth and development capital expenditure projects include the implementation of the Mill 11 circuit redesign to increase weight yield, various improvements to debottleneck and increase the pellet plant throughput rates and a redesign of the tailings system to increase the life of use and reduce electricity and water usage. The growth and development capital expenditure forecast also includes over \$40 million to increase third party haulage capacity, which is subject to finalizing the applicable third party service contracts.

The collapse of the Brumadinho tailings dam had a profound effect on the market for seaborne iron ore in 2019. Vale's total iron ore fines and pellet production in 2019 fell 21.5% and 24.4% to 302 million tonnes and 41.8 million tonnes, respectively. While some growth in supply is expected, Vale production levels in 2020 are not expected to reach 2018 levels. Vale predicts that 15 million tonnes of capacity will come back online in 2020 followed by a further 25 million tonnes in 2021. In its fourth quarter production report, Vale maintained its iron ore fines production guidance for 2020 at 340 to 355 million tonnes, of which 44 million tonnes is expected to be pellet production.

The average price of the 65% Fe index from January 1, 2020 to February 13, 2020 was US\$104, the same as the average of the 65% Fe index for 2019. However, China continues to represent over 70% of the total demand for seaborne iron ore and it is unclear what the long-term effect of COVID-19 will be on iron ore prices. From January 23, 2020 (the first day of widespread concern about COVID-19) to February 13, 2020 the average price of the 65% Fe index dropped from US\$106 to US\$100.

If current iron ore prices and premiums continue for the rest of 2020 and IOC achieves its production guidance, LIORC should continue to be the beneficiary of strong revenues at IOC.

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 5, 2020 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.

John F. Tuer
President and Chief Executive Officer
Toronto, Ontario
March 5, 2020

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at	
	December 31,	December 31,
(in thousands of Canadian dollars)	2019	2018
Assets		
Current Assets		
Cash and short-term investments	\$ 77,859	\$ 80,495
Amounts receivable	36,156	46,548
Total Current Assets	114,015	127,043
Non-Current Assets		
Iron Ore Company of Canada ("IOC")		
royalty and commission interests	247,701	253,846
Investment in IOC	381,310	382,704
Total Non-Current Assets	629,011	636,550
Total Assets	\$ 743,026	\$ 763,593
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	\$ 7,939	\$ 9,969
Dividend payable	67,200	38,400
Taxes payable	10,710	2,613
Total Current Liabilities	85,849	50,982
Non-Current Liabilities		
Deferred income taxes		

119,840

121,760

Total Liabilities	205,689	172,742
Shareholders' Equity		
Share capital	317,708	317,708
Retained earnings	230,005	280,759
Accumulated other comprehensive loss (10,376)		(7,616)
	537,337	590,851
Total Liabilities and Shareholders' Equity	\$ 743,026	\$ 763,593

Approved by the Directors,

("Signed")
[Labsol Iron Ore Royalty Corp.](#)

("Signed")

John F. Tusa

Patricia M. Volker

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Director

Director

For the Year Ended

December 31,

(in thousands of Canadian dollars except for per share information) 2019 2018

Revenue

IOC royalties	\$ 175,450	\$ 128,809
IOC commissions	1,687	1,486
Interest and other income	1,126	580
	178,263	130,875

Expenses

Newfoundland royalty taxes	35,090	25,762
Amortization of royalty and commission interests	6,145	5,186
Administrative expenses	3,182	3,503
	44,417	34,451

Income before equity earnings and income taxes 133,846 96,424

Equity earnings in IOC 112,076 56,987

Income before income taxes 245,922 153,411

Provision for income taxes

Current	42,000	30,521
Deferred	(1,417)	(5,597)
	40,583	24,924

Net income for the year	205,339	128,487
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Other comprehensive (loss) income

Share of other comprehensive (loss) income of IOC that will not be reclassified subsequently to profit or loss (net of income taxes of 2019 - \$487; 2018 - \$137)

(2,760)	775
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Comprehensive income for the year	\$ 202,579	\$ 129,262
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Net income per share	\$3.21	\$2.01
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CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended	
	December 31,	
(in thousands of Canadian dollars)	2019	2018
Net inflow (outflow) of cash related to the following activities		
Operating		
Net income for the period	\$ 205,339	\$ 128,487
Items not affecting cash:		
Equity earnings in IOC	(112,076)	(56,987)
Current income taxes	42,000	30,521
Deferred income taxes	(1,417)	(5,597)
Amortization of royalty and commission interests	6,145	5,186
Common share dividend from IOC	110,114	83,886
Change in amounts receivable	10,392	(4,456)
Change in accounts payable	(2,030)	1,368
Income taxes paid	(33,903)	(33,611)
Cash flow from operating activities	224,564	148,797
Financing		
Dividends paid to shareholders	(227,200)	(108,800)
Cash flow used in financing activities	(227,200)	(108,800)
(Decrease) increase in cash, during the year	(2,636)	39,997
Cash, beginning of year	80,495	40,498
Cash, end of year	\$ 77,859	\$ 80,495

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of Canadian dollars)	Share capital	Accumulated other comprehensive		Total
		Retained earnings	loss	
Balance as at December 31, 2017	\$ 317,708	\$ 264,272	\$ (8,391)	\$ 573,589
Net income for the year	-	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
Balance as at December 31, 2018	\$ 317,708	\$ 280,759	\$ (7,616)	\$ 590,851
Adjustment on initial application of IFRS 16	-	(93)	-	(93)
Net income for the year	-	205,339	-	205,339
Dividends declared to shareholders	-	(256,000)	-	(256,000)
Share of other comprehensive loss from investment in IOC (net of taxes)	-	-	(2,760)	(2,760)
Balance as at December 31, 2019	\$ 317,708	\$ 230,005	\$ (10,376)	\$ 537,337

The complete consolidated financial statements for the year ended December 31, 2019, including the notes thereto, are posted on [sedar.com](#) and [labradorironore.com](#).

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

Contact

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