



# **LABRADOR IRON ORE ROYALTY CORPORATION**

## **INVESTOR PRESENTATION**

**December 1, 2020**

# NOTICE TO READER

**All dollar figures are stated in Canadian (“CDN”) dollars unless noted otherwise.**

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# AGENDA

- ❖ LIORC Financial Highlights
- ❖ Iron Production and Sales
- ❖ Iron Ore Pricing
- ❖ LIORC Historical Cash Flow
- ❖ LIORC Comparable Trading Value
- ❖ LIORC Investment Rationale
- ❖ Questions

# LIORC FINANCIAL HIGHLIGHTS

<i>(in millions except per share information)</i>	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2020	2019	2020	2019
Revenue	\$52.9	\$46.2	\$147.2	\$138.7
Equity Earnings from IOC	\$34.9	\$32.0	\$88.3	\$88.3
Net Income	\$57.7	\$57.5	\$153.2	\$157.9
Net Income per Share	\$0.90	\$0.90	\$2.39	\$2.47
Dividends from IOC	\$0.0	\$40.1	\$0.0	\$65.5
Adjusted Cash Flow <sup>(1)</sup>	\$29.2	\$65.6	\$81.6	\$141.9
Adjusted Cash Flow per Share	\$0.46	\$1.02	\$1.28	\$2.22
Dividends Declared per Share	\$0.45	\$1.00	\$1.25	\$2.95

(1) This is a non-IFRS financial measure and does not have a standard meaning under IFRS

On November 26, 2020, IOC declared a dividend of US\$450 million, payable on December 17, 2020. LIORC's portion is US\$68 million. In 2019, LIORC received total IOC dividends in the amount of US\$83 million.

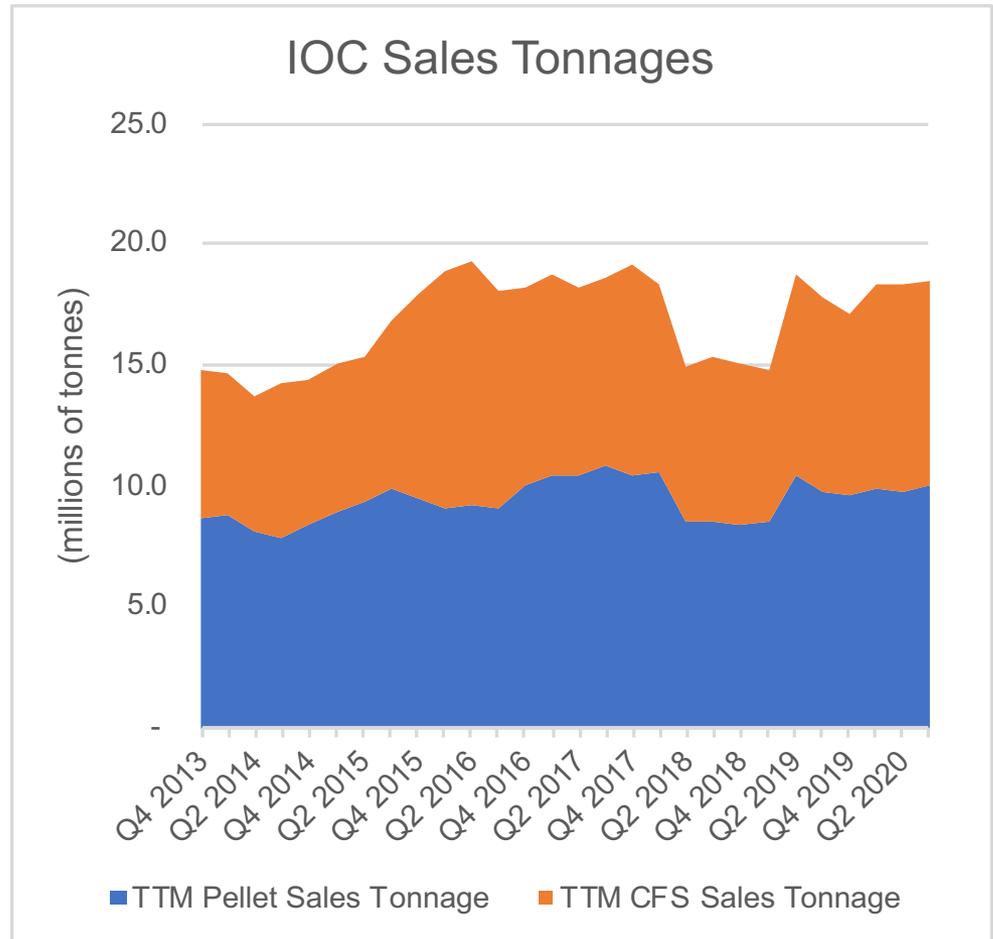
# IOC Q3 PRODUCTION

- Apart from the unique challenges of COVID-19, IOC faced a few specific production issues in Q3
- Q3 concentrate production was negatively affected by:
  - unplanned mechanical issues and power outages affecting the processing plant
  - a longer annual maintenance shutdown in September
- In addition to IOC's production decisions around pellet demand, Q3 pellet production was restricted due to:
  - lack of pellet feed due to the concentrator
  - the rescheduling of a two-month rebuild of one of the pellet lines from March to September due to COVID-19

<i>(in millions of wmt)</i>	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2020	2019	2020	2019
<u>Production</u>				
Concentrate	4.25	5.38	13.78	14.3
<u>Saleable Production</u>				
Pellets	2.22	2.66	7.12	7.65
CFS	1.77	2.38	5.93	5.93
Total	3.99	5.04	13.05	13.58

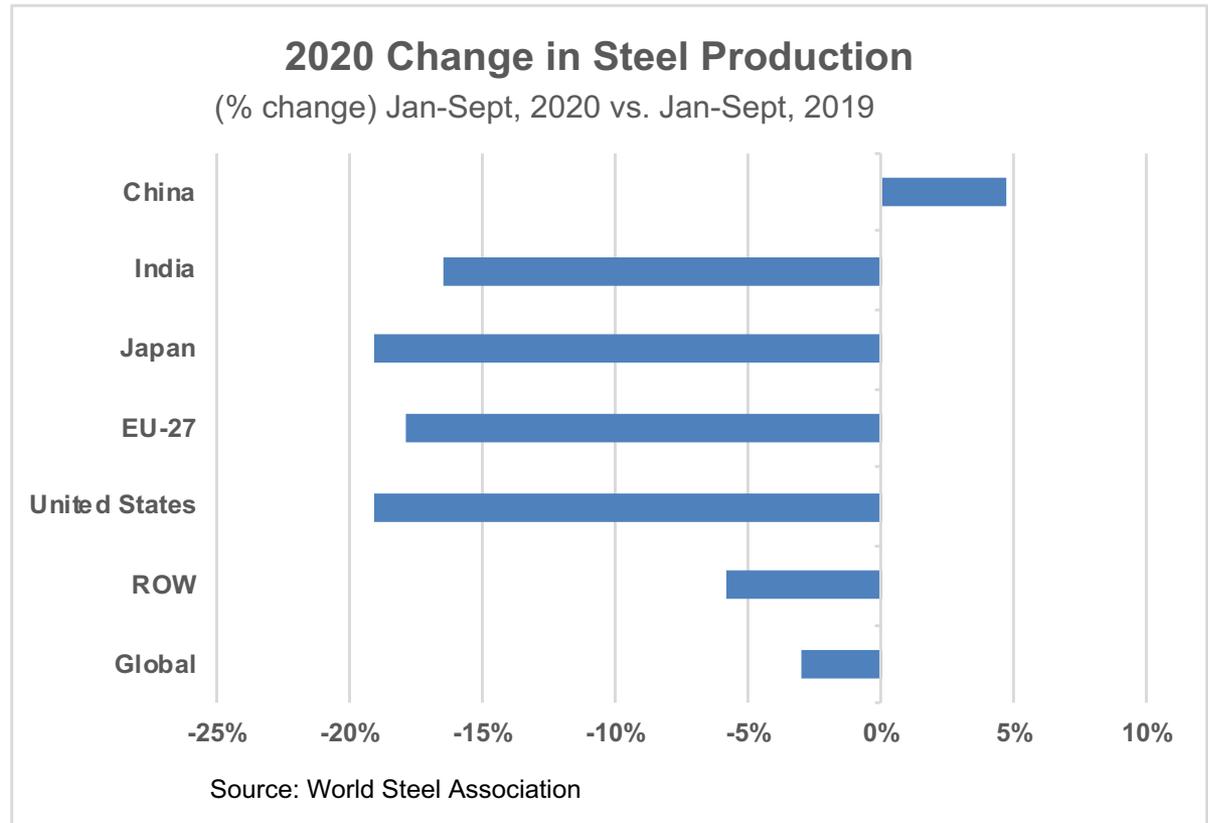
# IOC HISTORICAL SALES TONNAGES

- Total IOC sales tonnages for the trailing twelve months was 18.5 million wmt
- Recently, IOC's TTM sales of pellets has been about 9.5-10 million wmt
  - Up from TTM averages of 8-9 million wmt in 2013/2014
- Recently, IOC's TTM sales of CFS has been about 8-8.5 million wmt
  - Up from TTM averages of 5.5-6.5 million wmt in 2013/2014



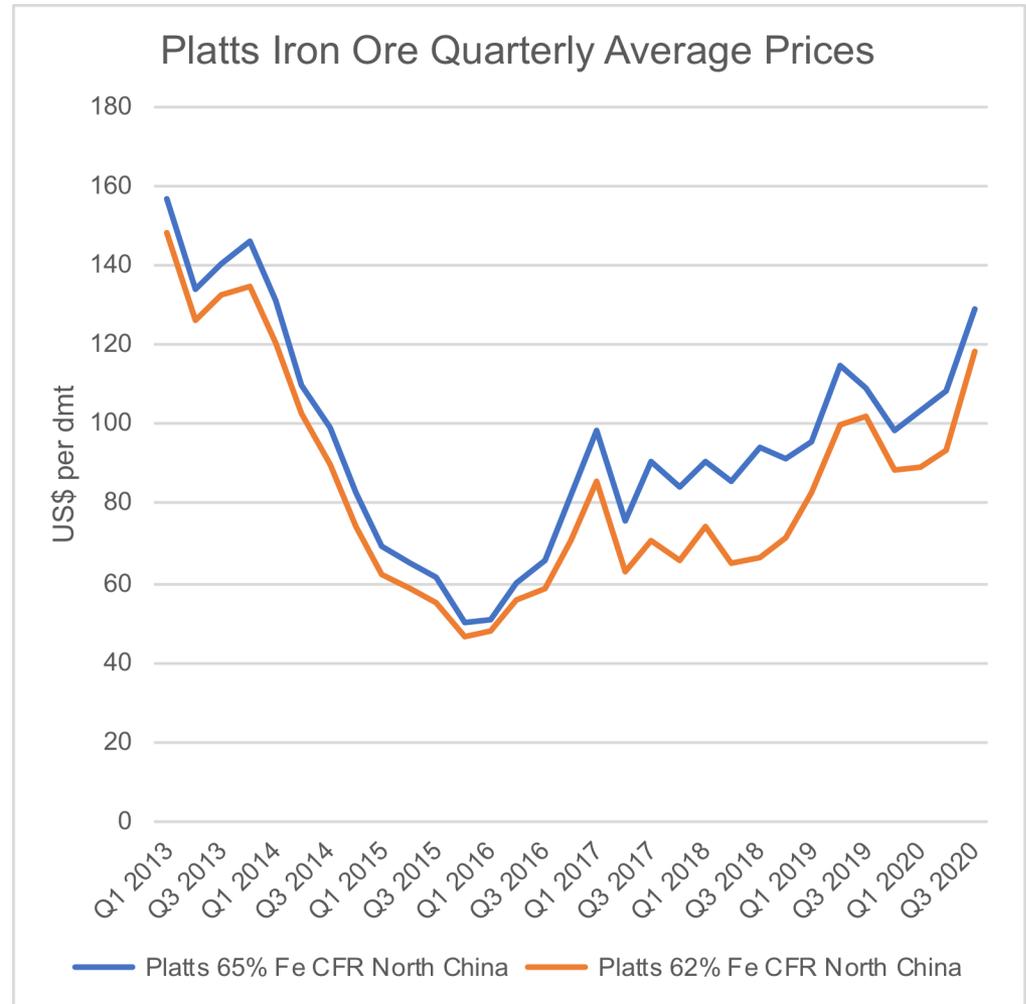
# GLOBAL STEEL MARKETS

- China's stimulus for infrastructure spending and property construction is expected to support continued strong steel production
- Offsetting potential weaker U.S. and European steel production



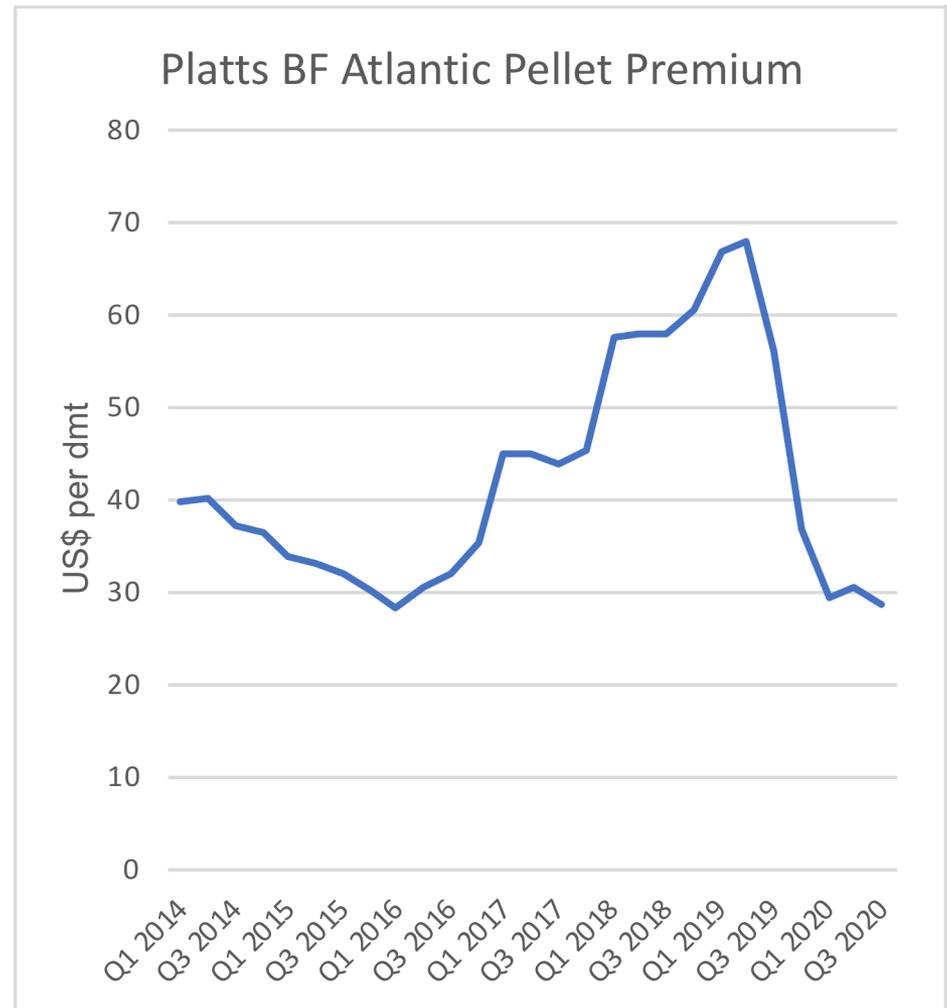
# IRON ORE PRICES

- Strong demand from China driving CFS prices
- Prices have continued to increase since the end of Q3
  - As of November 25, 2020 the Platts 62% Index was at US\$128 and the Platts 65% Index was US\$140
- Continued demand from China is expected to support CFS pricing into 2021



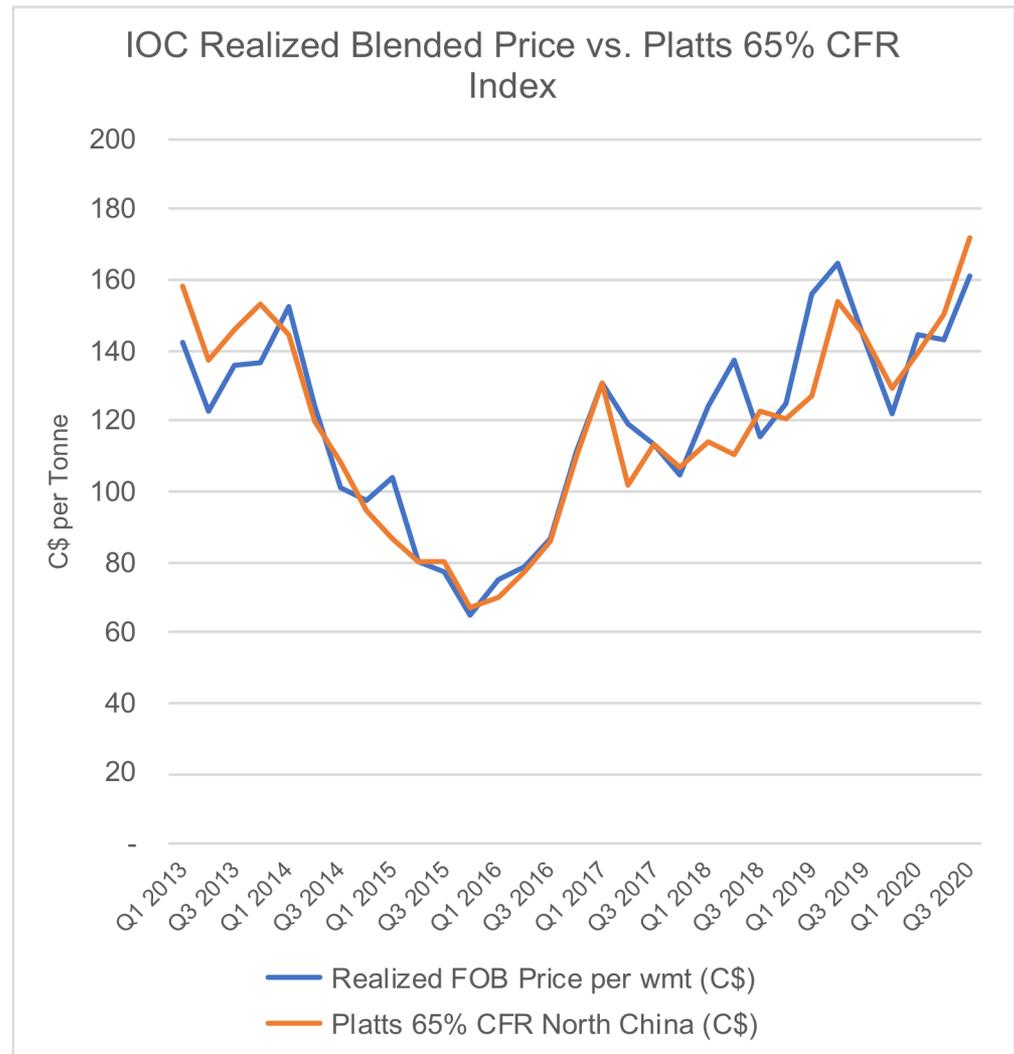
# PELLET PREMIUMS

- Pellet premiums continued to decline in Q3 despite some increased pellet demand from Europe
- Overall demand outside of China remains low, and high concentrate prices and narrow steel margins have caused steel producers to substitute pellet use, where possible, for cheaper lower grade iron ore
- Expectation is for improved pellet demand in 2021 as European blast furnace activity ramps back up



# IOC REALIZED PRICES

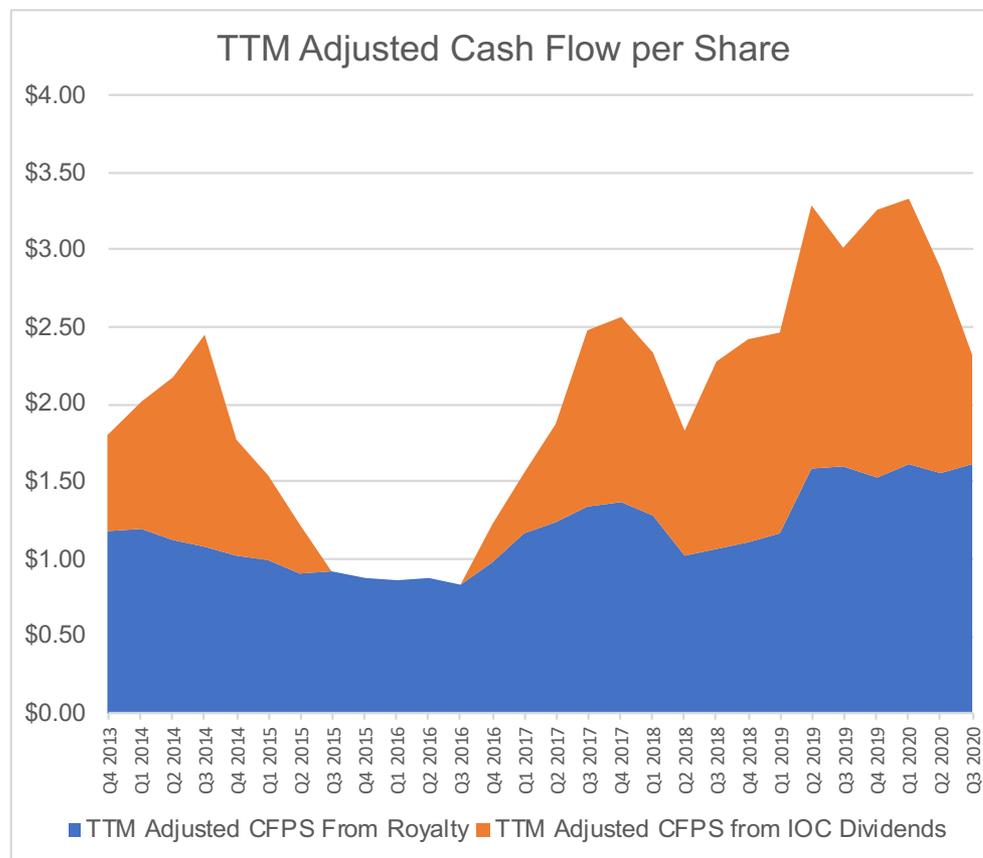
- Historically, IOC's realized blended FOB price per tonne has mirrored the Platts 65% CFR North China Index
- On average IOC has realized a 1% premium over the Platts 65% CFR North China Index and a 13% premium over the Platts 62% CFR North China Index
- Realized FOB price per tonne reflects a number of factors, including:
  - Price of CFS
  - Negotiated pellet premia
  - Pellet/CFS mix
  - Shipping dates
  - Customer locations
  - Applicable shipping rates



Note: For purposes of the chart, IOC realized blended FOB price per tonne is calculated as IOC iron ore sales (represented by LIORC royalty revenue divided 7%) divided by IOC sales tonnages as reported for the LIORC royalty

# LIORC HISTORICAL CASH FLOW

- Royalty and commissions have historically provided stable and growing after-tax cash flow per share
  - Average of \$1.18 per share
  - High of \$1.64 per share and low of \$0.84 per share
- IOC equity has provided significant additional upside in years where iron ore prices have been strong
  - Average of \$0.83 per share
  - High of \$1.72 per share and low of \$0.00 per share
- IOC recently declared a dividend payable in December, 2020 of approximately \$1.38 per share



# NEW TRADING COMPARABLE – DETERRA ROYALTIES

## SIDE BY SIDE COMPARISON

- Deterra Royalties was spun out from Iluka Resources on October 23, 2020
- Represents the best publicly traded comparison to LIORC
- Deterra's size, key asset and corporate structure are very similar to LIORC

	LIORC	DETERRA ROYALTIES
<b>Market Cap</b> (1)	C\$1,599 million	A\$2,571 million
<b>Trading Exchange</b>	TSX	ASX
<b>Key Asset</b>	7% royalty on IOC	1.232% royalty on Mining Area C
<b>Payment</b>	Quarterly	Quarterly
<b>Commodity</b>	Iron Ore	Iron Ore
<b>Products</b>	Pellets and Concentrate	Lump and Fines
<b>Jurisdiction</b>	Labrador, Canada	Western Australia
<b>Life of Mine</b> (2)	>25 years	>30 year
<b>Operator</b>	Rio Tinto	BHP
<b>Other Assets</b> (3)	15% Equity interest in IOC C\$0.10 commission per tonne	Five other royalties of nominal value
<b>G&amp;A Costs</b> (4)	C\$3.0 million	A\$6.9 million
<b>Net Cash (Debt)</b> (5)	C\$29.8 million	A\$(14.2 million)
<b>Dividends</b> (6)	100%	100%

### Notes:

(1) As of market close, November 25, 2020.

(2) For LIORC, based on reserves only. For Deterra, asset life with potential to extend.

(3) Both Macquarie and Credit Suisse research do not attribute value for any of Deterra's other royalties streams.

(4) TTM for LIORC, and based on 2020 pro forma accounts for Deterra.

(5) LIORC net cash is net working capital as at September 30, 2020. Deterra net debt is pro forma as at June 30, 2020.

(6) Current target, subject to discretion of the Board and may change over time.

Source: Information for Deterra Royalties is from its Demerger Briefing document dated September 10, 2020.

# DETERRA – LONG TERM TRADING YIELD

- A\$340 million of total trading value in first 24 days of trading
- Average trading price of A\$4.26
- Valued at an average long-term yield of 4%

(in millions, other than per share)

	Deterra Trading Value
Share Price (1)	A\$4.26
Number of Shares	574
Market Capitalization	A\$2,444
Net Debt (2)	A\$14
Enterprise Value	A\$2,458
Target Tonnes per Year (3)	139
Iron Ore 62% Fe (CFR) (4)	US\$65
Deterra Estimated EBIT (5)	A\$142
Income Tax (6)	30%
After Tax Cash Flow	A\$99
<b>L-T Average Yield</b>	<b>4.0%</b>

(1) Average price since spin-out, as of market close, November 25, 2020.

(2) Pro forma as at June 30, 2020 (page 36 Demerger Briefing).

(3) Stated production capacity post full ramp-up beginning 2023 (page 17 Demerger Briefing).

(4) As stated by Deterra, based on Wood Mackenzie long term real price forecast (page 24 Demerger Briefing).

(5) As stated by Deterra. Assumes freight charges of US\$7.8/dmt and lump sales representing 35% of Sales and commanding a 22% premium (page 24 Demerger Briefing).

(6) Consistent with income tax rate set out in Pro Forma Income Statement (page 13 Demerger Briefing).

Source: Deterra Royalties Demerger Briefing document ("Demerger Briefing") dated September 10, 2020.

# LIORC COMPARABLE TRADING VALUE

- Based on similar assumptions and assuming the same 4% yield by which the market values Deterra Royalties, the IOC Royalty has a value of C\$28.32 per share
- This does not include LIORC's 15.1% equity investment in IOC which provides significant additional upside value
- Historically, the equity investment has generated 41% of LIORC's after-tax cashflow

(in millions, other than per share)

	<b>LIORC Comparative Trading Value</b>
Assumed IOC Tonnes per Year (1)	20
Iron Ore 62% Fe (CFR) (2)	US\$65
Historical Premium to Platts 62% Index	13%
Assumed Realized FOB Price	US\$73
Total IOC Iron Ore Revenue	US\$1,469
Net Royalty Rate	5.6%
LIORC Revenue	US\$82
Assumed USD/CAD Exchange Rate	0.75
LIORC Revenue (C\$)	C\$110
Assumed Corp Costs + Tax at 30%	(C\$36)
After Tax Cash Flow	C\$73
<b>L-T Average Yield (3)</b>	<b>4.0%</b>
Indicative Value of IOC Royalty	C\$1,812
Number of LIORC Shares	64
<b>Indicative Royalty Value per LIORC Share</b>	<b>C\$28.32</b>

(1) Ignores ability to reach production capacity.

(2) As stated by Deterra (page 24 Demerger Briefing).

(3) Comparative L-T average yield to Deterra. Ignores differences in Australian franking system and the Canadian dividend tax credit.

# LIORC INVESTMENT RATIONALE

## IOC Strengths

- Leading producer of high quality, low impurity iron ore products (65% Fe) including higher margin pellets
- Large, high quality resource with a long mine life (>25 years based on reserves only)
- Stable jurisdiction
- World class operator - Rio Tinto
- Competitive operating costs and high margins (over 50 years without a shut down due to market conditions)
- Significant wholly owned infrastructure in place
  - Concentrator, pellet plant, 418 km railway and port facilities

## LIORC Strengths

- Attractive 7% top line royalty and 10¢ per tonne commission on all IOC sales
  - Royalty limits operational and capex risk, while benefiting from any production growth
- 15.1% equity investment in IOC provides additional upside to iron ore markets
  - IOC cash flows typically paid out as dividends - Approx. C\$88 million in 2020 (C\$1.38/share)
- Attractive yield and relative trading valuation
- Debt-free balance sheet
  - LIORC's net working capital position was \$29.8 million as at September 30, 2020

# QUESTIONS

