Labrador Iron Mines Reports Second Quarter Results

Notice: Conference Call and Webcast held today at 11:00 am ET. Dial-in: +1-416-641-6104 or +1-866-696-5894.


Highlights

- LIM demonstrated its mine-to-port operational ability to produce, rail and sell up to 250,000 tonnes of iron ore product per month from its James mine since commencing the 2012 operating season.
- LIM mined approximately 962,000 tonnes of ore at a grade of 60.8% iron (“Fe”) for the three months ended September 30, 2012, which represents a 40% increase quarter-over-quarter.
- LIM railed approximately 706,000 tonnes of ore to the Port of Sept-Îles during the quarter. In October, LIM surpassed a major milestone, having railed over two million tonnes to the Port of Sept-Îles since commencing mining operations in June 2011.
- LIM sold four shipments of iron ore totalling 648,000 dry tonnes (~700,000 wet tonnes) and reported revenue of $33.0 million (free on board (“FOB”) Port of Sept-Îles) during the quarter.
- LIM responded quickly to challenging market conditions and the sharp decline in iron ore spot prices in August 2012, focusing on cost reduction and cash conservation measures.
- LIM enhanced long-term rail and port access for its iron ore, securing 5 million tonnes of ship loading capacity at the new multi-user dock at the Port of Sept-Îles and participating with CN Rail on a feasibility study for the potential development of a new multi-user rail line and terminal handling facility at the Port of Sept-Îles to serve iron ore companies in the Labrador Trough.
- LIM completed most of the fieldwork of a successful 2012 exploration season with approximately 13,500 metres (“m”) of diamond and reverse circulation (RC) drilling forecast to be completed, a 35% increase over the planned 10,000 m.

Rod Cooper, President and COO of Labrador Iron Mines, stated: “LIM’s operations generated strong results quarter-over-quarter, as performance in the mine, processing facility and rail all ramped up towards the height of the 2012 operating season. Complementing this has been LIM’s mine-to-port solution, with the demonstrated ability to produce, rail, ship and sell our iron ore product. However, operational achievements in the period were overshadowed by challenging market conditions and, in particular, a precipitous decline in spot iron ore prices in August. Our operating team has demonstrated professional discipline and done a commendable job in responding to these conditions, which necessitated rapid execution of revised strategies and action plans to reduce costs, conserve cash and optimize production for the remainder of the 2012 season.”

Responding to Challenging Market Conditions and Outlook for 2012

Iron ore spot prices and transaction volumes suffered a sharp decline in August 2012, with spot prices dropping 33% during the quarter to below US$90 per tonne on a 62% Fe CFR China basis. As previously announced, LIM undertook a critical review of its operating and capital spending for the balance of 2012 and implemented the following immediate and decisive measures:

- A focus on cost reduction and cash management to prudently manage the Company’s cash resources;
- Utilization of the new dry classifying system to produce sinter and lump ore only;
- All non-committed capital expenditures, mainly relating to the Silver Yards wet processing plant and development of the Houston deposits, were deferred into 2013;
The 2012 exploration program was reduced to $5.3 million.
Subsequent to quarter end, a $30 million equity financing was successfully completed in November.

“Challenging global economic conditions and, specifically, a reduced demand by Chinese steel producers were the main backdrop during a quarter overshadowed by a sharp and unexpected drop in iron ore prices,” commented John Kearney, LIM’s Chairman and CEO. “In ensuring we ‘stay the course’, we made prudent decisions to defer capital expenditures and scale back production to complete the season in a sustainable position.

“Despite these challenging market conditions, we successfully completed the sale of nine shipments thus far in 2012 and anticipate one more shipment of lump ore before the end of November. By the end of the 2012 operating season, LIM will have sold ten shipments totalling 1.7 million wet tonnes (1.6 million dry tonnes) of iron ore, quadrupling the total tonnes sold in all of 2011.

“As we wrap up our 2012 operating season, we have demonstrated that we can mine, transport and sell our iron ore. Furthermore, with the rebound in spot iron ore prices since mid-September, we remain confident that prices will be sustainable above US$110 per tonne (62% Fe) on a CFR China basis in the short to medium term and we remain optimistic about the fundamentals for long-term iron ore demand in China.”

Results of Operations

James Mine
During the quarter ended September 30, 2012, approximately 962,000 tonnes of ore at a grade of 60.8% Fe were mined, representing over a 40% increase in tonnes mined quarter-over-quarter. For the six months ended September 30, 2012, approximately 1.6 million tonnes of ore at a grade of 61.5% Fe were mined. In the months of June through August, the James mine consistently achieved its planned operating rate of 28,000 tonnes per day (ore and waste), prior to the previously-announced scale-back in planned production for the remainder of the season.

Silver Yards
The ore in the James deposits continues to be soft high grade and lends itself to simple processing. To enhance productivity and reduce costs, beginning in late August and continuing for the remainder of 2012, LIM is utilizing its newly-added dry classifying system exclusively to produce lump and sinter products.

The Phase 3 wet plant expansion was largely complete at the end of August, with the remaining items being the installation of electrical equipment and instrumentation work. Completion and commissioning is now planned for the 2013 operating season. The expansion is intended to increase plant throughput to 12,000 tonnes per day and improve weight recovery to above 75%.

Rail and Port
For the three months ended September 30, approximately 706,000 tonnes of iron ore were railed to the Port of Sept-Îles, bringing the total for the six months ended September 30 to over 1.2 million tonnes. Monthly rail volumes have increased almost threefold from the beginning of the operating season.

During the quarter, LIM announced its participation in the development of the new multi-user deep water dock at the Port of Sept-Îles, which will be dedicated exclusively to iron ore shipments. Under the terms of the agreement with the Port Authority, LIM has secured an annual capacity of 5 million tonnes of iron ore with a right to secure additional residual capacity. The Port expects that construction of the new berth will to be completed by March 31, 2014.

Also during the quarter, LIM announced its collaboration with CN on a feasibility study to develop a new, continuous multi-user rail line to serve iron ore companies in the Labrador Trough. The CN feasibility study is also evaluating the development of a new terminal handling facility located at the Port of Sept-Îles, which would complement the planned development of the new multi-user dock at the Port.
Sales

During the second quarter, LIM completed the sale of four cape-size shipments (two shipments of direct rail ore (DRO) and two shipments of sinter) totalling 648,000 dry tonnes, which were sold at a weighted average actual realized price (i.e. CFR China spot price less value-in-use discounts) of approximately US$96 per tonne on a CFR China basis. For these four shipments, LIM recognized net proceeds of $33.0 million on a FOB Sept-Îles basis after netting shipping costs and IOC’s participation, which includes product handling, ship loading and sales costs from the CFR China actual realized price.

As a result of the steep decline in iron ore prices in August 2012, LIM’s three cargo shipments sold during that month were at net prices (FOB Port of Sept-Îles) below the Company’s cash operating costs per tonne of product sold.

Subsequent to the end of the quarter, LIM completed the sale of two additional cape-size shipments of sinter ore for a total of nine shipments so far in 2012. LIM anticipates its tenth shipment, scheduled for arrival at the port on November 18, to be a cape-size vessel of approximately 100,000 tonnes of lump ore. LIM will continue to report proceeds from its aggregate sales of iron ore on a quarterly basis.

Value-in-use adjustments

The actual realized price for a shipment of LIM’s iron ore is based on the prevailing spot price in China at the time the cargo is priced, adjusted for ‘value-in-use’ adjustments based on the cargo’s specifications. The typical market referenced in connection with sales of LIM’s iron ore products is the Platts 62% Fe CFR China Index, which tracks daily pricing for cargos on a CFR China price per dry tonne basis, of granular product based on a standard size and content of iron, moisture, manganese, silica, alumina, phosphorus and sulphur. To the extent a shipment’s cargo deviates from these specifications, a value-in-use adjustment to the prevailing normalized spot price may apply.

So far in 2012, the Company has experienced value-in-use adjustments (i.e. discounts) for its DRO cargos related mainly to the mixed-size nature of this product, which requires further crushing and screening by the purchaser before being used in the steelmaking process. Subsequent to the two DRO shipments sold in the second quarter, LIM discontinued the sale of its DRO product.

The value-in-use adjustments for LIM’s sinter ore shipments were related to the silica content of the cargos, which was slightly higher than the standard specification of 4.5% silica. LIM expects the silica level to be lower in the future when Phase 3 of the wet processing plant is fully commissioned.

Production and Cash Operating Costs

During the quarter ended September 30, 2012, cash operating costs, including mining, processing, rail and transportation and site administration expenses, were approximately $70 per tonne of product sold (unloaded at the Port). Included in this amount was a charge equal to approximately $7 per tonne of product sold during the quarter, representing the full season’s wet processing plant commissioning costs being charged to the second quarter. This charge was taken because the Company winterized its wet processing plant in August 2012 and is utilizing its dry screening process for the remainder of the 2012 operating season. Excluding the above charge, cash operating costs during the second quarter were approximately $63 per tonne.
Cash operating costs per tonne of product sold for the 2012 season is expected to be $70 per tonne, unloaded at the port, including non-recurring charges. LIM’s operating results for the three and six months ended September 30, are outlined in the following table:

<table>
<thead>
<tr>
<th>Production for the Quarter and Six Months ended September 30, 2012</th>
<th>Quarter ended September 30, 2012</th>
<th>Six Months ended September 30, 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>(all tonnes are Dry Metric Tonnes)</td>
<td>Tonnes Grade % Fe</td>
<td>Tonnes Grade % Fe</td>
</tr>
<tr>
<td>Total Ore Mined</td>
<td>961,737 60.8</td>
<td>1,629,930 61.5</td>
</tr>
<tr>
<td>Direct Rail Ore portion</td>
<td>569,789 62.4</td>
<td>1,053,233 62.5</td>
</tr>
<tr>
<td>Waste Mined</td>
<td>1,533,211 –</td>
<td>2,902,609 –</td>
</tr>
<tr>
<td>Ore Processed</td>
<td>643,715 58.2</td>
<td>771,178 57.8</td>
</tr>
<tr>
<td>Lump Ore Produced</td>
<td>62,884 60.5</td>
<td>80,612 60.4</td>
</tr>
<tr>
<td>Sinter Fines Produced</td>
<td>508,773 61.1</td>
<td>543,484 61.4</td>
</tr>
<tr>
<td>Total Product Railed</td>
<td>706,495 62.2</td>
<td>1,238,824 62.4</td>
</tr>
<tr>
<td>Tonnes Product Sold</td>
<td>647,643 62.3</td>
<td>1,134,149 62.7</td>
</tr>
<tr>
<td>Port Product ending inventory</td>
<td>282,344 62.1</td>
<td>282,344 62.1</td>
</tr>
<tr>
<td>Site Product ending inventory</td>
<td>89,917 60.2</td>
<td>89,917 60.2</td>
</tr>
<tr>
<td>ROM Ore ending inventory</td>
<td>432,143 56.2</td>
<td>432,143 56.2</td>
</tr>
</tbody>
</table>

Houston Development

Ongoing drill programs and hydrological and metallurgical testing of the Houston deposits continued in 2012 in order to generate the technical information required for detailed mine planning. As previously announced, all major capital expenditure programs relating to the development of Houston have been deferred. LIM is continuing to process applications for permits and regulatory approvals required for the construction of mine infrastructure and related facilities to enable the development and construction at the Houston deposits.

Commencement of full construction activities for the first, dry process phase of the Houston Project is now planned for 2013, subject to market conditions, the availability of financing and the receipt of the remaining permits, with initial production of Houston ore targeted for 2014. Infrastructure costs for the first phase of the Houston project are estimated to be approximately $37 million, with an additional approximately $20 million of mine development costs now planned for 2014. Planning is well advanced for the second, wet process phase of the project. LIM plans to evaluate various potential credit facilities and/or strategic partnerships or off-take arrangements to fund these Houston development expenditures.

2012 Exploration Program

As of the end of September 2012, approximately 9,400 m of RC and core diamond drilling had been completed in the 2012 exploration program. The 2012 exploration budget was reduced to $5.3 million from the $8.6 million originally budgeted. Although exploration spending has been reduced, the overall 2012 exploration program is expected to achieve approximately 13,500 m of drilling (from the planned 10,000 m) as a result of cost efficiencies and improved productivity.

The drill programs have focused on Houston, Malcolm, James North, the James South extension and historic stockpiles near Silver Yards. As at the end of September, 5,600 m of RC drilling had been completed at Houston, Malcolm and the historic stockpiles and 3,300 m of diamond drilling had been completed at Houston and the James South extension. The main purpose of this drilling is to generate further technical information for more detailed mine planning of these deposits. The Company had also completed 500 m of diamond drilling at the James North deposit for geotechnical purposes.
In addition to this drilling, a bulk sampling program of some of the historic stockpiles has been initiated with a view to providing supplemental plant feed to the Silver Yards processing plant. The final drilling program being carried out this season involves approximately 1,500 m of diamond drilling on the Elizabeth Lake taconite target intended to evaluate the potential of this type of iron-bearing formation.

**Iron Ore Market Conditions**

Iron ore spot prices suffered a sharp decline in August 2012, dropping 33% from June 30, 2012 to below US$90 per tonne on a 62% Fe CFR China basis in early September. The sharp decline below US$110, which lasted from August 15 to September 18, was unexpected and was variously reported as being due to a number of factors that included destocking of plant inventories by Chinese steel mills, partly due to tighter credit conditions, and traders withdrawing from the spot market, coupled with historically high port inventories. The Platts Index averaged US$113 for the quarter ended September 30, 2012.

Despite recent volatility, LIM believes the underlying fundamentals of the iron ore market have not changed. The most important use of iron ore is as a primary input in steel production. Global steel production in the first nine months of calendar 2012 remained strong and in line with the same period in 2011. Global crude steel demand is expected to increase by 4.5% in 2013 according to the World Steel Association. The Company believes that the plant destocking by Chinese steel producers cannot continue indefinitely as Chinese steel prices stabilize and buyers return to the market.

Recent announcements by the Chinese Government of stimulus spending will support continued growth in demand for steel and iron ore in China. China’s National Development and Reform Commission is reported to have approved new infrastructure projects, including highways, subways and airports and other public works, totalling between 800 billion and one trillion Yuan over the next several years.

The Company’s expectation, which is consistent with consensus research opinions, is that a recovery in iron ore prices is likely due to the re-stocking by Chinese steel mills, traders moving back into the iron ore spot market as well as economic stimulus programs from China, Europe and the U.S. Towards the end of September 2012, spot prices had recovered to approximately US$110 per tonne on a 62% Fe CFR China basis, as market sentiment shifted in the Chinese market in response to announced stimulus programs and to ongoing depletion in inventories at the steel makers’ facilities. Subsequent to September 2012, spot prices have continued to improve, and by early November have reached approximately US$120 per tonne on a 62% Fe CFR China basis.

**Company Outlook**

LIM undertook decisive action in September 2012 in response to the drop in spot iron ore prices. LIM believes that the cost reductions in current operations, combined with the scale-back in production, the deferral of capital expenditures and the completion of a $30 million equity financing in November 2012 will ensure the Company completes the 2012 season in a sustainable position to resume operations in 2013.

By the end of November, LIM will have completed its mining operations, winding down its processing and rail operations. The Company expects to complete its shipping season with a tenth shipment in November.

Resumption of mining operations in April 2013 for the 2013 operating season will depend on a number of inter-related factors, including the Company being reasonably confident that the forecast iron ore spot price will continue at levels of US$110 per tonne (62% Fe) or higher on a CFR China basis at least for the 2013 operating season. LIM is currently targeting approximately 2 million tonnes of iron ore production in 2013.
Second Quarter Financial Review

During the fiscal second quarter ended September 30, 2012, LIM sold four shipments totalling 648,000 dry tonnes of iron ore and recognized revenue of $33.0 million (FOB Port of Sept-Îles) from the sale of these shipments. Revenue for the second quarter was negatively impacted by a decline of 33% in the spot price of iron ore (on a CFR China basis, before value-in-use adjustments and before ocean freight and IOC allocation) during the quarter due to a number of factors in the seaborne iron ore market that included de-stocking of plant inventories by Chinese steel mills, traders withdrawing from the spot market and historically high port inventories in China.

For the quarter ended September 30, 2012, the Company reported a loss of $31.7 million, or $0.47 per share, which included a depletion and depreciation charge of $14.4 million or $0.21 per share. The depletion and depreciation figure represents a period charge, primarily on a units-of-production basis, of the cost of the James mine (including capitalized stripping and dewatering), Silver Yards processing plant, transportation equipment, and infrastructure and site administration properties associated with the operations of the James mine operations.

During the quarter, LIM invested approximately $5.8 million in property, plant and equipment, compared to approximately $25.7 million invested during the same quarter of the previous year. The $5.8 million invested during the second quarter consisted mainly of investments in Phase 3 of the Silver Yards processing plant, grid connection infrastructure and expansion of the mine accommodation camp.

During the second quarter, LIM advanced approximately $15.4 million in various payments for its rail and port facilities outlined as follows: $2.5 million to the Tshuuetin (TSH) Railway as a non-repayable contribution to its capital upgrade program; $5 million to the Quebec North Shore and Labrador (QNS&L) Railway as an installment towards its advance payments required to secure locomotive and infrastructure capacity; a preliminary installment of $6.4 million to the Port of Sept-Îles to secure ship loading capacity of 5 million tonnes per year in the new multi-user deep water dock; and, $1.5 million to CN to participate in a feasibility study evaluating the development of a new, continuous multi-user railway in the Labrador Trough and a new terminal handling facility located at the Port of Sept-Îles.

At September 30, 2012, LIM had current assets of $58.2 million, including inventories with a carrying value of $21.4 million and accounts receivable and prepaid expenses of $34.5 million. At September 30, 2012, the Company had a total of $915,000 in unrestricted cash and cash equivalents. Current liabilities, consisting of accounts payable and accrued liabilities, the premium liability recognized on the issuance of flow-through shares and the current portion of finance lease obligations and rehabilitation provision, were in aggregate $60.9 million at September 30, 2012. The Company had a working capital deficiency of $2.6 million as at September 30, 2012. Subsequent to quarter end, LIM completed an equity financing for gross proceeds of $30 million.

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This press release should be read in conjunction with LIM’s Management’s Discussion and Analysis (MD&A) and unaudited financial statements for the second quarter ended September 30, 2012, available on the company’s website at www.labradorironmines.ca, under the “Financials” section, or on SEDAR (www.sedar.com).

Beginning with the first quarter of fiscal 2013 (April 1, 2012), proceeds from LIM’s iron ore sales have been recognized as revenue in the Company’s Statement of Operations and Comprehensive Income.

All references to ‘years’ in this press release are ‘calendar years’, unless otherwise indicated. All dollar amounts are stated in Canadian dollars, unless otherwise noted.

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Conference Call and Webcast: Second Quarter Results

Members of the senior management team will host a conference call and webcast today at 11:00 am (ET). You may participate in our conference call by calling 416-641-6104 (local and international) or 1-866-696-5894 (Canada and US toll-free). To ensure your participation, please call five minutes prior to the scheduled start of the call.

A live audio webcast will be available on LIM's homepage at www.labradorironmines.ca and archived for 180 days.

For those who are unable to participate in the live conference call, a replay will be available until the end of day on November 29, 2012 by calling 905-694-9451 (local and international) or 1-800-408-3053 (Canada and US toll-free) and entering the passcode 757 52 11#.

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About Labrador Iron Mines Holdings Limited (LIM)

Labrador Iron Mines (LIM) is Canada’s newest iron ore producer with a portfolio of direct shipping (DSO) iron ore operations and projects located in the prolific Labrador Trough. Initial production commenced at the James Mine in June 2011, with the sale of 386,000 dry tonnes of iron ore recorded in the first start-up year. The first full production season commenced in April 2012, with nine cape-size shipments totalling approximately 1,456,000 dry tonnes of iron ore sold in the seven months ended October 31, 2012.

The James Mine is connected by a direct rail link to the Port of Sept-Iles, Québec. The project also benefits from established infrastructure including the town, airport hydro power and railway service. Starting with the James Mine and leading to the development of the expanding Houston flagship project, our objective is to provide shareholders with long-term value with a plan to increase production towards 5 million tonnes per year from a portfolio of 20 iron ore deposits in Labrador and Quebec, all within 50 kilometres of the town of Schefferville.

LIM is currently the only independently-owned Canadian iron ore producer listed on the Toronto Stock Exchange and trades under the symbol LIM.

For further information, please visit LIM’s website at www.labradorironmines.ca or contact:
Keren Yun, Vice President,
Investor Relations & Communications
Tel: (647) 725-0795

Cautionary Statements:

Some of the statements contained herein may be forward-looking statements which involve known and unknown risks and uncertainties. Without limitation, statements regarding potential mineralization and resources, exploration results, and future plans and objectives of the Company are forward looking statements that involve various degrees of risk. The following are important factors that could cause the Company’s actual results to differ materially from those expressed or implied by such forward looking statements: changes in the world wide price of iron ore and steel, general market conditions, the uncertainty of future profitability and access to additional capital, risks inherent in mineral exploration and risks associated with development, construction and mining operations, delays in obtaining or failures to reach agreements with any potentially impacted aboriginal groups or to obtain required governmental, environmental or other project approvals. There can be no assurance that the Company will be successful in reaching any agreement with any First Nations groups who may assert aboriginal rights or may have a claim which affects the Company’s properties or may be impacted by the Schefferville Area project. Caution should be exercised on placing undue reliance on forward looking information.