

LABRADOR IRON ORE ROYALTY CORPORATION

**ANNUAL INFORMATION FORM
FOR THE YEAR ENDED DECEMBER 31, 2015**

March 3, 2016

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ANNUAL INFORMATION FORM

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LABRADOR IRON ORE ROYALTY CORPORATION

LIORC

Labrador Iron Ore Royalty Corporation ("**LIORC**"), a corporation existing under the *Canada Business Corporations Act*, was formed to give effect to the conversion of the Labrador Iron Ore Royalty Income Fund (the "**Fund**") into a corporation under an arrangement completed on July 1, 2010. LIORC is also the successor by amalgamation under the Arrangement of a predecessor of LIORC with Labrador Mining Company Limited ("**LabMin**"), formerly a wholly-owned subsidiary of the Fund.

The information in this Annual Information Form is presented on a continuity of interest basis, which recognizes LIORC as the successor to the Fund and LabMin.

LIORC, directly and through its wholly-owned subsidiary Hollinger-Hanna Limited ("**Hollinger-Hanna**"), holds a 15.10% equity interest (the "**IOC Equity**") in Iron Ore Company of Canada ("**IOC**"). LIORC receives a 7% gross overriding royalty (the "**Royalty**") and Hollinger-Hanna receives a 10 cent per tonne fee (the "**Fee**") on all iron ore products produced and sold by IOC.

Generally, LIORC pays cash dividends on its common shares from its net income to the maximum extent possible, subject to the maintenance of appropriate levels of working capital. The shareholders currently receive quarterly dividends on the common shares on the 25th day of the month following the end of each quarter.

As at December 31, 2015, LIORC had 64 million common shares outstanding. The common shares trade on the Toronto Stock Exchange under the symbol LIF. The common shares are qualified investments under the Income Tax Act (Canada) for deferred plans, including registered retirement savings plans, registered retirement income funds and deferred profit sharing plans.

Pursuant to an administration agreement (the "**Administration Agreement**") extended on July 1, 2015, Scotia Managed Companies Administration Inc. ("**SMCAI**") acts as administrator for LIORC and its subsidiary, Hollinger-Hanna, for an aggregate annual fee of \$250,000 (payable monthly in advance). SMCAI, as administrator, has agreed to provide or arrange for the provision of services required in the administration of LIORC and Hollinger-Hanna. The Administration Agreement had an original term of five years, renewable annually thereafter on consent of both parties. The Agreement may be terminated by either party on six months' written notice.

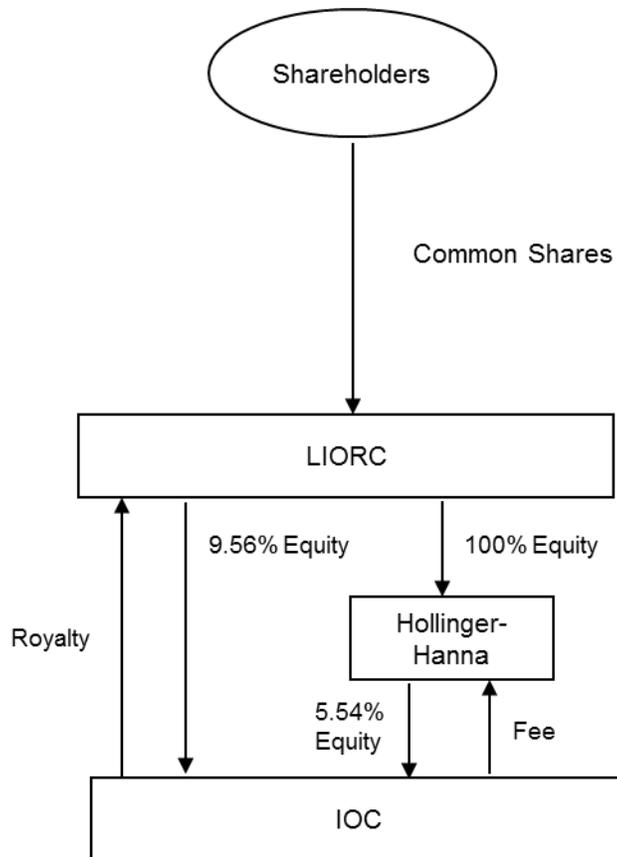
The registered office of LIORC is located at Suite 1000, Scotia Centre, 235 Water Street, St. John's, Newfoundland and Labrador, A1C 1B6. Administration and Investor Relations is at 40 King Street West, Scotia Plaza, 26th Floor, Toronto, Ontario M5W 2X6.

Hollinger-Hanna Limited

Hollinger-Hanna, a wholly-owned subsidiary of LIORC, was continued on May 28, 1980 under the *Canada Business Corporations Act*. Hollinger-Hanna holds a 5.54% equity interest in IOC and is entitled to the Fee on all iron ore products sold and shipped by IOC. Pursuant to an agreement with IOC, the Fee is payable on all sales for so long as Hollinger-Hanna is in existence and solvent.

Corporate Structure

The following diagram sets forth the organizational structure of LIORC and its subsidiary.



GENERAL DEVELOPMENT OF THE BUSINESS

Three-Year History (2013-2015)

The Royalty

The Royalty received by LIORC from IOC depends on sales volumes, prices and, because sales are in U.S. dollars, the U.S.-Canadian dollar exchange rate.

In 2013, sales volumes were 8.6 million tonnes for pellets and 6.2 million tonnes for concentrates. Production in the first quarter approached an annual rate of 18 million tonnes reflecting the successful integration of the first phase of the concentrate expansion program. Ore quality issues and wildfire and power outage problems were experienced in June and July. Severe cold affected production in December. Iron ore prices dipped in the first half of 2013 and then recovered and were fairly stable in the U.S. \$130 to \$140 per tonne range in the second half.

In 2014, sales volumes were 8.2 million tonnes for pellets and 6.1 million tonnes for concentrates. Unusually harsh weather conditions that lasted well into the second quarter resulted in frozen material and unplanned equipment downtime. A train derailment in November resulted in lost sales. Index prices for concentrate fell significantly over the year with the index price at year end being about 47% below the 2013 year end level. The decline was partially offset by weakness in the Canadian dollar against its U.S. counterpart.

2015 was a challenging year. Index prices fell from a high of U.S. \$75 per tonne at the beginning of the year to under U.S. \$40 near the end. The decline was partly offset by weakness in the Canadian dollar against its U.S. counterpart. With improved operating efficiencies resulting in about a 18% increase in concentrate production and a 19% reduction in concentrate unit costs, IOC continued to be a competitive supplier of pellets and concentrate. In 2015, sales volumes were 9.5 million tonnes for pellets and 8.4 million tonnes for concentrates.

Long-Term Debt

LIORC has a \$50 million revolving senior secured credit facility with a term ending September 18, 2018. Each year LIORC may request a one year extension of the maturity date. The credit facility provides for various forms of advances at the option of the company. Various interest options are available for the revolving credit and a standby fee is payable on the unadvanced portion of the facility. The facility is secured by an assignment of LIORC's and Hollinger-Hanna's interests in the IOC Equity, the Royalty and the Fee and requires that LIORC maintain certain financial ratios.

As at December 31, 2015, there was no amount drawn under the credit facility.

THE BUSINESS

History of Operations

LIORC holds the Royalty, a 9.56% equity interest in IOC, a 100% interest in Hollinger-Hanna (which holds a 5.54% equity interest in IOC), and certain other passive assets.

The Royalty

LIORC holds 12 long-term leases and six licences (collectively, the "**Labrador Leases**") from the Government of Newfoundland and Labrador covering approximately 18,200 hectares of land near Labrador City. LIORC's leasehold interests authorize mining and mineral extraction, whereas the licences grant LIORC exclusive authority to explore such lands for mineralization. Labrador City is approximately 410 kilometres by railway from Sept-Îles, Quebec, a deep water port located on the Gulf of St. Lawrence. The Labrador Leases include all mineral interests contained upon or under the lands, excluding oil and natural gas rights. Active mining is presently being conducted on three of the 12 leases covering approximately 3,900 hectares of land. Permitting is underway for a replacement pit on the Wabush 3 lease.

The 12 leases which constitute the leasehold portion of the Labrador Leases were initially granted in 1960, 1962, 1965 and 1971 and were for terms of 30 years with the right to renew the leases for two additional 30 year terms. In accordance with their terms, all 12 leases were renewed in 1990 for second terms of 30 years which, subject to their renewal right for a third term, will expire in 2020, 2022, 2025 and 2031.

Six licences were initially issued in 1962 for 40 year terms, and one was issued in 1964 for a 40 year term. The six licences were converted to map staked licences in 2002 and two of these were grouped together in 2004. All of these were extended for five years on July 15, 2007 and again on July 15, 2012. The remaining licence was converted to a map staked licence in 2004, and was extended for five years on January 5, 2009 and again on January 5, 2014. Map staked licences confer the exclusive right to explore for a period of five years, subject to assessment work, and the holder has a right to apply for three five year extensions. After the third five-year extension, licenses can be held for a further ten years, subject to more stringent assessment requirements and annual extensions to the licenses.

On February 25, 1953, LIORC entered into a sublease agreement with IOC (as amended from time to time, the "**sublease**") whereby LIORC leased to IOC mineral interests in iron ore on certain lands ("**IOC Lands**"). Subject to certain reserve allocations between LIORC and IOC, the sublease provided that, in consideration for the Royalty, IOC had the right to extract all of the iron ore from some of the IOC

Lands and two-thirds of the iron ore from certain other of the IOC Lands, while LIORC retained the right to one-third of the iron ore present on or under such other lands. On August 31, 2006, agreement was reached with IOC to simplify the sublease with LIORC granting IOC rights to mine 100% of the ore for the Royalty. The previously excluded Wabush 3 property was included in the sublease in consideration of a 7% royalty on sales of iron ore products derived from that property. Parts of the Knight deposit previously held exclusively by IOC were also included in the sublease and subject to a 7% royalty.

As of September 1, 2006, LIORC and IOC entered into an amended and restated sublease ("**Labrador Sublease**") to amend and restate the original sublease agreement dated February 25, 1953 and 7 amendments dated June 2, 1965, December 31, 1970, June 28, 1974, January 1, 1986, May 25, 1995, June 1, 2000 and August 31, 2006. The Labrador Sublease is a consolidation of the predecessor documents, with deletions of parts that are no longer applicable.

In addition to the Royalty payable to LIORC, IOC is obligated to pay certain amounts to the Government of Newfoundland and Labrador on behalf of LIORC in order to maintain the Labrador Leases, including annual rental payments and a royalty of 5% of profits as defined in the Labrador Leases. A 20% Government of Newfoundland and Labrador royalty tax, which is deducted at source and remitted by IOC, is also payable pursuant to the *Mining and Mineral Rights Tax Act* (Newfoundland).

IOC's mining operations are conducted on lands governed by three of the 12 leases, which have terms expiring in 2020 and 2022, with a right of renewal for a further 30 year term. IOC's proven and probable reserves are located on these three leases plus Wabush 3. The resources are located on the same three leases plus three additional leases.

The Labrador Sublease has a term equal to the term of each Labrador Lease less one day including any renewal term of such lease. IOC can terminate the Labrador Sublease with respect to all or a portion of the IOC Lands by providing LIORC with seven calendar months' notice. In this event, LIORC has the right to acquire IOC's mining and production facilities at a negotiated or arbitrated price.

As provided in the Labrador Sublease, the Royalty is paid in U.S. dollars quarterly (on a calendar basis in arrears) on April 25, July 25, October 25 and January 25 in each year in amounts equal to 7% of the selling price FOB Sept-Îles, Quebec for each iron ore product produced, sold and shipped by IOC during the applicable quarterly period. Some spot sales are on a CFR basis and are adjusted to FOB to calculate the royalty. Subject to adjustment, the Royalty must be paid in respect of minimum volumes of iron ore. The Labrador Sublease provides for a maximum payment in situations where premium-priced products are developed in the future. If the price of a premium-priced iron ore product exceeds the market price for a similar concentrate or pellet product by 10%, then the Royalty is based on the market price for the similar concentrate or pellet product rather than the market price for the premium-priced iron ore product.

LIORC currently retains all non-iron ore mineral rights with respect to the Labrador Leases. LIORC believes that the exploration potential of such licences and leases for non-iron ore mineralization is not high.

The IOC Equity

IOC is currently owned by three shareholders, including LIORC (directly and through Hollinger-Hanna). The shares of common stock are divided into seven series. Dividends are paid equally in respect of all shares and the shares are in all respects identical to one another. The IOC shareholders and their respective interests in IOC are as follows: Rio Tinto 58.72%, Mitsubishi Corporation 26.18% and LIORC 15.10%.

The declaration of dividends by the directors of IOC is discretionary. In 2013, LIORC received a dividend of U.S. \$37.75 million or approximately Cdn. \$40.2 million. In 2014, LIORC received dividends of U.S. \$13.6 million or approximately Cdn. \$14.8 million and U.S. \$18.875 million or approximately Cdn.

\$20.6 million. No dividends were received in 2015 as IOC retained cash given the low iron ore price environment.

Pursuant to IOC's amended and restated certificate of incorporation, its common shares may be transferred in accordance with certain terms and conditions, which include the requirement that such shares be first offered to the other shareholders of IOC on a pro rata basis. Further, to the extent such shareholders do not acquire the shares offered for sale, then all shareholders must consent to the transfer of the remaining shares to any proposed transferee. All existing shareholders have a pre-emptive right to participate in any issuance of stock of IOC on a pro rata basis.

Hollinger-Hanna

LIORC also owns a 100% interest in Hollinger-Hanna, which holds a 5.54% equity interest in IOC. Hollinger-Hanna was previously involved in marketing iron ore for IOC. In return for relinquishing the right to market IOC's iron ore, Hollinger-Hanna receives the Fee on all iron ore products sold and shipped by IOC. The Fee is payable for so long as Hollinger-Hanna is in existence and solvent.

Employees

LIORC and Hollinger-Hanna have no employees other than the officers listed under "Directors and Officers" in this Annual Information Form.

IRON ORE COMPANY OF CANADA

General

IOC was incorporated under the laws of the State of Delaware on November 18, 1949. IOC commenced production at Labrador City, Newfoundland and Labrador in 1962. IOC produces all of its iron ore from the IOC Lands. Iron ore is used in blast furnaces to produce pig iron or in direct reduction facilities and is subsequently transformed into steel.

All information relating to IOC in this annual information form has been provided by the management of IOC.

IOC's principal business is mining the iron ore present on the IOC Lands leased under the Labrador Sublease and operating the associated mining facilities and plants required for the production of iron ore concentrate and pellets. These facilities are located at Labrador City. In normal circumstances, IOC operates its facilities 24 hours a day on a year round basis. Management of IOC has advised that the company has the nominal capacity to extract up to 55 million tonnes of crude ore annually. In 2015, a total of 46 million tonnes of crude ore was mined from 4 mining areas. IOC's concentrating plant has a nominal capacity to produce approximately 23.3 million tonnes of iron ore concentrate per year, depending on ore quality, for either direct shipping or as feed to IOC's pellet plant. In 2015, 18.7 million tonnes of concentrate were produced. IOC aggressively pursued asset management and employee engagement strategies in 2015 to support a step-change improvement and align production performance with expectations.

IOC's pellet plant has a nominal capacity of roughly 12.5 million tonnes of iron ore pellets per year on current product mix. In 2015, IOC produced 8.4 million tonnes of concentrate for sale and 9.3 million tonnes of pellets. Concentrate for sale and pellets are shipped by the Quebec North Shore & Labrador Railway Company, Inc. ("QNS&L"), a wholly-owned subsidiary of IOC, from IOC's mining facilities in Labrador City, Newfoundland and Labrador to Sept-Îles, Quebec where IOC also owns and operates a marine terminal with materials storage and docking facilities. From the Sept-Îles deep water port, IOC's products are shipped to markets throughout the world on a year round basis.

In 2015, IOC continued to implement an asset management program to improve reliability across the business through better maintenance and operating practices. Several focussed initiatives, targeted

at improving the production system's delivery, were taken. IOC is progressing several initiatives to better engage employees in improving the business. These improvements are expected to enhance IOC's cost competitiveness and position IOC to continue to be a competitive supplier of iron ore pellets and concentrate to the global market.

Mineral Reserves and Resources

IOC's active mining operations are conducted in the Labrador City area (the "Mine"). IOC has operated the Mine for 54 years. IOC holds its interest in the Mine pursuant to the Labrador Sublease. In 2015 iron ore was extracted from 4 mining areas (Luce, Humphrey South, Humphrey West and Sherwood Pond) and permitting continued on a fifth, Wabush 3.

The iron ore deposits in the Labrador City area occur as specular hematite and magnetite, generally in the ratio of 65:35. The mineral reserve and mineral resource deposits, with an average grade of approximately 38% iron, occupy the middle iron unit of the Sokoman formation overlain by waste rock. The deposits are intricately folded and overturned. The iron ore mineral reserve and resource deposits at the Mine are close to the surface thereby facilitating open pit mining.

The total estimated iron ore mineral reserves and resources at the Mine at December 31, 2015, as estimated by IOC, were as follows:

	<u>Tonnes</u> (in millions)	Average Iron Ore <u>Grade</u> (Fe %)
Proven Reserves	637	38%
Probable Reserves	<u>792</u>	38%
Total Mineral Reserves	<u>1429</u>	38%
Measured Resources	393	39%
Indicated Resources	<u>1497</u>	38%
Total Measured and Indicated Mineral Resources	<u>1890</u>	38%
Inferred Resources	871	37%

1. Mineral Resources exclude Mineral Reserves.
2. Mineral resources are reported on an in-situ basis and mineral reserves are reported on an as-mined (i.e. net of dilution and mining losses) basis. In-situ and as-mined material is reported on a dry basis.
3. Reserves and resources have been estimated by Tim Leriche, Ramsey Way and Bronwen Wallace, who meet the criteria for being Qualified Persons, as defined by National Instrument 43-101, and who are full time employees of IOC.
4. Reserves and resources comprise all mineralised material within the Middle Iron Formation of the Sokoman Formation, except limonitically altered material. Reserves exclude all limonitic material and resources exclude limonitic material characterized by H₂O assays exceeding 1%. No cut-off grade has been applied within the Middle Iron Formation, since all mineralised material is economically viable (above 25% weight yield). Current operating practice at IOC is to process all mineralised material from the Middle Iron Formation.
5. Most of the assays and density determinations used in the reserve and resource estimates have been carried out by the IOC laboratory. QA/QC protocols have been in place since 2004. Assay standards are inserted after each 12th sample and duplicate assays are carried out on every 50th sample. A limited number of twinned holes have been compared to validate the assays from holes drilled before the commencement of the QA/QC program. The sampling protocol has been reviewed and the chain of custody of samples has been reviewed on an ad-hoc basis, although this is not part of the routine QA/QC process. Reconciliations of modelled ore tonnes and qualities against measured tonnes and qualities are carried out monthly, to validate the reserve models.

Total Mineral Reserves increased by 39 million tonnes in 2015. This is comprised of a 119 million tonne reduction in the existing reserve pits, offset by bringing a further 158 million tonnes of Wabush 3 material from resources into reserves. The reserve reduction in the existing pits was due to production and orebody model changes driven by additional drilling data. Not all of the Wabush 3 deposit has been brought into reserves at this stage, due to tailings capacity limitations.

Measured and Indicated Mineral Resources decreased by 110 million tonnes. This was due mainly to a combination of the transfer of resources in the Wabush 3 deposit to reserves (-173 million tonnes), a reduction in resources in the Spooks deposit, due mainly to remodelling (-48 million tonnes) and also an increase in resources in the Humphrey Main and Humphrey South deposits, due to remodelling and to additional drilling (+119 million tonnes).

Inferred Mineral Resources increased by 166 million tonnes, due mainly to additional drilling which allowed the definition of additional resources.

The estimated Proven and Probable Reserves of crude iron ore located on IOC Lands are approximately 1.4 billion tonnes which will produce approximately 0.6 billion tonnes of saleable product (pellets and concentrate). At the planned processing rate, the estimated Proven and Probable Reserves of crude iron ore are equivalent to approximately 28 years production. The annual stripping ratio for IOC's reserves generally ranges between 0.8 and 1.4 tonnes of waste per tonne of ore, with an average of 1.1. In addition to the Proven and Probable Reserves, there are also estimated Measured and Indicated Resources of 1.9 billion tonnes and a further 0.9 billion tonnes of Inferred Resources.

Mine

Mining is carried out using open pit techniques, which involve the drilling, blasting and hauling of waste rock and ore. Broken ore is loaded by electric shovels and transported by truck to one of three underground loading pockets where the ore is transferred to unmanned automatic trains or to a primary crusher and overland conveyor. The automatic trains carry broken ore to a crusher located adjacent to IOC's processing facilities, a distance of between 8 and 12 kilometres from the loading pockets. The conveyor carries ore a distance of 6 kilometres to the concentrator. Currently the mine and the automatic train and conveyor have a nominal capacity to deliver up to 55 million tonnes per annum of ore to the concentrator.

Concentrator

IOC employs an entirely mechanical process to separate the ore from the waste rock. In order to extract the iron ore from the associated rock and silica gangue, the crushed ore is ground to a size of approximately one millimetre at which point it is liberated from the associated undesirable minerals. The grinding is currently done in four wet mills.

Ground ore is then concentrated in the spiral plant using gravity spirals to increase the iron content from 38% to approximately 65%. The spirals utilize the forces of gravity, centrifugal action and friction to separate the heavier iron ore grains from the lighter waste rock particles. The ground ore slurry must pass through three successive stages of spiralling (including rougher, cleaner and recleaner) before the concentrate is of sufficient grade and can be conveyed to a stockpile for direct shipping or used as feed for the pelletizing plant. A magnetic separation plant extracts magnetite from the spiral plant's tailings, while a hematite recovery plant recovers fine particles of hematite from the tailings of the magnetic separation plant.

In 2015, concentrate production was about 18.7 million tonnes. The ratio of tonnes of iron ore concentrate produced to the total tonnes of crude ore fed into the concentrator plant (the iron ore weight yield) was 41%.

In the period 2008 to 2014, IOC undertook expansion programs to increase its annual concentrate production. After completion of commissioning and optimization of the production system, IOC's nominal concentrate production capacity is approximately 23.3 million tonnes per year, subject to ore quality.

In 2015, approximately 45% of IOC's concentrate production was sold as concentrate while the remaining production was converted into pellets at IOC's pelletizing plant before sale. IOC's production of concentrate and pellets is sold to steel manufacturers. IOC seeks to maximise margins by optimising its product offerings of concentrate for sale and pellets according to the changing market pricing.

Pellet Plant

In order for iron ore concentrate to be used in a blast furnace, it must first be converted into either sinter, which is typically produced on-site at the steel making facilities, or converted into iron ore pellets at a pelletizing plant, such as the one at IOC's production facilities in Labrador City. The pellets can then be charged directly into a blast furnace.

Iron ore concentrate is received from the concentrating operations where it is ground in one of 11 ball mills. The ground concentrate, after being filtered, is mixed with bentonite, which acts as a binding agent and, in the case of fluxed pellets, limestone and/or dolomite is added. The ground concentrate and other additive mixtures are formed into balls 9.5 mm to 12.5 mm in diameter that after being placed on one of six travelling grate furnaces, are dried to remove moisture and then fired. Once cooled, the finished iron ore pellets are conveyed to storage for shipping by rail to the shipping terminal facilities in Sept-Îles.

A flotation plant uses bubble flotation technology to reduce silica to lower levels than can be achieved in the concentrator. It was originally installed to allow IOC to produce lower silica direct reduction pellets that contain less than 2% silica for use in DRI (direct reduced iron) and HBI (hot briqueted iron) plants which produce concentrated iron feed material primarily for electric arc furnaces. However, the plant is currently also being used to produce lower silica pellets for certain blast furnace customers.

IOC's Carol Lake pellet plant has the nominal capacity to produce 12.5 million tonnes per year at the current product mix, with actual capacity varying somewhat with the product mix. The plant produces three primary products: acid pellets, fluxed pellets and direct reduction pellets, with a silica content of 1.2 to 4.7%. In 2015, 9.3 million tonnes of pellets were produced.

Production

The production at IOC for the past five years was as follows:

	Years Ended December 31				
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
	(million tonnes)				
Total Feed Concentrate ⁽¹⁾	18.7	15.8	16.2	15.1 ⁽²⁾	13.9
Pellets	9.3	8.7	8.6	9.7 ⁽²⁾	8.7
Concentrate for Sale	8.4	6.0	6.8	4.4 ⁽²⁾	4.8

Notes: ⁽¹⁾ The total volume of pellets and concentrate for sale does not equal the total feed concentrate due to changes in inventory and losses of material in the pelletizing operations.

⁽²⁾ Production in 2012 was affected by the commissioning of a new primary crusher and ore delivery system and an additional grinding mill.

Capital Expenditures

The capital expenditures for IOC for the past five years were as follows:

	Years Ended December 31				
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
	(C\$ millions)				
Capital Expenditures	143	187	275	740	678

Employees

The numbers of employees of IOC for the past five years were as follows:

	Years Ended December 31				
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Number of employees	2,316	2,580	2,620	2,615	2,361

IOC's hourly employees are represented by three unions. At December 31, 2015, the United Steelworkers of America (USWA) represented approximately 1,560 employees at Labrador City and Sept-Îles, the United Transportation Union (UTU) represented approximately 78 employees mostly based at Sept-Îles and the Marine Guild represented 3 employees at Sept-Îles. The six year collective agreements with the USWA employees expire in March, 2018.

Marketing and Sales

General

IOC is one of Canada's leading iron ore producers and a global supplier of iron ore pellets and concentrates. While IOC typically enters into annual or multi-year sales contracts with customers worldwide, a significant proportion of the sales are now placed in the spot markets, notably concentrate for sinter to China. Rio Tinto Canada (Management) Inc. acts as IOC's sole and exclusive agent for the marketing and sales of iron ore products made available for sale by IOC. In consideration of its services, Rio Tinto Canada (Management) Inc. is entitled to receive a marketing fee from IOC based on a percentage of the price of the product sold.

Iron Ore Products

IOC's primary products include standard and low silica acid pellets, flux pellets, direct reduction pellets and iron ore concentrates. Acid pellets can be charged directly into blast furnaces without further processing. Flux pellets are similar to acid pellets, with the exception that more dolomite and/or limestone is added to the pellets before pelletization to improve metallurgical properties and increase the efficiency of the operation of a blast furnace.

Iron ore concentrates must be agglomerated, typically at the sinter plants, before being charged into the furnaces. This is mainly because of the permeability requirement of the blast furnaces. There is considerable variation in the burden mix (proportion of iron ore lump, pellets and sinter) applied to blast

furnaces worldwide. Typical blast furnace burden mix in North America shows 90-100% pellets while the rest of the world uses sinter as a dominant burden charge.

Direct reduction pellets with lower silica content are used in the direct reduction processes to produce sponge iron which is an alternative process route, as an initial stage from iron to steel. The DR process is primarily based on the use of natural gas and has become increasingly common in countries with access to inexpensive natural gas.

Sales Volumes, Prices and Revenues

Saleable production for 2015 was 20% higher than in 2014 as a result of increases in productivity. Multiple operational performance records were broken in 2015. Seaborne iron ore prices experienced a continuous decline in 2015. The average Platts 62% fines index decreased 43% year-on-year to \$55.48/dmt CFR China in 2015. It reached its lowest level on December 15, 2015 at \$38.50/dmt. The iron price at the same date the year before was \$69.25/dmt. This decline is mainly attributed to China's market cooling down at the same time as major producers in Australia and Brazil were increasing production. An increase of Chinese steel exports impacted IOC customers in traditional markets. Pellet premiums started to weaken in the second half of 2015, but strengthened at the end of the year. Partially offsetting the negative impacts of pricing, other factors have been favorable to IOC such as the depreciation of the Canadian dollar relative to the US dollar, and a reduction of freight costs of about 45% year-over-year.

IOC's sales volumes were higher year-on-year in 2015 by 26% mainly due to the production increase noted above. Sales to IOC's traditional markets (North America and Europe) represented 51% of IOC's shipments in 2015.

The table below shows IOC's ore sales volumes along with revenues and average realized prices (in C\$/tonne) for IOC's products over the past five years.

	Years Ended December 31				
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
	(C\$ millions)				
IOC Ore Sales Revenue	1,387 ⁽¹⁾	1,585 ⁽¹⁾	1,952 ⁽¹⁾	1,779 ^(1,2)	2,288 ⁽¹⁾
	(million tonnes)				
IOC Ore Sales Volumes					
Pellets	9.5 ⁽¹⁾	8.2 ⁽¹⁾	8.6 ⁽¹⁾	9.9 ^(1,2)	8.7 ⁽¹⁾
Concentrate	8.4 ⁽¹⁾	6.1 ⁽¹⁾	6.2 ⁽¹⁾	4.2 ^(1,2)	4.5 ⁽¹⁾
Total	17.9 ⁽¹⁾	14.3 ⁽¹⁾	14.8 ⁽¹⁾	14.1 ^(1,2)	13.2 ⁽¹⁾
	(C\$/tonne)				
Average Realized Price	77 ⁽¹⁾	112 ⁽¹⁾	132 ⁽¹⁾	126 ^(1,2)	174 ⁽¹⁾

(1) 2015, 2014, 2013, 2012 and 2011 data for sales, ore sales revenue and realized prices do not take into account third party ore sales.

(2) Production in 2012 was affected by the commissioning of a new primary crusher, ore delivery system and rolling mill.

Quebec North Shore & Labrador Railway

IOC's wholly-owned subsidiary, QNS&L, is subject to the jurisdiction of the Canadian Transportation Agency. QNS&L hauls IOC's products 418 kilometres from IOC's mining and production operations in Labrador City to its marine terminal and materials handling facility in Sept-Îles, Quebec.

Due to the severity of the winters, maintenance of the track (and associated sidings) including two tunnels, seven steel bridges and numerous culvert pipe installations, is done during a six month summer period.

QNS&L currently operates up to eight iron ore trains in order to transport iron ore products from Labrador City to Sept-Îles. Each train is generally 240 cars in length and each car is capable of carrying between 90 and 100 tonnes of iron ore. The round trip takes an average of 50 hours, including time for loading and unloading. All train movements are controlled by a centralized traffic control system and each ore train is run by a one person crew.

In addition to hauling IOC's iron ore production, in 2015 QNS&L also hauled iron ore production from Tata Steel Minerals Canada Limited. This production was hauled from Emeril Junction to Sept-Îles where the tonnes were unloaded and stockpiled in the IOC yard.

Sept-Îles Terminal

The marine terminal in Sept-Îles uses a highly mechanized system to receive and stockpile iron ore concentrate and pellets from Labrador City for eventual loading into ships.

Trains with iron ore concentrate and pellets from Labrador City arrive at the dumper where the contents are automatically dumped, weighed and transported to stockpiles from which they will be reclaimed for loading onto ships. The stockpile yard is situated on 1,150 hectares of land and has the capacity to store 4.5 million tonnes of iron ore products. The stockpiling of product is handled by two travelling stackers which are fed by a conveyor system. During shiploading, product is transported from the stockpile yard to ships using two bucketwheel reclaimers. Product is reclaimed from stockpiles and

transported by conveyor to the docks where two travelling shiploaders transfer the iron ore product onto the docked freighters.

The Sept-Îles terminal, operating year-round, can handle both lake and ocean going vessels with a capacity of between 25,000 and 255,000 tonnes. However, due to winter weather, shipping traffic from January to March of each year is reduced primarily due to the closure of the St. Lawrence Seaway to lake going vessels. In 2015, the terminal processed 164 vessels, of which 37 were lake-going vessels and 127 were ocean-going vessels.

Aboriginal

Five aboriginal groups have asserted claims on the land where IOC has its operations. While none of these land claims have been established legally, the recent trend in the mining and natural resources industries has been for businesses to seek mutually beneficial agreements which provide benefits to both parties. Furthermore, the Newfoundland and Labrador government released a Consultation Policy in 2013, requiring project proponents (for new permits) to provide funding for consultation with aboriginal groups. IOC signed agreements with two of these aboriginal groups in 2014.

On March 18, 2013, two Quebec Innu communities instigated an action in the Superior Court of Quebec seeking (i) the recognition of their alleged Aboriginal and treaty rights on the Nitassinan (the Quebec-Labrador peninsula where they practiced their traditional lifestyle); (ii) a permanent injunction against IOC to stop any activity related to mining in the Nitassinan, especially at Labrador City and Sept-Îles, and all rail activity between Schefferville and Sept-Îles and between Carol Lake and the QNS&L; (iii) damages in the amount of \$900 million. At this stage, IOC's management considers that the risk of a material financial impact of this action is low.

Social and Environmental

IOC's annual Social and Environment Report provides information on IOC's performance in areas related to health, safety and community relations. The report outlines IOC's comprehensive program directed at achieving environmental protection within the governing framework of sustainable development.

IOC has a long-term tailings management plan and has developed wetlands on the existing tailings landform. IOC also has programs in place to reduce greenhouse gas emissions, particulate emissions, energy consumption and freshwater use.

IOC's safety performance has generally improved over the last many years. IOC's All Injury Frequency Rate decreased from 0.75 in 2012 to 0.62 in 2013, rose slightly to 0.66 in 2014 and again in 2015 to 0.74.

IOC is vigorously pursuing its objectives of attaining zero harm to both safety and health of its employees and reducing its environmental footprint. IOC hopes to achieve this through a step change in health and safety performance, environmental compliance and stewardship and a focus on sustainable development.

CAPITAL STRUCTURE

Common Shares

LIORC has outstanding 64 million common shares which trade on the TSX under the symbol LIF. Holders of common shares of LIORC are entitled to receive notice of and to attend all meetings of shareholders of LIORC and to one vote per common share at such meetings. Holders of common shares are entitled to receive ratably any dividends declared by LIORC's board of directors on the common shares, and are entitled to participate ratably in any distribution to the shareholders of LIORC upon a

liquidation, dissolution or winding-up. There are no pre-emptive, conversion or redemption rights attached to the common shares.

DIVIDENDS

Quarterly dividends on common shares are paid to shareholders of record on the last day of each calendar quarter and are expected to be paid on or before the 25th day of the next following month.

Dividends of \$1.00 per common share were declared in 2015. Dividends of \$1.65 per common share were declared in 2014. Dividends of \$1.875 per common share were declared in 2013.

MARKET FOR COMMON SHARES

The common shares are listed for trading on the Toronto Stock Exchange under the symbol LIF. The monthly price ranges and trading volumes for common shares from January to December, 2015 were as follows:

<u>2015</u>	<u>Price Range</u>	<u>Trading Volume</u>
January	\$19.85 - \$16.25	6,976,966
February	\$19.12 - \$17.24	5,334,571
March	\$18.30 - \$13.40	11,815,177
April	\$15.08 - \$10.81	12,824,426
May	\$17.27 - \$14.00	7,637,479
June	\$17.45 - \$14.23	6,196,333
July	\$14.69 - \$11.83	6,338,740
August	\$15.17 - \$11.77	5,076,998
September	\$17.44 - \$13.26	8,282,778
October	\$17.00 - \$13.92	6,352,734
November	\$16.92 - \$12.55	5,402,527
December	\$12.98 - \$9.49	8,430,911

REGISTRAR AND TRANSFER AGENT

The registrar and transfer agent for the common shares is Computershare Investor Services Inc., 100 University Avenue, Toronto, Ontario M5J 2Y1.

DIRECTORS AND OFFICERS

The directors and officers of LIORC as at December 31, 2015 are set out below. The directors hold office until the next annual meeting of LIORC or until their successors are elected or appointed.

<u>Name and Residence</u>	<u>Office(s) Held</u>	<u>Principal Occupation</u>	<u>Director Since</u>
Bruce C. Bone Ontario, Canada	President, CEO and Director	President, CEO and Director of LIORC	2010 (Trustee of the Fund since 1995)
William J. Corcoran ^{(1) (2) (3)} Ontario, Canada	Non-executive Chairman of the Board and Chairman of Nominating Committee	Company director	2010 (Trustee of the Fund since 1995)
Mark J. Fuller ^{(1) (2) (3)}	Director and Chairman of Compensation Committee	President and CEO of Ontario Pension Board	2014
Duncan N.R. Jackman ^{(1) (2) (3)} Ontario, Canada	Director	Chairman, President and CEO of E-L Financial Corporation Limited, an investment and insurance holding company	2010 (Trustee of the Fund since 2010)
James C. McCartney Ontario, Canada	Executive Vice President, Secretary and Director	Company Director; Retired Partner, McCarthy Tétrault LLP, Barristers and Solicitors.	2010 (Trustee of the Fund since 1995)
William H. McNeil ^{(1) (2) (3)}	Director	Company Director	2015
Sandra L. Rosch Ontario, Canada	Executive Vice President and Director	President of Stonecrest Capital Inc., a restructuring firm	2014
Alan R. Thomas Ontario, Canada	CFO and Director	Company Director	2010 (Trustee of the Fund since 2004)
Patricia M. Volker ^{(1) (2) (3)}	Director and Chair of the Audit Committee	Company Director	2014

- (1) Member of Audit Committee
(2) Member of Compensation Committee
(3) Member of Nominating Committee

As at December 31, 2015, directors and officers of LIORC collectively beneficially owned, directly or indirectly, or exercised control and direction over 49,000 common shares, representing approximately 0.1 % of the outstanding common shares.

The directors of LIORC are also directors and officers of Hollinger-Hanna. Mr. Bone and Mr. Fuller serve as directors of IOC.

Audit Committee

The charter of the Audit Committee is attached hereto as Schedule 1.

The members of the Audit Committee are William J. Corcoran, Mark J. Fuller, Duncan N.R. Jackman, William H. McNeil and Patricia M. Volker (Chair). All of the members are independent and financially literate. Mr. Corcoran has over 40 years of experience in the financial services industry. Mr. Fuller has 16 years of experience in pension fund management. Mr. Jackman has 24 years of

experience in the financial services industry. Mr. McNeil worked in the financial services business, lending to the mining industry, for many years. Ms. Volker is a CPA, CA and CMA.

External Auditor Service Fees

Audit Fees. The aggregate fees billed by LIORC's external auditor for audit services were \$101,700 in 2015 and \$113,576 in 2014.

Audit-related Fees. The aggregate fees billed by LIORC's external auditor for assurance and related services that are related to the review of interim financial statements were \$17,000 in 2015 and \$25,200 in 2014.

Other Fees. An aggregate of \$11,300 was billed by LIORC's external auditor for accounting consultation in 2015 and \$16,792 in 2014.

MATERIAL CONTRACTS

The following are the only material contracts, other than contracts entered into the ordinary course of business, which have been entered into by LIORC after January 1, 2003 and on or before December 31, 2015 that are still in effect:

- the Labrador Leases;
- the Labrador Sublease; and
- the Administration Agreement.

A copy of each document entered into on or after January 1, 2003 has been filed on SEDAR and is available at www.sedar.com.

EXPERTS

The auditor of LIORC is PricewaterhouseCoopers LLP, which has prepared the independent auditors' report in respect of the audited annual consolidated financial statements of LIORC. PricewaterhouseCoopers LLP is independent with respect to LIORC within the meaning of the Rules of Professional Conduct/Code of Ethics of the Chartered Professional Accountants of Ontario.

RISK FACTORS

Iron Ore Price and Volume Volatility

Royalty payments to LIORC and IOC's earnings are directly related to the volume of iron ore products sold and the price of iron ore products. Demand and prices for iron ore products fluctuate and are affected by numerous factors beyond the control of LIORC and IOC, including demand for steel, the strength of the U.S. dollar, global and regional demand and production, political and economic conditions and production costs in major producing regions. The effect of these factors is impossible for LIORC to predict. If the market price for iron ore products falls below IOC's production cost and remains there for a prolonged period, IOC will experience losses and may decide to discontinue its operations, thereby eliminating Royalty and dividend payments.

Exchange Rates

While iron ore prices are denominated in U.S. dollars, a majority of IOC's production and operating costs are Canadian dollar based. Accordingly, fluctuations in currency exchange rates, principally the United States-Canadian dollar exchange rate, can significantly impact IOC's earnings and

cash flows. Additionally, the Royalty payments are in U.S. dollars and therefore the revenue in Canadian dollars of LIORC is impacted by fluctuations in the U.S. - Canadian dollar exchange rate.

Dependence Upon IOC

Royalty revenue is earned only when IOC mines and sells iron ore from the IOC Lands. A decision by IOC to cease operations or to mine iron ore from lands other than IOC Lands would eliminate revenue from the Royalty. Dividend income from the IOC equity is also dependent upon IOC's earnings and its dividend policy. LIORC also reports equity earnings or losses in IOC and, accordingly, is dependent upon the revenue, expenses and net income of IOC.

Dependence on the Steel Industry

Steel is a key driver of the world's economy, supplying the core automotive, construction, transport, power and machine goods industries. The demand for iron ore is almost entirely dependent upon the raw material requirements of integrated steel producers and producers of virgin iron units for feed to electric arc furnaces.

In 2015, growth in global steel demand slowed down with continued volatility and uncertainty leading to a challenging environment for steel companies. World crude steel production decreased year-on-year in 2015, with decline in all major producing regions. China has spent the past several years producing more steel than half of the world's supply. Several Chinese mills continue to flood global markets with some of the cheapest steel. Due to overcapacity, very few Chinese mills have the appetite, or ability, to even consider raising prices in the current environment. If steel prices continue to decline, steelmakers will have to improve their competitiveness by improving productivity, cutting costs and mitigating volatility in raw material cost, if they want to maintain profitability.

Materials such as aluminum, composites and plastics are substitutes for steel and an increase in their use could adversely affect the demand for steel and, consequently, the demand for iron ore.

Mining Risks and Insurance

The mining operations of IOC are subject to risks normally encountered in the mining business. Such risks include environmental hazards, industrial accidents, labour disputes, unusual or unexpected geological formations or conditions, pit wall slides, flooding, wildfires and periodic interruptions due to inclement or hazardous weather conditions. Such risks could result in damage to, or destruction of, mines, production facilities or transportation systems, personal injury, environmental damage, delays in mining, monetary losses and possible legal liability. IOC maintains insurance coverage consistent with industry practice. However, no assurance can be given that such insurance will continue to be available at acceptable premiums. Insurance against environmental risks is not generally available to IOC or to other companies within the industry. LIORC does not maintain separate insurance coverage. Should IOC be unable to pay the cost of remedying an environmental problem, IOC could be required to enter into interim compliance measures or to suspend operations.

Aboriginal Matters

Aboriginal-related matters are a risk factor for the mining industry in Canada. Relationships with aboriginal groups can lead to risks that require proactive management, such as (i) regulatory risks if aboriginal groups significantly delay approval of permits for new projects; (ii) risks of disruptive actions that may interrupt IOC's business; (iii) reputational/investor relations risks if IOC does not properly manage relationships; and (iv) litigation risks.

IOC is managing these issues by actively participating in discussions with certain aboriginal groups which may, in due course, lead to economic benefit agreements.

Customers

The majority of IOC's customers are foreign companies. IOC may be affected by changes in laws, import and export regulations and other matters which could influence IOC's operations and over which it might have no control.

Competition

The iron ore mining industry is highly competitive, and some iron ore producers benefit from larger ore bodies or higher grade ore bodies than those on the IOC Lands, and some benefit from more favourable climatic conditions and lower operating and regulatory compliance costs than the costs incurred by IOC.

Reserves and Resources

The ore reserves and resources presented herein have been estimated by IOC's technical personnel but no assurance can be given that the indicated level of recovery of the iron ore will be realized. Market price fluctuations for iron ore as well as increased production costs or reduced recovery rates, could render a portion or all of the reserves uneconomic and could ultimately result in a restatement of reserves.

Government Regulation and Taxation

The IOC Lands and IOC's activities are subject to extensive Canadian, Newfoundland and Labrador and Quebec laws and regulations controlling not only the mining and exploration of mineral properties, but also the possible effects of such activities upon the environment. Permits from a variety of regulatory authorities are required for many aspects of mining operations. It is foreseeable and probable that future legislation and regulations will cause additional expense and capital expenditures in IOC's operations and reclamation obligations, the extent of which cannot be predicted.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness and principal holders of LIORC's securities is contained in the most recent management information circular of LIORC. Additional financial information is provided in LIORC's comparative consolidated financial statements and Management Discussion and Analysis for the year ended December 31, 2015.

Additional information relating to LIORC may be found on LIORC's website at www.labradorironore.com and on SEDAR at www.sedar.com.

Schedule 1

AUDIT COMMITTEE CHARTER

1. Composition of Committee

- (a) The Committee will consist of independent directors, all of whom must be qualified in accordance with applicable regulatory and stock exchange requirements. An independent director, for the purposes of membership on the Audit Committee, means a director who has no direct or indirect material relationship with the Corporation where a material relationship is a relationship that could, in the view of the board of directors, reasonably interfere with the exercise of the member's independent judgment.
- (b) All members of the Committee must be financially literate. A member is financially literate if the member has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the financial statements of the Corporation.

2. Procedural Matters

- (a) The Committee operates under authority vested by the board of directors and reports to the board of directors. Each member of the Committee will be appointed by the board of directors and will serve during the pleasure of the board of directors, so long as he or she remains a director.
- (b) The directors will appoint a Chairman for the Committee.
- (c) The Chairman of the Committee or the Chairman of the board of directors or any member of the Committee may call a meeting of the Committee. The Committee will meet at such times during each year as it deems appropriate.

3. Duties and Responsibilities

- (a) The Committee will make recommendations to the Directors with respect to the external auditor to be nominated for the purpose of preparing or issuing an auditor's report on the annual financial statements or performing other audit, review or attest services for the Corporation and with respect to the compensation of the external auditor.
- (b) The Committee will oversee the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between management and the external auditor regarding financial reporting.
- (c) The Committee will pre-approve all significant non-audit services to be provided to the Corporation or its subsidiaries by the Corporation's external auditor.
- (d) The Committee will review the Corporation's financial statements, management's discussion and analysis and annual and interim earnings press releases before the Corporation publicly discloses that information, and recommend same to the directors for their approval.

- (e) The Committee will review the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, other than the public disclosure referred to in item (d).
 - (f) The Committee will be responsible for:
 - (i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and
 - (ii) the confidential, anonymous submission by directors, officers and employees, if any, of the Corporation of concerns regarding questionable accounting or auditing matters.
 - (g) The Committee will review with management and with the external auditors the effectiveness of control systems used by the Corporation in connection with financial reporting.
 - (h) The Committee will review outstanding litigation.
4. Resources, Meetings and Reports
- (a) The Committee will have adequate resources to discharge its responsibilities.
 - (b) The Committee may, for and on behalf of the Corporation and at the Corporation's sole expense, engage such consultants as it considers in its sole discretion necessary to assist it in fulfilling its duties and responsibilities.
 - (c) The Committee will meet not less than four times per year.
 - (d) The Committee will keep minutes of its meetings in which are recorded all actions taken by the Committee, and such minutes will be made available to the directors.

The Committee will review and reassess the adequacy of this charter annually.