

**LABRADOR IRON ORE**  
ROYALTY CORPORATION

2013



**SECOND QUARTER  
REPORT**

# REPORT TO HOLDERS OF COMMON SHARES

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

Royalty income for the second quarter of 2013 amounted to \$41.7 million as compared to \$36.0 million for the second quarter of 2012. The shareholders' cash flow from operating activities after adjustments for changes in amounts receivable, accounts payable and income taxes payable (adjusted cash flow) for the quarter was \$23.4 million or \$0.37 per share compared to last year's \$22.3 million or \$0.35 per unit. Equity earnings from Iron Ore Company of Canada (IOC) amounted to \$19.3 million or \$0.30 per share as compared to \$18.2 million or \$0.28 per unit in 2012. Net income was \$39.2 million or \$0.61 per share compared to \$36.8 million or \$0.57 per unit for the same period in 2012. Earnings and cash flow for the quarter, although higher than last year were reduced due to higher income taxes, a result of the elimination of interest expense on the subordinated notes that were cancelled last September (see the reorganization referred to below).

Increased IOC production for the quarter as compared to last year reflected the successful completion and integration of the first phase of the expansion program into the operations with April and May production achieving annual rates of 19 and 20 million tonnes respectively. The annual maintenance shutdown was scheduled for early June and went well but upon resumption of operations some ore quality issues were encountered, which were further aggravated by the wildfires in the area. Although all assets including the expansion facilities operated well, a number of factors caused June production to be below expected levels. The fires in the area did not directly affect IOC Labrador operations, but required the town of Wabush to be evacuated which impacted employee availability. Additionally, the resulting air quality in the area had an effect on productivity requiring stoppages in the mine and an evacuation of the processing plants for periods of time during June and July. There were also storms that resulted in power outages which impacted operations in the same period. IOC reports that the ore quality issues are being managed and that the fires are now behind them and they expect August production to return to May levels. The June production restrictions did not negatively affect sales in the second quarter but the lower production over recent months will reduce product available for shipment in the third quarter.

At a special meeting held on September 28, 2012, the holders of stapled units approved an exchange of their subordinated notes for common shares of Labrador Iron Ore Royalty Corporation ("LIORC") and a consolidation of common shares. The \$248 million subordinated notes were cancelled and each holder of common shares ended up holding the same number of common shares as before the transactions, and LIORC continued to have 64 million common shares outstanding. Interest on the subordinated notes ceased to accrue after September 30, 2012. For the purposes of this report, all references to shareholders and per share figures may refer to holders of stapled units and per stapled units, respectively, as applicable. Prior to the transactions, the net income attributed to the holders of stapled units consisted of the net income of LIORC plus the interest paid on the subordinated notes. Thus 2012 net income, adjusted cash flow and per share figures referred to in this report use the totals according to the financial statements plus the

# REPORT TO HOLDERS OF COMMON SHARES

\$7,488,000 (\$0.117 per stapled unit) and \$14,976,000 (\$0.234 per stapled unit) interest on the subordinated notes for the three months and six months periods, respectively.

Results for the three months and six months ended June 30 are summarized below:

	<b>3 Months Ended June 30, 2013</b>	<b>3 Months Ended June 30, 2012</b>	<b>6 Months Ended June 30, 2013</b>	<b>6 Months Ended June 30, 2012</b>
	<i>(Unaudited)</i>			
Revenue (in millions)	\$ 42.2	\$ 36.4	\$ 68.6	\$ 58.8
Adjusted cash flow (in millions)	\$ 23.4	\$ 22.3	\$ 37.8	\$ 36.7
Adjusted cash flow per share/unit	\$ 0.37	\$ 0.35	\$ 0.59	\$ 0.57
Net income (in millions)	\$ 39.2	\$ 36.8	\$ 60.9	\$ 59.8
Net income per share/unit	\$ 0.61	\$ 0.57	\$ 0.95	\$ 0.93

“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 IFRS. The Directors believe that adjusted cash flow is a useful analytical measure as it better reflects cash available for distributions to shareholders.

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

	<b>3 Months Ended June 30, 2013</b>	<b>3 Months Ended June 30, 2012</b>	<b>6 Months Ended June 30, 2013</b>	<b>6 Months Ended June 30, 2012</b>	<b>Year Ended Dec. 31, 2012</b>
Pellets	2.58	2.74	4.30	4.59	9.90
Concentrates	2.28	0.70	3.18	1.20	4.22
Total	4.86	3.44	7.48	5.79	14.12

## IOC Expansion

Phase two of IOC's concentrate expansion program (CEP2), which was temporarily suspended in February 2013, was approved for completion by IOC on August 5. CEP2 will increase concentrate production capacity from 22.0 to 23.3 million tonnes per annum. At the time of suspension, project completion was above 80%, and available capacity was 22.7 mtpa. It is expected that the project will be completed in the first quarter of 2014 with the full 23.3 million tonne capacity becoming available in the second quarter. To date

# REPORT TO HOLDERS OF COMMON SHARES

\$393 million has been spent with a further \$86 million expenditure required to complete the project.

## **Potential Sale by Rio Tinto**

On April 18, 2013, a letter was sent to shareholders advising about Rio Tinto's potential sale of its interest in IOC and the Board's consideration of strategic alternatives available to the Corporation. At this time we understand from press reports that several expressions of interest have been received by Rio Tinto, which they are in the process of evaluating.

## **Outlook**

With the successful integration of phase 1 of the expansion program and with the price of iron ore seeming to have stabilized from lower levels and IOC expecting to sell all the iron ore it can produce, the balance of the year should see satisfactory results.

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

A handwritten signature in black ink, appearing to read 'B. Bone', written in a cursive style.

Bruce C. Bone  
President and Chief Executive Officer  
August 7, 2013

# 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 2012 Annual Report and the interim financial statements and notes contained in this report. 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 2012 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 second quarter of 2013 amounted to \$41.7 million as compared to \$36.0 million for the second quarter of 2012. The shareholders' cash flow from operating activities after adjustments for changes in amounts receivable, accounts payable and income taxes payable (adjusted cash flow) for the quarter was \$23.4 million or \$0.37 per share compared to last year's \$22.3 million or \$0.35 per unit. Equity earnings from IOC amounted to \$19.3 million or \$0.30 per share as compared to \$18.2 million or \$0.28 per unit in 2012. Net income was \$39.2 million or \$0.61 per share compared to \$36.8 million or \$0.57 per unit for the same period in 2012. Earnings and cash flow for the quarter, although higher than last year were reduced due to higher income taxes, a result of the elimination of interest expense on the subordinated notes that were cancelled last September (see the reorganization referred to below). Comprehensive income was positively affected by our share of a \$70 million reduction in IOC's unfunded pension liability due to an actuarial revaluation of the liability using current long term interest rates.

Increased IOC production for the quarter as compared to last year reflected the successful completion and integration of the first phase of the expansion program into the operations with April and May production achieving annual rates of 19 and 20 million tonnes respectively. The annual maintenance shutdown was scheduled for early June and went well but upon resumption of operations some ore quality issues were encountered, which were further aggravated by the wildfires in the area. Although all assets including the expansion facilities operated well, a number of factors caused June production to be below expected levels. The fires in the area did not directly affect IOC Labrador operations, but required the town of Wabush to be evacuated which impacted employee availability. Additionally, the resulting air quality in the area had an effect on productivity requiring stoppages in the mine and an evacuation of the processing plants for periods of time during June and July. There were also storms that resulted in power outages which impacted operations in the same period. IOC reports that the ore quality issues are being managed



# MANAGEMENT'S DISCUSSION AND ANALYSIS

and that the fires are now behind them and they expect August production to return to May levels. The June production restrictions did not negatively affect sales in the second quarter but the lower production over recent months will reduce product available for shipment in the third quarter.

The six months results were affected by the operating factors that affected the second quarter and the usual winter operating problems in the first quarter. Administrative expenses were higher mainly due to financial and legal expenses incurred to examine the implications of Rio Tinto's proposed sale of its IOC holdings, and to advise Labrador Iron Ore Royalty Corporation ("LIORC") on possible action going forward, should a sale result. Amortization expense is lower this year, because of the increase in ore reserves resulting from last year's resource assessment program at IOC. The increase in income taxes this year is the result of the interest on the previously outstanding \$248 million notes no longer being payable.

At a special meeting held on September 28, 2012, the holders of stapled units approved an exchange of their subordinated notes for common shares of LIORC and a consolidation of common shares. The \$248 million subordinated notes were cancelled and each holder of common shares ended up holding the same number of common shares as before the transactions, and LIORC continued to have 64 million common shares outstanding. Interest on the subordinated notes ceased to accrue after September 30, 2012. For the purposes of this report, all references to shareholders and per share figures may refer to holders of stapled units and per stapled units, respectively, as applicable. Prior to the transactions, the net income attributed to the holders of stapled units consisted of the net income of LIORC plus the interest paid on the subordinated notes. Thus 2012 net income, adjusted cash flow and per share figures referred to in this report use the totals according to the financial statements plus the \$7,488,000 (\$0.117 per stapled unit) and \$14,976,000 (\$0.234 per stapled unit) interest on the subordinated notes for the three months and six months periods, respectively.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table sets out quarterly revenue, net income and cash flow data for 2013, 2012 and 2011.

	Revenue	Net Income	Net Income per Share/ Unit <sup>(1)</sup>	Adjusted Cash Flow <sup>(2)</sup>	Adjusted Cash Flow per Share/ Unit <sup>(1)(2)</sup>	Distributions Declared per Share/ Unit <sup>(1)</sup>
(in millions except per Share/Unit information)						
<b>2013</b>						
First Quarter	\$ 26.4	\$ 21.7	\$ 0.34	\$ 14.4	\$ 0.22	\$ 0.375
Second Quarter	\$ 42.2	\$ 39.2	\$ 0.61	\$ 23.4	\$ 0.37	\$ 0.375
<b>2012</b>						
First Quarter <sup>(3)</sup>	\$ 22.4	\$ 23.0	\$ 0.36	\$ 14.4	\$ 0.23	\$ 0.375
Second Quarter <sup>(3)</sup>	\$ 36.4	\$ 36.8	\$ 0.57	\$ 22.3	\$ 0.35	\$ 0.375
Third Quarter <sup>(3)</sup>	\$ 32.6	\$ 29.7	\$ 0.47	\$ 18.5	\$ 0.28	\$ 0.375
Fourth Quarter	\$ 32.8	\$ 32.3	\$ 0.50	\$ 19.9	\$ 0.31	\$ 0.375
<b>2011</b>						
First Quarter <sup>(3)</sup>	\$ 30.7	\$ 38.9	\$ 0.61	\$ 48.0 <sup>(4)</sup>	\$ 0.75	\$ 0.75
Second Quarter <sup>(3)</sup>	\$ 38.1	\$ 48.2	\$ 0.75	\$ 23.0	\$ 0.36	\$ 0.375
Third Quarter <sup>(3)</sup>	\$ 54.9	\$ 76.3	\$ 1.19	\$ 63.7 <sup>(5)</sup>	\$ 0.99	\$ 0.75
Fourth Quarter <sup>(3)</sup>	\$ 38.8	\$ 45.9	\$ 0.72	\$ 23.4	\$ 0.37	\$ 0.375

- Notes:
- (1) Per share amounts have been retroactively adjusted to reflect the two-for-one share subdivision completed on July 1, 2011
  - (2) "Adjusted cash flow" (see below)
  - (3) Prior to the fourth quarter of 2012, net income, adjusted cash flow, distributions and per unit figures referred to in this table use the totals according to the consolidated financial statements plus (where applicable) the \$7,488,000 (\$0.117 per unit) interest on the subordinated notes
  - (4) Includes a \$29.0 million IOC dividend
  - (5) Includes a \$31.2 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 \$0.24<sup>(1)</sup> for the quarter (2012 – \$0.04<sup>(1)</sup>). Cumulative standardized cash flow from inception of the Corporation is \$17.40 per share and total cash distributions since inception are \$17.16 per share, for a payout ratio of 99%.

"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 and

# MANAGEMENT'S DISCUSSION AND ANALYSIS

interest 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 distributions to shareholders.

The following reconciles cash flow from operating activities to adjusted cash flow.

	<b>3 Months Ended June 30, 2013</b>	<b>3 Months Ended June 30, 2012</b>	<b>6 Months Ended June 30, 2013</b>	<b>6 Months Ended June 30, 2012</b>
Standardized cash flow from operating activities	\$ 15,133,753	\$ 2,343,296	\$ 29,240,622	\$ 19,171,109
Excluding: changes in amounts receivable, accounts payable and income taxes payable	8,291,771	12,477,896	8,534,915	2,557,205
Adjusted cash flow	\$ 23,425,524	\$ 14,821,192 <sup>(1)</sup>	\$ 37,775,537	\$ 21,728,314 <sup>(1)</sup>
Adjusted cash flow per share	\$ 0.37	\$ 0.23 <sup>(1)</sup>	\$ 0.59	\$ 0.34 <sup>(1)</sup>

(1) Excludes note interest on subordinated notes paid directly to shareholders of \$7,488,000 (\$0.117 per unit) and \$14,976,000 (\$0.234 per unit) for the three months and six months periods, respectively.

## Liquidity

The Corporation has a \$50 million revolving credit facility to September 18, 2016 with provision for annual one-year extensions. No amounts are currently drawn under this facility (2012 – nil) leaving \$50 million available to provide for any capital required by IOC or other Corporation requirements.

## IOC Expansion

Phase two of IOC's concentrate expansion program (CEP2), which was temporarily suspended in February 2013, was approved for completion by IOC on August 5. CEP2 will increase concentrate production capacity from 22.0 to 23.3 million tonnes per annum. At the time of suspension, project completion was above 80%, and available capacity was 22.7 mtpa. It is expected that the project will be completed in the first quarter of 2014 with the full 23.3 million tonne capacity becoming available in the second quarter. To date \$393 million has been spent with a further \$86 million expenditure required to complete the project.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Outlook

With the successful integration of phase 1 of the expansion program and with the price of iron ore seeming to have stabilized from lower levels and IOC expecting to sell all the iron ore it can produce, the balance of the year should see satisfactory results.



Bruce C. Bone  
President and Chief Executive Officer  
Toronto, Ontario  
August 7, 2013

## 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 financial statements.

# LABRADOR IRON ORE ROYALTY CORPORATION

## INTERIM CONDENSED CONSOLIDATED

### BALANCE SHEETS

<i>Canadian \$</i>	<b>As at</b>	
	<b>June 30, 2013</b>	<b>December 31, 2012</b>
	<i>(Unaudited)</i>	
<b>Assets</b>		
Current Assets		
Cash	\$ 8,164,043	\$ 26,923,421
Amounts receivable (note 4)	44,032,900	29,308,484
Income taxes recoverable	—	3,130,130
Total Current Assets	52,196,943	59,362,035
Non-Current Assets		
Iron Ore Company of Canada ("IOC"), royalty and commission interests	281,273,346	283,263,500
Investment in IOC (note 5)	388,070,875	351,770,591
Total Non-Current Assets	669,344,221	635,034,091
Total Assets	\$ 721,541,164	\$ 694,396,126
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities		
Accounts payable	\$ 9,046,514	\$ 6,167,138
Dividend payable	24,000,000	24,000,000
Taxes Payable	179,995	—
Total Current Liabilities	33,226,509	30,167,138
Non-Current Liabilities		
Deferred income taxes (note 6)	126,080,000	121,360,000
Total Liabilities	159,306,509	151,527,138
Shareholders' Equity		
Share capital	317,708,147	317,708,147
Retained earnings	257,629,508	244,758,841
Accumulated other comprehensive loss	(13,103,000)	(19,598,000)
	562,234,655	542,868,988
Total Liabilities and Shareholders' Equity	\$ 721,541,164	\$ 694,396,126

See accompanying notes to the 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

<i>Canadian \$</i>	<b>For the Three Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
	<i>(Unaudited)</i>	
<b>Revenue</b>		
IOC royalties	\$ 41,696,680	\$ 35,996,161
IOC commissions	478,318	337,774
Interest and other income	36,565	93,949
	<u>42,211,563</u>	<u>36,427,884</u>
<b>Expenses</b>		
Newfoundland royalty taxes	8,339,336	7,199,232
Amortization of royalty and commission interests	1,040,787	1,425,808
Administrative expenses	841,241	495,322
Interest expense:		
Credit facility	93,493	94,521
Subordinated notes	—	7,488,000
	<u>10,314,857</u>	<u>16,702,883</u>
<b>Income before equity earnings and income taxes</b>	31,896,706	19,725,001
<b>Equity earnings in IOC</b>	19,339,009	18,174,251
<b>Income before income taxes</b>	<u>51,235,715</u>	<u>37,899,252</u>
<b>Provision for income taxes</b>		
Current	9,511,969	6,329,617
Deferred	2,527,000	2,275,772
	<u>12,038,969</u>	<u>8,605,389</u>
<b>Net income for the period</b>	39,196,746	29,293,863
<b>Other comprehensive gain/(loss)</b>		
Share of other comprehensive income/(loss) of IOC that will not be reclassified subsequently to profit or loss (net of taxes)	7,032,000	(433,000)
<b>Comprehensive income for the period</b>	<u>\$ 46,228,746</u>	<u>\$ 28,860,863</u>
<b>Net income per share</b>	<u>\$ 0.61</u>	<u>\$ 0.46</u>

See accompanying notes to the interim condensed consolidated financial statements.

# LABRADOR IRON ORE ROYALTY CORPORATION

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>Canadian \$</i>	<b>For the Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
	<i>(Unaudited)</i>	
<b>Revenue</b>		
IOC royalties	\$ 67,797,885	\$ 58,006,234
IOC commissions	735,969	568,777
Interest and other income	94,934	216,161
	<u>68,628,788</u>	<u>58,791,172</u>
<b>Expenses</b>		
Newfoundland royalty taxes	13,555,741	11,601,247
Amortization of royalty and commission interests	1,990,154	2,767,228
Administrative expenses	1,706,294	1,079,382
Interest expense:		
Credit facility	185,959	188,014
Subordinated notes	—	14,976,000
	<u>17,438,148</u>	<u>30,611,871</u>
<b>Income before equity earnings and income taxes</b>	51,190,640	28,179,301
<b>Equity earnings in IOC</b> (note 5)	28,703,284	29,379,694
<b>Income before income taxes</b>	<u>79,893,924</u>	<u>57,558,995</u>
<b>Provision for income taxes</b> (note 6)		
Current	15,405,257	9,218,215
Deferred	3,618,000	3,512,000
	<u>19,023,257</u>	<u>12,730,215</u>
<b>Net income for the period</b>	60,870,667	44,828,780
<b>Other comprehensive gain/(loss)</b>		
Share of other comprehensive income/(loss) of IOC that will not be reclassified subsequently to profit or loss (net of taxes)	6,495,000	(835,000)
<b>Comprehensive income for the period</b>	<u>\$ 67,365,667</u>	<u>\$ 43,993,780</u>
<b>Net income per share</b>	<u>\$ 0.95</u>	<u>\$ 0.70</u>

See accompanying notes to interim condensed consolidated financial statements.

# LABRADOR IRON ORE ROYALTY CORPORATION

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>Canadian \$</i>	<b>For the Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
	<i>(Unaudited)</i>	
<b>Net inflow (outflow) of cash related to the following activities</b>		
<b>Operating</b>		
Net income for the period	\$ 60,870,667	\$ 44,828,780
Items not affecting cash:		
Equity earnings in IOC	(28,703,284)	(29,379,694)
Current income taxes	15,405,257	9,218,215
Deferred income taxes	3,618,000	3,512,000
Amortization of royalty and commission interests	1,990,154	2,767,228
Interest expense	185,959	15,164,014
Change in amounts receivable and accounts payable	(11,845,040)	3,224,580
Interest paid	(185,959)	(15,164,014)
Income taxes paid	(12,095,132)	(15,000,000)
Cash flow from operating activities	29,240,622	19,171,109
<b>Financing</b>		
Dividends paid to shareholders	(48,000,000)	(33,024,000)
Cash flow used in financing activities	(48,000,000)	(33,024,000)
<b>Decrease in cash, during the period</b>	(18,759,378)	(13,852,891)
<b>Cash, beginning of period</b>	26,923,421	41,498,184
<b>Cash, end of period</b>	\$ 8,164,043	\$ 27,645,293

See accompanying notes to interim condensed consolidated financial statements.

# LABRADOR IRON ORE ROYALTY CORPORATION

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Canadian \$

	Capital stock	Retained earnings	Accumulated other comprehensive income/(loss)	Total
	<i>(Unaudited)</i>			
Balance as at December 31, 2011	\$ 69,708,147	\$ 219,001,376	\$(14,987,000)	\$ 273,722,523
Net income for the period	—	44,828,780	—	44,828,780
Dividends declared to shareholders	—	(33,024,000)	—	(33,024,000)
Share of other comprehensive loss from investment in IOC (net of taxes)	—	—	(835,000)	(835,000)
Balance as at June 30, 2012	69,708,147	230,806,156	(15,822,000)	284,692,303
Balance as at December 31, 2012	317,708,147	244,758,841	(19,598,000)	542,868,988
Net income for the period	—	60,870,667	—	60,870,667
Dividends declared to shareholders	—	(48,000,000)	—	(48,000,000)
Share of other comprehensive income from investment in IOC (net of taxes)	—	—	6,495,000	6,495,000
Balance as at June 30, 2013	\$ 317,708,147	\$ 257,629,508	\$(13,103,000)	\$ 562,234,655

See accompanying notes to interim condensed consolidated financial statements.



# NOTES TO THE 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 were authorized for issuance by the Board of Directors of the Corporation on August 7, 2013.

## 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, 2012. 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, 2012.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Future changes in accounting policies

The Corporation has evaluated the impact of accounting policy changes effective January 1, 2013 and has determined that there is no material impact as a result of the adoption of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 13 *Fair Value Measurement*, IAS 19 (2011) *Employee Benefits*, IAS 1 *Presentation of Financial Statements*, IFRS 7 *Financial Instrument Disclosures* and IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* on the interim condensed consolidated financial statements for the period ended June 30, 2013. Future changes in accounting standards which will impact the December 31, 2013 consolidated financial statements pertain to adoption of IFRS 12 *Disclosure of Interests in Other Entities* and will result in enhanced disclosure requirements within the notes to the consolidated financial statements related to the Corporation's investment in IOC.

## 4. Accounts receivable

	June 30, 2013	December 31, 2012
IOC royalties	\$ 43,645,816	\$ 29,152,438
IOC commissions	145,331	136,933
Other	241,753	19,113
	<u>\$ 44,032,900</u>	<u>\$ 29,308,484</u>

## 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, 2013 and December 31, 2012. The Series B and Series C common shares have identical voting rights to all other issued and outstanding common shares of IOC.

	June 30, 2013	December 31, 2012
Investment in IOC, beginning of period/year	\$ 351,770,591	\$ 299,280,483
Equity earnings in IOC	28,703,284	57,883,108
Other comprehensive income/(loss) of IOC	7,597,000	(5,393,000)
Investment in IOC, end of period/year	<u>\$ 388,070,875</u>	<u>\$ 351,770,591</u>

The net excess of cost of the Investment in IOC over the net book value of underlying net assets amounts to \$48,107,000 as at June 30, 2013 (December 31, 2012 – \$48,448,000) and is being amortized to net income on the units-of-production method based on production and reserve estimates at IOC.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 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,	
	2013	2012	2013	2012
Income before income taxes	\$ 51,235,715	\$ 37,899,252	\$ 79,893,924	\$ 57,558,995
Income taxes at combined federal and provincial statutory tax rates of 29.0%	14,858,357	10,990,783	23,169,238	16,692,109
Increase (decrease) in income taxes resulting from:				
Undistributed equity earnings in investment in IOC	(2,713,096)	(2,708,492)	(4,161,976)	(4,401,721)
Other	(106,292)	323,097	15,995	439,827
Income tax expense	\$ 12,038,969	\$ 8,605,389	\$ 19,023,257	\$ 12,730,215

The deferred tax liability is comprised of the following:

	Opening Balance	Recognized in profit and loss	Recognized in other comprehensive income/(loss)	Closing Balance
<b>December 31, 2012</b>				
Difference in tax and book value of assets	\$ 115,913,975	\$ 7,271,475	\$ (782,000)	\$ 122,403,450
Tax benefit of deductible temporary differences	(1,083,975)	40,525	—	(1,043,450)
Net deferred income tax liability	114,830,000	7,312,000	(782,000)	121,360,000
<b>June 30, 2013</b>				
Difference in tax and book value of assets	122,403,450	3,578,024	1,102,000	127,083,474
Tax benefit of deductible temporary differences	(1,043,450)	39,976	—	(1,003,474)
Net deferred income tax liability	\$ 121,360,000	\$ 3,618,000	\$ 1,102,000	\$ 126,080,000

# CORPORATE INFORMATION

## Administration and Investor Relations

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## Directors

### Bruce C. Bone

President and Chief Executive Officer  
Labrador Iron Ore Royalty Corporation

### William J. Corcoran<sup>(1)</sup>

Vice-Chairman, Jarislowsky Fraser Limited

### Duncan N.R. Jackman<sup>(1)</sup>

Chairman, President and CEO of  
E-L Financial Corporation Limited

### James C. McCartney

Company Director  
Counsel, McCarthy Tétrault LLP

### Paul H. Palmer<sup>(1)</sup>

Company Director

### Harold S. (Hap) Stephen<sup>(1)</sup>

Chairman and CEO  
Stonecrest Capital Inc.

### Alan R. Thomas

Company Director

### Donald J. Worth<sup>(1)</sup>

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

### 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

Deloitte LLP  
Toronto, Ontario

## Stock Exchange Listing

The Toronto Stock Exchange

## Symbol

LIF

## Website

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