

LABRADOR IRON ORE ROYALTY INCOME FUND

P R E S S R E L E A S E

Toronto, October 21, 2008

RESULTS FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2008

Labrador Iron Ore Royalty Income Fund (TSX: LIF.UN) announced its results for the third quarter ended September 30, 2008.

Royalty income for the third quarter of 2008 amounted to \$43.20 million as compared to \$19.61 million for the third quarter of 2007, an increase of 120% from the same period last year. Equity earnings from Iron Ore Company of Canada (IOC) in the third quarter amounted to \$34.19 million (\$1.07 per unit) as compared to \$10.71 million (\$0.33 per unit) in 2007. Royalties and equity earnings were higher than in the 2007 period due to the 86.67% and 68.75% price increases for pellets and concentrates, respectively, slightly higher sales and the lower value of the Canadian dollar versus its U.S. counterpart. The Fund's cash flow from operating activities adjusted for changes in amounts receivable, accounts payable and income taxes payable/recoverable (*adjusted cash flow*) for the third quarter was \$104.10 million or \$3.25 per unit as compared to \$30.76 million or \$0.96 per unit for the same period in 2007. Net income was \$65.64 million or \$2.05 per unit compared to \$22.98 million or \$0.72 per unit for the same period in 2007. The increase in net income was the result of increases in royalties and the Fund's share of IOC earnings.

On September 25, 2008 the Fund received a dividend from IOC totaling US\$75.5 million equating to CDN\$77.9 million or \$2.43 per unit.

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

	3 Months Ended Sept. 30 2008	3 Months Ended Sept. 30 2007	9 Months Ended Sept. 30 2008	9 Months Ended Sept. 30 2007
	<u>(Unaudited)</u>			
Revenue (in millions)	<u>\$43.72</u>	<u>\$20.07</u>	<u>\$118.42</u>	<u>\$48.90</u>
Adjusted cash flow (in millions)	<u>\$104.10</u>	<u>\$30.76</u>	<u>\$147.40</u>	<u>\$48.92</u>
Adjusted cash flow per unit	<u>\$ 3.25</u>	<u>\$ 0.96</u>	<u>\$ 4.60</u>	<u>\$ 1.53</u>
Net income (in millions)	<u>\$65.64</u>	<u>\$22.98</u>	<u>\$150.34</u>	<u>\$48.87</u>
Net income per unit	<u>\$ 2.05</u>	<u>\$ 0.72</u>	<u>\$ 4.70</u>	<u>\$ 1.53</u>

"Adjusted cash flow" (defined as cash flow from operating activities as shown on the attached financial statements adjusted for changes in amounts receivable, accounts payable and income taxes payable/recoverable) is not a recognized measure under Canadian GAAP. The Trustees believe that adjusted cash flow is a useful analytical measure as it better reflects cash available for distributions to Unitholders.

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

	3 Months Ended Sept. 30 2008	3 Months Ended Sept. 30 2007	9 Months Ended Sept. 30 2008	9 Months Ended Sept. 30 2007	Year Ended Dec. 31 2007
Pellets	3.29	3.33	9.86	7.84	10.99
Concentrates	1.15	0.82	1.97	1.55	2.41
Total	4.44	4.15	11.83	9.39	13.40

IOC completed its \$60 million program to expand production to 18.4 million tonnes of concentrate and is progressing on the \$500 million program to expand production to 22 million tonnes annually. During the quarter, IOC announced a further \$225 million program which will increase concentrate production to 23 million tonnes and a \$75 million expenditure for a feasibility study to increase production to 26 million tonnes by 2011. On completion of these programs, including projects to debottleneck pellet production, the capacity to produce pellets from the concentrate will increase from 13.5 to 14.5 million tonnes.

Respectfully submitted on behalf of the Trustees of Labrador Iron Ore Royalty Income Fund.

Bruce C. Bone
Chairman and Chief Executive Officer
October 21, 2008

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 Fund's 2007 Annual Report and the interim financial statements and notes contained in this report. Although management believes that expectations reflected in forward-looking statements are reasonable, such statements involve risk and uncertainties including the factors discussed in the Fund's 2007 Annual Report.

The Fund's revenues are entirely dependent on the operations of Iron Ore Company of Canada (IOC) as its principal assets relate to the operations of IOC and its principal source of revenue is the 7% royalty it receives on all sales of iron ore products by IOC. In addition to the volume of iron ore sold, the Fund's royalty revenue is affected by the price of iron ore, which is usually set in US dollar terms, and thus the Canadian – U.S. dollar exchange rate.

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

Royalty income for the third quarter of 2008 amounted to \$43.20 million as compared to \$19.61 million for the third quarter of 2007, an increase of 120%. Equity earnings from IOC in the third quarter amounted to \$34.19 million (\$1.07 per unit) as compared to \$10.71 million (\$0.33 per unit) in 2007. Royalties and equity earnings were higher than in the 2007 period due to the 86.67% and 68.75% price increases for pellets and concentrates, respectively, slightly higher sales and the lower value of the Canadian dollar versus its U.S. counterpart. The Fund's cash flow from operating activities adjusted for changes in amounts receivable, accounts payable and income taxes payable/recoverable (*adjusted cash flow*) for the third quarter was \$104.10 million or \$3.25 per unit as compared to \$30.76 million or \$0.96 per unit for the same period in 2007. Net income was \$65.64 million or \$2.05 per unit compared to \$22.98 million or \$0.72 per unit for the same period in 2007. The increase in net income was the result of increased royalties and increased equity earnings from IOC.

The nine month results were affected by the same price increases as the quarter and a 26% increase in overall sales volumes over the 2007 period. 2007 was affected by a strike which shut down production facilities from March 9, 2007 to April 27, 2007.

The following table sets out quarterly revenue, net income and cash flow data for 2008, 2007 and 2006.

	<u>Revenue</u>	<u>Net Income</u>	<u>Net Income per Unit</u>	<u>Adjusted Cash Flow⁽¹⁾</u>	<u>Adjusted Cash Flow per Unit⁽¹⁾</u>	<u>Distributions Declared per Unit</u>
(million except per Unit information)						
<u>2008</u>						
First Quarter	\$16.6	\$10.8	\$0.34	\$10.4	\$0.32	\$0.35
Second Quarter	\$58.1	\$73.9	\$2.31	\$32.9	\$1.03	\$1.00
Third Quarter	\$43.7	\$65.6	\$2.05	\$104.1 ⁽²⁾	\$3.25	\$3.00
<u>2007</u>						
First Quarter	\$13.1	\$10.7	\$0.34	\$8.7	\$0.27	\$0.35
Second Quarter	\$15.7	\$15.2	\$0.47	\$9.5	\$0.30	\$0.35
Third Quarter	\$20.1	\$23.0	\$0.72	\$30.8 ⁽³⁾	\$0.96	\$0.70
Fourth Quarter	\$18.7	\$32.0	\$1.00	\$11.5	\$0.36	\$0.55
<u>2006</u>						
First Quarter	\$14.4	\$11.9	\$0.37	\$9.4	\$0.29	\$0.35
Second Quarter	\$19.2	\$33.5	\$1.05	\$25.3 ⁽⁴⁾	\$0.79	\$0.65
Third Quarter	\$20.2	\$20.3	\$0.63	\$20.6 ⁽⁵⁾	\$0.64	\$0.60
Fourth Quarter	\$29.4	\$28.7	\$0.90	\$17.6	\$0.56	\$0.55

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

⁽²⁾ Includes a \$77.9 million IOC dividend

- (3) Includes a \$18.8 million IOC dividend
- (4) Includes a \$12.5 million IOC dividend
- (5) Includes a \$8.5 million IOC dividend

Standardized Cash Flow and Adjusted Cash Flow

For the Fund, standardized cash flow is the same as cash flow from operating activities as recorded in the Fund's cash flow statements as the Fund does not incur capital expenditures or have any restrictions on distributions. Standardized cash flow per unit was \$3.82 for the quarter (2007 - \$0.66). Cumulative standardized cash flow from inception of the trust is \$21.01 per unit and total cash distributions since inception are \$18.18 per unit, for a payout ratio of 87%. Inclusion of the dividend received from IOC during the quarter and not paid out until October would increase the payout ratio to 98%.

"Adjusted cash flow" is defined as cash flow from operating activities as shown on the attached financial statements less changes in amounts receivable, accounts payable and income taxes payable/recoverable. It is not a recognized measure under Canadian GAAP. The Trustees believe that adjusted cash flow is a useful analytical measure as it better reflects cash available for distributions to Unitholders.

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

	3 Months Ended Sept. 30, 2008	3 Months Ended Sept. 30, 2007	9 Months Ended Sept. 30, 2008	9 Months Ended Sept. 30, 2007
Cash flow from operating activities	\$122,172,571	\$21,112,818	\$146,858,827	\$45,837,840
Excluding: changes in amounts receivable, accounts payable and income taxes payable/recoverable	(18,075,891)	9,644,215	542,625	3,084,558
Adjusted cash flow	\$104,096,680	\$30,757,033	\$147,401,452	\$48,922,398
Adjusted cash flow per unit	\$3.25	\$0.96	\$4.60	\$1.53

Liquidity

The Fund renewed its \$50 million revolving credit facility to September 18, 2011 with provision for annual one-year extensions. No amounts are currently drawn under this facility (\$11.7 million at September 30, 2007) leaving \$50.0 million available to provide for any capital required by IOC or other Fund requirements.

Outlook

IOC completed its \$60 million program to expand production to 18.4 million tonnes of concentrate and is progressing on the \$500 million program to expand production to 22 million tonnes annually. During the quarter, IOC announced a further \$225 million program which will increase concentrate production to 23 million tonnes and a \$75 million expenditure for a feasibility study to increase production to 26 million tonnes by 2011. On completion of these programs, including projects to debottleneck pellet production, the capacity to produce pellets from the concentrate will increase from 13.5 to 14.5 million tonnes.

IOC expects to be able to sell all its production for the balance of the year and with the current pricing and the weakening of the Canadian dollar, 2008 promises to be an excellent year for the Fund. Looking forward to 2009, IOC is expecting solid sales performance but recognizes that the current turmoil in the financial markets has caused weakness in steel production which is starting to affect the iron ore markets. If the weakness in the Canadian dollar against its U.S. counterpart continues, currently 20% below the level of a year ago, it will provide some offset to any weakness in the iron ore market.

Bruce C. Bone
Chairman and Chief Executive Officer
Toronto, Ontario
October 21, 2008

LABRADOR IRON ORE ROYALTY INCOME FUND
CONSOLIDATED BALANCE SHEETS

	As at	
	September 30	December 31
	2008	2007
	(Unaudited)	
Assets		
Current		
Cash and cash equivalents	\$ 84,875,933	\$ 151,256
Amounts receivable	44,046,537	18,838,481
Income taxes recoverable	-	1,389,717
	<u>128,922,470</u>	<u>20,379,454</u>
Deferred charges	124,972	218,725
Iron Ore Company of Canada ("IOC"), royalty and commission interests	303,437,550	307,252,600
Investment in IOC	<u>187,689,747</u>	<u>180,887,115</u>
	<u>\$ 620,174,739</u>	<u>\$ 508,737,894</u>
Liabilities and Unitholders' Equity		
Current		
Accounts payable	\$ 10,421,894	\$ 5,542,158
Income taxes payable	18,395,978	-
Distributions payable to unitholders	<u>96,000,000</u>	<u>17,600,000</u>
	<u>124,817,872</u>	<u>23,142,158</u>
Long-term debt	-	1,334,150
Future income tax liability	<u>103,460,000</u>	<u>103,500,000</u>
	<u>228,277,872</u>	<u>127,976,308</u>
Unitholders' equity		
Trust units	317,708,147	317,708,147
Undistributed income	<u>74,188,720</u>	<u>63,053,439</u>
	<u>\$ 620,174,739</u>	<u>\$ 508,737,894</u>

LABRADOR IRON ORE ROYALTY INCOME FUND
CONSOLIDATED STATEMENTS OF INCOME AND
COMPREHENSIVE INCOME AND UNDISTRIBUTED INCOME

	For the Three Months Ended September 30,	
	2008	2007
	(Unaudited)	
Revenue		
IOC royalties	\$ 43,200,281	\$ 19,606,122
IOC commissions	437,089	407,953
Interest and other income	84,604	58,885
	<u>43,721,974</u>	<u>20,072,960</u>
Expenses		
Newfoundland royalty taxes	8,640,056	3,921,224
Amortization of royalty and commission interests	1,424,051	1,336,146
Administrative expenses (<i>note 2</i>)	(267,623)	1,048,861
Interest expense	144,614	344,706
	<u>9,941,098</u>	<u>6,650,937</u>
Income before equity earnings and income taxes	33,780,876	13,422,023
Equity earnings in IOC	<u>34,190,307</u>	<u>10,717,796</u>
Income before income taxes	<u>67,971,183</u>	<u>24,139,819</u>
Provision for (recovery of) income taxes		
Current	9,063,062	2,874,486
Future	(6,730,000)	(1,710,000)
	<u>2,333,062</u>	<u>1,164,486</u>
Net income and comprehensive income for the period	65,638,121	22,975,333
Undistributed income, beginning of period	104,550,599	48,025,443
Distributions to unitholders	<u>(96,000,000)</u>	<u>(22,400,000)</u>
Undistributed income, end of period	<u>\$ 74,188,720</u>	<u>\$ 48,600,776</u>
Net income per unit	<u>\$ 2.05</u>	<u>\$ 0.72</u>

LABRADOR IRON ORE ROYALTY INCOME FUND
CONSOLIDATED STATEMENTS OF INCOME AND
COMPREHENSIVE INCOME AND UNDISTRIBUTED INCOME

	For the Nine Months Ended September 30,	
	2008	2007
	(Unaudited)	
Revenue		
IOC royalties	\$ 117,170,887	\$ 47,831,924
IOC commissions	1,164,218	924,694
Interest and other income	88,942	144,386
	<u>118,424,047</u>	<u>48,901,004</u>
Expenses		
Newfoundland royalty taxes	23,434,177	9,566,385
Amortization of royalty and commission interests	3,815,050	3,032,700
Administrative expenses (<i>note 2</i>)	1,266,865	2,873,985
Interest expense	497,175	857,280
	<u>29,013,267</u>	<u>16,330,350</u>
Income before equity earnings and income taxes	89,410,780	32,570,654
Equity earnings in IOC	<u>84,726,196</u>	<u>19,536,609</u>
Income before income taxes	<u>174,136,976</u>	<u>52,107,263</u>
Provision for (recovery of) income taxes		
Current	23,841,695	5,616,808
Future	(40,000)	(2,380,000)
	<u>23,801,695</u>	<u>3,236,808</u>
Net income and comprehensive income for the period	150,335,281	48,870,455
Undistributed income, beginning of period	63,053,439	44,530,321
Distributions to unitholders	<u>(139,200,000)</u>	<u>(44,800,000)</u>
Undistributed income, end of period	<u>\$ 74,188,720</u>	<u>\$ 48,600,776</u>
Net income per unit	<u>\$ 4.70</u>	<u>\$ 1.53</u>

LABRADOR IRON ORE ROYALTY INCOME FUND
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended September 30,	
	2008	2007
	(Unaudited)	
Net inflow (outflow) of cash related to the following activities		
Operating		
Net income for the period	\$ 65,638,121	\$ 22,975,333
Items not affecting cash:		
Equity earnings in IOC	(34,190,307)	(10,717,796)
Future income taxes	(6,730,000)	(1,710,000)
Amortization of royalty and commission interests	1,424,051	1,336,146
Amortization of deferred charges	31,251	31,251
Common share dividend received from IOC	77,923,564	18,842,099
Change in amounts receivable, accounts and income taxes payable/recoverable	18,075,891	(9,644,215)
Cash flow from operating activities	<u>122,172,571</u>	<u>21,112,818</u>
Financing		
Distributions paid to unitholders	(32,000,000)	(11,200,000)
Proceeds from (repayment of) long-term debt	(5,405,519)	1,446,362
	<u>(37,405,519)</u>	<u>(9,753,638)</u>
Increase in cash and cash equivalents during the period	84,767,052	11,359,180
Cash and cash equivalents, beginning of period	<u>108,881</u>	<u>238,650</u>
Cash and cash equivalents, end of period	<u>\$ 84,875,933</u>	<u>\$ 11,597,830</u>
Cash income taxes paid	<u>\$ 1,896,000</u>	<u>\$ 2,332,816</u>
Cash interest paid	<u>\$ 64,480</u>	<u>\$ 281,409</u>

LABRADOR IRON ORE ROYALTY INCOME FUND
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Nine Months Ended September 30,	
	2008	2007
	(Unaudited)	
Net inflow (outflow) of cash related to the following activities		
Operating		
Net income for the period	\$ 150,335,281	\$ 48,870,455
Items not affecting cash:		
Equity earnings in IOC	(84,726,196)	(19,536,609)
Future income taxes	(40,000)	(2,380,000)
Amortization of royalty and commission interests	3,815,050	3,032,700
Amortization of deferred charges	93,753	93,753
Common share dividend received from IOC	77,923,564	18,842,099
Change in amounts receivable, accounts payable and income taxes payable/recoverable	(542,625)	(3,084,558)
Cash flow from operating activities	<u>146,858,827</u>	<u>45,837,840</u>
Financing		
Distributions paid to unitholders	(60,800,000)	(40,000,000)
Proceeds from (repayment of) long-term debt	(1,334,150)	5,618,053
	<u>(62,134,150)</u>	<u>(34,381,947)</u>
Increase in cash and cash equivalents during the period	84,724,677	11,455,893
Cash and cash equivalents, beginning of period	<u>151,256</u>	<u>141,937</u>
Cash and cash equivalents, end of period	<u>\$ 84,875,933</u>	<u>\$ 11,597,830</u>
Cash income taxes paid	<u>\$ 4,056,000</u>	<u>\$ 9,467,235</u>
Cash interest paid	<u>\$ 317,062</u>	<u>\$ 681,767</u>

Notes to Consolidated Financial Statements

1. Basis of Presentation

The financial statements have not been reviewed in accordance with section 7050 of the CICA Handbook, Auditor Review of Interim Financial Statements, by the Fund's Auditor.

Not all disclosures required by Canadian generally accepted accounting principles for annual financial statements have been presented and, accordingly, these interim financial statements should be read in conjunction with the most recently prepared annual financial statements for the year ended December 31, 2007.

These interim financial statements follow the same accounting policies and method of application as the most recent annual financial statements for the year ended December 31, 2007.

Seasonality

The results of operations and operating cash flows of the Fund vary considerably from quarter to quarter. The operations of the Fund 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.

2. Unit Appreciation Rights

In 2005, the Fund adopted a unit appreciation rights plan which granted 50,000 units to each of its six trustees, all as more fully described in the annual financial statements. Since the grant date, 242,000 unit appreciation rights have been exercised.

Compensation expense is not recognized when rights are issued, but is accrued as an expense over the period that the rights vest. The unit appreciation rights are marked to market each quarter to the extent the units exceed \$23.00. Compensation expense/(recovery) of \$(621,135) (2007 - \$673,188) for the three months ended September 30, 2008 and \$255,490 (2007 - \$1,849,960) for the nine months ended September 30, 2008 has been recorded in administrative expenses in connection with the unit appreciation rights.

In September 2008, one Trustee exercised unit appreciation rights in respect of 4,500 units at a market value of \$52.97 resulting in a total payment of \$134,865.

3. Capital Management

The Fund's capital consists of the unitholders' equity and the long-term debt facility. The Trustees are responsible for managing the investments and affairs of the Fund, including the receipt of revenues and the payment of distributions to the unitholders. The Fund makes cash distributions of the net income to the maximum extent possible, subject to the maintenance of appropriate levels of working capital.

4. Financial Instruments

The Fund derives dividends and royalty income from IOC denominated in US dollars. From time to time the Fund may enter into financial agreements with banks and other financial institutions to reduce the underlying risks associated with this foreign currency denominated income. As at September 30, 2008, there were no foreign exchange contracts outstanding.