LABRADOR IRONMINES

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CORPORATE BROCHURE

A new appro to iron o

By positioning itself in a region already rich in mineral assets and infrastructure, Labrador Iron Mines is reviving a historic mining operation within the heart of Canada's prolific Labrador Trough iron range. Keith Reg learns how this first mover of high-quality DSO product envisions a growin production profile at its deposits along the Quebec-Labrador border

Labrador Iron Mines (LIM) set an enterprising target to become the premier direct-shipping ore (DSO) producer in Canada and is demonstrating the ability to achieve that goal with help from the region's prolific iron ore mining and infrastructure-rich history.

LIM has enjoyed a low-capex entry as one of the few new iron producers in North America, courtesy of a 570-kilometer rail line (the umbilical cord to the deep seaport of Sept-Îles and focal to the main maritime routes between North America, Europe and Asia), as well as hydro-electric power from a nearby hydro plant, power lines crossing the early stage properties, and years of development work put in place by Iron Ore Company of Canada (IOC).

LIM has already sent some 6,500 metric tons (tonnes) of iron ore lump and fines material to steel mills in Europe, where it proved to be very suitable feed for their blast furnaces. The low-risk mining approach, beginning with the deposits closest to infrastructure out of a total of 20 deposits straddling the 100-km Knob Lake iron range, has brought the project to the threshold of a production start-up scheduled for late summer of 2010.

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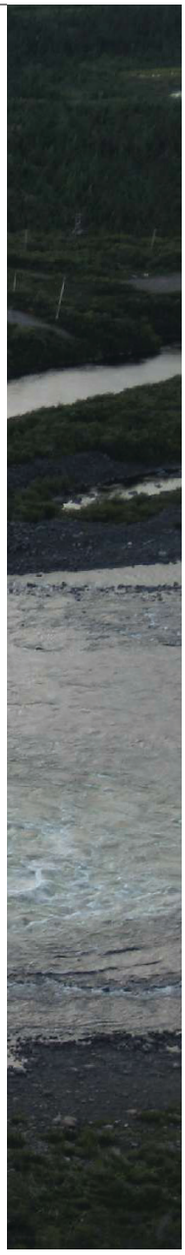
In total, LIM has acquired almost two-thirds of IOC's mineral inventory near Schefferville, Quebec, which was formerly classified as reserves and contains as much as 150 million tons of historic DSO mineral inventory identified by IOC more than a half century ago. From 1954 to 1982 IOC had outlined about 400 million tonnes of DSO resource and mined 150 million tons, the remaining inventory inactive until very recently.

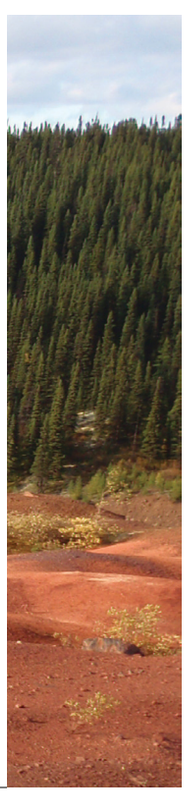
Canada's history of iron mining was essentially integrated with the US steel mills. With the emphasis on global expansion and with rising iron ore spot pricing—which today is near all-time highs, even with the corrections that European debt crises can throw at it—significant historic mining districts such as the Labrador Trough have re-emerged, and Labrador Iron Mines is leading that trail.

Given long-term global infrastructure expansion forecasts, iron ore has been at the forefront of the bulk commodities due to its importance in the steel industry, to which its demand is intimately linked. Steel consumption, being a proxy for global GDP expansion, has been driven by the "new consumer" economies of China and India, which are in the formative stages of economic growth. These two countries alone account for two-fifths of the world's population.

LIM believes that we're witnessing a historic transformation in benchmark pricing to one that is more closely correlated to spot. In fact, with supply dominated by the big three producers (BHP, Rio Tinto and Vale) exerting considerable influence through supply discipline means that the fundamental material balance is held in check and pricing is less volatile, particularly on the downside, than it is for many other commodities.

Among the factors making LIM's project particularly compelling is the relatively high iron content and low level of impurities in the hematite ore, with even higher iron content in the deposits that will be targeted in future phases. In addition, the simple processing that combines washing with conventional crushing and screening enables LIM to boost the grade of its product by as much as 15 percent to about 65 percent iron. Given its low capital intensity, long life (20-plus years) and relatively low hurdles (being in a brownfield mining district with minimal construction required), LIM is ideally positioned to benefit from the current evolution of commodity pricing and global growth.





Clearly the most important factor, however, is the extensive infrastructure investment made by the original owner, IOC, over prior decades. This begs the question, could a 570-km rail line from the mine site near Schefferville to the deep-water port of Sept-Îles be built today given our modern-day multi-level environmental and regulatory hurdles? The short answer is that it would be next to impossible, and the cost would be formidable. The replacement cost of the infrastructure that LIM has inherited could easily run into the billions.

The low-capex, simple and minimal processing requirements lower the project's financial and technical risk. In contrast to most iron ore operations, which rely on economies of scale to justify large capital expenditures, LIM's low-risk approach involves a modest-scale operation beginning with the deposits located closest to the infrastructure. The James deposit, with an estimated 8.1 million tonnes of ore, is just three kilometers from the town of Schefferville and just one kilometer from the existing rail spur and marshaling area. Also in the first-stage mining plan are the Redmond and Houston deposits, which will come onstream sequentially to 2012, when production is estimated to increase to 3 million tonnes per year.

Later phases, potentially four in all, are estimated to build production to as much as 6 million tonnes per year; the more remote deposits, such as the Astray Lake and Sawyer Lake deposits in stage 3 require additional infrastructure support but are of much higher grade. Future development is expected to be funded from the growing stream of cash flow.

In advance of production start-up later this summer, LIM has been progressing toward completion of the 4.5-km railway spur line between the processing site at Silver Yard and the existing Tshiuetin rail line that continues to run to the port of Sept-Îles. The new spur line will initially be used to transport the main components of the processing plant and the accommodation camp to the site.

For its first production year, LIM plans to sell its ore into the spot market, though expressions of interest in the high-quality lump and fines products have been constant, particularly from Asian steel companies. Still, LIM's competitive edge vis-à-vis its Australian DSO counterparts remains its proximity to European markets, as it offers product diversity that otherwise is dominated by Vale. Despite Europe being a natural target, the Asian appetite for quality ore is proving relentless. Already shipments from the Labrador Trough region are reaching such Far East destinations as Korea, Japan and China.

> "The low-risk mining approach has brought the project to the threshold of a production start-up scheduled for late summer 2010"

The major operators in the Labrador Trough today produce iron ore concentrate and pellets involving a higher capex intense process: IOC (58 percent Rio Tinto), which recently announced plans to increase its annual concentrate capacity by 4 million tonnes to 22 million tonnes by 2012; Arcelor Mittal Canada (Quebec Cartier), producing some 15 million tonnes of iron ore concentrate and over 9 million tonnes of iron oxide pellets annually; and Cliffs Natural Resources, producing 2.7 million tonnes out of its Wabush facility. What distinguishes LIM from the new-generation producers in the Labrador Trough is that it remains independent and so is considered to be more highly leveraged to the upside. The company's late-2007 initial public offering raised some C$52 million, which has since been supplemented by a more recent financing in March 2010 of C$35 million, securing the funds required to take the Schefferville area project through its first year of production toward cash flow generation. Today LIM has a strong balance sheet with no debt and just 43 million shares outstanding.

Labrador Iron Mines has worked hard to create strong partnerships with the First Nations peoples in the area, with one Impact and Benefit Agreement (IBA) already in place with the Labrador Innu Nation and other similar agreements in progress. The company plans to use contractors initially—a strategy that will further reduce capital costs—with extensive local hiring planned to benefit the economy of the region for years to come.

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