LABRADOR IRON ORE
ROYALTY CORPORATION

# 2017

# THIRD QUARTER REPORT

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

The Directors of Labrador Iron Ore Royalty Corporation ("LIORC" or the "Corporation") are pleased to present the third quarter report for the period ended September 30, 2017.

Royalty revenue for the third quarter of 2017 amounted to $39.8 million as compared to $27.9 million for the third quarter of 2016. LIORC received a dividend from Iron Ore Company of Canada ("IOC") in the third quarter of 2017 in the amount of $32.2 million or $0.50 per share. Equity earnings from IOC amounted to $21.2 million or $0.33 per share in the third quarter of 2017 as compared to $7.7 million or $0.12 per share in the third quarter of 2016. Net income was $43.8 million or $0.69 per share for the third quarter of 2017 compared to $21.2 million or $0.33 per share for the same period in 2016. Cash flow from operations for the third quarter was $53.6 million or $0.84 per share as compared to $15.2 million or $0.24 per share for the same period in 2016.

The cash flow from operations, equity earnings and net income for the third quarter of 2017 were higher than the third quarter of 2016, mainly due to improved prices for concentrate and pellets and also due to increased sales tonnages. As reported by Bloomberg, the benchmark iron ore price of 62% Fe CFR China averaged US$71 per tonne in the third quarter of 2017 and reached a high of US$80 in August. The comparable average price in the third quarter of 2016 was US$58 per tonne. Total iron ore sales tonnage – pellets plus concentrate for sale ("CFS") of 5.0 million tonnes was 8% higher in the third quarter of 2017 compared to the same period in 2016, driven largely by pellet tonnage sales being 14% higher than in the same period in 2016. The CFS sales tonnage in the third quarter of 2017 was slightly higher (plus 2%) than in the third quarter of 2016.

LIORC's results for the three months and nine months ended September 30 are summarized below:

| *(in millions except per share information)* | **3 Months Ended Sept. 30, 2017** | **3 Months Ended Sept. 30, 2016** | **9 Months Ended Sept. 30, 2017** | **9 Months Ended Sept. 30, 2016** |
|---|---|---|---|---|
| | | *(Unaudited)* | | |
| Revenue | $ 40.4 | $ 28.4 | $ 118.0 | $ 76.5 |
| Cash flow from operations | $ 53.6 | $ 15.2 | $ 127.4 | $ 35.2 |
| Operating cash flow per share | $ 0.84 | $ 0.24 | $ 1.99 | $ 0.55 |
| Net income | $ 43.8 | $ 21.2 | $ 118.9 | $ 40.4 |
| Net income per share | $ 0.69 | $ 0.33 | $ 1.86 | $ 0.63 |

## Iron Ore Company of Canada Operations

### Production

Total concentrate production in the third quarter of 2017 of 5.7 million tonnes was 8% higher than the third quarter of 2016 and was 16% higher than the second quarter of 2017. The record concentrate production in the third quarter of 2017 was due to a higher weight yield and an increase of ground tonnes resulting from improved asset reliability.

The increased concentrate production in the third quarter enabled improved production tonnages for both pellets and CFS. Pellet production in the third quarter of 2017 was 8% higher than the third quarter of 2016 and 24% higher than the second quarter of 2017. All six pellet lines operated in the third quarter of 2017 as planned, whereas in the second quarter of 2017 the No. 2 pellet line was down for the scheduled refurbishment of the induration machine. CFS production was 9% higher in the third quarter of 2017 than in the third quarter of 2016 and 12% higher than in the second quarter of 2017. Pellet production in the third quarter was again favoured by the strong demand and margins.

### Sales as Reported for the LIORC Royalty

Third quarter 2017 total iron ore tonnage sold by IOC (CFS plus pellets) of 5.0 million tonnes was 8% above the total sales tonnage in the third quarter 2016 and 24% improved over the second quarter of 2017. In the third quarter of 2017, the pellet sales tonnage was 14% higher and CFS sales tonnage was 39% higher than the second quarter of 2017. The higher CFS sales were largely due to improved concentrate production, referred to above. Continued strong pellet demand and premiums supported maximizing pellet production and sales. While tonnage sales of both CFS and pellets improved in the third quarter as compared to previous quarters, port loading and therefore sales tonnages, were constrained by maintenance over a 34-day period in July and August on the dumper for the rail wagons that transport the iron ore products to the port at Sept Iles. As a result of the constraint in unloading the rail wagons, the inventory of CFS at the Carol Lake mine site was unusually high at the end of the third quarter at some 0.6 million tonnes over plan.

The benchmark price for 62% Fe CFR China was 22% higher in the third quarter of 2017 as compared to the third quarter of 2016 and pellet premiums were also much improved. The Canadian dollar was 4% stronger in the third quarter of 2017 as compared to the third quarter of 2016. As a result of the stronger iron ore prices and pellet premiums, and net of the stronger Canadian dollar, the royalty revenue for LIORC in the third quarter of 2017 was 42% higher than the revenue in last year's third quarter.

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

| | 3 Months Ended Sept. 30, 2017 | 3 Months Ended Sept. 30, 2016 | 9 Months Ended Sept. 30, 2017 | 9 Months Ended Sept. 30, 2016 | Year Ended Dec. 31, 2016 |
|---|---|---|---|---|---|
| Pellets | 2.78 | 2.44 | 7.70 | 6.98 | 10.06 |
| Concentrates[(1)] | 2.23 | 2.18 | 6.01 | 6.38 | 8.17 |
| Total[(2)] | 5.00 | 4.62 | 13.71 | 13.36 | 18.22 |

*(1) Excludes third party ore sales*

*(2) Totals may not add up due to rounding*

## Outlook

Following a strong third quarter in 2017, IOC is expecting good production and sales tonnages in the fourth quarter of 2017. The refurbishment of the induration machine for the No. 5 pellet line commenced in late September 2017 as planned. The No. 5 pellet line is expected to be offline for approximately nine weeks.

Rio Tinto, in its release of production results for the third quarter, maintained the IOC production guidance for 2017 of 11.4 to 12.4 million tonnes of iron ore pellets and concentrates for their 58.72% interest in IOC, which is total saleable production of 19.4 to 21.1 million tonnes on a 100% basis. Achieving the low end of the guidance would be a 6% improvement over the saleable production in 2016 of 18.2 million tonnes.

The 62% Fe CFR China benchmark iron ore price rose from approximately US$64 per tonne at the beginning of the third quarter to a peak of US$80 per tonne in August and declined back to approximately US$62 per tonne at the end of the quarter. The increase was supported by improved margins for Chinese steel mills and the decline was precipitated by concerns on the timing of large Chinese infrastructure projects and reduced steel production in China to meet environmental targets. Forecasts for the 62% Fe CFR China seaborne price vary considerably but tend to forecast prices trending lower for the balance of 2017 and the longer term, driven by increased supply, notably from Brazil. However, premiums for the higher grade iron ore concentrates and pellets, such as produced by IOC, have been exceptionally strong and the value-in-use premiums may continue to be supported by the Chinese efforts to reduce pollution.

In recent weeks the Canadian dollar has somewhat weakened, reflecting concern over the NAFTA negotiations and the outlook for interest rate increases by the Bank of Canada, and iron ore prices have weakened. These factors are offsetting but could affect LIORC's results.

The IOC employees and management have had success in their efforts to increase production and reduce unit operating costs. We note the strong third quarter performance, and we expect strong fourth quarter sales as the inventories at Carol Lake are reduced to more normal levels.

The LIORC cash balance at September 30, 2017 stood at $64.9 million with LIORC dividends payable on October 25, 2017 of $64.0 million. The net royalty from IOC was paid on the same date, maintaining the Corporation's strong cash balance. As noted in our second quarter results, with a strong cash balance, iron ore prices at about US$60 per tonne, the exchange rate at present, and the expected increased production at IOC, LIORC is in a good position to maintain the regular dividend.

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

William H. McNeil
President and Chief Executive Officer
November 6, 2017

The following discussion and analysis should be read in conjunction with the Management's Discussion and Analysis section of the Corporation's 2016 Annual Report and the financial statements and notes contained therein. 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 third quarter of 2017 amounted to $39.8 million as compared to $27.9 million for the third quarter of 2016. The shareholders' cash flow from operations for the third quarter was $53.6 million or $0.84 per share as compared to $15.2 million or $0.24 per share for the same period in 2016. LIORC received a dividend from IOC in the third quarter of 2017 in the amount of $32.2 million or $0.50 per share. Equity earnings from IOC amounted to $21.2 million or $0.33 per share in the third quarter of 2017 as compared to $7.7 million or $0.12 per share in the third quarter of 2016. Net income was $43.8 million or $0.69 per share for the third quarter of 2017 compared to $21.2 million or $0.33 per share for the same period in 2016.

The cash flow from operations, equity earnings and net income for the third quarter of 2017 were higher than the third quarter of 2016, mainly due to improved prices for concentrate and pellets and also due to increased sales tonnages. As reported by Bloomberg, the benchmark iron ore price of 62% Fe CFR China averaged US$71 per tonne in the third quarter of 2017 and reached a high of US$80 in August. The comparable average price in the third quarter of 2016 was US$58 per tonne. Total iron ore sales tonnage – pellets plus CFS of 5.0 million tonnes was 8% higher in the third quarter of 2017 compared to the same period in 2016, driven largely by pellet tonnage sales being 14% higher than in the same period in 2016. The CFS sales tonnage in the third quarter of 2017 was slightly higher (plus 2%) than in the third quarter of 2016.

Total concentrate production in the third quarter of 2017 of 5.7 million tonnes was 8% higher than the third quarter of 2016 and was 16% higher than the second quarter of 2017. The record concentrate production in the third quarter of 2017 was due to a higher weight yield and an increase of ground tonnes resulting from improved asset reliability.

The increased concentrate production in the third quarter enabled improved production tonnages for both pellets and CFS. Pellet production in the third quarter of 2017 was 8% higher than the third quarter of 2016 and 24% higher than the second quarter of 2017. All six pellet lines operated in the third quarter of 2017 as planned, whereas in the second quarter of 2017 the No. 2 pellet line was down for the scheduled refurbishment of the induration machine. CFS production was 9% higher in the third quarter of 2017 than in the third quarter of 2016 and 12% higher than in the second quarter of 2017. Pellet production in the third quarter was again favoured by the strong demand and margins.

Third quarter 2017 total iron ore tonnage sold by IOC (CFS plus pellets) of 5.0 million tonnes was 8% above the total sales tonnage in the third quarter 2016 and 24% improved over the second quarter of 2017. In the third quarter of 2017, the pellet sales tonnage was 14% higher and CFS sales tonnage was 39% higher than the second quarter of 2017. The higher CFS sales were largely due to improved concentrate production, referred to above. Continued strong pellet demand and premiums supported maximizing pellet production and sales. While tonnage sales of both CFS and pellets improved in the third quarter as compared to previous quarters, port loading and therefore sales tonnages, were constrained by maintenance over a 34-day period in July and August on the dumper for the rail wagons that transport the iron ore products to the port at Sept Iles. As a result of the constraint in unloading the rail wagons, the inventory of CFS at the Carol Lake mine site was unusually high at the end of the third quarter at some 0.6 million tonnes over plan.

The benchmark price for 62% Fe CFR China was 22% higher in the third quarter of 2017 as compared to the third quarter of 2016 and pellet premiums were also much improved. The Canadian dollar was 4% stronger in the third quarter of 2017 as compared to the third quarter of 2016. As a result of the stronger iron ore prices and pellet premiums, and net of the stronger Canadian dollar, the royalty revenue for LIORC in the third quarter of 2017 was 42% higher than the revenue in last year's third quarter.

Results for the nine months were affected by the same factors as affected the three month period. Administrative expenses for the nine months include a non-cash foreign exchange loss of $0.3 million on the conversion of the dividend received from IOC in December 2016 and the 2016 bonuses awarded by the Compensation Committee to the executive officers totaling $0.1 million. Amortization expense for royalty and commission interests increased $1.2 million for the nine months due to an increased amortization rate reflecting lower estimated total mineral resources over the prior year.

The following table sets out quarterly revenue, net income, cash flow and dividend data for 2017, 2016 and 2015.

| | 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)* | | | | | | |
| **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 |
| **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(5) | $ 0.44(5) | $ 0.57(5) | $ 0.25 |
| **2015** | | | | | | | |
| First Quarter | $ 23.7 | $ 10.0 | $ 0.16 | $ 15.2 | $ 0.24 | $ 0.20 | $ 0.25 |
| Second Quarter | $ 24.0 | $ 15.4 | $ 0.24 | $ 12.5 | $ 0.20 | $ 0.21 | $ 0.25 |
| Third Quarter | $ 32.0 | $ 19.0 | $ 0.30 | $ 12.2 | $ 0.19 | $ 0.28 | $ 0.25 |
| Fourth Quarter | $ 22.0 | $ 10.3 | $ 0.15 | $ 20.0 | $ 0.31 | $ 0.19 | $ 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 $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 $0.84 for the quarter (2016 – $0.24). Cumulative standardized cash flow from inception of the Corporation is $24.53 per share and total cash distributions since inception is $24.04 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 Sept. 30, 2017 | 3 Months Ended Sept. 30, 2016 | 9 Months Ended Sept. 30, 2017 | 9 Months Ended Sept. 30, 2016 |
|---|---|---|---|---|
| Standardized cash flow from operating activities | $ 53,640 | $ 15,159 | $ 127,398 | $ 35,211 |
| Excluding: changes in amounts receivable, accounts payable and income taxes payable | 798 | 370 | (5,276) | 6,471 |
| Adjusted cash flow | $ 54,438 | $ 15,529 | $ 122,122 | $ 41,682 |
| Adjusted cash flow per share | $ 0.85 | $ 0.24 | $ 1.91 | $ 0.65 |

## Liquidity and Capital Resources

The Corporation had $64.9 million in cash as at September 30, 2017 (December 31, 2016 – $23.9 million) with total current assets of $102.4 million (December 31, 2016 – $62.9 million). The Corporation had working capital of $26.6 million as at September 30, 2017 (December 31, 2016 – $38.8 million). The Corporation's operating cash flow for the quarter was $53.6 million and the dividend paid during the quarter was $38.4 million, resulting in cash balances increasing by $15.2 million during the third quarter of 2017.

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 (2016 – nil) leaving $50.0 million available to provide for any capital required by IOC or requirements of the Corporation.

## Outlook

Following a strong third quarter in 2017, IOC is expecting good production and sales tonnages in the fourth quarter of 2017. The refurbishment of the induration machine for the No. 5 pellet line commenced in late September 2017 as planned. The No. 5 pellet line is expected to be offline for approximately nine weeks.

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William H. McNeil
President and Chief Executive Officer
Toronto, Ontario
November 6, 2017

## 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 2, 2017 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 Balance Sheets

| *(in thousands of Canadian dollars)* | As at September 30, 2017 | As at December 31, 2016 |
|---|---|---|
| | *(Unaudited)* | |
| **Assets** | | |
| Current Assets | | |
| Cash | $ 64,935 | $ 23,937 |
| Amounts receivable (note 4) | 37,475 | 38,487 |
| Income taxes recoverable | — | 490 |
| Total Current Assets | 102,410 | 62,914 |
| Non-Current Assets | | |
| Iron Ore Company of Canada ("IOC") royalty and commission interests | 260,589 | 265,384 |
| Investment in IOC (note 5) | 408,613 | 408,680 |
| Total Non-Current Assets | 669,202 | 674,064 |
| Total Assets | $ 771,612 | $ 736,978 |
| **Liabilities and Shareholders' Equity** | | |
| Current Liabilities | | |
| Accounts payable | $ 7,677 | $ 8,073 |
| Dividend payable | 64,000 | 16,000 |
| Taxes payable | 4,170 | — |
| Total Current Liabilities | 75,847 | 24,073 |
| Non-Current Liabilities | | |
| Deferred income taxes (note 6) | 127,660 | 129,060 |
| Total Liabilities | 203,507 | 153,133 |
| Shareholders' Equity | | |
| Share capital | 317,708 | 317,708 |
| Retained earnings | 261,136 | 276,588 |
| Accumulated other comprehensive loss | (10,739) | (10,451) |
| | 568,105 | 583,845 |
| Total Liabilities and Shareholders' Equity | $ 771,612 | $ 736,978 |

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 Comprehensive Income

| *(in thousands of Canadian dollars except for per share information)* | For the Three Months Ended September 30, 2017 | 2016 |
|---|---|---|
| | *(Unaudited)* | |
| **Revenue** | | |
| IOC royalties | $ 39,810 | $ 27,939 |
| IOC commissions | 493 | 455 |
| Interest and other income | 110 | 32 |
| | 40,413 | 28,426 |
| **Expenses** | | |
| Newfoundland royalty taxes | 7,962 | 5,588 |
| Amortization of royalty and commission interests | 1,824 | 1,199 |
| Administrative expenses | 662 | 675 |
| | 10,448 | 7,462 |
| **Income before equity earnings and income taxes** | 29,965 | 20,964 |
| **Equity earnings in IOC** | 21,150 | 7,670 |
| **Income before income taxes** | 51,115 | 28,634 |
| **Provision for income taxes** (note 6) | | |
| Current | 9,519 | 6,633 |
| Deferred | (2,183) | 834 |
| | 7,336 | 7,467 |
| **Net income for the period** | 43,779 | 21,167 |
| **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 2017 – $17; 2016 – $54) | (96) | (306) |
| **Comprehensive income for the period** | $ 43,683 | $ 20,861 |
| **Net income per share** | $ 0.69 | $ 0.33 |

See accompanying notes to interim condensed consolidated financial statements.

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

| *(in thousands of Canadian dollars except for per share information)* | **For the Nine Months Ended September 30, 2017** | **2016** |
|---|---|---|
| | *(Unaudited)* | |
| **Revenue** | | |
| IOC royalties | $ 116,400 | $ 75,067 |
| IOC commissions | 1,350 | 1,315 |
| Interest and other income | 252 | 112 |
| | 118,002 | 76,494 |
| **Expenses** | | |
| Newfoundland royalty taxes | 23,280 | 15,013 |
| Amortization of royalty and commission interests | 4,795 | 3,608 |
| Administrative expenses | 2,356 | 2,012 |
| | 30,431 | 20,633 |
| **Income before equity earnings and income taxes** | 87,571 | 55,861 |
| **Equity earnings in IOC** | 57,713 | 6,694 |
| **Income before income taxes** | 145,284 | 62,555 |
| **Provision for income taxes** (note 6) | | |
| Current | 27,685 | 17,787 |
| Deferred | (1,349) | 4,346 |
| | 26,336 | 22,133 |
| **Net income for the period** | 118,948 | 40,422 |
| **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 2017 – $51; 2016 – $206) | (288) | (734) |
| **Comprehensive income for the period** | $ 118,660 | $ 39,688 |
| **Net income per share** | $ 1.86 | $ 0.63 |

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 Nine Months Ended September 30, 2017 | 2016 |
|---|---|---|
| | *(Unaudited)* | |
| **Net inflow (outflow) of cash related to the following activities** | | |
| **Operating** | | |
| Net income for the period | $ 118,948 | $ 40,422 |
| Items not affecting cash: | | |
| Equity earnings in IOC | (57,713) | (6,694) |
| Current income taxes | 27,685 | 17,787 |
| Deferred income taxes | (1,349) | 4,346 |
| Amortization of royalty and commission interests | 4,795 | 3,608 |
| Common share dividend from IOC | 57,441 | — |
| Change in amounts receivable | 1,012 | (7,073) |
| Change in accounts payable | (396) | 1,286 |
| Income taxes paid | (23,025) | (18,471) |
| Cash flow from operating activities | 127,398 | 35,211 |
| **Financing** | | |
| Dividends paid to shareholders | (86,400) | (48,000) |
| Cash flow used in financing activities | (86,400) | (48,000) |
| **Increase (decrease) in cash, during the period** | 40,998 | (12,789) |
| **Cash, beginning of period** | 23,937 | 24,463 |
| **Cash, end of period** | $ 64,935 | $ 11,674 |

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** |
|---|---|---|---|---|
| Balance as at December 31, 2015 | $ 317,708 | $ 262,415 | $ (11,150) | $ 568,973 |
| Net income for the period | — | 40,423 | — | 40,423 |
| Dividends declared to shareholders | — | (48,000) | — | (48,000) |
| Share of other comprehensive loss from investment in IOC (net of taxes) | — | — | (734) | (734) |
| Balance as at September 30, 2016 | $ 317,708 | $ 254,838 | $ (11,884) | $ 560,662 |
| Balance as at December 31, 2016 | $ 317,708 | $ 276,588 | $ (10,451) | $ 583,845 |
| Net income for the period | — | 118,948 | — | 118,948 |
| Dividends declared to shareholders | — | (134,400) | — | (134,400) |
| Share of other comprehensive loss from investment in IOC (net of taxes) | — | — | (288) | (288) |
| Balance as at September 30, 2017 | $ 317,708 | $ 261,136 | $ (10,739) | $ 568,105 |

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

The 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.

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 November 6, 2017.

## 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, 2016. 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, 2016.

### Future Changes in Accounting Policies

The Corporation has evaluated the impact of accounting policy changes effective January 1, 2017 and has determined that there are no policy changes that impact the interim condensed consolidated financial statements for the period ended September 30, 2017. Future changes in accounting standards which may impact the consolidated financial statements for future periods pertain to adoption of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*. The mandatory effective date of these standards is on or after January 1, 2018.

With respect to IFRS 15, the Corporation is conducting its assessment of the impact on royalty and commission revenue and net income from its equity interest in IOC. The Corporation will complete its assessment of the standard during the fourth quarter of 2017. Based on work performed to date, the Corporation does not expect that the standard will have a material impact on its consolidated financial statements.

With respect to IFRS 9, the Corporation will be required to evaluate its financial assets for impairment based on an expected credit loss model. The Corporation's financial assets which are currently subject to credit risk are cash and amounts receivable. The Corporation does not expect that the standard will have a material impact on its consolidated financial statements.

## 4. Amounts Receivable

| | **September 30, 2017** | **December 31, 2016** |
|---|---|---|
| IOC royalties | $ 37,185 | $ 38,334 |
| IOC commissions | 182 | 130 |
| Other | 108 | 23 |
| | $ 37,475 | $ 38,487 |

## 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 September 30, 2017 and December 31, 2016. The Series B and Series C common shares have identical voting rights to all other issued and outstanding common shares of IOC.

| | September 30, 2017 | December 31, 2016 |
|---|---|---|
| Investment in IOC, beginning of period | $ 408,680 | $ 398,328 |
| Equity earnings in IOC | 57,713 | 24,723 |
| Other comprehensive (loss) income of IOC | (339) | 746 |
| Common share dividend received | (57,441) | (15,117) |
| Investment in IOC, end of period | $ 408,613 | $ 408,680 |

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 $44,569 as at September 30, 2017 (December 31, 2016 – $45,389) 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 September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Income before income taxes | $ 51,115 | $ 28,634 | $ 145,284 | $ 62,555 |
| Income taxes at combined federal and provincial statutory tax rates of 30.0% | 15,335 | 8,590 | 43,585 | 18,767 |
| Increase (decrease) in income taxes resulting from: | | | | |
| Undistributed equity earnings in investment in IOC | (3,173) | (1,151) | (8,657) | (1,004) |
| Equity earnings distributed as dividends | (4,825) | — | (8,616) | — |
| Deferred taxes | — | — | — | 4,294[(1)] |
| Other | (1) | 27 | 24 | 76 |
| Income tax expense | $ 7,336 | $ 7,467 | $ 26,336 | $ 22,133 |

(1) *Adjustment for increase in Newfoundland and Labrador corporate income tax rate by 1%, effective January 1, 2016. The impact of the change in corporate tax rate was adjusted prospectively.*

The deferred tax liability is comprised of the following:

| | Opening Balance | Recognized in net income | Recognized in other comprehensive loss | Closing Balance |
|---|---|---|---|---|
| **December 31, 2016** | | | | |
| Difference in tax and book value of assets | $ 125,453 | $ 4,294 | $ 47 | $ 129,794 |
| Tax benefit of deductible temporary differences | (783) | 49 | — | (734) |
| Net deferred income tax liability | $ 124,670 | $ 4,343 | $ 47 | $ 129,060 |
| **September 30, 2017** | | | | |
| Difference in tax and book value of assets | $ 129,794 | $ (1,401) | $ (51) | $ 128,342 |
| Tax benefit of deductible temporary differences | (734) | 52 | — | (682) |
| Net deferred income tax liability | $ 129,060 | $ (1,349) | $ (51) | $ 127,660 |

### 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 September 30, 2017 was comprised of salaries and fees totaling $243 (2016 – $277). Their remuneration for the nine months ended September 30, 2017 was comprised of salaries, bonuses and fees totaling $867 (2016 – $816). The 2016 bonuses awarded by the Compensation Committee to the executive officers totaling $145 were paid in the first quarter of 2017.

# Corporate Information

## Administration and Investor Relations

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Facsimile: (416) 863-7425

## Directors

**William H. McNeil**
President and Chief Executive Officer
Labrador Iron Ore Royalty Corporation

**William J. Corcoran**(1)
Company Director

**Mark J. Fuller**(1)
President and CEO of
Ontario Pension Board

**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

**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*

## Registrar & Transfer Agent

Computershare Investor Services Inc.
100 University Avenue
Toronto, Ontario M5J 2Y1

## Legal Counsel

McCarthy Tétrault LLP
Toronto, Ontario

## Auditors

PricewaterhouseCoopers LLP
Toronto, Ontario

## Stock Exchange Listing

The Toronto Stock Exchange

## Symbol

LIF

## Website

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## E-mail

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