LABRADOR IRON ORE
ROYALTY CORPORATION

2016

FIRST QUARTER REPORT

Report to Holders of Common Shares

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

Royalty income for the first quarter of 2016 amounted to $21.8 million as compared to $23.3 million for the first quarter of 2015. The shareholders' adjusted cash flow (see below for definition) for the first quarter was $12.3 million or $0.19 per share as compared to $13.1 million or $0.20 per share for the same period in 2015. Net income was $11.0 million or $0.17 per share compared to $10.0 million or $0.16 per share for the same period in 2015. Equity losses from Iron Ore Company of Canada ("IOC") amounted to ($0.5) million or ($0.01) per share as compared to ($2.7) million or ($0.04) per share in 2015.

Operational performance continued to improve at IOC. A new first quarter record for concentrate production of 4.3 million tonnes was achieved, which was 8% above last year's first quarter. After production of 2 million tonnes of pellets, 2.1 million tonnes of concentrate for sale (CFS) was available. Pellet production was 10% lower than last year's first quarter, mainly due to equipment reliability. Every effort is being made to maximize pellet production as pellet premiums remain firm. Due to winter operating conditions first quarter production is not representative of expected annual production, usually representing about 20% of annual production.

First quarter shipments and sales were equal to production and although pellet sales were 16% lower than last year's first quarter, this was more than offset by concentrate sales, which were three times last year's level. This increase in sales continues the improved first quarter sales recorded last year following steps taken to improve winter shipping operations, which had suffered in the past because of frozen stockpiles. The increased sales volume in the quarter plus the lower value of the Canadian dollar against its U.S. counterpart offset most of the lower iron ore price compared to last year, resulting in only slightly lower royalty revenue.

Results for the three months ended March 31 are summarized below:

(in millions except per share information)	**2016**	**2015**
	(Unaudited)	
Revenue	$ 22.3	$ 23.7
Adjusted cash flow	$ 12.3	$ 13.1
Adjusted cash flow per share	$ 0.19	$ 0.20
Net income	$ 11.0	$ 10.0
Net income per share	$ 0.17	$ 0.16

"Adjusted cash flow" (defined as cash flow from operating activities as shown on the attached financial statements adjusted for changes in amounts receivable, accounts payable and income taxes payable) 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.

A summary of IOC's sales in millions of tonnes is as follows:

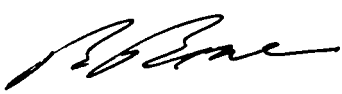
	3 Months Ended Mar. 31, 2016	**3 Months Ended Mar. 31, 2015**	**Year Ended Dec. 31, 2015**
Pellets	2.11	2.50	9.47
Concentrates[1]	2.05	0.71	8.41
Total	4.16	3.21	17.88

(1) Excludes third party ore sales

Outlook

The outlook for the balance of the year will depend largely on the iron ore price, which is currently about 50% higher than its recent low. Most followers of the market had not expected the price recovery to be as substantial as it has been. Some do not expect prices to remain at current levels, while others are now predicting that these levels could be maintained for the balance of the year. The value of the Canadian dollar has recently increased against its U.S. counterpart which is a negative for the royalty revenue which the Corporation receives in U.S. dollars. With increased production of concentrate and providing prices for iron ore products do not deteriorate substantially and the Canadian dollar exchange rate does not increase materially, 2016 should be a satisfactory year for the Corporation.

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



Bruce C. Bone
President and Chief Executive Officer
May 2, 2016

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 Labrador Iron Ore Royalty Corporation's ("LIORC" or the "Corporation") 2015 Annual Report and the financial statements and notes contained therein. Although management believes that expectations reflected in forward-looking statements are reasonable, such statements involve risk and uncertainties including the factors discussed in the Corporation's 2015 Annual Report.

The Corporation's revenues are entirely dependent on the operations of Iron Ore Company of Canada ("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 income for the first quarter of 2016 amounted to $21.8 million as compared to $23.3 million for the first quarter of 2015. The shareholders' adjusted cash flow (see below for definition) for the first quarter was $12.3 million or $0.19 per share as compared to $13.1 million or $0.20 per share for the same period in 2015. Net income was $11.0 million or $0.17 per share compared to $10.0 million or $0.16 per share for the same period in 2015. Equity losses from IOC amounted to ($0.5) million or ($0.01) per share as compared to ($2.7) million or ($0.04) per share in 2015.

Operational performance continued to improve at IOC. A new first quarter record for concentrate production of 4.3 million tonnes was achieved, which was 8% above last year's first quarter. After production of 2 million tonnes of pellets, 2.1 million tonnes of concentrate for sale (CFS) was available. Pellet production was 10% lower than last year's first quarter, mainly due to equipment reliability. Every effort is being made to maximize pellet production as pellet premiums remain firm. Due to winter operating conditions first quarter production is not representative of expected annual production, usually representing about 20% of annual production.

First quarter shipments and sales were equal to production and although pellet sales were 16% lower than last year's first quarter, this was more than offset by concentrate sales, which were three times last year's level. This increase in sales continues the improved first quarter sales recorded last year following steps taken to improve winter shipping operations, which had suffered in the past because of frozen stockpiles. The increased sales volume in the quarter plus the lower value of the Canadian dollar against its U.S. counterpart offset most of the lower iron ore price compared to last year, resulting in only slightly lower royalty revenue.

The following table sets out quarterly revenue, net income and cash flow data for 2016, 2015 and 2014.

	Revenue	Net Income	Net Income per Share	Adjusted Cash Flow[1]	Adjusted Cash Flow per Share[1]	Distributions Declared per Share
	(in millions except per Share information)					
2016						
First Quarter	$ 22.3	$ 11.0	$ 0.17	$ 12.3	$ 0.19	$ 0.250
2015						
First Quarter	$ 23.7	$ 10.0	$ 0.16	$ 13.1	$ 0.20	$ 0.250
Second Quarter	$ 24.0	$ 15.4	$ 0.24	$ 13.1	$ 0.21	$ 0.250
Third Quarter	$ 32.0	$ 19.0	$ 0.30	$ 17.9	$ 0.28	$ 0.250
Fourth Quarter	$ 22.0	$ 10.3	$ 0.15	$ 12.1	$ 0.19	$ 0.250
2014						
First Quarter	$ 27.2	$ 27.1	$ 0.42	$ 27.7[2]	$ 0.43	$ 0.400
Second Quarter	$ 33.8	$ 35.9	$ 0.56	$ 33.7[3]	$ 0.53	$ 0.400
Third Quarter	$ 30.8	$ 29.0	$ 0.46	$ 37.8[4]	$ 0.59	$ 0.500
Fourth Quarter	$ 25.7	$ 12.1	$ 0.19	$ 14.4	$ 0.22	$ 0.350

Notes: (1) *"Adjusted cash flow" (see below)*

(2) *Includes a $12.6 million IOC dividend*

(3) *Includes a $14.8 million IOC dividend*

(4) *Includes a $20.7 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 distributions. Standardized cash flow per share was $0.20 for the quarter (2015 – $0.24). Cumulative standardized cash flow from inception of the Corporation is $21.75 per share and total cash distributions since inception is $21.19 per share, for a payout ratio of 97%.

"Adjusted cash flow" is defined as cash flow from operating activities as shown on the attached financial statements adjusted for changes in amounts receivable, accounts payable and income taxes payable. It is not a recognized measure under 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 cash flow from operating activities to adjusted cash flow.

	3 Months Ended Mar. 31, 2016	3 Months Ended Mar. 31, 2015
Standardized cash flow from operating activities	$ 12,489,465	$ 15,233,063
Excluding: changes in amounts receivable, accounts payable and income taxes recoverable	(227,503)	(2,119,528)
Adjusted cash flow	$ 12,261,962	$ 13,113,535
Adjusted cash flow per share	$ 0.19	$ 0.20

Liquidity and Capital Resources

The Corporation has $20.9 million in cash as at March 31, 2016 (December 31, 2015 – $24.5million) with total current assets of $41.2 million (December 31, 2015 – $45.2 million). The Corporation has working capital of $21.1 million (December 31, 2015 – $24.8 million). The Corporation's operating cash flow was $12.5 million and the dividend paid during the quarter was $16.0 million, resulting in cash balances declining $3.5 million during the first quarter of 2016.

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, 2018 with provision for annual one-year extensions. No amount is currently drawn under this facility (2015 – nil) leaving $50.0 million available to provide for any capital required by IOC or requirements of the Corporation.

Outlook

The outlook for the balance of the year will depend largely on the iron ore price, which is currently about 50% higher than its recent low. Most followers of the market had not expected the price recovery to be as substantial as it has been. Some do not expect prices to remain at current levels, while others are now predicting that these levels could be maintained for the balance of the year. The value of the Canadian dollar has recently increased against its U.S. counterpart which is a negative for the royalty revenue which the Corporation receives in U.S. dollars. With increased production of concentrate and providing prices for iron ore products do not deteriorate substantially and the Canadian dollar exchange rate does not increase materially, 2016 should be a satisfactory year for the Corporation.

Bruce C. Bone
President and Chief Executive Officer
Toronto, Ontario
May 2, 2016

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

Canadian $	As at March 31, 2016	As at December 31, 2015
	(Unaudited)	
Assets		
Current Assets		
Cash	$ 20,952,977	$ 24,463,512
Amounts receivable (note 4)	19,571,840	20,508,756
Income taxes recoverable	653,597	240,299
Total Current Assets	41,178,414	45,212,567
Non-Current Assets		
Iron Ore Company of Canada ("IOC"), royalty and commission interests	269,328,901	270,517,368
Investment in IOC (note 5)	397,644,372	398,327,969
Total Non-Current Assets	666,973,273	668,845,337
Total Assets	$ 708,151,687	$ 714,057,904
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	$ 4,118,097	$ 4,414,212
Dividend payable	16,000,000	16,000,000
Total Current Liabilities	20,118,097	20,414,212
Non-Current Liabilities		
Deferred income taxes (note 6)	124,250,000	124,670,000
Total Liabilities	144,368,097	145,084,212
Shareholders' Equity		
Share capital	317,708,147	317,708,147
Retained earnings	257,413,443	262,415,545
Accumulated other comprehensive loss	(11,338,000)	(11,150,000)
	563,783,590	568,973,692
Total Liabilities and Shareholders' Equity	$ 708,151,687	$ 714,057,904

See accompanying notes to interim condensed consolidated financial statements.

Approved by the Directors,

Bruce C. Bone
Director

Alan R. Thomas
Director

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

Canadian $	For the Three Months Ended March 31, 2016	2015
	(Unaudited)	
Revenue		
IOC royalties	$ 21,835,878	$ 23,346,134
IOC commissions	410,313	315,994
Interest and other income	47,646	79,812
	22,293,837	23,741,940
Expenses		
Newfoundland royalty taxes	4,367,176	4,669,227
Amortization of royalty and commission interests	1,188,467	1,100,564
Administrative expenses	676,076	686,366
	6,231,719	6,456,157
Income before equity earnings and income taxes	16,062,118	17,285,783
Equity losses in IOC	(463,597)	(2,737,468)
Income before income taxes	15,598,521	14,548,315
Provision for income taxes (note 6)		
Current	4,988,623	5,272,812
Deferred	(388,000)	(690,000)
	4,600,623	4,582,812
Net income for the period	10,997,898	9,965,503
Other comprehensive loss		
Share of other comprehensive loss of IOC that will not be reclassified subsequently to profit or loss (net of taxes)	(188,000)	(429,000)
Comprehensive income for the period	$ 10,809,898	$ 9,536,503
Net income per share	$ 0.17	$ 0.16

See accompanying notes to interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Canadian $	For the Three Months Ended March 31, 2016	2015
	(Unaudited)	
Net inflow (outflow) of cash related to the following activities		
Operating		
Net income for the period	$ 10,997,898	$ 9,965,503
Items not affecting cash:		
Equity losses in IOC	463,597	2,737,468
Current income taxes	4,988,623	5,272,812
Deferred income taxes	(388,000)	(690,000)
Amortization of royalty and commission interests	1,188,467	1,100,564
Change in amounts receivable	936,916	3,768,584
Change in accounts payable	(296,115)	(921,868)
Income taxes paid	(5,401,921)	(6,000,000)
Cash flow from operating activities	12,489,465	15,233,063
Financing		
Dividends paid to shareholders	(16,000,000)	(22,400,000)
Cash flow used in financing activities	(16,000,000)	(22,400,000)
Decrease in cash, during the period	(3,510,535)	(7,166,937)
Cash, beginning of period	24,463,512	34,955,633
Cash, end of period	$ 20,952,977	$ 27,788,696

See accompanying notes to interim condensed consolidated financial statements.

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

Canadian $	**Share capital**	**Retained earnings**	**Accumulated other comprehensive loss**	**Total**
Balance as at December 31, 2014	$ 317,708,147	$ 271,757,232	$(11,746,000)	$ 577,719,379
Net income for the period	—	9,965,503	—	9,965,503
Dividends declared to shareholders	—	(16,000,000)	—	(16,000,000)
Share of other comprehensive loss from investment in IOC (net of taxes)	—	—	(429,000)	(429,000)
Balance as at March 31, 2015	$ 317,708,147	$ 265,722,735	$(12,175,000)	$ 571,255,882
Balance as at December 31, 2015	$ 317,708,147	$ 262,415,545	$(11,150,000)	$ 568,973,692
Net income for the period	—	10,997,898	—	10,997,898
Dividends declared to shareholders	—	(16,000,000)	—	(16,000,000)
Share of other comprehensive loss from investment in IOC (net of taxes)	—	—	(188,000)	(188,000)
Balance as at March 31, 2016	$ 317,708,147	$ 257,413,443	$(11,338,000)	$ 563,783,590

See accompanying notes to interim condensed consolidated financial statements.

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 May 2, 2016.

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, 2015. 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, 2015.

Future changes in accounting policies

The Corporation has evaluated the impact of accounting policy changes effective January 1, 2016 and has determined that there are no policy changes that impact the interim condensed consolidated financial statements for the period ended March 31, 2016. Future changes in accounting standards which may impact the December 31, 2016 consolidated financial statements pertain to adoption of IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*. The mandatory effective date of these standards is on or after January 1, 2018.

4. Amounts Receivable

	March 31 2016	December 31 2015
IOC royalties	$ 19,193,385	$ 20,323,350
IOC commissions	150,145	162,769
Other	228,310	22,637
	$ 19,571,840	$ 20,508,756

5. Investment in IOC

The Corporation holds, directly and through Hollinger-Hanna, all of the Series B and Series C common shares of IOC, representing a 15.10% equity interest in IOC as at March 31, 2016 and December 31, 2015. The Series B and Series C common shares have identical voting rights to all other issued and outstanding common shares of IOC.

	March 31 2016	December 31 2015
Investment in IOC, beginning of year	$ 398,327,969	$ 395,271,413
Equity (losses) earnings in IOC	(463,597)	2,359,556
Other comprehensive (loss) income of IOC	(220,000)	697,000
Investment in IOC, end of year	$ 397,644,372	$ 398,327,969

The net excess of cost of the Investment in IOC over the net book value of underlying net assets amounts to $46,064,000 as at March 31, 2016 (December 31, 2015 – $46,267,000) and is being amortized to net income on the units-of-production method based on production and reserve estimates at IOC.

6. Income Taxes

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

	For the Three Months Ended March 31	
	2016	2015
Income before income taxes	$ 15,598,521	$ 14,548,315
Income taxes at combined federal and provincial statutory tax rates of 29.0%	4,523,571	4,219,011
Decrease in income taxes resulting from:		
Undistributed equity losses in investment in IOC	67,222	324,143
Other	9,830	39,658
Income tax expense	$ 4,600,623	$ 4,582,812

	Opening Balance	Recognized in net income	Recognized in other comprehensive loss	Closing Balance
December 31, 2015				
Difference in tax and book value of assets	$ 126,440,782	$ (1,089,091)	$ 101,000	$ 125,452,691
Tax benefit of deductible temporary differences	(877,782)	95,091	—	(782,691)
Net deferred income tax liability	$ 125,563,000	$ (994,000)	$ 101,000	$ 124,670,000
March 31, 2016				
Difference in tax and book value of assets	$ 125,452,691	$ (406,376)	$ (32,000)	$ 125,014,315
Tax benefit of deductible temporary differences	(782,691)	18,376	—	(764,315)
Net deferred income tax liability	$ 124,670,000	$ (388,000)	$ (32,000)	$ 124,250,000

7. Key Management Personnel Compensation

Key management personnel are the President and Chief Executive Officer, the Executive Vice President & Secretary, the Executive Vice President, the Chief Financial Officer and directors. Their remuneration for the three months ended March 31, 2016 was comprised of salaries totaling $257,000 (2015 – $259,000).

Corporate Information

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Directors

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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

William H. McNeil(1)
Company Director

Sandra L. Rosch
President, Stonecrest Capital Inc.

Alan R. Thomas
Company Director

Patricia M. Volker(1)
Company Director

Officers

William J. Corcoran
Non-Executive Chairman of the Board

Bruce C. Bone
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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Stock Exchange Listing

The Toronto Stock Exchange

Symbol

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