LABRADOR IRON ORE
ROYALTY CORPORATION

218

FIRST QUARTER REPORT

80 YEARS IN LABRADOR WEST

To the Holders of Common Shares of Labrador Iron Ore Royalty Corporation

The Directors of Labrador Iron Ore Royalty Corporation ("LIORC" or the "Corporation") present the first quarter report for the period ended March 31, 2018.

Royalty revenue for the first quarter of 2018 amounted to $33.8 million as compared to $42.8 million for the first quarter of 2017. Equity earnings from Iron Ore Company of Canada ("IOC") amounted to $14.6 million or $0.23 per share in the first quarter of 2018 as compared to $22.2 million or $0.35 per share in the first quarter of 2017. Net income was $30.3 million or $0.47 per share for the first quarter of 2018 compared to $42.9 million or $0.67 per share for the same period in 2017. Cash flow from operations for the first quarter was $20.3 million or $0.32 per share as compared to $28.2 million or $0.44 per share for the same period in 2017.

The cash flow from operations, equity earnings and net income for the first quarter of 2018 were lower than the first quarter of 2017 mainly due to reduced sales tonnages and reduced prices for concentrate and pellets. The average index price for 62% fines decreased 13% to US$74 per tonne CFR China in the first quarter of 2018 compared to the average price in the first quarter of 2017 of US$86 per tonne. Total IOC sales for calculating the royalty to LIORC – pellets plus concentrate for sale ("CFS") – of 3.9 million tonnes was 17% lower in the first quarter of 2018 compared to the same period in 2017, driven largely by lower CFS tonnage sales being 38% lower than in the same period in 2017. The pellet sales tonnages in the first quarter of 2018 were slightly higher (2%) than in the first quarter of 2017. LIORC received an IOC dividend in the first quarter of 2017 in the amount of $10.0 million or $0.16 per share, whereas LIORC received no IOC dividend in the first quarter of 2018.

LIORC's results for the three months ended March 31 are summarized below:

(in millions except per share information)	**3 Months Ended Mar. 31, 2018**	**3 Months Ended Mar. 31, 2017**
Revenue	$ 34.3	$ 43.4
Cash flow from operations	$ 20.3	$ 28.2
Operating cash flow per share	$ 0.32	$ 0.44
Net income	$ 30.3	$ 42.9
Net income per share	$ 0.47	$ 0.67

Iron Ore Company of Canada Operations

Production

Issues with the parallel ore delivery system, increased ore hardness, and a work stoppage, which commenced on March 27, 2018, adversely affected concentrate production in the first quarter. Consequently, total concentrate production in the first quarter of 2018 of 4.2 million tonnes was 13% lower than the first quarter of 2017 and was 15% lower than the fourth quarter of 2017. The first quarter of 2017 was a record for first quarter concentrate production.

The decreased concentrate production in the first quarter primarily affected CFS production since pellet production was favoured due to continued strong demand and premiums. CFS production in the first quarter of 2018 was 28% lower than in the first quarter of 2017 and 31% lower than the previous quarter. Pellet production in the first quarter of 2018 was 7% higher than in the first quarter of 2017; pellet production in the first quarter of 2018 was approximately the same as the previous quarter. The pellet plant operated well in the first quarter of 2018.

Sales as Reported for the LIORC Royalty

First quarter 2018 total iron ore tonnage sold by IOC (CFS plus pellets) of 3.9 million tonnes was 17% below the total sales tonnage in the first quarter of 2017 and 28% below the fourth quarter of 2017. In the first quarter of 2018, the pellet sales tonnage was 8% lower and CFS sales tonnage was 49% lower than the fourth quarter of 2017.

The benchmark price for 62% Fe CFR China was 13% lower in the first quarter of 2018 as compared to the first quarter of 2017. The lower benchmark prices were somewhat offset by the improved year-over-year pellet premiums and also the improved differential between 62% and 65% concentrate. The higher premiums were driven by the Chinese governments enacting and enforcing measures to reduce pollution; these measures favour higher quality products such as the CFS and pellets produced by IOC. The Canadian dollar was 4% stronger in the first quarter of 2018 as compared to the first quarter of 2017. As a result of the lower benchmark prices, reduced sales tonnages and the effect of the stronger Canadian dollar, somewhat offset by improved premiums, the royalty revenue for LIORC in the first quarter of 2018 was 21% lower than the revenue in last year's first quarter.

A summary of IOC sales for calculating the royalty to LIORC in millions of tonnes is as follows:

	3 Months Ended Mar. 31, 2018	3 Months Ended Mar. 31, 2017	Year Ended Dec. 31, 2017
Pellets	2.54	2.48	10.48
Concentrates(1)	1.35	2.19	8.67
Total(2)	3.89	4.67	19.15

(1) Excludes third party ore sales

(2) Totals may not add up due to rounding

Outlook

The outlook for LIORC is clouded by the labour disruption at IOC, which started on March 27, 2018, and at the time of this writing is not resolved. IOC had operational issues in the fourth quarter of 2017 and in the first quarter of 2018, but the benchmark prices for concentrate and pellet premiums were good and the demand for pellets remained strong. When operations resume at IOC, LIORC can expect strong royalty revenue and the possibility of IOC dividends, if these market conditions continue. The labour disruption will also affect the timing of capital investments, including the refurbishment of the No. 4 pellet line and the development of the Wabush 3 open pit.

It is the stated objective of IOC management to achieve fair and equitable agreements with the workforce. However, IOC must be positioned for the highs and the lows of the mining cycle in order to remain a responsible and competitive business in the global market for the long term.

The LIORC cash balance at March 31, 2018 stood at $25.6 million before LIORC dividends payable on April 25, 2018 of $0.35 per share or $22.4 million. The net royalty from IOC was paid on the same date, maintaining the Corporation's strong cash balance. The duration of the labour disruption at IOC, the production achieved over the balance of 2018 after a settlement has been reached, and the iron ore prices and premiums during that time period will be the main factors that determine future LIORC dividends.

Respectfully submitted on behalf of the Directors of Labrador Iron Ore Royalty Corporation,

William H. McNeil
President and Chief Executive Officer
May 7, 2018

The following discussion and analysis should be read in conjunction with the Management's Discussion and Analysis section of the Corporation's 2017 Annual Report, the financial statements and notes contained therein and the March 31, 2018 interim condensed consolidated financial statements. The Corporation's revenues are entirely dependent on the operations of IOC as its principal assets relate to the operations of IOC and its principal source of revenue is the 7% royalty it receives on all sales of iron ore products by IOC. In addition to the volume of iron ore sold, the Corporation's royalty revenue is affected by the price of iron ore and the Canadian – U.S. dollar exchange rate.

The first quarter sales of IOC are traditionally adversely affected by the closing of the St. Lawrence Seaway and general winter operating conditions and are usually 15% – 20% of the annual volume, with the balance spread fairly evenly throughout the other three quarters. Because of the size of individual shipments, some quarters may be affected by the timing of the loading of ships that can be delayed from one quarter to the next.

Royalty revenue for the first quarter of 2018 amounted to $33.8 million as compared to $42.8 million for the first quarter of 2017. Equity earnings from IOC amounted to $14.6 million or $0.23 per share in the first quarter of 2018 as compared to $22.2 million or $0.35 per share in the first quarter of 2017. Net income was $30.5 million or $0.47 per share for the first quarter of 2018 compared to $42.9 million or $0.67 per share for the same period in 2017. Cash flow from operations for the first quarter was $20.3 million or $0.32 per share as compared to $28.2 million or $0.44 per share for the same period in 2017.

The cash flow from operations, equity earnings and net income for the first quarter of 2018 were lower than the first quarter of 2017 mainly due to reduced sales tonnages and reduced prices for concentrate and pellets. The average index price for 62% fines decreased 13% to US$74 per tonne CFR China in the first quarter of 2018 compared to the average price in the first quarter of 2017 of US$86 per tonne. Total IOC sales for calculating the royalty to LIORC (CFS plus pellets) of 3.9 million tonnes was 17% lower in the first quarter of 2018 compared to the same period in 2017, driven largely by lower CFS tonnage sales being 38% lower than in the same period in 2017. The pellet sales tonnages in the first quarter of 2018 were slightly higher (2%) than in the first quarter of 2017. LIORC received an IOC dividend in the first quarter of 2017 in the amount of $10.0 million or $0.16 per share, whereas LIORC received no IOC dividend in the first quarter of 2018.

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First quarter 2018 total IOC sales for calculating the royalty to LIORC (CFS plus pellets) of 3.9 million tonnes was 17% below the total sales tonnage in the first quarter of 2017 and 28% below the fourth quarter of 2017. In the first quarter of 2018, the pellet sales tonnage was 8% lower and CFS sales tonnage was 49% lower than the fourth quarter of 2017.

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The following table sets out quarterly revenue, net income, cash flow and dividend data for 2018, 2017 and 2016.

	Revenue	**Net Income**	**Net Income per Share**	**Cash Flow**	**Cash Flow from Operations per Share**	**Adjusted Cash Flow per Share[1]**	**Dividends Declared per Share**
	(in millions except per share information)						
2018							
First Quarter	$ 34.3	$ 30.3	$ 0.47	$ 20.3	$ 0.32	$ 0.29	$ 0.35
2017							
First Quarter	$ 43.4	$ 42.9	$ 0.67	$ 28.2[2]	$ 0.44[2]	$ 0.53[2]	$ 0.50
Second Quarter	$ 34.2	$ 32.3	$ 0.50	$ 45.6[3]	$ 0.71[3]	$ 0.53[3]	$ 0.60
Third Quarter	$ 40.4	$ 43.8	$ 0.69	$ 53.6[4]	$ 0.84[4]	$ 0.85[4]	$ 1.00
Fourth Quarter	$ 40.6	$ 38.3	$ 0.60	$ 39.6[5]	$ 0.62[5]	$ 0.65[5]	$ 0.55
2016							
First Quarter	$ 22.3	$ 11.0	$ 0.17	$ 12.5	$ 0.19	$ 0.19	$ 0.25
Second Quarter	$ 25.8	$ 8.3	$ 0.13	$ 7.6	$ 0.12	$ 0.22	$ 0.25
Third Quarter	$ 28.4	$ 21.2	$ 0.33	$ 15.2	$ 0.24	$ 0.24	$ 0.25
Fourth Quarter	$ 38.6	$ 37.7	$ 0.59	$ 28.3[6]	$ 0.44[6]	$ 0.57[6]	$ 0.25

(1) "Adjusted cash flow" (see below)

(2) Includes $10.0 million IOC dividend.

(3) Includes $15.3 million IOC dividend.

(4) Includes $32.2 million IOC dividend.

(5) Includes $19.3 million IOC dividend.

(6) Includes $15.1 million IOC dividend.

Standardized Cash Flow and Adjusted Cash Flow

For the Corporation, standardized cash flow is the same as cash flow from operating activities as recorded in the Corporation's consolidated statements of cash flow as the Corporation does not incur capital expenditures or have any restrictions on dividends. Standardized cash flow per share was $0.32 for the quarter (2017 – $0.44). Cumulative standardized cash flow from inception of the Corporation is $25.47 per share and total cash distributions since inception is $24.94 per share, for a payout ratio of 98%.

The Corporation also reports "Adjusted cash flow" which is defined as cash flow from operating activities after adjustments for changes in amounts receivable, accounts payable and income taxes recoverable and payable. It is not a recognized measure under International Financial Reporting Standards ('IFRS"). The Directors believe that adjusted cash flow is a useful analytical measure as it better reflects cash available for dividends to shareholders.

The following reconciles standardized cash flow from operating activities to adjusted cash flow (in '000's).

	3 Months Ended Mar. 31, 2018	3 Months Ended Mar. 31, 2017
Standardized cash flow from operating activities	$ 20,277	$ 28,183
Changes in amounts receivable, accounts payable and income taxes payable	(1,591)	5,441
Adjusted cash flow	$ 18,686	$ 33,624
Adjusted cash flow per share	$ 0.29	$ 0.53

Adjusted cash flow, which better reflects cash available for dividends, was $18.7 million, or $0.29 per share, compared to $33.6 million or $0.53 per share in the previous year. The standardized cash flow from operating activities in the first quarter of 2017 included a $10 million or $0.16 per share cash dividend from IOC; IOC did not pay a dividend in the first quarter of 2018.

Liquidity and Capital Resources

The Corporation had $25.6 million in cash as at March 31, 2018 (December 31, 2017 – $40.5 million) with total current assets of $60.0 million (December 31, 2017 – $82.6 million). The Corporation had working capital of $29.4 million as at March 31, 2018 (December 31, 2017 – $33.1 million). The Corporation's operating cash flow for the quarter was $20.3 million and the dividend paid during the quarter was $35.2 million, resulting in cash balances decreasing by $14.9 million during the first quarter of 2018.

Cash balances consist of deposits in Canadian dollars with Canadian chartered banks. Amounts receivable primarily consist of royalty payments from IOC. Royalty payments are received in U.S. dollars and converted to Canadian dollars on receipt, usually 25 days after the quarter end. The Corporation does not normally attempt to hedge this short-term foreign currency exposure.

Operating cash flow of the Corporation is sourced entirely from IOC through the Corporation's 7% royalty, 10 cents commission per tonne and dividends from its 15.10% equity interest in IOC. The Corporation intends to pay cash dividends of the net income derived from IOC to the maximum extent possible, subject to the maintenance of appropriate levels of working capital.

The Corporation has a $50 million revolving credit facility with a term ending September 18, 2019 with provision for annual one-year extensions. No amount is currently drawn under this facility (2017 – nil) leaving $50.0 million available to provide for any capital required by IOC or requirements of the Corporation.

Outlook

The outlook for LIORC is clouded by the labour disruption at IOC, which started on March 27, 2018, and at the time of this writing is not resolved. IOC had operational issues in the fourth quarter of 2017 and in the first quarter of 2018, but the benchmark prices for concentrate and pellet premiums were good and the demand for pellets remained strong. When operations resume at IOC, LIORC can expect strong royalty revenue and the possibility of IOC dividends, if these market conditions continue. The labour disruption will also affect the timing of capital investments, including the refurbishment of the No. 4 pellet line and the development of the Wabush 3 open pit.

It is the stated objective of IOC management to achieve fair and equitable agreements with the workforce. However, IOC must be positioned for the highs and the lows of the mining cycle in order to remain a responsible and competitive business in the global market for the long term.

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William H. McNeil
President and Chief Executive Officer
Toronto, Ontario
May 7, 2018

Forward-Looking Statements

This report may contain "forward-looking" statements that involve risks, uncertainties and other factors that may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Words such as "may", "will", "expect", "believe", "plan", "intend", "should", "would", "anticipate" and other similar terminology are intended to identify forward-looking statements. These statements reflect current assumptions and expectations regarding future events and operating performance as of the date of this report. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to vary significantly, including iron ore price and volume volatility, exchange rates, the performance of IOC, market conditions in the steel industry, mining risks and insurance, relationships with aboriginal groups, changes affecting IOC's customers, competition from other iron ore producers, estimates of reserves and resources and government regulation and taxation. A discussion of these factors is contained in LIORC's annual information form dated March 8, 2018 under the heading, "Risk Factors". Although the forward-looking statements contained in this report are based upon what management of LIORC believes are reasonable assumptions, LIORC cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this report and LIORC assumes no obligation, except as required by law, to update any forward-looking statements to reflect new events or circumstances. This report should be viewed in conjunction with LIORC's other publicly available filings, copies of which can be obtained electronically on SEDAR at www.sedar.com.

Notice:

The following unaudited interim condensed consolidated financial statements of the Corporation have been prepared by and are the responsibility of the Corporation's management. The Corporation's independent auditor has not reviewed these interim financial statements.

Labrador Iron Ore Royalty Corporation Interim Condensed Consolidated Statements of Financial Position

(in thousands of Canadian dollars)	**As at** **March 31, 2018** *(Unaudited)*	**December 31, 2017**
Assets		
Current Assets		
Cash	$ 25,575	$ 40,498
Amounts receivable (note 4)	34,425	42,092
Total Current Assets	60,000	82,590
Non-Current Assets		
Iron Ore Company of Canada ("IOC") royalty and commission interests	257,703	259,032
Investment in IOC (note 5)	423,308	408,691
Total Non-Current Assets	681,011	667,723
Total Assets	$ 741,011	$ 750,313
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	$7,075	$8,601
Dividend payable	22,400	35,200
Taxes payable	1,153	5,703
Total Current Liabilities	30,628	49,504
Non-Current Liabilities		
Deferred income taxes (note 6)	128,970	127,220
Total Liabilities	159,598	176,724
Shareholders' Equity		
Share capital	317,708	317,708
Retained earnings	272,123	264,272
Accumulated other comprehensive loss	(8,418)	(8,391)
	581,413	573,589
Total Liabilities and Shareholders' Equity	$ 741,011	$ 750,313

See accompanying notes to interim condensed consolidated financial statements.

Approved by the Directors,

William H. McNeil
Director

Patricia M. Volker
Director

Labrador Iron Ore Royalty Corporation
Interim Condensed Consolidated Statements of Income and Comprehensive Income

(in thousands of Canadian dollars except for per share information)	For the Three Months Ended March 31, 2018	2017
	(Unaudited)	
Revenue		
IOC royalties	$ 33,811	$ 42,837
IOC commissions	383	460
Interest and other income	119	59
	34,313	43,356
Expenses		
Newfoundland royalty taxes	6,762	8,567
Amortization of royalty and commission interests	1,329	1,544
Administrative expenses	862	1,049
	8,953	11,160
Income before equity earnings and income taxes	25,360	32,196
Equity earnings in IOC	14,649	22,237
Income before income taxes	40,009	54,433
Provision for income taxes (note 6)		
Current	8,003	10,132
Deferred	1,755	1,387
	9,758	11,519
Net income for the period	30,251	42,914
Other comprehensive loss		
Share of other comprehensive loss of IOC that will not be reclassified subsequently to profit or loss (net of income taxes of 2018 – $5; 2017 – $17)	(27)	(96)
Comprehensive income for the period	$ 30,224	$ 42,818
Net income per share	$ 0.47	$ 0.67

See accompanying notes to interim condensed consolidated financial statements.

Labrador Iron Ore Royalty Corporation
Interim Condensed Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)	For the Three Months Ended March 31, 2018	2017
	(Unaudited)	
Net inflow (outflow) of cash related to the following activities		
Operating		
Net income for the period	$ 30,251	$ 42,914
Items not affecting cash:		
Equity earnings in IOC	(14,649)	(22,237)
Current income taxes	8,003	10,132
Deferred income taxes	1,755	1,387
Amortization of royalty and commission interests	1,329	1,544
Common share dividend from IOC	—	10,016
Change in amounts receivable	7,667	(9,789)
Change in accounts payable	(1,526)	1,741
Income taxes paid	(12,553)	(7,526)
Cash flow from operating activities	20,277	28,182
Financing		
Dividends paid to shareholders	(35,200)	(16,000)
Cash flow used in financing activities	(35,200)	(16,000)
(Decrease) increase in cash, during the period	(14,923)	12,182
Cash, beginning of period	40,498	23,937
Cash, end of period	$ 25,575	$ 36,119

See accompanying notes to interim condensed consolidated financial statements.

Labrador Iron Ore Royalty Corporation
Interim Condensed Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars)	**Share capital**	**Retained earnings**	**Accumulated other comprehensive loss**	**Total**
		(Unaudited)		
Balance as at December 31, 2016	$ 317,708	$ 276,588	$ (10,451)	$ 583,845
Net income for the year	—	42,914	—	42,914
Dividends declared to shareholders	—	(32,000)	—	(32,000)
Share of other comprehensive loss from investment in IOC (net of taxes)	—	—	(96)	(96)
Balance as at March 31, 2017	$ 317,708	$ 287,502	$ (10,547)	$ 594,663
Balance as at December 31, 2017	$ 317,708	$ 264,272	$ (8,391)	$ 573,589
Net income for the year	—	30,251	—	30,251
Dividends declared to shareholders	—	(22,400)	—	(22,400)
Share of other comprehensive loss from investment in IOC (net of taxes)	—	—	(27)	(27)
Balance as at March 31, 2018	$ 317,708	$ 272,123	$ (8,418)	$ 581,413

See accompanying notes to interim condensed consolidated financial statements.

(in thousands of Canadian dollars)

1. Corporate Information

Labrador Iron Ore Royalty Corporation (the “Corporation”) directly and through its wholly-owned subsidiary, Hollinger Hanna Limited (“Hollinger-Hanna”), holds a 15.10% equity interest in Iron Ore Company of Canada (“IOC”), a 7% gross overriding royalty on all iron ore products produced, sold, delivered and shipped by IOC, a $0.10 per tonne commission interest on sales of iron ore by IOC and certain lease interests and, accordingly, is economically dependent on IOC. The Corporation is listed on the Toronto Stock Exchange under the symbol LIF. The registered office of the Corporation is 235 Water Street, P.O. Box 610, St. John’s, Newfoundland, A1C 5L3.

Seasonality

The results of operations and operating cash flows of the Corporation vary considerably from quarter to quarter. The operations of the Corporation are dependent on the royalty and commission revenues from IOC, whose production and revenues are not constant throughout the year, being lower during the winter months when the St. Lawrence Seaway is closed. The results reported in these interim condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

2. Basis of Presentation

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board (“IASB”). Accordingly, certain information and footnote disclosure normally included in the annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the IASB, have been omitted or condensed. The Corporation adopted IFRS 9, *Financial Instruments* and IFRS 15, *Revenue with Contracts with Customers* on January 1, 2018 and accordingly, certain accounting policies have changed in preparing these financial statements from those used for the December 31, 2017 audited financial statements of the Corporation. There has been no material impact to the financial statements on adoption of IFRS 9 and 15. The additional disclosures required by IFRS 9 are outlined in Note 8. These interim condensed consolidated financial statements and management’s discussion and analysis were authorized for issuance by the Board of Directors of the Corporation on May 7, 2018.

3. Significant Accounting Policies

These interim condensed consolidated financial statements have been prepared using the same accounting policies as the annual consolidated financial statements for the year ended December 31, 2017 with the exception of accounting policies as set out below. The disclosure in these interim condensed consolidated financial statements does not include all requirements of IAS 1 *Presentation of Financial Statements*. Accordingly, the interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2017.

(a) Financial assets and liabilities

The Corporation has applied the resulting changes in accounting policies for financial instruments retrospectively; however in accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

(i) Recognition

The Corporation initially recognizes deposits, receivables and liabilities on the date that they were originated. All other financial assets and liabilities are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

All financial assets and liabilities are initially measured at fair value and in the case of a financial asset or liability not at fair value through profit or loss, plus or minus transaction costs that are directly attributable to its acquisition or issue.

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in a transferred financial asset that is created or retained by the Corporation is recognized as a separate asset or liability.

The Corporation derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statements of financial position when, and only when, the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously

ii) Classification and fair value measurement

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (“FVOCI”) and fair value through profit or loss. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. The adoption of IFRS 9 has not had a significant effect on the Corporation’s accounting policies for financial assets and financial liabilities – see Note 8.

Financial assets

A financial asset is classified as subsequently measured at amortized cost if it meets the following criteria:

- 'hold-to-collect' business model test – the asset is held within a business model whose objective is to hold the financial asset in order to collect contractual cash flows; and
- 'SPPI' contractual cash flow characteristics test – the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal outstanding on a specified date.

The Corporation's business model is to hold financial assets to collect contractual cash flows and the cash flows pass the SPPI test and accordingly, all financial assets are measured at amortized cost.

Financial liabilities

The Corporation classifies all financial liabilities, not otherwise held for trading, as subsequently measured at amortized cost.

iii) Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39. There have been no allowances made to financial assets for credit losses on transition to IFRS 9 because the Corporation determined that the expected credit losses on its financial assets were nominal.

(b) Restricted share units

Restricted share units ("RSUs") awarded to employees are recognized as compensation expense in the Consolidated Statement of Income over the vesting period based on the number of RSUs expected to vest including the impact of expected forfeitures. RSUs are settled in cash and, as a result, are classified as a liability. The liability for vested RSUs are re-measured to fair value at each reporting date while they remain outstanding, with any changes in fair value recognized in compensation expense in the period.

(c) Revenue recognition

The Corporation has adopted IFRS 15 using the modified retrospective approach.

Royalty and commission revenue are based on iron ore sold and shipped by IOC and are measured at the fair value of the consideration received or receivable. The Corporation recognizes revenue from these sales when control over the iron ore transfers to the customer.

Royalty and commission revenue is recognized in an amount that reflects the consideration to which the Corporation is entitled to under the mineral sublease and for which collectability is reasonably assured.

4. Amounts Receivable

	March 31, 2018	December 31, 2017
IOC royalties	$ 34,024	$ 41,834
IOC commissions	111	225
Other	290	33
	$ 34,425	$ 42,092

5. Investment in IOC

The Corporation holds, directly and through Hollinger-Hanna, all of the Series B and Series C common shares of IOC, representing a 15.10% equity interest in IOC as at March 31, 2018 and December 31, 2017. The Series B and Series C common shares have identical voting rights to all other issued and outstanding common shares of IOC.

	March 31, 2018	December 31, 2017
Investment in IOC, beginning of period	$ 408,691	$ 408,680
Equity earnings in IOC	14,649	74,300
Other comprehensive (loss) income of IOC	(32)	2,424
Common share dividend received	—	(76,713)
Investment in IOC, end of period	$ 423,308	$ 408,691

The net excess of cost of the Investment in IOC over the net book value of the Corporation's proportionate interest in the underlying net assets of IOC amounts to $44,081 as at March 31, 2018 (December 31, 2017 – $44,303) and is being amortized to net income on the units-of-production method based on production and mineral reserve and resource estimates at IOC.

6. Income Taxes

The provision for income taxes in the statements of comprehensive income differs from the amount computed by applying the combined Canadian federal and provincial tax rate to the Corporation's income before income taxes. The reasons for the difference and the related tax effects are as follows:

	For the Three Months Ended March 31,	
	2018	**2017**
Income before income taxes	$ 40,009	$ 54,432
Income taxes at combined federal and provincial statutory tax rates of 30.0%	12,003	16,330
(Decrease) increase in income taxes resulting from:		
Undistributed equity earnings in investment in IOC	(2,197)	(3,336)
Equity earnings distributed as dividends	—	(1,502)
Other	(48)	27
Income tax expense	$ 9,758	$ 11,519

The deferred tax liability is comprised of the following:

	Opening Balance	Recognized in net income	Recognized in other comprehensive income (loss)	Closing Balance
December 31, 2017				
Difference in tax and book value of assets	$ 129,794	$ (2,273)	$ 364	$ 127,885
Tax benefit of deductible temporary differences	(734)	69	—	(665)
Net deferred income tax liability	$ 129,060	$ (2,204)	$ 364	$ 127,220
March 31, 2018				
Difference in tax and book value of assets	$ 127,885	$ 1,808	$ (5)	$ 129,688
Tax benefit of deductible temporary differences	(665)	(53)	—	(718)
Net deferred income tax liability	$ 127,220	$ 1,755	$ (5)	$ 128,970

7. Key Management Personnel Compensation

Key management personnel are the President and Chief Executive Officer, the Executive Vice President & Secretary, the Executive Vice President, the Chief Financial Officer and directors. Their remuneration for the three months ended March 31, 2018 was comprised of salaries, bonuses and fees totaling $416 (2017 – $384). The 2017 bonuses awarded by the Compensation Committee to the executive officers totaling $159 were paid in the first quarter of 2018.

8. Transition to IFRS 9 Financial Instruments

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Corporation's financial assets and financial liabilities as at January 1, 2018.

	Measurement Category		Carrying Amount – December 31, 2017		
	IAS 39	**IFRS 9**	**IAS 39**	**IFRS 9**	**Difference**
Current Financial Assets					
Cash	Amortised cost	Amortised cost	$ 40,498	$ 40,498	—
Amounts receivable	Amortised cost	Amortised cost	42,092	42,092	—
Current Financial Liabilities					
Accounts payable	Amortised cost	Amortised cost	$ 8,601	$ 8,601	—
Dividend payable	Amortised cost	Amortised cost	35,200	35,200	—
Taxes payable	Amortised cost	Amortised cost	5,703	5,703	—

9. Share-based payments

On March 15, 2018, the Corporation adopted a restricted share unit plan ("Plan") for its employees that uses notional units that are valued based on the Corporation's common share price on the Toronto Stock Exchange. The RSUs accumulate dividend equivalents in the form of additional units based on the dividends paid on the Corporation's common shares. The Plan is settled in cash and, as a result, is classified as a liability. Fluctuations in the Corporation's share price change the value of the RSUs, which affects the Corporation's compensation expense.

Under the Plan, selected employees receive an award of RSUs which vest in three equal installments on each of the first, second and third anniversary of the award date. Upon vesting all RSUs are paid in cash to the employee. The share-based payment expense is recognized evenly over the vesting period. As at March 31, 2018, there were 8,175 RSUs awarded and outstanding of which 156 were vested. For the three month period ended March 31, 2018, compensation expense of approximately $3 was accrued in connection with the RSUs.

Corporate Information

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Duncan N.R. Jackman(1)
Chairman, President and CEO of
E-L Financial Corporation Limited

James C. McCartney
Company Director
Retired Partner, McCarthy Tétrault LLP

John F. Tuer(1)
Company Director

Sandra L. Rosch
President, Stonecrest Capital Inc.

Patricia M. Volker(1)
Company Director

Officers

William J. Corcoran
Non – Executive Chairman of the Board

William H. McNeil
President and Chief Executive Officer

James C. McCartney
Executive Vice President and Secretary

Sandra L. Rosch
Executive Vice President

Alan R. Thomas
Chief Financial Officer

(1) *Member of Audit, Nominating and Compensation Committees*

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