

LABRADOR IRON ORE
ROYALTY CORPORATION

2013



**THIRD QUARTER
REPORT**

REPORT TO HOLDERS OF COMMON SHARES

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

Royalty income for the third quarter of 2013 amounted to \$35.6 million as compared to \$32.1 million for the third 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 \$20.0 million or \$0.31 per share compared to last year's \$18.5 million or \$0.28 per unit. Equity earnings from Iron Ore Company of Canada (IOC) amounted to \$25.8 million or \$0.40 per share as compared to \$14.2 million or \$0.22 per unit in 2012. Net income was \$41.2 million or \$0.65 per share compared to \$29.7 million or \$0.47 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).

As reported last quarter, the wildfires in the area, mine ore quality issues and power outages resulted in reduced production in June and July. The reduced production in June and July resulted in lower sales for the quarter, due to the lack of available product for shipment. Production for August and September returned to May levels and is approaching the levels expected, now that the first phase of the expansion has been completed. Barring unforeseen circumstances, we should see these production levels continue going forward, subject to the usual production reduction that occurs during the winter months. Royalty income for the quarter was positively affected by iron ore prices that remained relatively firm during the quarter and the weaker Canadian dollar against its U.S. counterpart. Revenue for the quarter was substantially improved from last year, mainly due to the higher prices received but was lower than the preceding quarter, because of the lack of product available for sale. Equity earnings from IOC for the quarter were substantially above last year's corresponding quarter and an improvement over the preceding quarter of this year.

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 \$7,488,000 (\$0.117 per stapled unit) and \$22,464,000 (\$0.351 per stapled unit) interest on the subordinated notes for the three months and nine months periods, respectively.

REPORT TO HOLDERS OF COMMON SHARES

Results for the three months and nine months ended September 30 are summarized below:

	3 Months Ended Sept. 30, 2013	3 Months Ended Sept. 30, 2012	9 Months Ended Sept. 30, 2013	9 Months Ended Sept. 30, 2012
	<i>(Unaudited)</i>			
Revenue (in millions)	\$ 36.1	\$ 32.6	\$ 104.7	\$ 91.4
Adjusted cash flow (in millions)	\$ 20.0	\$ 18.5	\$ 57.8	\$ 55.2
Adjusted cash flow per share/unit	\$ 0.31	\$ 0.28	\$ 0.90	\$ 0.86
Net income (in millions)	\$ 41.2	\$ 29.7	\$ 102.1	\$ 89.5
Net income per share/unit	\$ 0.65	\$ 0.47	\$ 1.60	\$ 1.40

“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:

	3 Months Ended Sept. 30, 2013	3 Months Ended Sept. 30, 2012	9 Months Ended Sept. 30, 2013	9 Months Ended Sept. 30, 2012	Year Ended Dec. 31, 2012
Pellets	2.27	2.77	6.57	7.37	9.90
Concentrates	1.47	1.72	4.65	2.92	4.22
Total	3.74	4.49	11.22	10.29	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 (“mtpa”). 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 mtpa 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.

REPORT TO HOLDERS OF COMMON SHARES


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 LIORC. We understand from media reports that several expressions of interest were received by Rio Tinto but no agreement has been reached. Media reports indicate that most potential bidders have withdrawn from the process and that Rio Tinto is re-evaluating its proposed sale.

Outlook

With the successful integration of phase 1 of the expansion program, the price of iron ore seeming to have stabilized from lower levels, a weaker Canadian dollar 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,



Bruce C. Bone
President and Chief Executive Officer
October 31, 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 third quarter of 2013 amounted to \$35.6 million as compared to \$32.1 million for the third 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 \$20.0 million or \$0.31 per share compared to last year's \$18.5 million or \$0.28 per unit. Equity earnings from IOC amounted to \$25.8 million or \$0.40 per share as compared to \$14.2 million or \$0.22 per unit in 2012. Net income was \$41.2 million or \$0.65 per share compared to \$29.7 million or \$0.47 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).

As reported last quarter, the wildfires in the area, mine ore quality issues and power outages resulted in reduced production in June and July. The reduced production in June and July resulted in lower sales for the quarter, due to the lack of available product for shipment. Production for August and September returned to May levels and is approaching the levels expected, now that the first phase of the expansion has been completed. Barring unforeseen circumstances, we should see these production levels continued going forward, subject to the usual production reduction that occurs during the winter months. Royalty income for the quarter was positively affected by iron ore prices that remained relatively firm during the quarter and the weaker Canadian dollar against its U.S. counterpart. Revenue for the quarter was substantially improved from last year, mainly due to the higher prices received but was lower than the preceding quarter, because of the lack of product available for sale. Equity earnings from IOC for the quarter were substantially above last year's corresponding quarter and an improvement over the preceding quarter of this year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The improvement in the nine months results reflects higher royalty revenue due to IOC's increased production and sales volume as a result of the completion of Phase 1 of the expansion and higher iron ore prices. The weather and operating problems that occurred in June and July resulted in the improvement being less than was otherwise expected. Had they not occurred, production and sales would have been at least 1million tonnes higher. 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 obtain advice 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, which will result in lower amortization going forward. The increase in income taxes this year is the result of the interest on the previously outstanding \$248 million notes no longer being payable. The nine months 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.

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 \$22,464,000 (\$0.351 per stapled unit) interest on the subordinated notes for the three months and nine 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 ⁽¹⁾	Adjusted Cash Flow ⁽²⁾	Adjusted Cash Flow per Share/ Unit ⁽¹⁾⁽²⁾	Distributions Declared per Share/ Unit ⁽¹⁾
	(in millions except per Share/Unit information)					
2013						
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
Third Quarter	\$ 36.1	\$ 41.2	\$ 0.65	\$ 20.0	\$ 0.31	\$ 0.375
2012						
First Quarter ⁽³⁾	\$ 22.4	\$ 23.0	\$ 0.36	\$ 14.4	\$ 0.23	\$ 0.375
Second Quarter ⁽³⁾	\$ 36.4	\$ 36.8	\$ 0.57	\$ 22.3	\$ 0.35	\$ 0.375
Third Quarter ⁽³⁾	\$ 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
2011						
First Quarter ⁽³⁾	\$ 30.7	\$ 38.9	\$ 0.61	\$ 48.0 ⁽⁴⁾	\$ 0.75	\$ 0.75
Second Quarter ⁽³⁾	\$ 38.1	\$ 48.2	\$ 0.75	\$ 23.0	\$ 0.36	\$ 0.375
Third Quarter ⁽³⁾	\$ 54.9	\$ 76.3	\$ 1.19	\$ 63.7 ⁽⁵⁾	\$ 0.99	\$ 0.75
Fourth Quarter ⁽³⁾	\$ 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 \$0.47 for the quarter (2012 – \$0.22⁽¹⁾). Cumulative standardized cash flow from inception of the Corporation is \$17.87 per share and total cash distributions since inception are \$17.54 per share, for a payout ratio of 98%.

MANAGEMENT'S DISCUSSION AND ANALYSIS

“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 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.

	3 Months Ended Sept. 30, 2013	3 Months Ended Sept. 30, 2012	9 Months Ended Sept. 30, 2013	9 Months Ended Sept. 30, 2012
Standardized cash flow from operating activities	\$ 30,326,112	\$ 13,860,481	\$ 59,566,734	\$ 33,031,588
Excluding: changes in amounts receivable, accounts payable and income taxes payable	(10,340,712)	(2,892,094)	(1,805,797)	(334,889)
Adjusted cash flow	\$ 19,985,400	\$ 10,968,387 ⁽¹⁾	\$ 57,760,937	\$ 32,696,699 ⁽¹⁾
Adjusted cash flow per share	\$ 0.31	\$ 0.17 ⁽¹⁾	\$ 0.90	\$ 0.51 ⁽¹⁾

(1) Excludes note interest on subordinated notes paid directly to shareholders of \$7,488,000 (\$0.117 per unit) and \$22,464,000 (\$0.351 per unit) for the three months and nine 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 (“mtpa”). 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 mtpa 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, the price of iron ore seeming to have stabilized from lower levels, a weaker Canadian dollar 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
October 31, 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>	As at	
	September 30, 2013	December 31, 2012
	<i>(Unaudited)</i>	
Assets		
Current Assets		
Cash	\$ 14,490,155	\$ 26,923,421
Amounts receivable (note 4)	32,515,181	29,308,484
Income taxes recoverable	—	3,130,130
Total Current Assets	47,005,336	59,362,035
Non-Current Assets		
Iron Ore Company of Canada ("IOC"), royalty and commission interests	280,179,816	283,263,500
Investment in IOC (note 5)	413,225,654	351,770,591
Total Non-Current Assets	693,405,470	635,034,091
Total Assets	\$ 740,410,806	\$ 694,396,126
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	\$ 6,915,768	\$ 6,167,138
Dividend payable	24,000,000	24,000,000
Taxes Payable	1,133,734	—
Total Current Liabilities	32,049,502	30,167,138
Non-Current Liabilities		
Deferred income taxes (note 6)	129,440,000	121,360,000
Total Liabilities	161,489,502	151,527,138
Shareholders' Equity		
Share capital	317,708,147	317,708,147
Retained earnings	274,860,157	244,758,841
Accumulated other comprehensive loss	(13,647,000)	(19,598,000)
	578,921,304	542,868,988
Total Liabilities and Shareholders' Equity	\$ 740,410,806	\$ 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>	For the Three Months Ended September 30,	
	2013	2012
	<i>(Unaudited)</i>	
Revenue		
IOC royalties	\$ 35,625,687	\$ 32,117,891
IOC commissions	368,180	442,043
Interest and other income	44,288	78,363
	<u>36,038,155</u>	<u>32,638,297</u>
Expenses		
Newfoundland royalty taxes	7,125,137	6,423,578
Amortization of royalty and commission interests	1,093,530	1,355,487
Administrative expenses	679,358	720,569
Interest expense:		
Credit facility	94,521	93,493
Subordinated notes	—	7,488,000
	<u>8,992,546</u>	<u>16,081,127</u>
Income before equity earnings and income taxes	<u>27,045,609</u>	<u>16,557,170</u>
Equity earnings in IOC	<u>25,791,779</u>	<u>14,155,835</u>
Income before income taxes	<u>52,837,388</u>	<u>30,713,005</u>
Provision for income taxes		
Current	8,153,739	6,944,270
Deferred	3,453,000	1,563,000
	<u>11,606,739</u>	<u>8,507,270</u>
Net income for the period	<u>41,230,649</u>	<u>22,205,735</u>
Other comprehensive loss		
Share of other comprehensive loss of IOC that will not be reclassified subsequently to profit or loss (net of taxes)	(544,000)	(430,000)
Comprehensive income for the period	<u>\$ 40,686,649</u>	<u>\$ 21,775,735</u>
Net income per share	<u>\$ 0.65</u>	<u>\$ 0.35</u>

See accompanying notes to the interim condensed consolidated financial statements.

LABRADOR IRON ORE ROYALTY CORPORATION

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Canadian \$

**For the Nine Months
Ended September 30,**

2013 2012

(Unaudited)

Revenue

IOC royalties	\$ 103,423,572	\$ 90,124,124
IOC commissions	1,104,149	1,010,820
Interest and other income	139,222	294,522
	<u>104,666,943</u>	<u>91,429,466</u>

Expenses

Newfoundland royalty taxes	20,680,878	18,024,825
Amortization of royalty and commission interests	3,083,684	4,122,715
Administrative expenses	2,385,653	1,799,950
Interest expense:		
Credit facility	280,479	281,507
Subordinated notes	—	22,464,000
	<u>26,430,694</u>	<u>46,692,997</u>

Income before equity earnings and income taxes

78,236,249 44,736,469

Equity earnings in IOC (note 5)

54,495,063 43,535,529

Income before income taxes

132,731,312 88,271,998

Provision for income taxes (note 6)

Current	23,558,996	16,162,485
Deferred	7,071,000	5,075,000
	<u>30,629,996</u>	<u>21,237,485</u>

Net income for the period

102,101,316 67,034,513

Other comprehensive gain/(loss)

Share of other comprehensive income/(loss) of IOC
that will not be reclassified subsequently to
profit or loss (net of taxes)

5,951,000 (1,265,000)

Comprehensive income for the period

\$ 108,052,316 \$ 65,769,513

Net income per share

\$ 1.60 \$ 1.05

See accompanying notes to interim condensed consolidated financial statements.

LABRADOR IRON ORE ROYALTY CORPORATION

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>Canadian \$</i>	For the Nine Months Ended September 30,	
	2013	2012
	<i>(Unaudited)</i>	
Net inflow (outflow) of cash related to the following activities		
Operating		
Net income for the period	\$ 102,101,316	\$ 67,034,513
Items not affecting cash:		
Equity earnings in IOC	(54,495,063)	(43,535,529)
Current income taxes	23,558,996	16,162,485
Deferred income taxes	7,071,000	5,075,000
Amortization of royalty and commission interests	3,083,684	4,122,715
Interest expense	280,479	22,745,507
Change in amounts receivable and accounts payable	(2,458,067)	6,783,587
Interest paid	(280,479)	(22,745,507)
Income taxes paid	(19,295,132)	(22,611,183)
Cash flow from operating activities	59,566,734	33,031,588
Financing		
Dividends paid to shareholders	(72,000,000)	(49,536,000)
Cash flow used in financing activities	(72,000,000)	(49,536,000)
Decrease in cash, during the period	(12,433,266)	(16,504,412)
Cash, beginning of period	26,923,421	41,498,184
Cash, end of period	\$ 14,490,155	\$ 24,993,772

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	—	67,034,513	—	67,034,513
Dividends declared to shareholders	—	(49,536,000)	—	(49,536,000)
Share of other comprehensive loss from investment in IOC (net of taxes)	—	—	(1,265,000)	(1,265,000)
Balance as at September 30, 2012	69,708,147	236,499,889	(16,252,000)	289,956,036
Balance as at December 31, 2012	317,708,147	244,758,841	(19,598,000)	542,868,988
Net income for the period	—	102,101,316	—	102,101,316
Dividends declared to shareholders	—	(72,000,000)	—	(72,000,000)
Share of other comprehensive income from investment in IOC (net of taxes)	—	—	5,951,000	5,951,000
Balance as at September 30, 2013	\$ 317,708,147	\$ 274,860,157	\$(13,647,000)	\$ 578,921,304

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 October 31, 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 September 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

	September 30, 2013	December 31, 2012
IOC royalties	\$ 32,427,837	\$ 29,152,438
IOC commissions	87,344	136,933
Other	—	19,113
	<u>\$ 32,515,181</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 September 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.

	September 30, 2013	December 31, 2012
Investment in IOC, beginning of period/year	\$ 351,770,591	\$ 299,280,483
Equity earnings in IOC	54,495,063	57,883,108
Other comprehensive income/(loss) of IOC	6,960,000	(5,393,000)
Investment in IOC, end of period/year	<u>\$ 413,225,654</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 \$47,920,000 as at September 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 September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Income before income taxes	\$ 52,837,388	\$ 30,713,003	\$ 132,731,312	\$ 88,271,998
Income taxes at combined federal and provincial statutory tax rates of 29.0%	15,322,843	8,906,771	38,492,080	25,598,879
Increase (decrease) in income taxes resulting from:				
Undistributed equity earnings in investment in IOC	(3,739,808)	(2,125,531)	(7,901,784)	(6,527,252)
Non-deductible interest	—	1,699,450	—	1,699,450
Other	23,704	26,580	39,700	466,407
Income tax expense	\$ 11,606,739	\$ 8,507,270	\$ 30,629,996	\$ 21,237,485

The deferred tax liability is comprised of the following:

	Opening Balance	Recognized in profit and loss	Recognized in other comprehensive income/(loss)	Closing Balance
December 31, 2012				
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
September 30, 2013				
Difference in tax and book value of assets	122,403,450	7,006,175	1,009,000	130,418,625
Tax benefit of deductible temporary differences	(1,043,450)	64,825	—	(978,625)
Net deferred income tax liability	\$ 121,360,000	\$ 7,071,000	\$ 1,009,000	\$ 129,440,000

CORPORATE INFORMATION

Administration and Investor Relations

40 King Street West
Scotia Plaza, 26th Floor
Box 4085, Station "A"
Toronto, Ontario M5W 2X6
Telephone: (416) 863-7133
Facsimile: (416) 863-7425

Directors

Bruce C. Bone

President and Chief Executive Officer
Labrador Iron Ore Royalty Corporation

William J. Corcoran⁽¹⁾

Vice-Chairman, Jarislowsky Fraser Limited

Duncan N.R. Jackman⁽¹⁾

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

James C. McCartney

Company Director
Counsel, McCarthy Tétrault LLP

Paul H. Palmer⁽¹⁾

Company Director

Harold S. (Hap) Stephen⁽¹⁾

Chairman and CEO
Stonecrest Capital Inc.

Alan R. Thomas

Company Director

Donald J. Worth⁽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

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

www.labradorironore.com

E-mail

investor.relations@labradorironore.com

**Labrador Iron Ore
Royalty Corporation**

40 King Street West
Scotia Plaza, 26th Floor
Box 4085, Station A
Toronto, ON M5W 2X6

Telephone (416) 863-7133

Facsimile (416) 863-7425