



Like Royalties? Here Is the World's Safest Mining Stock

Description

Labrador Iron Ore Royalty ([TSX:LIF](#)) is a Canadian corporation and owns an interest in Iron Ore Company of Canada (IOC), which operates a [major iron mine](#) near Labrador City, Newfoundland and Labrador, on lands leased from Labrador Iron Ore Royalty Corporation (LIORC).

Directly and through the company's wholly owned subsidiary, Hollinger-Hanna, LIORC owns a 15.10% equity interest in IOC and receives a 7% gross overriding royalty on all iron ore products produced from the leased lands sold and shipped by IOC and a \$0.10-per-tonne commission on sales of iron ore by IOC.

Valuable underlying asset

The income of the company is entirely dependent on IOC, as it is the only asset of LIORC and Hollinger-Hanna. IOC is one of Canada's [largest iron ore producers](#), operating a mine, concentrator, and pellet plant at Labrador City. IOC is also 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 the company's year-round port facilities at 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.

Efficient operations

The iron ore concentrate and pellets are transported to IOC's port facilities at Québec via IOC's wholly owned QNS&L, a 418 kilometre 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 2020 sales totaled 18.6 million tonnes, comprised of 10.2 million tonnes of iron ore pellets and 8.4 million tonnes of iron ore concentrate. Production in 2020 was 9.6 million tonnes of pellets. Despite the impact of COVID-19, IOC generated ore sales revenues of \$2.92 billion in 2020 representing a year-over-year increase of 14%.

Valuable royalty structure

LIORC also holds certain leases and licences covering approximately 18,200 hectares of land near Labrador City. IOC has subleased certain portions of these lands from which it currently mines iron ore. In return, IOC pays LIORC 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 2020, the average royalty net of the 20% tax was \$108 million per year and in 2020 the net royalty was about \$160 million.

In addition to the royalty interest, the company also owns a 15.10% equity interest in IOC. Additionally, Hollinger-Hanna has the right to receive a payment of 10 cents per tonne on the products produced and sold by IOC. Since the royalty is based on sales, LIORC's royalty is not dependent on the profitability of IOC.

LIORC's royalty interest in IOC is extremely valuable and shareholders can expect to benefit, substantially, over the long term.

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