

Recommendation: BUY

LIM Remains on Schedule for Production this Year

Current Price 23p, Price Target 54p

Anglesey's 41%-owned associate, Labrador Iron Mines <TSX:LIM>, has released its full year 2009/10 figures and MD&A. These paint a confident picture of a well resourced miner anticipating the start of initial production ahead of this year's winter shut down. More recent underperformance of both AYM and LIM, resulting both from the fall back of iron ore prices that achieved new highs following the collapse of annual contract negotiations and the apparent impasse recently reached with the Quebec Innu, have created an important buying opportunity. AYM's share price now significantly undervalues LIM's Canadian project opportunity before having attributed any value to the Group's other mining assets.

- Full year 2009/2010 figures held few surprises. The main feature being a CAD\$3.9m (compared with CAD\$0.8m for full year 2008/09) future income tax recovery, offset by corporate and administrative expenses of CAD\$1.69m (CAD\$1.23m) and a stock-based compensation expense of CAD\$86k (CAD\$656k). The significant increase in recovery was a result of a lowered Ontario tax rate that was enacted in November 2009. Despite investing a total of CAD\$17.1m in its mineral properties plus further acquisitions during the period, LIM retained a healthy cash/cash equivalents position of CAD\$48.3m at the period end as a result of Short Form Prospectus Financing completed in March. This raised gross proceeds of CAD\$35.1m.

Labrador Iron Mines

Selected Annual Financial Data (CAD\$'000)	March 2010	March 2009	March 2008
(Loss) before income taxes	(2,748)	(1,136)	(4,978)
Net income (loss)	1,165	(352)	(1,282)
Net income (loss) per share (Canadian cents)	3	(1)	(9)
Cash/cash equivalents	48,299	35,202	47,483
Total assets	210,034	177,686	175,722
Total long-term financial liabilities	1,000	-	-
Cash dividends declared per share	-	-	-

Source: Labrador Iron Mines

- Having received Governmental Environmental Approval and Project Release for DSO Iron Ore Operations last February, permitting and licence applications are now at an advanced stage. Still outstanding are those for mine site construction and operation of the rail spur that comprises part of the first phase of Stage 1 of the Schefferville projects. Assuming all remaining permits/approvals are issued shortly, construction and beneficiation facilities will commence this summer. This will allow initial production to get underway before the seasonal shut down of operations at end-November. A ramp-up to full scale production by April 2011 would then take output to 2 million tonnes of ore for the calendar year. Beyond this, agreements with relevant rail and port operators for transportation and handling of output still need to be concluded. Beaufort's model for LIM anticipates a successful outcome in all such negotiations and is based on 15-year LOM with annual output peaking at 6Mt/year in 2018.
- LIM's recently revised resource estimate for its Houston deposit, combined with those previously announced for the James and Redmond deposits, takes the total Measured and Indicated (NI 43-101 compliant) resource for LIM's Stage 1 deposits to 25.71 million tonnes at a grade of 58.5% Fe. Of this, the Houston deposit totals 14.68 million tonnes at a grade of 59.3% iron in the Measured and Indicated categories. A further 1.5 million tonnes of resources have been classified in the Inferred category. A exploration programme of reverse circulation drilling and trenching is planned for this summer and targets extensions to existing resources as well as the Quebec deposit and properties acquired last December. Given a declared base of 150Mt of high grade DSO at Schefferville, the compliant resource estimate should be seen to grow substantially in coming years.
- LIM continues discussions with potential end users including a number of Chinese customers/importers, as well as European producers. Demand for both medium and longer-term guaranteed supply appears healthy. While it is realistic to anticipate the softening of ore global prices to be sustained between now and 2012, upward pressure is anticipated from 2013 onward. Beaufort's LIM model, however, adopts more prudent forward pricing expectations when creating its NPV and price target for the Group.
- Earlier this month, ongoing consultations of First Nations' commercial terms took a turn for the worse. The Innu Strategic Alliance set up a barricade on the road leading to LIM's Schefferville projects. Though possibly considered a late stage negotiating manoeuvre, the Innu Chief has declined to discuss or negotiate LIM's already comprehensive compensatory package further. A near-term solution may still be found, although our 'worse case' scenario would see site construction delayed until Q1'2011.

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Labrador Iron Mines Holdings Limited	LIM	None

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