Labrador Iron Ore
Royalty Corporation

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SECOND QUARTER REPORT

Report to Holders of Common Shares

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 second quarter report for the period ended June 30, 2017.

Royalty revenue for the second quarter of 2017 amounted to $33.8 million as compared to $25.3 million for the second quarter of 2016. The shareholders' cash flow from operations for the second quarter was $45.6 million or $0.71 per share as compared to $7.6 million or $0.12 per share for the same period in 2016. LIORC received a dividend from Iron Ore Company of Canada ("IOC") in the second quarter of 2017 in the amount of $15.3 million or $0.24 per share. Equity earnings (losses) from IOC amounted to $14.3 million or $0.22 per share as compared to ($0.5) million or ($0.01) per share in 2016. Net income was $32.3 million or $0.50 per share compared to $8.3 million or $0.13 per share for the same period in 2016.

The cash flow from operations, equity earnings and net income for the second quarter of 2017 were higher than the second quarter of 2016, mainly due to improved prices for concentrate and pellets. As reported by Bloomberg, the benchmark iron ore price of 62% Fe CFR China averaged US$63 per tonne in the second quarter of 2017 and reached a high of US$82 in April. The comparable average price in the second quarter of 2016 was US$55 per tonne. Total sales tonnage of concentrate for sale ("CFS") was 26% lower in the second quarter of 2017 compared to the same period in 2016. In the second quarter of 2017 concentrate was preferentially directed to the pellet plant due to the strong pellet demand and premiums. Pellet sales tonnages were consistent in the second quarter of 2017 compared to the same period in 2016.

LIORC's results for the three months and six months ended June 30 are summarized below:

(in millions except per share information)	**3 Months Ended June 30, 2017**	**3 Months Ended June 30, 2016**	**6 Months Ended June 30, 2017**	**6 Months Ended June 30, 2016**
	(Unaudited)			
Revenue	$ 34.2	$ 25.8	$ 77.6	$ 48.1
Cash flow from operations	$ 45.6	$ 7.6	$ 73.8	$ 20.1
Operating cash flow per share	$ 0.71	$ 0.12	$ 1.15	$ 0.31
Net income	$ 32.3	$ 8.3	$ 75.2	$ 19.3
Net income per share	$ 0.50	$ 0.13	$ 1.17	$ 0.30

Iron Ore Company of Canada Operations

Production

Total concentrate production in the second quarter of 2017 of 4.9 million tonnes was 4% higher than the second quarter of 2016 and was 2% higher than the first quarter of 2017. Concentrate production in April and May 2017 was lower than planned due to availability of the ore delivery system, ore hardness and ball mill maintenance in the concentrator, offset somewhat by better weight yield than planned. Concentrate production in June 2017 set a new record for the month.

Pellet production in the second quarter of 2017 was 1% higher than the second quarter of 2016 and 6% lower than the first quarter of 2017. All six pellet lines operated in the first quarter of 2017 as planned. In the second quarter of 2017, the No. 2 pellet line was down for the scheduled refurbishment of the induration machine. With the refurbishment of the No. 2 pellet line, CFS production was 8% higher in the second quarter of 2017 than in the second quarter of 2016 and 17% higher than the first quarter of 2017.

Sales

Second quarter 2017 total iron ore tonnage sold by IOC (CFS plus pellets) was 9% below the total sales tonnage in the second quarter 2016. Sales were affected by the concentrate production issues in April and May 2017 referred to above. In the second quarter of 2017, the pellet sales tonnage was 5% higher and CFS sales tonnage was 21% lower than the first quarter of 2017. The lower CFS sales were largely due to timing, since CFS production was strong in the second quarter of 2017. CFS sales are expected to catch up in the third quarter. Strong pellet demand and premiums supported maximizing pellet production and sales.

The benchmark price for 62% Fe CFR China was 14% higher in the second quarter of 2017 as compared to the second quarter of 2016 and pellet premiums were also much improved. The Canadian dollar was 4% weaker in the second quarter of 2017 as compared to the second quarter of 2016. As a result of the stronger CFR prices and pellet premiums, and the weaker Canadian dollar, the royalty revenue for LIORC in the second quarter of 2017 was 33% higher than the revenue in last year's second quarter.

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

	3 Months Ended June 30, 2017	3 Months Ended June 30, 2016	6 Months Ended June 30, 2017	6 Months Ended June 30, 2016	Year Ended Dec. 31, 2016
Pellets	2.44	2.43	4.92	4.54	10.06
Concentrates(1)	1.60	2.15	3.79	4.20	8.17
Total	4.04	4.58	8.71	8.74	18.23

(1) Excludes third party ore sales

Outlook

IOC is expecting good production and sales tonnages in the third and fourth quarters of 2017. The induration machine for the No. 5 pellet line is scheduled to be refurbished starting in late September 2017 for approximately nine weeks.

Rio Tinto has 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 continued to fall in the second quarter of 2017, averaging US$63 per tonne. However, in mid-June, the decline down to US$53 per tonne reversed and the price has improved recently to above US$70 per tonne, supported by improved margins for Chinese steel mills. Many iron ore price forecasts for the seaborne market expect the benchmark price to average below US$60 per tonne for the year 2017, largely driven by the potential increased supply, notably from Brazil. Reduced prices will likely reduce the domestic Chinese supply, which increased with the higher prices achieved in the last few months of 2016 and into March 2017.

In recent weeks the Canadian dollar has strengthened, reflecting weakness in the U.S. dollar, and iron ore prices have also strengthened. These factors are offsetting but could affect LIORC's results.

The IOC employees and management continue their efforts to increase production and reduce unit operating costs. We are encouraged by their progress with the strong first quarter and June 2017 production performance.

The LIORC cash balance at June 30, 2017 stood at $49.7 million with LIORC dividends payable on July 25, 2017 of $38.4 million. The net royalty from IOC was paid on the same date, maintaining the Corporation's cash balance at more than $30 million. 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
August 2, 2017

Management's Discussion and Analysis

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 second quarter of 2017 amounted to $33.8 million as compared to $25.3 million for the second quarter of 2016. The shareholders' cash flow from operations for the second quarter was $45.6 million or $0.71 per share as compared to $7.6 million or $0.12 per share for the same period in 2016. LIORC received a dividend from IOC in the second quarter of 2017 in the amount of $15.3 million or $0.24 per share. Equity earnings (losses) from IOC amounted to $14.3 million or $0.22 per share as compared to ($0.5) million or ($0.01) per share in 2016. Net income was $32.3 million or $0.50 per share compared to $8.3 million or $0.13 per share for the same period in 2016.

The cash flow from operations, equity earnings and net income for the second quarter of 2017 were higher than the second quarter of 2016, mainly due to improved prices for concentrate and pellets. As reported by Bloomberg, the benchmark iron ore price of 62% Fe CFR China averaged US$63 per tonne in the second quarter of 2017 and reached a high of US$82 in April. The comparable average price in the second quarter of 2016 was US$55 per tonne. Total sales tonnage of CFS was 26% lower in the second quarter of 2017 compared to the same period in 2016. In the second quarter of 2017 concentrate was preferentially directed to the pellet plant due to the strong pellet demand and premiums. Pellet sales tonnages were consistent in the second quarter of 2017 compared to the same period in 2016.

Total concentrate production in the second quarter of 2017 of 4.9 million tonnes was 4% higher than the second quarter of 2016 and was 2% higher than the first quarter of 2017. Concentrate production in April and May 2017 was lower than planned due to availability of the ore delivery system, ore hardness and ball mill maintenance in the concentrator, offset somewhat by better weight yield than planned. Concentrate production in June 2017 set a new record for the month.

Pellet production in the second quarter of 2017 was 1% higher than the second quarter of 2016 and 6% lower than the first quarter of 2017. All six pellet lines operated in the first quarter of 2017 as planned. In the second quarter of 2017, the No. 2 pellet line was down for the scheduled refurbishment of the induration machine. With the refurbishment of the No. 2 pellet line, CFS production was 8% higher in the second quarter of 2017 than in the second quarter of 2016 and 17% higher than in the first quarter of 2017.

Second quarter 2017 total iron ore tonnage sold by IOC (CFS plus pellets) was 9% below the total sales tonnage in the second quarter 2016. Sales were affected by the concentrate production issues in April and May 2017 referred to above. In the second quarter of 2017, the pellet sales tonnage was 5% higher and CFS sales tonnage was 21% lower than the first quarter of 2017. The lower CFS sales were largely due to timing, since CFS production was strong in the second quarter of 2017. CFS sales are expected to catch up in the third quarter. Strong pellet demand and premiums supported maximizing pellet production and sales.

The benchmark price for 62% Fe CFR China was 14% higher in the second quarter of 2017 as compared to the second quarter of 2016 and pellet premiums were also much improved. The Canadian dollar was 4% weaker in the second quarter of 2017 as compared to the second quarter of 2016. As a result of the stronger CFR prices and pellet premiums, and the weaker Canadian dollar, the royalty revenue for LIORC in the second quarter of 2017 was 33% higher than the revenue in last year's second quarter.

Results for the six months were affected by the same factors as affected the three month period. Administrative expenses for the six 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. Royalty and commission interests amortization expense increased $0.6 million for the six 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 and cash flow 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
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(4)	$ 0.44(4)	$ 0.57(4)	$ 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 $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 cash flow statements as the Corporation does not incur capital expenditures or have any restrictions on dividends. Standardized cash flow per share was $0.71 for the quarter (2016 – $0.12). Cumulative standardized cash flow from inception of the Corporation is $23.69 per share and total cash distributions since inception is $23.04 per share, for a payout ratio of 97%.

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 June 30, 2017	3 Months Ended June 30, 2016	6 Months Ended June 30, 2017	6 Months Ended June 30, 2016
Standardized cash flow from operating activities	$ 45,576	$ 7,562	$ 73,758	$ 20,052
Excluding: changes in amounts receivable, accounts payable and income taxes payable	(11,515)	6,328	(6,074)	6,101
Adjusted cash flow	$ 34,061	$ 13,890	$ 67,684	$ 26,153
Adjusted cash flow per share	$ 0.53	$ 0.22	$ 1.06	$ 0.41

Liquidity and Capital Resources

The Corporation had $49.7 million in cash as at June 30, 2017 (December 31, 2016 – $23.9 million) with total current assets of $84.3 million (December 31, 2016 – $62.9 million). The Corporation had working capital of $36.1 million as at June 30, 2017 (December 31, 2016 – $38.8 million). The Corporation's operating cash flow for the quarter was $45.6 million and the dividend paid during the quarter was $32.0 million, resulting in cash balances increasing $13.6 million during the second 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

IOC is expecting good production and sales tonnages in the third and fourth quarters of 2017. The induration machine for the No. 5 pellet line is scheduled to be refurbished starting in late September 2017 for approximately nine weeks.

Rio Tinto has 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 21.1 to 19.4 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.

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William H. McNeil
President and Chief Executive Officer
Toronto, Ontario
August 2, 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 June 30, 2017	As at December 31, 2016
	(Unaudited)	
Assets		
Current Assets		
Cash	$ 49,695	$ 23,937
Amounts receivable (note 4)	34,563	38,487
Income taxes recoverable	—	490
Total Current Assets	84,258	62,914
Non-Current Assets		
Iron Ore Company of Canada ("IOC") royalty and commission interests	262,413	265,384
Investment in IOC (note 5)	419,744	408,680
Total Non-Current Assets	682,157	674,064
Total Assets	$ 766,415	$ 736,978
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	$ 7,083	$ 8,073
Dividend payable	38,400	16,000
Taxes Payable	2,650	—
Total Current Liabilities	48,133	24,073
Non-Current Liabilities		
Deferred income taxes (note 6)	129,860	129,060
Total Liabilities	177,993	153,133
Shareholders' Equity		
Share capital	317,708	317,708
Retained earnings	281,357	276,588
Accumulated other comprehensive loss	(10,643)	(10,451)
	588,422	583,845
Total Liabilities and Shareholders' Equity	$ 766,415	$ 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 amounts)	**For the Three Months Ended June 30, 2017**	**2016**
	(Unaudited)	
Revenue		
IOC royalties	$ 33,753	$ 25,292
IOC commissions	397	450
Interest and other income	83	32
	34,233	25,774
Expenses		
Newfoundland royalty taxes	6,751	5,059
Amortization of royalty and commission interests	1,427	1,221
Administrative expenses	645	660
	8,823	6,940
Income before equity earnings and income taxes	25,410	18,834
Equity earnings (losses) in IOC	14,326	(513)
Income before income taxes	39,736	18,321
Provision for income taxes (note 6)		
Current	8,034	6,165
Deferred	(553)	3,900
	7,481	10,065
Net income for the period	32,255	8,256
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 – $120)	(96)	(240)
Comprehensive income for the period	$ 32,159	$ 8,016
Net income per share	$ 0.50	$ 0.13

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 amounts)	For the Six Months Ended June 30, 2017	2016
	(Unaudited)	
Revenue		
IOC royalties	$ 76,590	$ 47,128
IOC commissions	857	860
Interest and other income	142	80
	77,589	48,068
Expenses		
Newfoundland royalty taxes	15,318	9,426
Amortization of royalty and commission interests	2,971	2,409
Administrative expenses	1,694	1,336
	19,983	13,171
Income before equity earnings and income taxes	57,606	34,897
Equity earnings (losses) in IOC	36,563	(977)
Income before income taxes	94,169	33,920
Provision for income taxes (note 6)		
Current	18,166	11,154
Deferred	834	3,512
	19,000	14,666
Net income for the period	75,169	19,254
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 – $34; 2016 – $152)	(192)	(428)
Comprehensive income for the period	$ 74,977	$ 18,826
Net income per share	$ 1.17	$ 0.30

See accompanying notes to interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)	For the Six Months Ended June 30, 2017	2016
	(Unaudited)	
Net inflow (outflow) of cash related to the following activities		
Operating		
Net income for the period	$ 75,169	$ 19,255
Items not affecting cash:		
Equity (earnings) losses in IOC	(36,563)	976
Current income taxes	18,166	11,154
Deferred income taxes	834	3,512
Amortization of royalty and commission interests	2,971	2,409
Common share dividend from IOC	25,273	—
Change in amounts receivable	3,924	(8,538)
Change in accounts payable	(990)	1,555
Income taxes paid	(15,026)	(10,271)
Cash flow from operating activities	73,758	20,052
Financing		
Dividends paid to shareholders	(48,000)	(32,000)
Cash flow used in financing activities	(48,000)	(32,000)
Increase (decrease) in cash, during the period	25,758	(11,948)
Cash, beginning of period	23,937	24,464
Cash, end of period	$ 49,695	$ 12,516

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	$ 262,416	$ (11,150)	$ 568,974
Net income for the period	—	19,255	—	19,255
Dividends declared to shareholders	—	(32,000)	—	(32,000)
Share of other comprehensive loss from investment in IOC (net of taxes)	—	—	(428)	(428)
Balance as at June 30, 2016	$ 317,708	$ 249,671	$ (11,578)	$ 555,801
Balance as at December 31, 2016	$ 317,708	$ 276,588	$ (10,451)	$ 583,845
Net income for the period	—	75,169	—	75,169
Dividends declared to shareholders	—	(70,400)	—	(70,400)
Share of other comprehensive loss from investment in IOC (net of taxes)	—	—	(192)	(192)
Balance as at June 30, 2017	$ 317,708	$ 281,357	$ (10,643)	$ 588,422

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 August 2, 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 June 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. The Corporation is currently evaluating the impact of these standards on its consolidated financial statements.

4. Amounts Receivable

	June 30, 2017	December 31, 2016
IOC royalties	$ 34,242	$ 38,334
IOC commissions	123	130
Other	198	23
	$ 34,563	$ 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 June 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.

	June 30, 2017	December 31, 2016
Investment in IOC, beginning of period	$ 408,680	$ 398,328
Equity earnings in IOC	36,563	24,723
Other comprehensive (loss) income of IOC	(226)	746
Common share dividend received	(25,273)	(15,117)
Investment in IOC, end of period	$ 419,744	$ 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 $44,881 as at June 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 June 30		For the Six Months Ended June 30	
	2017	2016	2017	2016
Income before income taxes	$ 39,736	$ 18,323	$ 94,169	$ 33,920
Income taxes at combined federal and provincial statutory tax rates of 30.0% (2015 – 29.0%)	11,921	5,497	28,251	10,176
Increase (decrease) in income taxes resulting from:				
Undistributed equity (earnings) losses in investment in IOC	(2,149)	77	(5,484)	147
Equity earnings distributed as dividends	(2,289)	—	(3,791)	
Deferred taxes(1)	—	4,294(1)	—	4,294(1)
Other	(2)	197	24	49
Income tax expense	$ 7,481	$ 10,065	$ 19,000	$ 14,666

(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
June 30, 2017				
Difference in tax and book value of assets	$ 129,794	$ 799	$ (34)	$ 130,559
Tax benefit of deductible temporary differences	(734)	35	—	(699)
Net deferred income tax liability	$ 129,060	$ 834	$ (34)	$ 129,860

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 June 30, 2017 was comprised of salaries and fees totaling $239 (2016 – $282). Their remuneration for the six months ended June 30, 2017 was comprised of salaries, bonuses and fees totaling $624 (2016 – $539). The 2016 bonuses awarded by the Compensation Committee to the executive officers totaling $145 were paid in the first quarter of 2017.

Corporate Information

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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

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