

Labrador Iron Ore Royalty Income Fund - News Release

Labrador Iron Ore's year-end net income increases

Labrador Iron Ore Royalty Income
Fund

LIF.UN

Shares issued 30,000,000
Friday May 11 2001

2001-05-10 close \$14.85
News Release

Mr. Bruce Bone reports

Labrador Iron Ore Royalty Income has provided its results of operations for the year ended Dec. 31, 2000. Following are some of the financial highlights of the fund's 2000 results with comparisons with the 1999 results:

FINANCIAL HIGHLIGHTS
Year ended Dec. 31
(millions of dollars)

	2000	1999
Revenue	\$ 45.6	\$ 42.9
Equity earnings in Iron Ore Company of Canada	13.0	-
Expenses	16.9	12.1
Net income	47.5	30.6
Cash flow from operations	31.3	33.2
Cash distributions per unit	1.05	1.10
Net income per unit	1.58	1.02
Cash flow from operations per unit	1.04	1.11

Financial performance

Cash flow from operations in 2000 was \$31.3-million or \$1.04 per unit compared with \$33.2-million or \$1.11 per unit in 1999. This result was quite satisfactory when compared with 1999 as the Iron Ore Company

of Canada (IOC) preferential common dividend, which amounted to \$4.0-million or 13 cents per unit in 1999, ceased to be paid at the end of 1999. Also, the after-tax interest expense of \$1.5-million or five cents per unit on the \$20.0-million (U.S.) loan to finance the purchase of an additional 6.95-per-cent equity interest in IOC in December, 1999, had a negative impact on cash flow. IOC's sales volume for 2000 was 15.4 million tonnes, an increase of 1.9 million tonnes or 14 per cent from 1999 levels. This, combined with a favourable Canadian-U.S. dollar exchange rate and a 4-per-cent to 7-per-cent price increase, resulted in increased royalty income of \$43.9-million, 19 per cent more than the \$36.9-million received in 1999. This is the third year that IOC has suspended its regular common dividend in order to finance its pellet plant expansion project.

The fund's consolidated net income for the year ended Dec. 31, 2000, was \$47.5-million or \$1.58 per unit compared with \$30.6-million or \$1.02 per unit in 1999. With the fund increasing its equity interest in IOC to 18.93 per cent at the end of 1999, it is appropriate that the fund adopt equity accounting for its investment in IOC. Prior to this change only the royalties, commissions and dividends received from IOC were included in the fund's income. For 2000 and future years the fund will record its 18.93-per-cent interest in IOC's profit or loss in its financial statements. This accounting change resulted in an increase in the fund's after-tax net income for the year of \$10.6-million or 35 cents per unit.

Cash distributions declared in 2000 totalled \$31.5-million or \$1.05 per unit compared with \$33.0-million or \$1.10 per unit in 1999.

Recent developments

On Dec. 14, 2000, Rio Tinto PLC offered to purchase all of the fund's outstanding units for \$13.50 per unit. Rio Tinto was required to have an independent valuation of the fund prepared under the supervision of the fund's trustees. The fund hired CIBC World Markets to prepare the valuation and it placed a value of \$18.00 to \$24.70 on the fund's units. Rio Tinto subsequently increased its offer to \$14.25 and as a result acquired 20.3 per cent of the units. Construction of the Sept-Iles pellet plant is on schedule with an expected start-up date of June, 2002. This will increase IOC's pellet capacity from 12.5 million to 17.0 million tonnes per year. Other construction at the mine and concentrator at Carol Lake needed to provide the feed for the expanded production is on schedule for completion prior to the June, 2002, pellet plant start-up date.

For 2000, increases in concentrate prices of 4.3 per cent to 4.7 per

cent have been negotiated which, combined with expected increases in sales levels and the lower Canadian dollar exchange rate, should increase the fund's 2001 royalty revenue.

In order to more accurately reflect the fund's earnings, the trustees have declared dividends of 37.5 cents for each of the last three quarters of 2001. The payment will be partially financed by borrowings until IOC resumes payment of dividends expected in 2002 or 2003.