

LABRADOR IRON ORE
ROYALTY CORPORATION

2018



**SECOND 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 second quarter report for the period ended June 30, 2018.

Royalty revenue for the second quarter of 2018 amounted to \$5.1 million as compared to \$33.8 million for the second quarter of 2017. Equity (losses) earnings from the Iron Ore Company of Canada (“IOC”) amounted to (\$6.1) million or (\$0.09) per share as compared to \$14.3 million or \$0.22 per share in 2017. Net (loss) income was (\$3.3) million or (\$0.05) per share compared to \$32.3 million or \$0.50 per share for the same period in 2017. The shareholders’ cash flow from operations for the second quarter was \$15.5 million or \$0.24 per share as compared to \$45.6 million or \$0.71 per share for the same period in 2017.

The cash flow from operations, equity earnings and net income for the second quarter of 2018 were lower than the second quarter of 2017, due to the work stoppage at IOC during which operations were suspended until a new labour agreement was reached. 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 average index price for 62% fines increased 3% to US\$65 per tonne CFR China in the second quarter of 2018 compared to the average price in the second quarter of 2017 of US\$63 per tonne. Total IOC sales for calculating the royalty to LIORC – pellets plus concentrate for sale (“CFS”) – of 0.53 million tonnes was 87% lower in the second quarter of 2018 compared to the same period in 2017. In the second quarter of 2018 concentrate production continued to be preferentially directed to the pellet plant due to the strong pellet demand and premiums. LIORC received an IOC dividend in the second quarter of 2017 in the amount of \$15.3 million or \$0.24 per share, whereas LIORC received no dividend in the second quarter of 2018.

REPORT TO HOLDERS OF COMMON SHARES

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

(in millions except per share information)

	3 Months Ended June 30, 2018	3 Months Ended June 30, 2017	6 Months Ended June 30, 2018	6 Months Ended June 30, 2017
	<i>(Unaudited)</i>			
Revenue	\$ 5.2	\$ 34.2	\$ 39.5	\$ 77.6
Cash flow from operations	\$ 15.5	\$ 45.6	\$ 35.8	\$ 73.8
Operating cash flow per share	\$ 0.24	\$ 0.71	\$ 0.56	\$ 1.15
Net (loss) income	\$ (3.2)	\$ 32.3	\$ 27.1	\$ 75.2
Net (loss) income per share	\$ (0.05)	\$ 0.50	\$ 0.42	\$ 1.17

Iron Ore Company of Canada Operations Production

Total concentrate production in the second quarter of 2018 of 1.5 million tonnes was 69% lower than the second quarter of 2017 and was 64% lower than the first quarter of 2018. Similarly, pellet production in the second quarter of 2018 was 78% lower than the second quarter of 2017 and 81% lower than the first quarter of 2017. As noted above, IOC production was negatively affected by the labour strike.

Sales as Reported for the LIORC Royalty

Second quarter 2018 total iron ore tonnage sold by IOC (pellets plus CFS) of 0.53 million tonnes was 87% below the total sales tonnage in the second quarter of 2017. Again, sales of CFS and pellets were negatively impacted by the labour strike.

Largely as a result of the strike, the royalty revenue for LIORC in the second quarter of 2018 was 85% lower than the revenue in last year's second quarter.

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

	3 Months Ended June 30, 2018	3 Months Ended June 30, 2017	6 Months Ended June 30, 2018	6 Months Ended June 30, 2017	Year Ended Dec. 31, 2017
Pellets	0.48	2.44	3.02	4.92	10.48
Concentrates ⁽¹⁾	0.05	1.60	1.40	3.79	8.67
Total ⁽²⁾	0.53	4.04	4.43	8.71	19.15

(1) Excludes third party ore sales

(2) Totals may not add up due to rounding

REPORT TO HOLDERS OF COMMON SHARES

Outlook

IOC is expecting good production and sales tonnages in the third and fourth quarters of 2018. Rio Tinto has reduced the IOC production guidance for 2018 to 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 of 15.3 to 17.0 million tonnes on a 100% basis. Achieving the low end of the guidance would result in approximately 2% less total saleable tonnes produced in the second half of 2018 over the saleable production of 10.06 million tonnes in the second half of 2017. Achieving the high end of the guidance would result in approximately 15% more total saleable tonnes produced in the second half of 2018 over the saleable production in the second half of 2017.

In the second quarter of 2018 the Platts 62% Fe CFR China benchmark iron ore price averaged US\$65 per tonne, but was largely range bound with a high price of US\$68 per tonne, and a low of US\$63 per tonne. IOC sells its CFS product based on the 65% Fe index, and the Platts index price for 65% Fe concentrate averaged US\$86 per tonne in the second quarter of 2018, 13% higher than the price in the second quarter of 2017, but 5% lower than the average price in the first quarter of 2018. Atlantic Basin blast furnace pellet premiums, as reported by Platts, improved by 29% from US\$45 per tonne in the second quarter of 2017 to US\$58 per tonne against the comparable 2018 quarter.

In the second quarter of 2018, prices for iron ore products with higher value-in-use characteristics have remained firm, supported by the environmental policies of the Chinese governments, and by China's strong steel demand and margins. The differential between the Platts indexes for 65% Fe CFS and 62% Fe CFS has widened to US\$27 per tonne at the time of writing, the highest spread in recent years. In the second quarter of 2018 the Canadian dollar weakened, reflecting concerns regarding international trade. Benchmark iron ore prices have also been somewhat negatively impacted by trade concerns but have been more resilient than other base metals, notably copper and zinc.

The IOC employees and management continue their efforts to increase production and reduce unit operating costs. Based on LIORC management's July site visit, they are optimistic regarding the production and unit costs in the third and fourth quarter of 2018. Consistent ore production from the Wabush 3 pit is expected in September. The No. 4 pellet line is scheduled to be refurbished over approximately nine weeks, starting in late September. The usual maintenance of the rail and port facilities is scheduled for the summer. Third-party rail haulage volumes are considerably improved over 2017. Capital expenditures are still forecast at C\$220 million for 2018.

The LIORC cash balance at June 30, 2018 stood at \$18.7 million with LIORC dividends payable on July 25, 2018 of \$16.0 million. As at June 30, 2018 the current assets exceeded the current liabilities by \$15.7 million. With our expectation of strong production, sales and premiums for the high value-in-use iron ore products from IOC over the balance of 2018, LIORC is in a good position to maintain the regular dividend. In order to maintain the dividend policy of a regular dividend of \$0.25 per share per quarter, LIORC will plan to rebuild the cash balance back to approximately \$30 million, the pre-strike level, as sales and prices permit.

REPORT TO HOLDERS OF COMMON SHARES

Our shareholders will be aware from its June 18, 2018 press release that the LIORC Directors approved a special meeting of shareholders to seek approval of changes to the Articles. LIORC is working on the details for the special meeting, including the preparation of the management information circular and negotiating debt financing options. The Directors will determine the date of the special meeting, likely to be in the fall of 2018. The LIORC Directors are aware of an investment opportunity that they believe should result in the Corporation being stronger by adding a third revenue stream to the royalty and equity investment in IOC. Shareholders are advised that the board will only proceed with the proposed acquisition if it is accretive to shareholder value and is consistent with our existing distribution and balance sheet objectives. Changes to the Articles are required to make the proposed investment. Upon the amendment of the Articles, shareholders will enjoy the rights and protections afforded to shareholders of a TSX-listed Canada Business Corporation Act (CBCA) corporation (including with respect to corporate law duties of directors and officers and the requirement to obtain shareholder approval of fundamental changes and certain dilutive share issuances), ensuring that their interests continue to be adequately protected. The Board of Directors believes these measures, which are consistent with those enjoyed by shareholders of other TSX-listed CBCA corporations, are appropriate to protect the interests of LIORC's shareholders. We understand shareholder concerns regarding dilution and maintaining on-going dividends, and we plan to manage both in a manner consistent with the past. Some shareholders have expressed concern regarding the lack of diversification and growth. The Directors believe the most prudent plan forward is to balance all these objectives in a very conservative manner by periodically pursuing acquisitions only in circumstances where the acquisition will increase shareholder value and will be consistent with our existing distribution and balance sheet objectives. We do not expect such opportunities to present themselves often, but when one does – such as the one before us now – the Directors need the authority to fully consider it on the merits. It is not our intention to use the proposed amendments to materially change LIORC, as the Board expects to exercise its discretion in the same conservative manner as it has managed the Corporation since its inception.

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



William H. McNeil
President and Chief Executive Officer
August 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 work stoppage at IOC 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 second quarter of 2018 amounted to \$5.1 million as compared to \$33.8 million for the second quarter of 2017. Equity (losses) earnings from IOC amounted to (\$6.1) million or (\$0.09) per share as compared to \$14.3 million or \$0.22 per share in 2017. Net (loss) income was (\$3.3) million or (\$0.05) per share compared to \$32.3 million or \$0.50 per share for the same period in 2017. The shareholders' cash flow from operations for the second quarter was \$15.5 million or \$0.24 per share as compared to \$45.6 million or \$0.71 per share for the same period in 2017.

The cash flow from operations, equity earnings and net income for the second quarter of 2018 were lower than the second quarter of 2017, due to the work stoppage at IOC during which operations were suspended until a new labour agreement was reached.

The average index price for 62% fines increased 3% to US\$65 per tonne CFR China in the second quarter of 2018 compared to the average price in the second quarter of 2017 of US\$63 per tonne. Total IOC sales for calculating the royalty to LIORC – pellets plus CFS – of 0.53 million tonnes was 87% lower in the second quarter of 2018 compared to the same period in 2017. In the second quarter of 2018 concentrate production continued to be preferentially directed to the pellet plant due to the strong pellet demand and premiums. LIORC received an IOC dividend in the second quarter of 2017 in the amount of \$15.3 million or \$0.24 per share, whereas LIORC received no dividend in the second quarter of 2018.

Total concentrate production in the second quarter of 2018 of 1.5 million tonnes was 69% lower than the second quarter of 2017 and was 64% lower than the first quarter of 2018. Similarly, pellet production in the second quarter of 2018 was 78% lower than the second

MANAGEMENT'S DISCUSSION AND ANALYSIS

quarter of 2017 and 81% lower than the first quarter of 2017. As noted above, IOC production was negatively affected by the labour strike.

Second quarter 2018 total IOC sales for calculating the royalty to LIORC (pellets plus CFS) of 0.53 million tonnes was 87% below the total sales tonnage in the second quarter of 2017. Again, sales of CFS and pellets were negatively impacted by the labour strike.

Largely as a result of the strike, the royalty revenue for LIORC in the second quarter of 2018 was 85% lower than the revenue in last year's second quarter.

Results for the six months were affected by the same factors as affected the three month period. Royalty and commission interests amortization expense decreased by \$1.2 million for the six months due to the decrease in production as a result of the labour strike.

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	Adjusted Cash Flow per Share ⁽¹⁾	Dividends Declared per Share
<i>(in millions except per share information)</i>							
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
2017							
First Quarter	\$ 43.4	\$ 42.9	\$ 0.67	\$ 28.2 ⁽²⁾	\$ 0.44 ⁽²⁾	\$ 0.53 ⁽²⁾	\$ 0.50
Second Quarter	\$ 34.2	\$ 32.3	\$ 0.50	\$ 45.6 ⁽³⁾	\$ 0.71 ⁽³⁾	\$ 0.53 ⁽³⁾	\$ 0.60
Third Quarter	\$ 40.4	\$ 43.8	\$ 0.69	\$ 53.6 ⁽⁴⁾	\$ 0.84 ⁽⁴⁾	\$ 0.85 ⁽⁴⁾	\$ 1.00
Fourth Quarter	\$ 40.6	\$ 38.3	\$ 0.60	\$ 39.6 ⁽⁵⁾	\$ 0.62 ⁽⁵⁾	\$ 0.65 ⁽⁵⁾	\$ 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 ⁽⁶⁾	\$ 0.44 ⁽⁶⁾	\$ 0.57 ⁽⁶⁾	\$ 0.25

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

(2) Includes \$10.0 million IOC dividend.

(3) Includes \$15.3 million IOC dividend.

(4) Includes \$32.2 million IOC dividend.

(5) Includes \$19.3 million IOC dividend.

(6) Includes \$15.1 million IOC dividend.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 \$0.24 for the quarter (2017 – \$0.71). Cumulative standardized cash flow from inception of the Corporation is \$25.71 per share and total cash distributions since inception is \$25.19 per share, for a payout ratio of 98%.

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 June 30, 2018	3 Months Ended June 30, 2017	6 Months Ended June 30, 2018	6 Months Ended June 30, 2017
Standardized cash flow from operating activities	\$ 15,496	\$ 45,576	\$ 35,773	\$ 73,758
Excluding: changes in amounts receivable, accounts payable and income taxes payable	(13,210)	(11,515)	(14,801)	(6,074)
Adjusted cash flow	\$ 2,286	\$ 34,061	\$ 20,972	\$ 67,684
Adjusted cash flow per share	\$ 0.04	\$ 0.53	\$ 0.33	\$ 1.06

Liquidity and Capital Resources

The Corporation had \$18.7 million in cash as at June 30, 2018 (December 31, 2017 – \$40.5 million) with total current assets of \$33.0 million (December 31, 2017 – \$82.6 million). The Corporation had working capital of \$15.7 million as at June 30, 2018 (December 31, 2017 – \$33.1 million). The Corporation's operating cash flow for the quarter was \$15.5 million and the dividend paid during the quarter was \$22.4 million, resulting in cash balances decreasing by \$6.9 million during the second 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 converted to Canadian dollars on receipt, usually 25 days after the quarter end. The Corporation does not normally attempt to hedge this short-term foreign currency exposure.

Operating cash flow of the Corporation is sourced entirely from IOC through the Corporation's 7% royalty, 10 cents commission per tonne and dividends from its 15.10% equity interest in IOC. The Corporation intends to pay cash dividends of the net income derived from IOC to the maximum extent possible, subject to the maintenance of appropriate levels of working capital.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

Outlook

IOC is expecting good production and sales tonnages in the third and fourth quarters of 2018. Rio Tinto has reduced the IOC production guidance for 2018 to 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 of 15.3 to 17.0 million tonnes on a 100% basis. Achieving the low end of the guidance would result in approximately 2% less total saleable tonnes produced in the second half of 2018 over the saleable production of 10.06 million tonnes in the second half of 2017. Achieving the high end of the guidance would result in approximately 15% more total saleable tonnes produced in the second half of 2018 over the saleable production in the second half of 2017.

In the second quarter of 2018 the Platts 62% Fe CFR China benchmark iron ore price averaged US\$65 per tonne, but was largely range bound with a high price of US\$68 per tonne, and a low of US\$63 per tonne. IOC sells its CFS product based on the 65% Fe index, and the Platts index price for 65% Fe concentrate averaged US\$86 per tonne in the second quarter of 2018, 13% higher than the price in the second quarter of 2017, but 5% lower than the average price in the first quarter of 2018. Atlantic Basin blast furnace pellet premiums, as reported by Platts, improved by 29% from US\$45 per tonne in the second quarter of 2017 to US\$58 per tonne against the comparable 2018 quarter.

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The IOC employees and management continue their efforts to increase production and reduce unit operating costs. Based on LIORC management's July site visit, they are optimistic regarding the production and unit costs in the third and fourth quarter of 2018. Consistent ore production from the Wabush 3 pit is expected in September. The No. 4 pellet line is scheduled to be refurbished over approximately nine weeks, starting in late September. The usual maintenance of the rail and port facilities is scheduled for the summer. Third-party rail haulage volumes are considerably improved over 2017. Capital expenditures are still forecast at C\$220 million for 2018.

The LIORC cash balance at June 30, 2018 stood at \$18.7 million with LIORC dividends payable on July 25, 2018 of \$16.0 million. As at June 30, 2018 the current assets exceeded the current liabilities by \$15.7 million. With our expectation of strong production, sales

MANAGEMENT'S DISCUSSION AND ANALYSIS

and premiums for the high value-in-use iron ore products from IOC over the balance of 2018, LIORC is in a good position to maintain the regular dividend. In order to maintain the dividend policy of a regular dividend of \$0.25 per share per quarter, LIORC will plan to rebuild the cash balance back to approximately \$30 million, the pre-strike level, as sales and prices permit.

Our shareholders will be aware from its June 18, 2018 press release that the LIORC Directors approved a special meeting of shareholders to seek approval of changes to the Articles. LIORC is working on the details for the special meeting, including the preparation of the management information circular and negotiating debt financing options. The Directors will determine the date of the special meeting, likely to be in the fall of 2018. The LIORC Directors are aware of an investment opportunity that they believe should result in the Corporation being stronger by adding a third revenue stream to the royalty and equity investment in IOC. Shareholders are advised that the board will only proceed with the proposed acquisition if it is accretive to shareholder value and is consistent with our existing distribution and balance sheet objectives. Changes to the Articles are required to make the proposed investment. Upon the amendment of the Articles, shareholders will enjoy the rights and protections afforded to shareholders of a TSX-listed CBCA corporation (including with respect to corporate law duties of directors and officers and the requirement to obtain shareholder approval of fundamental changes and certain dilutive share issuances), ensuring that their interests continue to be adequately protected. The Board of Directors believes these measures, which are consistent with those enjoyed by shareholders of other TSX-listed CBCA corporations, are appropriate to protect the interests of LIORC's shareholders. We understand shareholder concerns regarding dilution and maintaining on-going dividends, and we plan to manage both in a manner consistent with the past. Some shareholders have expressed concern regarding the lack of diversification and growth. The Directors believe the most prudent plan forward is to balance all these objectives in a very conservative manner by periodically pursuing acquisitions only in circumstances where the acquisition will increase shareholder value and will be consistent with our existing distribution and balance sheet objectives. We do not expect such opportunities to present themselves often, but when one does – such as the one before us now – the Directors need the authority to fully consider it on the merits. It is not our intention to use the proposed amendments to materially change LIORC, as the Board expects to exercise its discretion in the same conservative manner as it has managed the Corporation since its inception.



William H. McNeil
President and Chief Executive Officer
Toronto, Ontario
August 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

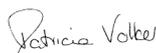
	As at	
	June 30, 2018	December 31, 2017
	<i>(Unaudited)</i>	
Assets		
Current Assets		
Cash	\$ 18,671	\$ 40,498
Amounts receivable (note 4)	5,596	42,092
Income taxes recoverable	8,729	—
Total Current Assets	32,996	82,590
Non-Current Assets		
Iron Ore Company of Canada (“IOC”) royalty and commission interests	257,242	259,032
Investment in IOC (note 5)	417,215	408,691
Total Non-Current Assets	674,457	667,723
Total Assets	\$ 707,453	\$ 750,313
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	\$ 1,338	\$ 8,601
Dividend payable	16,000	35,200
Taxes payable	—	5,703
Total Current Liabilities	17,338	49,504
Non-Current Liabilities		
Deferred income taxes (note 6)	127,930	127,220
Total Liabilities	145,268	176,724
Shareholders' Equity		
Share capital	317,708	317,708
Retained earnings	252,923	264,272
Accumulated other comprehensive loss	(8,446)	(8,391)
	562,185	573,589
Total Liabilities and Shareholders' Equity	\$ 707,453	\$ 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 (LOSS) AND COMPREHENSIVE INCOME (LOSS)

	For the Three Months Ended June 30,	
<i>(in thousands of Canadian dollars except for per share information)</i>	2018	2017
	<i>(Unaudited)</i>	
Revenue		
IOC royalties	\$ 5,081	\$ 33,753
IOC commissions	53	397
Interest and other income	94	83
	5,228	34,233
Expenses		
Newfoundland royalty taxes	1,016	6,751
Amortization of royalty and commission interests	461	1,427
Administrative expenses	808	645
	2,285	8,823
Income before equity earnings and income taxes	2,943	25,410
Equity (losses) earnings in IOC	(6,060)	14,326
(Loss) income before income taxes	(3,117)	39,736
Provision for income taxes (note 6)		
Current	1,118	8,034
Deferred	(1,035)	(553)
	83	7,481
Net (loss) income for the period	(3,200)	32,255
Other comprehensive loss		
Share of other comprehensive loss of IOC that will not be reclassified subsequently to profit or loss (net of income taxes of 2018 – \$5; 2017 – \$17)	(28)	(96)
Comprehensive (loss) income for the period	\$ (3,228)	\$ 32,159
Net (loss) income per share	\$ (0.05)	\$ 0.50

See accompanying notes to interim condensed consolidated financial statements.

LABRADOR IRON ORE ROYALTY CORPORATION

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	For the Six Months Ended June 30,	
<i>(in thousands of Canadian dollars except for per share information)</i>	2018	2017
	<i>(Unaudited)</i>	
Revenue		
IOC royalties	\$ 38,892	\$ 76,590
IOC commissions	436	857
Interest and other income	213	142
	39,541	77,589
Expenses		
Newfoundland royalty taxes	7,778	15,318
Amortization of royalty and commission interests	1,790	2,971
Administrative expenses	1,670	1,694
	11,238	19,983
Income before equity earnings and income taxes	28,303	57,606
Equity earnings in IOC	8,589	36,563
	36,892	94,169
Income before income taxes		
Provision for income taxes (note 6)		
Current	9,121	18,166
Deferred	720	834
	9,841	19,000
Net income for the period	27,051	75,169
Other comprehensive loss		
Share of other comprehensive loss of IOC that will not be reclassified subsequently to profit or loss (net of income taxes of 2018 – \$10; 2017 – \$34)	(55)	(192)
Comprehensive income for the period	\$ 26,996	\$ 74,977
Net income per share	\$ 0.42	\$ 1.17

See accompanying notes to interim condensed consolidated financial statements.

LABRADOR IRON ORE ROYALTY CORPORATION

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Six Months Ended June 30,	
	2018	2017
	<i>(Unaudited)</i>	
<i>(in thousands of Canadian dollars)</i>		
Net inflow (outflow) of cash related to the following activities		
Operating		
Net income for the period	\$ 27,051	\$ 75,169
Items not affecting cash:		
Equity earnings in IOC	(8,589)	(36,563)
Current income taxes	9,121	18,166
Deferred income taxes	720	834
Amortization of royalty and commission interests	1,790	2,971
Common share dividend from IOC	—	25,273
Change in amounts receivable	36,496	3,924
Change in accounts payable	(7,263)	(990)
Income taxes paid	(23,553)	(15,026)
Cash flow from operating activities	<u>35,773</u>	<u>73,758</u>
Financing		
Dividends paid to shareholders	(57,600)	(48,000)
Cash flow used in financing activities	<u>(57,600)</u>	<u>(48,000)</u>
(Decrease) increase in cash, during the period	(21,827)	25,758
Cash, beginning of period	<u>40,498</u>	<u>23,937</u>
Cash, end of period	<u>\$ 18,671</u>	<u>\$ 49,695</u>

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
	<i>(Unaudited)</i>			
Balance as at December 31, 2016	\$ 317,708	\$ 276,588	\$ (10,451)	\$ 583,845
Net income for the year	—	75,169	—	75,169
Dividends declared to shareholders	—	(70,400)	—	(70,400)
Share of other comprehensive loss from investment in IOC (net of taxes)	—	—	(192)	(192)
Balance as at June 30, 2017	<u>\$ 317,708</u>	<u>\$ 281,357</u>	<u>\$ (10,643)</u>	<u>\$ 588,422</u>
Balance as at December 31, 2017	\$ 317,708	\$ 264,272	\$ (8,391)	\$ 573,589
Net income for the year	—	27,051	—	27,051
Dividends declared to shareholders	—	(38,400)	—	(38,400)
Share of other comprehensive loss from investment in IOC (net of taxes)	—	—	(55)	(55)
Balance as at June 30, 2018	<u>\$ 317,708</u>	<u>\$ 252,923</u>	<u>\$ (8,446)</u>	<u>\$ 562,185</u>

See accompanying notes to interim condensed consolidated financial statements.

NOTES TO THE 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 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

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 August 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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 (Loss) 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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. The Corporation is currently evaluating the impact of the standard on its consolidated financial statements.

4. Amounts Receivable

	June 30, 2018	December 31, 2017
IOC royalties	\$ 5,386	\$ 41,834
IOC commissions	7	225
Other	203	33
	\$ 5,596	\$ 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 June 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.

	June 30, 2018	December 31, 2017
Investment in IOC, beginning of period	\$ 408,691	\$ 408,680
Equity earnings in IOC	8,589	74,300
Other comprehensive (loss) income of IOC	(65)	2,424
Common share dividend received	—	(76,713)
Investment in IOC, end of period	\$ 417,215	\$ 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 \$44,036 as at June 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.

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,	
	2018	2017	2018	2017
(Loss) income before income taxes	\$ (3,117)	\$ 39,736	\$ 36,892	\$ 94,169
Income taxes (recovery) at combined federal and provincial statutory tax rates of 30.0%	(935)	11,921	11,068	28,251
Increase (decrease) in income taxes resulting from:				
Undistributed equity losses (earnings) in investment in IOC	909	(2,149)	(1,288)	(5,484)
Equity earnings distributed as dividends	—	(2,289)	—	(3,791)
Other	109	(2)	61	24
Income tax expense	\$ 83	\$ 7,481	\$ 9,841	\$ 19,000

The deferred tax liability is comprised of the following:

	Opening Balance	Recognized in net income	Recognized in other comprehensive income (loss)	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
June 30, 2018				
Difference in tax and book value of assets	\$ 127,885	\$ 758	\$ (10)	\$ 128,633
Tax benefit of deductible temporary differences	(665)	(38)	—	(703)
Net deferred income tax liability	\$ 127,220	\$ 720	\$ (10)	\$ 127,930

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 June 30, 2018 was comprised of salaries and fees totaling \$276 (2017 – \$239). Their remuneration for the six months ended June 30, 2018 was comprised of salaries, bonuses and fees totaling \$692 (2017 – \$624). 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	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 June 30, 2018, there were 8,237 RSUs awarded and outstanding of which 852 were vested. For the three month and six month period ended June 30, 2018, compensation expense of \$37 and \$40 was accrued in connection with the RSUs, respectively.

CORPORATE INFORMATION

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Company Director

Mark J. Fuller⁽¹⁾

President and CEO of
Ontario Pension Board

Duncan N.R. Jackman⁽¹⁾

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

James C. McCartney

Company Director
Retired Partner, McCarthy Tétrault LLP

John F. Tuer⁽²⁾

Company Director

Sandra L. Rosch

President, Stonecrest Capital Inc.

Patricia M. Volker⁽¹⁾

Company Director

Officers

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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

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Compensation Committees

(2) Member of Nominating and Compensation
Committees

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