LABRADOR IRON ORE
ROYALTY CORPORATION

218

THIRD QUARTER REPORT

80 YEARS IN LABRADOR WEST

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") present the third quarter report for the period ended September 30, 2018.

Royalty revenue for the third quarter of 2018 amounted to $44.0 million as compared to $39.8 million for the third quarter of 2017. LIORC received a dividend from Iron Ore Company of Canada ("IOC") in the third quarter of 2018 in the amount of $58.6 million or $0.92 per share as compared to $32.2 million or $0.50 per share in the third quarter of 2017. Equity earnings from IOC amounted to $30.6 million or $0.48 per share as compared to $21.2 million or $0.33 per share in 2017. Net income was $58.1 million or $0.91 per share compared to $43.8 million or $0.69 per share for the same period in 2017. The shareholders' cash flow from operations for the third quarter was $59.7 million or $0.93 per share as compared to $53.6 million or $0.84 per share for the same period in 2017.

The cash flow from operations, equity earnings and net income for the third quarter of 2018 were higher than the third quarter of 2017, due to an overall 9% improvement in sales tonnages for concentrate for sale ("CFS") and pellets, and improved pellet premiums, offset by slightly lower prices for CFS. Recall that sales tonnages for the third quarter of 2017 were negatively affected by the maintenance on the dumper in Sept-Îles for the rail cars that transport the iron ore products from the concentrator at Labrador City to the port.

The Platts average index price for 62% fines decreased 6% to US$67 per tonne CFR China in the third quarter of 2018 compared to the average index price in the third quarter of 2017 of US$71 per tonne. However, IOC sells the CFS product based on the 65% Fe index, and the Platts average index price for 65% fines was 4% higher in the third quarter of 2018 compared to the average price in the comparable quarter of 2017. Total IOC sales for calculating the royalty to LIORC – pellets plus CFS – of 5.43 million tonnes was 9% higher in the third quarter of 2018 compared to the same period in 2017. In the third quarter of 2018 concentrate production continued to be preferentially directed to the pellet plant due to the strong pellet demand and premiums.

Report to Holders of Common Shares

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

(in millions except per share information)	**3 Months Ended Sept. 30, 2018**	**3 Months Ended Sept. 30, 2017**	**9 Months Ended Sept. 30, 2018**	**9 Months Ended Sept. 30, 2017**
	(Unaudited)			
Revenue	$ 44.6	$ 40.4	$ 84.1	$ 118.0
Cash flow from operations	$ 59.7	$ 53.6	$ 95.5	$ 127.4
Operating cash flow per share	$ 0.93	$ 0.84	$ 1.49	$ 1.99
Net income	$ 58.1	$ 43.8	$ 85.1	$ 118.9
Net income per share	$ 0.91	$ 0.69	$ 1.33	$ 1.86

Iron Ore Company of Canada Operations

Production

Total concentrate production in the third quarter of 2018 of 5.0 million tonnes was 11% lower than the third quarter of 2017 and was 243% higher than the second quarter of 2018. CFS production was 22% lower in the third quarter of 2018 as compared to the third quarter of 2017. However, pellet production in the third quarter of 2018 was 2% higher than the third quarter of 2017, reflecting the preference for pellets due to the high premiums offered. As stated by Rio Tinto in its production report for the third quarter of 2018, production in the third quarter of 2018 was adversely affected by "maintenance and the commissioning of a productivity improvement project on the spiral plant, which temporarily restricted throughput." Recall that IOC production was negatively affected by the labour stoppage in the second quarter of 2018, making comparisons between the second and third quarters of 2018 not meaningful.

Sales as Reported for the LIORC Royalty

Third quarter 2018 total iron ore tonnage sold by IOC (pellets plus CFS) of 5.43 million tonnes was 9% above the total sales tonnage in the third quarter 2017. The pellet sales tonnage was maintained quarter over quarter reflecting maintenance improvements made over the past year by IOC personnel. All six pellet lines operated during the third quarter, but the No. 4 pellet line is scheduled for refurbishment in the fourth quarter of 2018. The CFS sales tonnage in the third quarter 2018 was an 18% improvement over the comparable 2017 quarter, which was affected by the required maintenance of the rail car dumper.

The royalty revenue for LIORC in the third quarter of 2018 was 10% higher than the revenue in last year's third quarter driven by the strong pellet premiums and the higher sales volumes.

Sales of CFS and pellets in the second quarter 2018 were negatively impacted by the labour stoppage, which is reflected in the year-to-date 2018 sales tonnages, as reported below.

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

	3 Months Ended Sept. 30, 2018	3 Months Ended Sept. 30, 2017	9 Months Ended Sept. 30, 2018	9 Months Ended Sept. 30, 2017	Year Ended Dec. 31, 2017
Pellets	2.79	2.78	5.81	7.70	10.48
Concentrates[(1)]	2.64	2.23	4.04	6.01	8.67
Total[(2)]	5.43	5.00	9.86	13.71	19.15

(1) *Excludes third party ore sales*

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

Outlook

IOC is expecting good production and sales tonnages in the fourth quarter of 2018, with anticipated benefits from the spiral improvement project noted above. IOC has also initiated trials with a reflux classifier to improve the weight yield in the concentrator. The Wabush 3 Pit was officially opened on September 25, 2018, and renamed the Moss Pit in recognition of the geologic and exploration contribution to IOC by Dr. A.E. Moss. The availability of the Moss Pit is expected to enhance the overall mine production, reduce overall mining costs due to a lower waste stripping ratio, improve IOC's ability to blend ores to meet client specifications, and extend the mine life. The dewatering of the Luce Pit has progressed well, and this initiative is also expected to result in improved performance at IOC.

Rio Tinto has maintained the IOC production guidance for 2018 at 9.0 to 10.0 million tonnes of iron ore pellets and concentrates for its 58.72% interest in IOC, which is total saleable production – CFS plus pellets – of 15.3 to 17.0 million tonnes on a 100% basis.

The price outlook for higher value-in-use CFS and pellets remains positive for the balance 2018 and going into 2019. There is strong demand by steelmakers for IOC's high quality, low impurity (low phosphorus and alumina content) iron ore which helps to improve efficiency, reduce emissions and produce higher quality steel. The strong demand by Chinese steelmakers for high quality seaborne iron ore products is supported by strong steel margins, and the expected application of winter output cuts in China. The Chinese demand for pellets has caused the pellet premium CFR China to rapidly increase to average US$89 per tonne in September 2018 compared to US$46 per tonne in September 2017, as reported by Platts. While this premium has reduced somewhat to US$74 per tonne, at the time of writing, we expect the pellet premiums in 2019 will be strong given the likely restart of Samarco being delayed into 2020 according to Vale officials. The differential for 65% Fe CFR China compared to the 62% IODEX price has weakened somewhat recently as reported by Platts to US$24 per tonne, but this remains strong as compared to the differential of less than US$10 per tonne in 2016.

Report to Holders of Common Shares

IOC has reduced the forecast capital spending for 2018 from $220 million to $203 million based on the second quarter work stoppage resulting in delays to ramp up the personnel and equipment necessary to execute the full plan in 2018. We do not expect any long-term impacts from this delay in capital spending.

Third party ore haulage tonnage and sales are well above plan year to date 2018. With a good price outlook for iron ore, it is expected that IOC will benefit from third party haulage contracts for the balance of 2018 and into 2019.

There are forecasts for the Canadian dollar to strengthen against the US dollar over the balance of 2018 and into 2020 with a reduction in uncertainty owing to the United States Mexico Canada Agreement, and a significant boost to growth in 2020 associated with the construction of the Kitimat LNG terminal.

In its press release dated June 18, 2018, the LIORC Board indicated its intention to call a special meeting of shareholders to approve amendments to the articles of incorporation to, among other things, allow the corporation to invest in other mining royalties. While the immediate opportunity referred to in the press release remains a possibility, the Board has decided to defer the calling of the meeting.

On September 14, 2018, LIORC announced that it would receive a dividend from IOC on September 27, 2018 in the amount of approximately $59 million or $0.92 per share. On the same date, the LIORC Board declared regular and special dividends totaling $35.2 million or $0.55 per share to be paid to LIORC shareholders on October 25, 2018. The balance was used to build our cash balance to provide the Corporation with additional financial flexibility. The LIORC cash balance at September 30, 2018 stood at $62.4 million and the current assets exceeded the current liabilities by $63.5 million. The LIORC dividends payable on October 25, 2018 was largely covered by the royalty receivable from IOC. We expect good production, sales and premiums for the high value-in-use iron ore products from IOC over the balance of 2018. As a result, for the balance of 2018 and going into 2019, LIORC is in a good position to maintain the regular dividend, continue to pay special dividends, and maintain a strong balance sheet.

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

William H. McNeil
President and Chief Executive Officer
November 7, 2018

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 2017 Annual Report, the financial statements and notes contained therein and the June 30, 2018 interim condensed consolidated financial statements. 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 strike closed down the IOC production facilities on March 27, 2018. The workforce returned to work on May 28, 2018. A new five-year collective agreement is now in place and the ramp up to normal production rates was achieved by the end of June. IOC is making every effort to maximize production for the remainder of the year. Sales for the second quarter of 2018 were restricted by the availability of product as port inventories had to be rebuilt.

The first quarter sales of IOC are traditionally adversely affected by the general winter operating conditions and are usually 15% – 20% of the annual volume, with the balance spread fairly evenly throughout the other three quarters. Because of the size of individual shipments, some quarters may be affected by the timing of the loading of ships that can be delayed from one quarter to the next.

Royalty revenue for the third quarter of 2018 amounted to $44.0 million as compared to $39.8 million for the third quarter of 2017. LIORC received a dividend from IOC in the third quarter of 2018 in the amount of $58.6 million or $0.92 per share as compared to $32.2 million or $0.50 per share in the third quarter of 2017. Equity earnings from IOC amounted to $30.6 million or $0.48 per share as compared to $21.2 million or $0.33 per share in 2017. Net income was $58.1 million or $0.91 per share compared to $43.8 million or $0.69 per share for the same period in 2017. The shareholders' cash flow from operations for the third quarter was $59.7 million or $0.93 per share as compared to $53.6 million or $0.84 per share for the same period in 2017.

The cash flow from operations, equity earnings and net income for the third quarter of 2018 were higher than the third quarter of 2017, due to an overall 9% improvement in sales tonnages for CFS and pellets, and improved pellet premiums, offset by slightly lower prices for CFS. Recall that sales tonnages for the third quarter of 2017 were negatively affected by the maintenance on the dumper in Sept-Îles for the rail cars that transport the iron ore products from the concentrator at Labrador City to the port.

The Platts average index price for 62% fines decreased 6% to US$67 per tonne CFR China in the third quarter of 2018 compared to the average price in the third quarter of 2017 of US$71 per tonne. However, IOC sells the CFS product based on the 65% Fe index, and the Platts average index price for 65% fines was 4% higher in the third quarter of 2018 compared to the average index price in the comparable quarter of 2017. Total IOC sales for calculating the royalty to LIORC – pellets plus CFS – of 5.43 million tonnes was 9% higher in the third quarter of 2018 compared to the same period in 2017. In the third quarter of

2018 concentrate production continued to be preferentially directed to the pellet plant due to the strong pellet demand and premiums.

Total concentrate production in the third quarter of 2018 of 5.0 million tonnes was 11% lower than the third quarter of 2017 and was 243% higher than the second quarter of 2018. CFS production was 22% lower in the third quarter of 2018 as compared to the third quarter of 2017. However, pellet production in the third quarter of 2018 was 2% higher than the third quarter of 2017, reflecting the preference for pellets due to the high premiums offered. As stated by Rio Tinto in its production report for the third quarter of 2018, production in the third quarter of 2018 was adversely affected by "maintenance and the commissioning of a productivity improvement project on the spiral plant, which temporarily restricted throughput." Recall that IOC production was negatively affected by the labour stoppage in the second quarter of 2018, making comparisons between the second and third quarters of 2018 not meaningful.

Third quarter 2018 total iron ore tonnage sold by IOC (pellets plus CFS) of 5.43 million tonnes was 9% above the total sales tonnage in the third quarter 2017. The pellet sales tonnage was maintained quarter over quarter reflecting maintenance improvements made over the past year by IOC personnel. All six pellet lines operated during the third quarter, but the No. 4 pellet line is scheduled for refurbishment in the fourth quarter of 2018. The CFS sales tonnage in the third quarter 2018 was an 18% improvement over the comparable 2017 quarter, which was affected by the required maintenance of the rail car dumper.

The royalty revenue for LIORC in the third quarter of 2018 was 10% higher than the revenue in last year's third quarter driven by the strong pellet premiums and higher sales volumes.

Sales of CFS and pellets in the second quarter 2018 were negatively impacted by the labour stoppage, which is reflected in the year-to-date 2018 sales tonnages.

Results for the nine months to September 30, 2018 were affected by the labour stoppage in the second quarter of 2018. The CFS sales tonnage in the nine months to September 2018 was 33% below the CFS sales tonnage in the comparable period in 2017. The pellet sales tonnage was 25% lower. CFS prices for IODEX 62% Fe CFR China were 6% lower but the Platts price index for 65% Fe CFR China was slightly positive by 2% in the nine months ended September 30, 2018 compared to the comparable 2017 period. Atlantic Basin pellet premiums as reported by Platts were 30% higher in the nine months ended September 30, 2018 compared to the comparable 2017 period.

The following table sets out quarterly revenue, net income, cash flow and dividend data for 2018, 2017 and 2016.

	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)						
2018							
First Quarter	$ 34.3	$ 30.3	$ 0.47	$ 20.3	$ 0.32	$ 0.29	$ 0.35
Second Quarter	$ 5.2	$ (3.3)	$ (0.05)	$ 15.5	$ 0.24	$ 0.04	$ 0.25
Third Quarter	$ 44.6	$ 58.1	$ 0.91	$ 59.7[2]	$ 0.93[2]	$ 1.30[2]	$ 0.55
2017							
First Quarter	$ 43.4	$ 42.9	$ 0.67	$ 28.2[3]	$ 0.44[3]	$ 0.53[3]	$ 0.50
Second Quarter	$ 34.2	$ 32.3	$ 0.50	$ 45.6[4]	$ 0.71[4]	$ 0.53[4]	$ 0.60
Third Quarter	$ 40.4	$ 43.8	$ 0.69	$ 53.6[5]	$ 0.84[5]	$ 0.85[5]	$ 1.00
Fourth Quarter	$ 40.6	$ 38.3	$ 0.60	$ 39.6[6]	$ 0.62[6]	$ 0.65[6]	$ 0.55
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[7]	$ 0.44[7]	$ 0.57[7]	$ 0.25

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

(2) *Includes $58.6 million IOC dividend.*

(3) *Includes $10.0 million IOC dividend.*

(4) *Includes $15.3 million IOC dividend.*

(5) *Includes $32.2 million IOC dividend.*

(6) *Includes $19.3 million IOC dividend.*

(7) *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 $0.93 for the quarter (2017 – $0.84). Cumulative standardized cash flow from inception of the Corporation is $26.64 per share and total cash distributions since inception is $25.74 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 are excluded. It is not a recognized measure under International Financial Reporting Standards ("IFRS"). The Directors believe that adjusted cash flow is a useful analytical measure as it better reflects cash available for dividends to shareholders.

The following reconciles standardized cash flow from operating activities to adjusted cash flow (in '000's).

	3 Months Ended Sept. 30, 2018	3 Months Ended Sept. 30, 2017	9 Months Ended Sept. 30, 2018	9 Months Ended Sept. 30, 2017
Standardized cash flow from operating activities	59,756	$ 53,640	$ 95,529	$ 127,398
Excluding: changes in amounts receivable, accounts payable and income taxes payable	23,325	798	8,524	(5,276)
Adjusted cash flow	$ 83,081	$ 54,438	$ 104,053	$ 122,122
Adjusted cash flow per share	$ 1.30	$ 0.85	$ 1.63	$ 1.91

Liquidity and Capital Resources

The Corporation had $62.4 million in cash as at September 30, 2018 (December 31, 2017 – $40.5 million) with total current assets of $107.9 million (December 31, 2017 – $82.6 million). The Corporation had working capital of $63.5 million as at September 30, 2018 (December 31, 2017 – $33.1 million). The Corporation's operating cash flow for the quarter was $59.8 million and the dividend paid during the quarter was $16.0 million, resulting in cash balances increasing by $43.7 million during the third quarter of 2018.

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 have historically been 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 normally pays cash dividends of the net income derived from IOC to the maximum extent possible, subject to the maintenance of appropriate levels of working capital. As noted above, the Corporation has built up its cash balances to provide the Corporation with additional financial flexibility.

The Corporation has a $50 million revolving credit facility with a term ending September 18, 2020 with provision for annual one-year extensions. No amount is currently drawn under this facility (2017 – nil) leaving $50.0 million available to provide for any capital required by IOC or requirements of the Corporation.

Outstanding Share Data

At November 7, 2018, there were 64 million common shares of the Corporation outstanding.

Outlook

IOC is expecting good production and sales tonnages in the fourth quarter of 2018, with anticipated benefits from the spiral improvement project noted above. IOC has also initiated trials with a reflux classifier to improve the weight yield in the concentrator. The Wabush 3 Pit was officially opened on September 25, 2018, and renamed the Moss Pit in recognition of the geologic and exploration contribution to IOC by Dr. A.E Moss. The availability of the Moss Pit is expected to enhance the overall mine production, reduce overall mining costs due to a lower waste stripping ratio, improve IOC's ability to blend ores to meet client specifications, and extend the mine life. The dewatering of the Luce Pit has progressed well, and this initiative is also expected to result in improved performance at IOC.

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On September 14, 2018, LIORC announced that it would receive a dividend from IOC on September 27, 2018 in the amount of approximately $59 million or $0.92 per share. On the same date, the LIORC Board declared regular and special dividends totaling $35.2 million or $0.55 per share to be paid to LIORC shareholders on October 25, 2018. The balance was used to build our cash balance to provide the Corporation with additional financial flexibility. The LIORC cash balance at September 30, 2018 stood at $62.4 million and the current assets exceeded the current liabilities by $63.5 million. The LIORC dividends payable on October 25, 2018 was largely covered by the royalty receivable from IOC. We expect good production, sales and premiums for the high value-in-use iron ore products from IOC over the balance of 2018. As a result, for the balance of 2018 and going into 2019, LIORC is in a good position to maintain the regular dividend, continue to pay special dividends, and maintain a strong balance sheet.

Additional Information

Additional information relating to the Corporation, including its most recently filed unaudited interim and audited consolidated financial statements, Annual Information Form and Management Information Circular is on SEDAR at www.sedar.com. Additional information is also available on the Corporation's website at www.labradorironore.com.

William H. McNeil
President and Chief Executive Officer
Toronto, Ontario
November 7, 2018

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 8, 2018 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 Statements of Financial Position

(in thousands of Canadian dollars)	As at September 30, 2018	As at December 31, 2017
	(Unaudited)	
Assets		
Current Assets		
Cash	$ 62,427	$ 40,498
Amounts receivable (note 4)	44,180	42,092
Income taxes recoverable	1,300	—
Total Current Assets	107,907	82,590
Non-Current Assets		
Iron Ore Company of Canada ("IOC") royalty and commission interests	255,509	259,032
Investment in IOC (note 5)	390,722	408,691
Total Non-Current Assets	646,231	667,723
Total Assets	$ 754,138	$ 750,313
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	$9,168	$8,601
Dividend payable	35,200	35,200
Taxes payable	—	5,703
Total Current Liabilities	44,368	49,504
Non-Current Liabilities		
Deferred income taxes (note 6)	123,450	127,220
Total Liabilities	167,818	176,724
Shareholders' Equity		
Share capital	317,708	317,708
Retained earnings	275,784	264,272
Accumulated other comprehensive loss	(7,172)	(8,391)
	586,320	573,589
Total Liabilities and Shareholders' Equity	$ 754,138	$ 750,313

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 Income and Comprehensive Income

(in thousands of Canadian dollars except for per share information)	For the Three Months Ended September 30, 2018	For the Three Months Ended September 30, 2017
	(Unaudited)	
Revenue		
IOC royalties	$ 43,979	$ 39,810
IOC commissions	534	493
Interest and other income	43	110
	44,556	40,413
Expenses		
Newfoundland royalty taxes	8,796	7,962
Amortization of royalty and commission interests	1,733	1,824
Administrative expenses	843	662
	11,371	10,448
Income before equity earnings and income taxes	33,185	29,965
Equity earnings in IOC	30,600	21,150
Income before income taxes	63,785	51,115
Provision for income taxes (note 6)		
Current	10,429	9,519
Deferred	(4,705)	(2,183)
	5,724	7,336
Net income for the period	58,061	43,779
Other comprehensive income (loss)		
Share of other comprehensive income (loss) of IOC that will not be reclassified subsequently to profit or loss (net of income taxes of 2018 – $205; 2017 – $17)	1,274	(96)
Comprehensive income for the period	$ 59,335	$ 43,683
Net income per share	$ 0.91	$ 0.69

See accompanying notes to interim condensed consolidated financial statements.

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

(in thousands of Canadian dollars except for per share information)	For the Nine Months Ended September 30, 2018	2017
	(Unaudited)	
Revenue		
IOC royalties	$ 82,871	$ 116,400
IOC commissions	970	1,350
Interest and other income	256	252
	84,097	118,002
Expenses		
Newfoundland royalty taxes	16,574	23,280
Amortization of royalty and commission interests	3,523	4,795
Administrative expenses	2,512	2,356
	22,609	30,431
Income before equity earnings and income taxes	61,488	87,571
Equity earnings in IOC	39,189	57,713
Income before income taxes	100,677	145,284
Provision for income taxes (note 6)		
Current	19,550	27,685
Deferred	(3,985)	(1,349)
	15,565	26,336
Net income for the period	85,112	118,948
Other comprehensive income (loss)		
Share of other comprehensive income (loss) of IOC that will not be reclassified subsequently to profit or loss (net of income taxes of 2018 – $215; 2017 – $34)	1,219	(288)
Comprehensive income for the period	$ 86,331	$ 118,660
Net income per share	$ 1.33	$ 1.86

See accompanying notes to interim condensed consolidated financial statements.

Labrador Iron Ore Royalty Corporation
Interim Condensed Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)	For the Nine Months Ended September 30, 2018	2017
	(Unaudited)	
Net inflow (outflow) of cash related to the following activities		
Operating		
Net income for the period	$ 85,112	$ 118,948
Items not affecting cash:		
Equity earnings in IOC	(39,189)	(57,713)
Current income taxes	19,550	27,685
Deferred income taxes	(3,985)	(1,349)
Amortization of royalty and commission interests	3,523	4,795
Common share dividend from IOC	58,592	57,441
Change in amounts receivable	(2,088)	1,012
Change in accounts payable	567	(396)
Income taxes paid	(26,553)	(23,025)
Cash flow from operating activities	95,529	127,398
Financing		
Dividends paid to shareholders	(73,600)	(86,400)
Cash flow used in financing activities	(73,600)	(86,400)
Increase in cash, during the period	21,929	40,998
Cash, beginning of period	40,498	23,937
Cash, end of period	$ 62,427	$ 64,935

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**
			(Unaudited)	
Balance as at December 31, 2016	$ 317,708	$ 276,588	$ (10,451)	$ 583,845
Net income for the period	—	118,948	—	118,948
Dividends declared to shareholders	—	(134,400)	—	(134,400)
Share of other comprehensive loss from investment in IOC (net of taxes)	—	—	(288)	(288)
Balance as at September 30, 2017	$ 317,708	$ 261,136	$ (10,739)	$ 568,105
Balance as at December 31, 2017	$ 317,708	$ 264,272	$ (8,391)	$ 573,589
Net income for the period	—	85,112	—	85,112
Dividends declared to shareholders	—	(73,600)	—	(73,600)
Share of other comprehensive income from investment in IOC (net of taxes)	—	—	1,219	1,219
Balance as at September 30, 2018	$ 317,708	$ 275,784	$ (7,172)	$ 586,320

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 and Labrador, 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 operations are affected by the cold weather. 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

These 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. The Corporation adopted IFRS 9, *Financial Instruments* and IFRS 15, *Revenue with Contracts with Customers* on January 1, 2018 and accordingly, certain accounting policies have changed in preparing these financial statements from those used for the December 31, 2017 audited financial statements of the Corporation. There has been no material impact to the financial statements on adoption of IFRS 9 and 15. The additional disclosures required by IFRS 9 are outlined in Note 8. These interim condensed consolidated financial statements and management's discussion and analysis were authorized for issuance by the Board of Directors of the Corporation on November 7, 2018.

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, 2017 with the exception of accounting policies as set out below. 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, 2017.

(a) Financial assets and liabilities

The Corporation has applied the resulting changes in accounting policies for financial instruments retrospectively; however in accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

i) Recognition

The Corporation initially recognizes deposits, receivables and liabilities on the date that they were originated. All other financial assets and liabilities are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

All financial assets and liabilities are initially measured at fair value and in the case of a financial asset or liability not at fair value through profit or loss, plus or minus transaction costs that are directly attributable to its acquisition or issue.

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in a transferred financial asset that is created or retained by the Corporation is recognized as a separate asset or liability.

The Corporation derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statements of financial position when, and only when, the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously

ii) Classification and fair value measurement

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. The adoption of IFRS 9 has not had a significant effect on the Corporation's accounting policies for financial assets and financial liabilities – see Note 8.

Financial assets

A financial asset is classified as subsequently measured at amortized cost if it meets the following criteria:

- ‘hold-to-collect’ business model test – the asset is held within a business model whose objective is to hold the financial asset in order to collect contractual cash flows; and
- ‘SPPI’ contractual cash flow characteristics test – the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest (“SPPI”) on the principal outstanding on a specified date.

The Corporation’s business model is to hold financial assets to collect contractual cash flows and the cash flows pass the SPPI test and accordingly, all financial assets are measured at amortized cost.

Financial liabilities

The Corporation classifies all financial liabilities, not otherwise held for trading, as subsequently measured at amortized cost.

iii) Impairment

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39. There have been no allowances made to financial assets for credit losses on transition to IFRS 9 because the Corporation determined that the expected credit losses on its financial assets were nominal.

(b) Restricted share units

Restricted share units (“RSU”) awarded to employees are recognized as compensation expense in the Consolidated Statement of Income over the vesting period based on the number of RSUs expected to vest including the impact of expected forfeitures. RSUs are settled in cash and, as a result, are classified as a liability. The liability for vested RSUs are re-measured to fair value at each reporting date while they remain outstanding, with any changes in fair value recognized in compensation expense in the period.

(c) Revenue recognition

The Corporation has adopted IFRS 15 using the modified retrospective approach.

Royalty and commission revenue are based on iron ore sold and shipped by IOC and are measured at the fair value of the consideration received or receivable. The Corporation recognizes revenue from these sales when control over the iron ore transfers to the customer.

Royalty and commission revenue is recognized in an amount that reflects the consideration which the Corporation is entitled under the mineral sublease and for which collectability is reasonably assured.

(d) Future changes in accounting policies

Future changes in accounting standards which may impact the consolidated financial statements for future periods pertain to adoption of IFRS 16 Leases. The mandatory effective date of this standard is on January 1, 2019. Based on work performed to date, the Corporation does not expect any significant impact on its consolidated financial statements regarding its own leases but the standard may impact the Corporation's Investment in IOC and related earnings.

4. Amounts Receivable

	September 30, 2018	December 31, 2017
IOC royalties	$ 43,861	$ 41,834
IOC commissions	208	225
Other	111	33
	$ 44,180	$ 42,092

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, 2018 and December 31, 2017. The Series B and Series C common shares have identical voting rights to all other issued and outstanding common shares of IOC.

	September 30, 2018	December 31, 2017
Investment in IOC, beginning of period/year	$ 408,691	$ 408,680
Equity earnings in IOC	39,189	74,300
Other comprehensive income of IOC	1,434	2,424
Common share dividend received	(58,592)	(76,713)
Investment in IOC, end of period	$ 390,722	$ 408,691

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 $43,700 as at September 30, 2018 (December 31, 2017 – $44,303) 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 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,	
	2018	2017	2018	2017
Income before income taxes	$ 63,785	$ 51,115	$ 100,677	$ 145,284
Income taxes at combined federal and provincial statutory tax rates of 30.0%	19,136	15,335	30,203	43,585
Increase (decrease) in income taxes resulting from:				
Undistributed equity earnings in investment in IOC	(4,590)	(3,173)	(5,878)	(8,657)
Equity earnings distributed as dividends	(8,789)	(4,825)	(8,789)	(8,616)
Other	(33)	(1)	29	24
Income tax expense	$ 5,724	$ 7,336	$ 15,565	$ 26,336

The deferred tax liability is comprised of the following:

	Opening Balance	Recognized in net income	Recognized in other comprehensive income	Closing Balance
December 31, 2017				
Difference in tax and book value of assets	$ 129,794	$ (2,273)	$ 364	$ 127,885
Tax benefit of deductible temporary differences	(734)	69	—	(665)
Net deferred income tax liability	$ 129,060	$ (2,204)	$ 364	$ 127,220
September 30, 2018				
Difference in tax and book value of assets	$ 127,885	$ (3,963)	$ 215	$ 124,137
Tax benefit of deductible temporary differences	(665)	(22)	—	(687)
Net deferred income tax liability	$ 127,220	$ (3,985)	$ 215	$ 123,450

7. Key Management Personnel Compensation

Key management personnel are the President and Chief Executive Officer, the Executive Vice Presidents, the Chief Financial Officer, the Secretary and directors. Their remuneration for the three months ended September 30, 2018 was comprised of salaries, RSUs and fees totaling $314 (2017 – $239). Their remuneration for the nine months ended September 30, 2018 was comprised of salaries, bonuses, RSUs and fees totaling $1,046 (2017 – $624). The compensation expense recorded in 2017 did not reflect the restricted share unit plan that was implemented in March 2018. The 2017 bonuses awarded by the Compensation Committee to the executive officers totaling $159 were paid in the first quarter of 2018.

8. Transition to IFRS 9 Financial Instruments

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Corporation's financial assets and financial liabilities as at January 1, 2018.

	Measurement Category		Carrying Amount – December 31, 2017		
	IAS 39	IFRS 9	IAS 39	IFRS 9	Difference
Current Financial Assets					
Cash	Amortised cost	Amortised cost	$ 40,498	$ 40,498	—
Amounts receivable	Amortised cost	Amortised cost	42,092	42,092	—
Current Financial Liabilities					
Accounts payable	Amortised cost	Amortised cost	$ 8,601	$ 8,601	—
Dividend payable	Amortised cost	Amortised cost	35,200	35,200	—
Taxes payable	Amortised cost	Amortised cost	5,703	5,703	—

9. Share-based payments

On March 15, 2018, the Corporation adopted a restricted share unit plan ("Plan") for its employees that uses notional units that are valued based on the Corporation's common share price on the Toronto Stock Exchange. The RSUs accumulate dividend equivalents in the form of additional units based on the dividends paid on the Corporation's common shares. The Plan is settled in cash and, as a result, is classified as a liability. Fluctuations in the Corporation's share price change the value of the RSUs, which affects the Corporation's compensation expense.

Under the Plan, selected employees receive an award of RSUs which vest in three equal installments on each of the first, second and third anniversary of the award date. Upon vesting all RSUs are paid in cash to the employee. The share-based payment expense is recognized evenly over the vesting period. As at September 30, 2018, there were 8,237 RSUs awarded and outstanding. For the three month and nine month period ended September 30, 2018, compensation expense of $45 and $85 was accrued in connection with the RSUs, respectively.

Corporate Information

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Mark J. Fuller(1)
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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

John F. Tuer(2)
Company Director

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

Sandra L. Rosch
Executive Vice President

Alan R. Thomas
Chief Financial Officer

Robert O. Hansen
Secretary

(1) *Member of Audit, Nominating and Compensation Committees*

(2) *Member of Nominating and Compensation Committees*

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