



# **LABRADOR IRON ORE ROYALTY CORPORATION**

## **INVESTOR PRESENTATION**

**January 27, 2021**

# NOTICE TO READER

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

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# AGENDA

- ❖ IOC Production and Sales
- ❖ Iron Ore Pricing
- ❖ LIORC Historical Cash Flow
- ❖ LIORC Dividend and Yield Performance
- ❖ LIORC Comparable Trading Value
- ❖ LIORC Investment Rationale

# IOC PRODUCTION

- Despite operational adjustments as a result of COVID-19, IOC's saleable production for 2020 was generally in line with 2019 saleable production

- Production of pellets and CFS at IOC was 1% lower than 2019 due to unplanned maintenance at the processing facilities in the third and fourth quarters

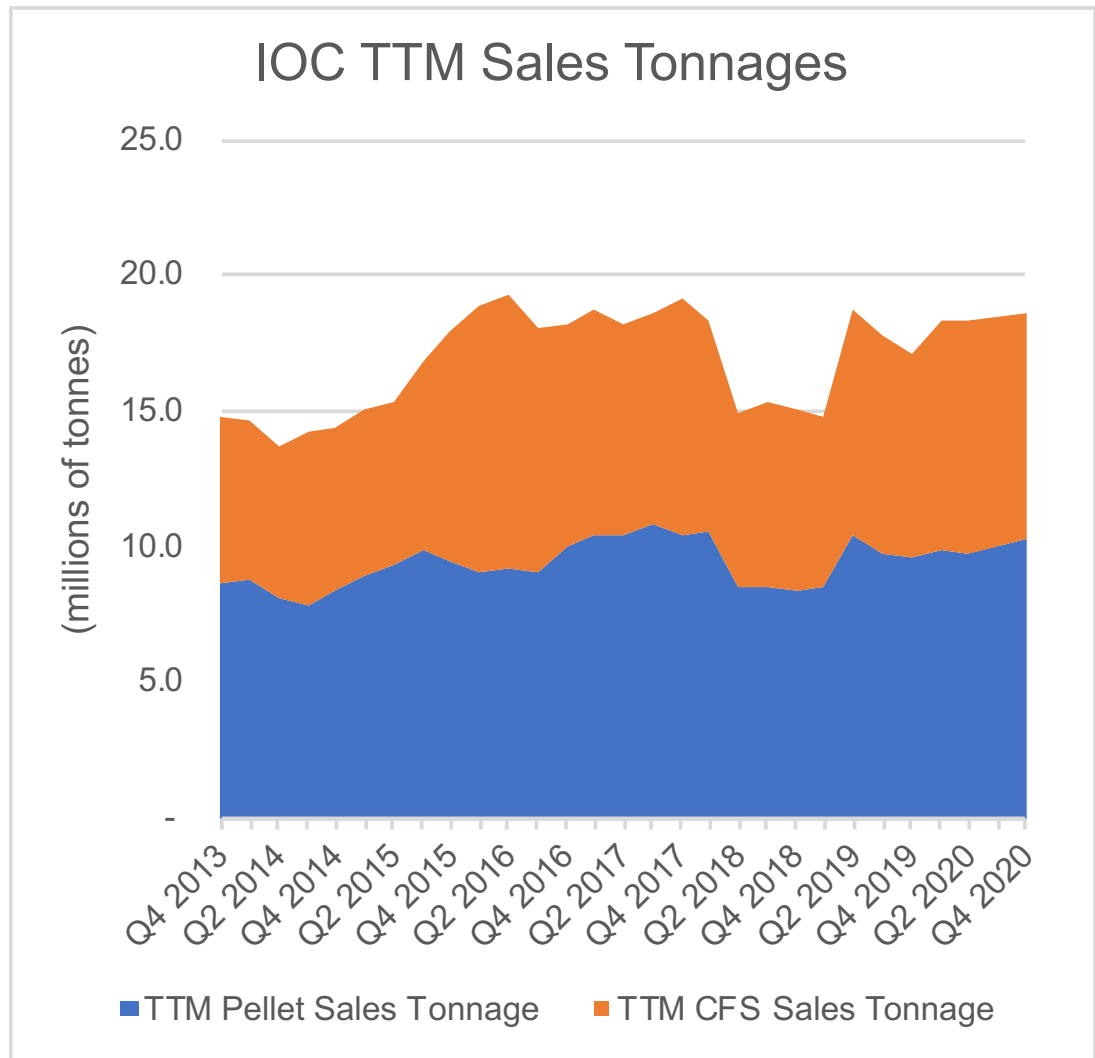
- IOC continued to optimize its product mix to match market demand, returning to higher pellet production with all six lines in operation, following signs of recovery in demand from Europe

- Rio Tinto guidance for IOC 2021 production (pellets and CFS) is 17.9 to 20.4 million tonnes.

<i>(in millions of wmt)</i>	3 Months Ended		Year Ended	
	December 31		December 31	
	2020	2019	2020	2019
<u>Saleable Production</u>				
Pellets	2.46	2.42	9.58	10.06
CFS	2.21	1.95	8.14	7.88
Total	4.67	4.37	17.72	17.94

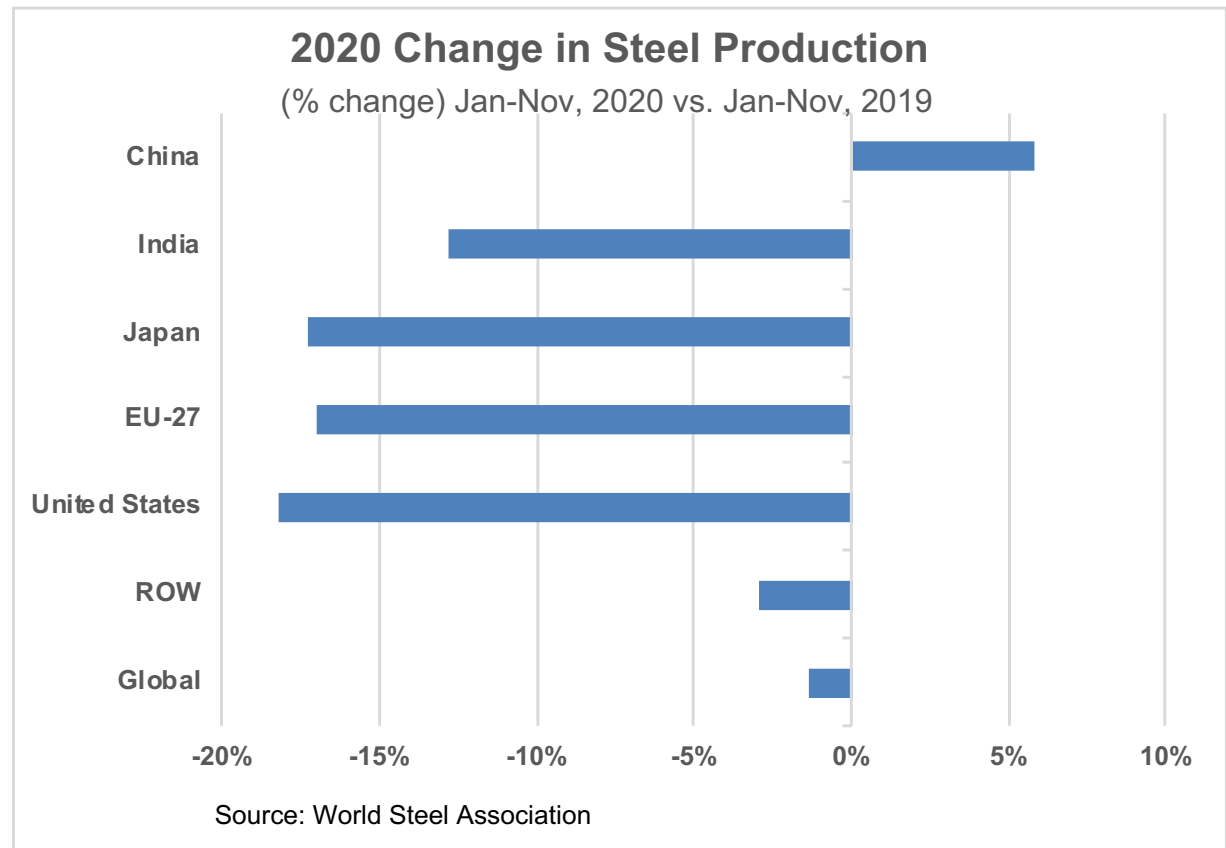
# IOC HISTORICAL SALES TONNAGES

- Total IOC sales tonnages for 2020 were 18.6 million wmt
  - Comprised of pellet sales of 10.2 million wmt and CFS sales of 8.4 million wmt
- Generally in line with sales over the last 5 years (other than 2018, which experienced a work stoppage)
- Below name plate capacity for concentrate production of 23 million wmt and pellet production of 12.5 million wmt



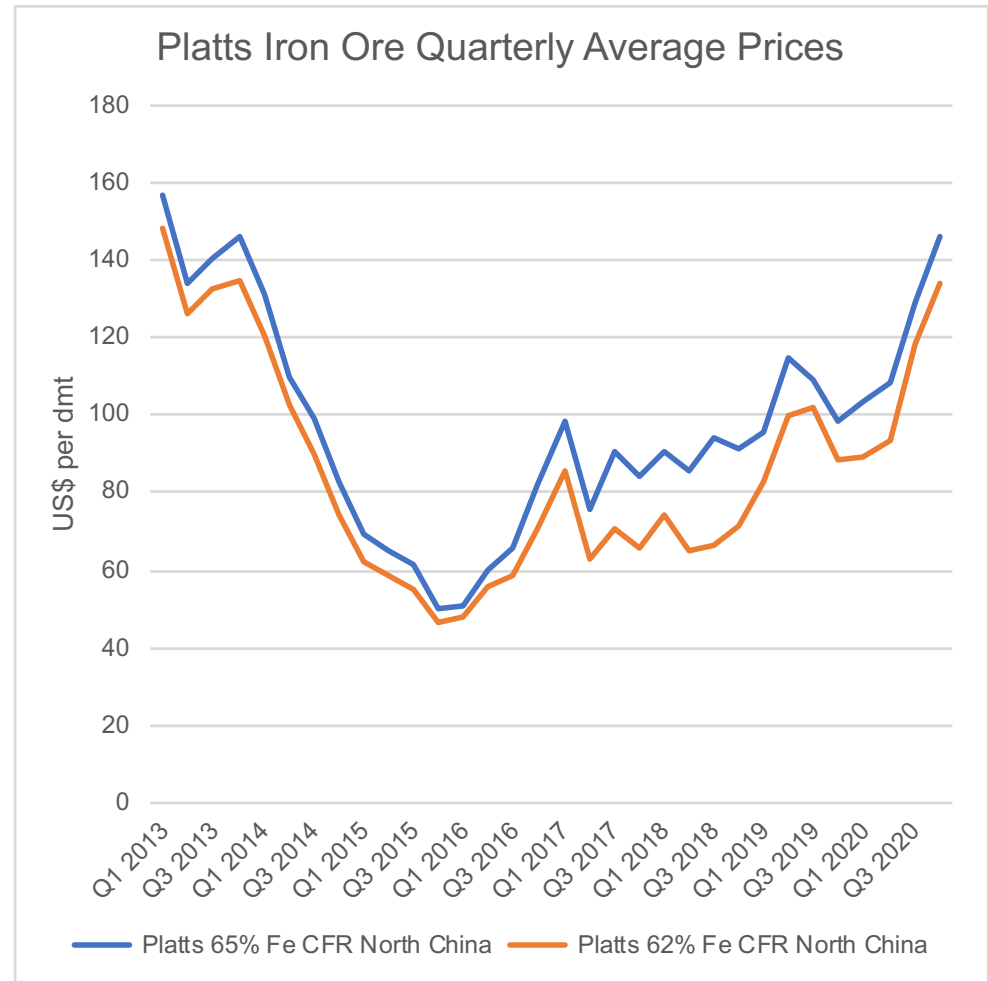
# GLOBAL STEEL MARKETS

- In 2020, demand from China offset weaker U.S. and European steel production
- China's stimulus for infrastructure spending and property construction is expected to support continued strong steel production



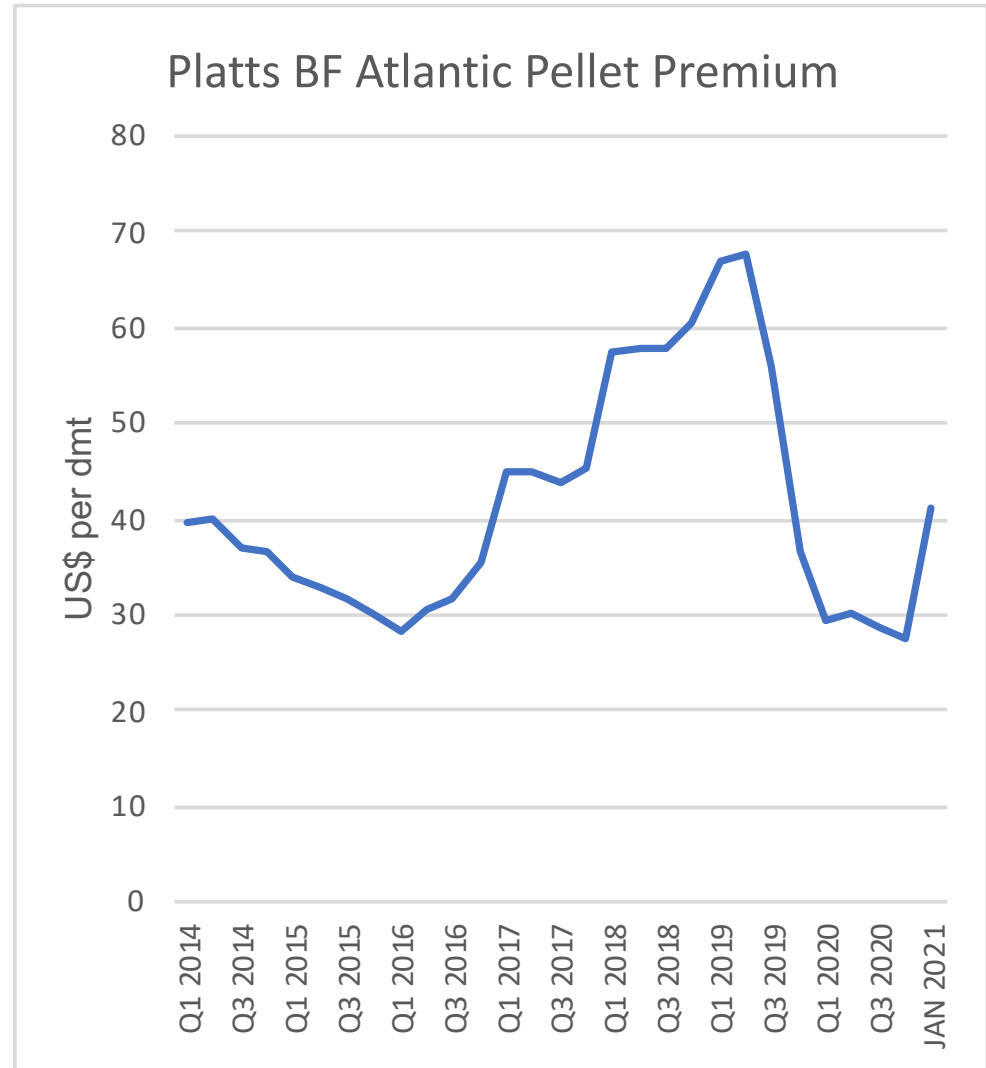
# IRON ORE PRICES

- Strong demand from China and ongoing supply concerns drove 2020 iron ore prices
  - In 2020 the Platts 62% Index averaged US\$109 and the Platts 65% Index averaged US\$122
  - Prices rose throughout the year and in Q4 the Platts 62% Index averaged US\$134 and the Platts 65% Index averaged US\$146
- Demand from China and returning steel production from ROW is expected to support continued strong CFS pricing in 2021
  - From Jan 1-15, 2021 the Platts 62% Index has averaged US\$170 and the Platts 65% Index has averaged US\$190



# PELLET PREMIUMS

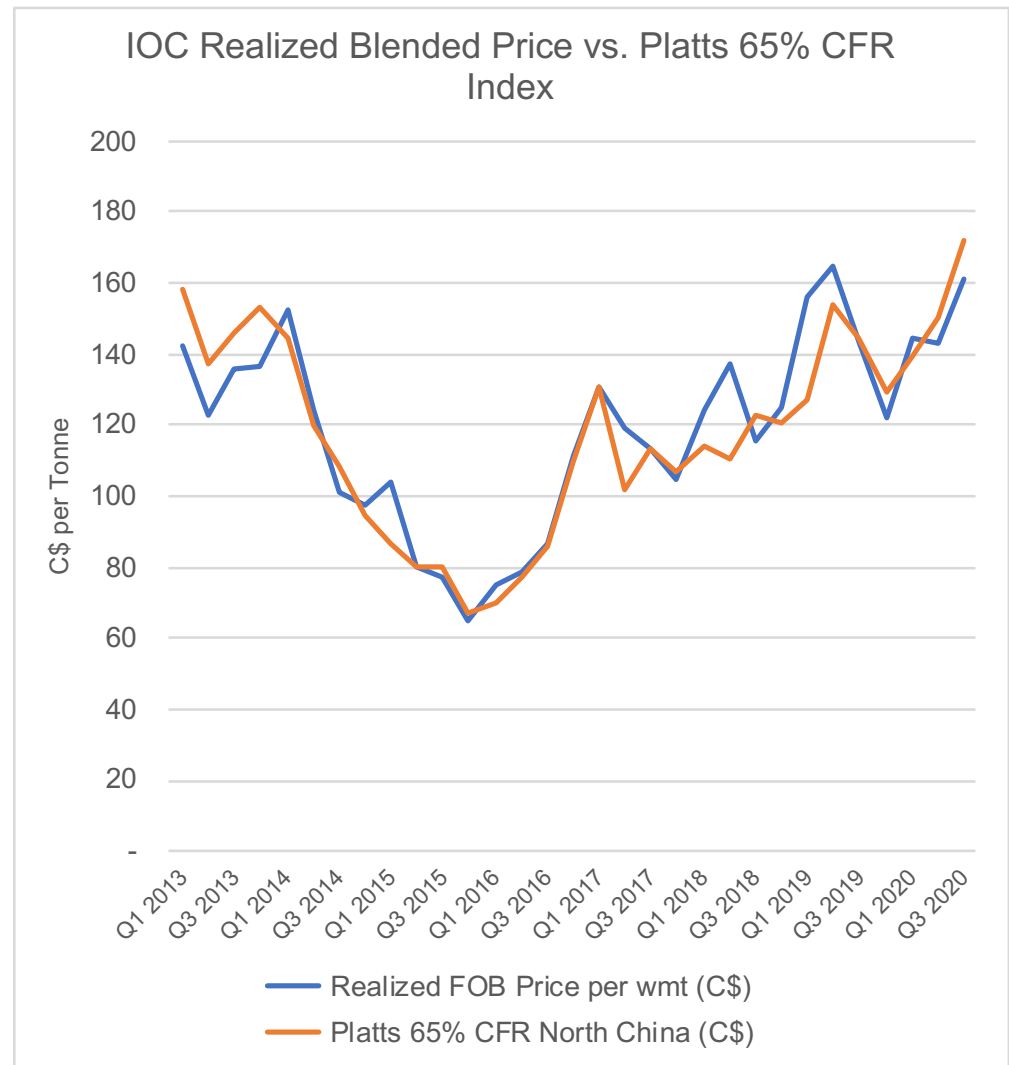
- Pellet premiums continued to decline in second half of 2020 despite some increased pellet demand from Europe later in the year
- Expectation is for improved pellet demand in 2021 as European blast furnace activity ramps back up
- The Jan, 2021 Platts Atlantic monthly contract BF pellet premium is US\$41/dmt, compared to an average of US\$29/dmt in 2020





# IOC REALIZED PRICES

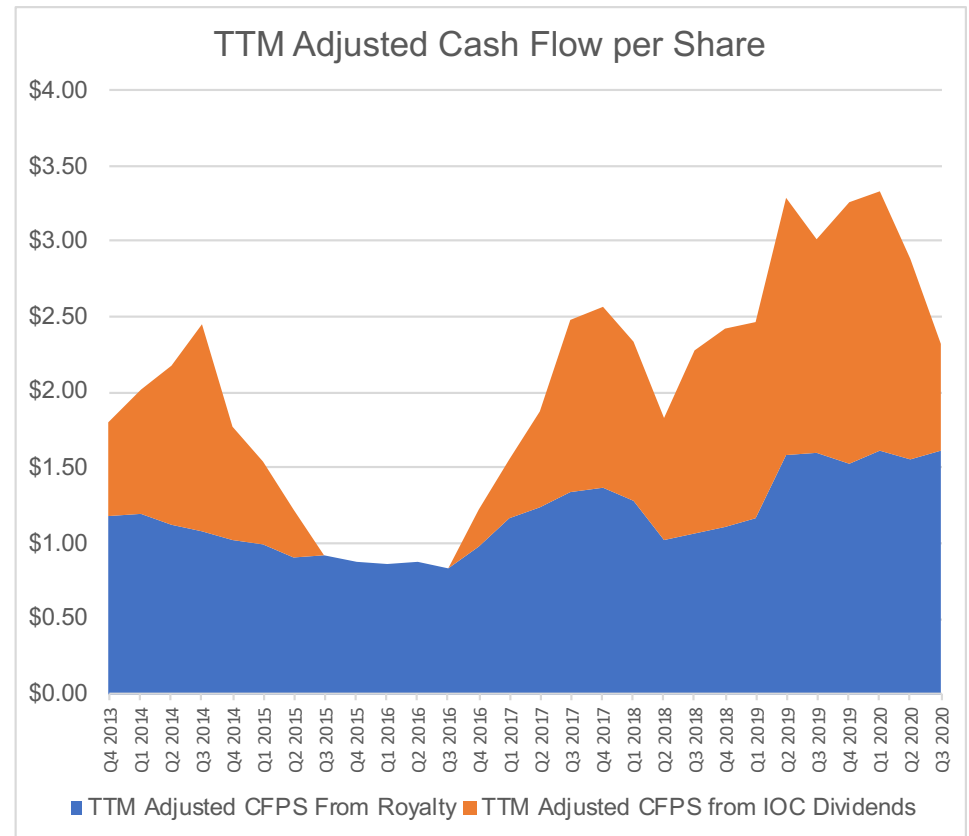
- Realized FOB price per tonne reflects a number of factors, including:
  - Price of CFS
  - Negotiated pellet premia
  - Pellet/CFS mix
  - Shipping dates
  - Customer locations
  - Applicable shipping rates
- Historically, IOC's realized blended FOB price (wmt) per tonne has mirrored the Platts 65% 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



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

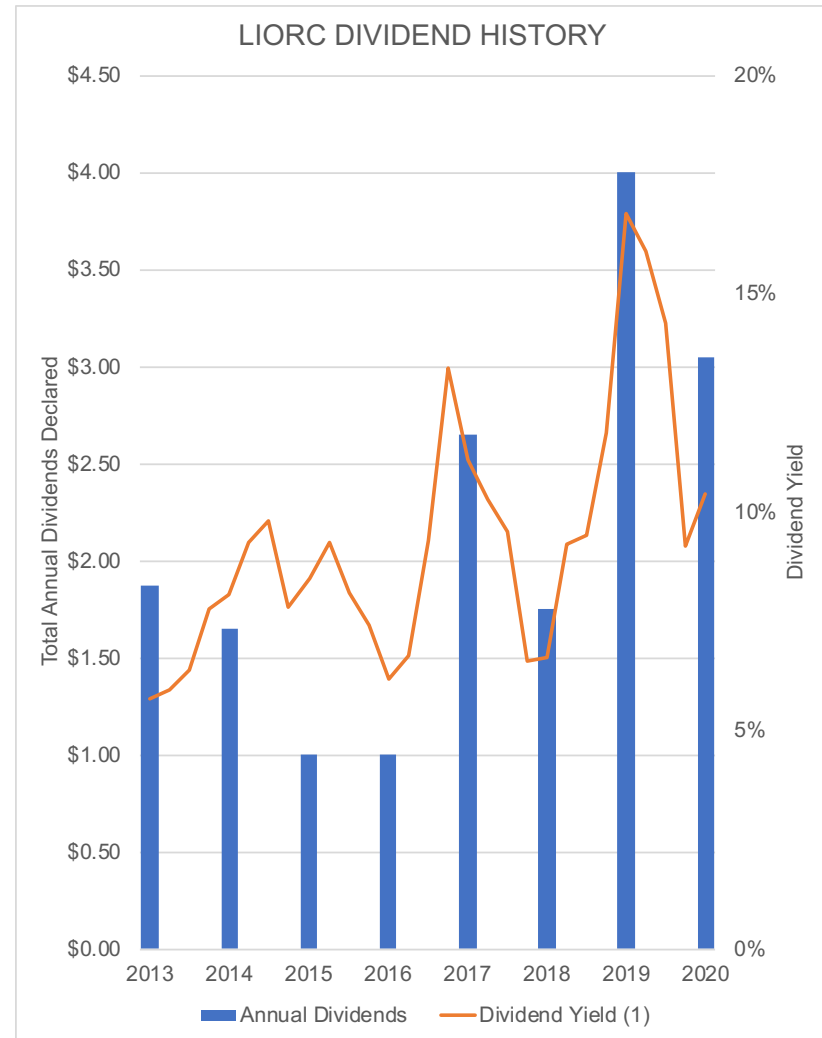
# LIORC HISTORICAL CASH FLOW

- 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 LIORC share
  - High of \$1.72 per LIORC share and low of \$0.00 per LIORC share
- IOC recently declared a dividend payable in December, 2020 of approximately \$1.38 per LIORC share
  - Average of \$1.41 per LIORC share over prior three years



# LIORC HISTORICAL DIVIDEND PERFORMANCE

- In 2020, LIORC declared total dividends of \$3.05 per share
  - This compares to an average of \$2.80 per share over the prior 3 years
- In 2020, LIORC's average dividend yield was 12.8%
  - This compares to an average yield of 11.6% over the prior 3 years



(1) Dividend yield is calculated each quarter as the total annual declared dividend per share divided by the average trading price per share during the quarter

# 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\$2,092 million	A\$2,553 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, January 15, 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

	(in millions, other than per share)	<b>Deterra Trading Value</b>
• A\$685 million of total trading value in first 60 days of trading	Share Price (1)	A\$4.45
	Number of Shares	574
	Market Capitalization	A\$2,553
	Net Debt (2)	A\$14
	Enterprise Value	A\$2,567
• Average closing price of A\$4.56	Target Tonnes per Year (3)	139
	Iron Ore 62% Fe (CFR) (4)	US\$65
• Current trading price of A\$4.45	Deterra Estimated EBIT (5)	A\$142
	Income Tax (6)	30%
	After Tax Cash Flow	A\$99
• Valued at an average long-term yield of 3.9%	<b>L-T Average Yield</b>	<b>3.9%</b>

(1) As of market close, January 15, 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 3.9% yield by which the market values Deterra Royalties, the IOC Royalty has a value of C\$29.57 per share
- This does not include LIORC's 15.1% equity investment in IOC which provides significant additional upside value
- The 15.1% equity investment has historically generated 41% of LIORC's after-tax cashflow and over the last 4 years has generated on average \$1.40 per share per year

(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>3.9%</b>
Indicative Value of IOC Royalty	C\$1,893
Number of LIORC Shares	64
<b>Indicative Royalty Value per LIORC Share</b>	<b>C\$29.57</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 concentrate and pellets
  - More efficient and environmentally friendly for steel producers
- Long mine life (>25 years based on reserves only)
- Stable jurisdiction
- World class operator - Rio Tinto
- Competitive operating costs (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

