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Labrador Iron Mines gets provincial OK

JUMPING LAST MAJOR REGULATORY HURDLE ADDS TO NUMEROUS RECENT MILESTONES; TIGHT TIMELINE, RAIL ACCESS REMAIN

BY IAN BICKIS

VANCOUVER — **Labrador Iron Mines Holding**'s (LIM-T) is well on its way to opening a direct-shipping iron ore (DSO) mine near Schefferville, Que., Newfoundland and Labrador, The provincial cabinet has now given the project final environmental approval and project release, which clears it of all major regulatory hurdles and keeps the mine on track to open in mid-2010.

Rising iron ore prices, a major increase in resource holdings, the relative simplicity of direct-shipping ore (DSO) and numerous infrastructure boosts played a role in pushing Labrador Iron Mines' share price from around $2 in early December to a peak of $7.30 in late January.

Company chairman John Kearney said in a phone interview that he expects construction to begin in April, mining to start in May, and the first ore shipped by August.

The Schefferville project is being developed on land that was mined by the Iron Ore Company of Canada (IOC) between 1954 and 1982, which means much of the infrastructure is already in place. The site has road access, power, rail access and a nearby town.

The project is in the Labrador Trough iron range, with 20 DSO deposits sitting between 2 km and 65 km from Schefferville. The project has been separated into three, or possibly four, phases of operation. The company's various properties are in different stages of exploration, but current and historic resource estimates put the count at roughly 136 million tonnes. The company has yet to release a feasibility study but estimates are it could be producing upwards of 5.4 million tonnes of ore annually by 2016.

All the ore is to be loaded onto trains and shipped straight to the port-town of Sept-Îles, where it will be shipped and sold to European smelters. Labrador Iron recently finalized an agreement with the Sept-Îles port authority that establishes access and sets a base fee schedule. The Sept-Îles port of Pointe Noire is a year-round deep-water port 650 km east of Quebec City that mainly serves the Quebec-Labrador mining industries.

Phase one of the project will mine the deposits closest to town, making the most of existing infrastructure before spending more capital on expanding toward other deposits. The open-pit mine will tap into the James and Redmond properties, and will be active eight months a year. Production is expected to reach 1 million tonnes of DSO in 2010, and then ramp up to 3 million tonnes by 2012.

Metallurgical testing of the James South lump ore and sinter fines indicate the iron content of the lump ore at 66.98% and the fines at 67.23%, which makes it high quality lump ore and fines well-suited to the European market. The ore has an *in situ* grade of 59% iron, but a simple wash plant will be used to remove silica from the ore, thereby increasing the iron concentration. The final product split is expected to be 80% fines grading 63% iron and 20% lump ore grading 65% iron.

Labrador Iron released an N1 43-101 compliant resource estimate for the James and Redmond deposits in late 2009 that more than doubled the previous estimate based on historic data from IOC. The new estimate pegs the resource at 11 million tonnes grading 57.4% iron and extends the life of the first phase by up to two years.

The provincial Department of Environment and Conservation approved the company's environmental impact statement in late 2009; final cabinet approval was announced recently. The project release by cabinet clears the last major regulatory hurdle and allows the company to apply for the more routine permits and licenses required to start-up. Kearney said that while environmental approval took a little longer than expected, the company could now move forward. "It's an important milestone; without that you don't go anywhere," he said.

Kearney said the biggest challenge going forth is keeping to the company's ambitious schedule of starting construction by April, with all permits and plans in place.

"The timeline we have set for ourselves is tight; our program is ambitious and aggressive," said Kearney. "We need to make sure we execute, we need to get on

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the ground as soon as we can."

Analyst Peter Campbell of Jennings Capital, thinks the biggest hurdle will be negotiating access to the 580-km of rail that leads from Schefferville to the iron ore loading port at Pointe-Noire. Labrador Iron will have to hammer out agreements with track owners, two of which are competing iron producers.

The first 200-km stretch is controlled by the Tshiuetin railway, which is owned by three First Nations. The next 350-km stretch is controlled by Quebec North Shore & Labrador Railway, which is owned by IOC, Canada's largest iron ore producer and now a subsidiary of **Rio Tinto** (RTP-N, RIO-L). The final 30-km stretch is owned by Arnaud Railway, which is controlled by Wabush Mines, a subsidiary of **Cliffs Natural Resources** (CLF-N). Wabush and IOC are required under common carrier rules to provide access to the tracks if there is extra capacity, which there is, but Campbell warns that they will drive a hard bargain.

Kearney said he wouldn't describe the two rail providers as competitors, noting the subsidiaries are in the business of providing freight service, but did acknowledge the negotiations will be fairly tough.

While Labrador Iron may have difficulty in reaching a deal with competitors IOC and Wabush, the company has cooperated with fellow iron-producer **New Millennium Capital** (NML-V). Labrador Iron and New Millennium completed a mutually beneficial deal in late 2009 that had the companies swap fragmented properties in the Schefferville area to make both companies' land holdings more efficient. Roughly 11.8 million tonnes of historic resource rights were transferred in the deal.

The two companies will also be working together to coordinate development of roads, rail lines, and processing and storage facilities in the area. Rail line coordination is especially important, as the 200-km Tshiuetin railway requires significant upgrading because it has not transported heavy iron ore since IOC stopped production in 1983.

In late 2009 Labrador Iron significantly increased its overall resources by securing properties containing an historic resource estimate of 45.4 million tonnes of DSO. Most of the new resource is located northwest of Schefferville in Quebec, 35 km from the planned phase three of the project, while 4.54 million tonnes of DSO is near the planned phase one and 9 million tonnes near the planned phase two. Some of the new deposits will require Labrador Iron to pay $2 per tonne of iron shipped to the previous landholders. The new properties also contain a number of small high-grade manganese deposits.

High iron ore prices are also giving the project, and the company, a boost. Since September spot iron ore prices have increased 58% to US$135 per tonne. Jennings Capital forecasts iron ore prices will increase by 20% in 2010, 10% in 2011 and 5% in 2012. More generally, Campbell said he expects prices to remain high for the next three to five years.

The company is in a good financial position to move forward, with no debt and $20.7 million in cash and equivalents at the end of 2009. Labrador Iron reported a net income of $2.4 million for the last quarter of 2009, compared with a net loss of $683,000 for the same quarter of 2008. The income stemmed primarily from future income tax recoveries of $3.2 million for the latest quarter.

The company's share price gained 2¢ to close at $6.50 on news of the government's final environmental approval, reflecting the expectedness of the announcement. Labrador Iron's 52-week share price range is between 62¢ and $7.30; the company has 37 million shares outstanding.