Labrador Iron Ore
ROYALTY CORPORATION

219

SECOND QUARTER REPORT

81 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, 2019.

Royalty revenue for the second quarter of 2019 amounted to $52.6 million as compared to $5.1 million for the second quarter of 2018. Equity earnings from IOC amounted to $33.9 million or $0.53 per share in the second quarter of 2019 as compared to a loss of $6.1 million or $0.09 per share in the second quarter of 2018. Net income was $61.1 million or $0.95 per share for the second quarter of 2019 compared to a net loss of $3.2 million or $0.05 per share for the same period in 2018. Cash flow from operations for the second quarter was $47.8 million or $0.75 per share as compared to $15.5 million or $0.24 per share for the same period in 2018. LIORC received a dividend from Iron Ore Company of Canada ("IOC") in the second quarter of 2019 in the amount of $25.4 million or $0.40 per share, whereas LIORC received no dividend in the second quarter of 2018. The 2018 production was negatively impacted by a nine-week work stoppage.

The cash flow from operations, equity earnings and net income for the second quarter of 2019 were higher than the second quarter of 2018, as a result of higher prices for concentrate and pellets, and higher production.

The average price for the Platts index for 62% Fe Iron Ore, CFR China ("62% Fe index") increased 53% to US$100 per tonne in the second quarter of 2019 compared to the average price in the second quarter of 2018 of US$65 per tonne. IOC's total sales for calculating the royalty to LIORC – concentrate for sale ("CFS") plus pellets – was 4.6 million tonnes in the second quarter of 2019 compared to 0.5 million tonnes in the same period in 2018, largely because 2018 CFS tonnages and pellet sales tonnages were negatively impacted by the work stoppage.

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 Jun. 30, 2019**	**3 Months Ended Jun. 30, 2018**	**6 Months Ended Jun. 30, 2019**	**6 Months Ended Jun. 30, 2018**
		(Unaudited)		
Revenue	$ 53.3	$ 5.2	$ 92.5	$ 39.5
Cash flow from operations	$ 47.8	$ 15.5	$ 72.8	$ 35.8
Operating cash flow per share	$ 0.75	$ 0.24	$ 1.14	$ 0.56
Net income	$ 61.1	$ (3.2)	$ 100.4	$ 27.1
Net income per share	$ 0.95	$ (0.05)	$ 1.57	$ 0.42

Iron Ore Company of Canada Operations

Production

Total concentrate production in the second quarter of 2019 of 4.5 million tonnes was 201% higher than the second quarter of 2018, which was negatively impacted by the work stoppage, and 1% higher than the first quarter of 2019, which was negatively impacted by frozen material and blocked feeders in the ore barn. Total concentrate production in the second quarter of 2019 was negatively impacted by a delay in the restart after the planned annual outage in June as a result of a flooding issue.

CFS production in the second quarter of 2019 of 2.0 million tonnes was 109% higher than in the second quarter of 2018 and 34% higher than the previous quarter. Pellet production in the second quarter of 2019 of 2.3 million tonnes was 347% higher than the second quarter of 2018 and 16% lower than the previous quarter. The pellet plant production in the second quarter of 2019 was negatively impacted by lack of feed as a result of lower concentrate production than planned, as well as lower indurating machine availability during the quarter.

Sales as Reported for the LIORC Royalty

Total iron ore tonnage sold by IOC (CFS plus pellets) was 4.6 million tonnes in the second quarter of 2019 compared to 0.5 million tonnes in the same period in 2018, largely as a result of the lower production in 2018 due to the work stoppage. Second quarter 2019 sales tonnage of CFS was 2.1 million tonnes and pellet sales tonnage was 2.4 million tonnes, compared to second quarter 2018 sales tonnage of 0.05 million tonnes of CFS and 0.5 million tonnes of pellets.

IOC sells CFS based on the Platts index for 65% Fe Iron Ore, CFR China (“65% Fe index”). The average price for the 65% Fe index was US$115 per tonne in the second quarter of 2019, a 34% increase over the average price in the second quarter of 2018 of US$86 per tonne, and 20% higher than the average price in the first quarter of 2019 of US$95 per tonne. The seaborne iron ore prices continued to be positively affected by a reduction of iron ore supply as a result of mine closures in Brazil and lower production in Australia. The premium for the 65% Fe index compared to the 62% Fe index, which had been expanding over the last few years as the Chinese governments enacted and enforced measures to reduce pollution, remained lower in the second quarter of 2019 at 15%, as compared to 31% in the second quarter of 2018 and 15% in the first quarter of 2019, as steel producers continued to react to lower profit margins by substituting higher quality iron ore with cheaper lower quality iron ore. The quarterly Atlantic Basin blast furnace pellet premium, as reported by Platts, averaged US$68 per tonne in the second quarter of 2019, a 17% increase over the second quarter of 2018 and 1% higher than the first quarter of 2019.

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

	3 Months Ended Jun. 30, 2019	3 Months Ended Jun. 30, 2018	6 Months Ended Jun. 30, 2019	6 Months Ended Jun. 30, 2018	Year Ended Dec. 31, 2018
Pellets	2.42	0.48	5.13	3.02	8.41
Concentrates(1)	2.14	0.05	2.97	1.40	6.70
Total(2)	4.57	0.53	8.10	4.43	15.10

(1) Excludes third party ore sales

(2) Totals may not add up due to rounding

Outlook

As a result of lower than anticipated first half production, Rio Tinto lowered the 2019 guidance for IOC's saleable production of CFS and pellets on a 100% basis to between 18.2 and 19.2 million tonnes from between 19.2 and 20.9 million tonnes.

Benchmark prices for concentrate and pellet premiums remain attractive relative to historical levels despite recent price declines due to softer demand and uncertainty over trade tensions. On August 7, 2019 the 62% Fe index was US$93 per tonne as compared to an average of US$120 per tonne in July. Supply continues to be constrained, predominantly as a result of mine closures in Brazil. Vale reaffirmed its 2019 iron ore sales guidance of 307 to 332 million tonnes, stating that expected sales volume will move towards the midpoint of the range with the restart of the Brucutu mine in June and the partial resumption of dry processing operations at Vargem Grande. This compares to Vale's 2018 iron ore production of 385 million tonnes.

China crude steel production was up 9.9% in the first half of 2019 as compared to the same period in 2018, and the immediate outlook for China steel production continues to be positive despite higher iron ore prices and weaker steel producer margins. Weaker steel producer margins are expected to continue to have some effect on iron ore demand outside of China. Despite the pullback, higher China import fines prices have made iron ore pellet premiums under existing formulas unaffordable for some producers given prevailing steel and raw materials prices. As a result, some steel producers in Europe have reduced output or replaced high cost pellets where possible with lower quality grades. Longer term, we would expect an increase in the global seaborne iron ore supply and for iron ore prices to begin to revert to levels more in line with historical averages.

The LIORC cash balance at June 30, 2019 stood at $47.7 million before LIORC dividends payable on July 25, 2019 of $0.90 per share or $57.6 million. The net royalty from IOC was paid on the same date, maintaining the Corporation's strong cash balance.

On August 7, 2019 the Board of IOC declared a dividend of US$200 million, payable to shareholders of IOC on August 22, 2019.

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

John F. Tuer
President and Chief Executive Officer
August 14, 2019

The following discussion and analysis should be read in conjunction with the Management's Discussion and Analysis section of the Corporation's 2018 Annual Report, and the financial statements and notes contained therein and the June 30, 2019 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 first quarter sales of IOC are traditionally adversely affected by the closing of the St. Lawrence Seaway and general winter operating conditions and are usually 15% – 20% of the annual volume, with the balance spread fairly evenly throughout the other three quarters. Because of the size of individual shipments, some quarters may be affected by the timing of the loading of ships that can be delayed from one quarter to the next.

Royalty revenue for the second quarter of 2019 amounted to $52.6 million as compared to $5.1 million for the second quarter of 2018. Equity earnings from IOC amounted to $33.9 million or $0.53 per share in the second quarter of 2019 as compared to a loss of $6.1 million or $0.09 per share in the second quarter of 2018. Net income was $61.1 million or $0.95 per share for the second quarter of 2019 compared to a net loss of $3.2 million or $0.05 per share for the same period in 2018. Cash flow from operations for the second quarter was $47.8 million or $0.75 per share as compared to $15.5 million or $0.24 per share for the same period in 2018. LIORC received a dividend from IOC in the second quarter of 2019 in the amount of $25.4 million or $0.40 per share, whereas LIORC received no dividend in the second quarter of 2018. The 2018 production was negatively impacted by a nine-week work stoppage.

The cash flow from operations, equity earnings and net income for the second quarter of 2019 were higher than the second quarter of 2018, as a result of higher prices for concentrate and pellets, and higher production.

The average price for 62% Fe index increased 53% to US$100 per tonne in the second quarter of 2019 compared to the average price in the second quarter of 2018 of US$65 per tonne. IOC's total sales for calculating the royalty to LIORC – CFS plus pellets – was 4.6 million tonnes in the second quarter of 2019 compared to 0.5 million tonnes in the same period in 2018, largely because 2018 CFS tonnages and pellet sales tonnages were negatively impacted by the work stoppage.

Total concentrate production in the second quarter of 2019 of 4.5 million tonnes was 201% higher than the second quarter of 2018, which was negatively impacted by the work stoppage, and 1% higher than the first quarter of 2019, which was negatively impacted by frozen material and blocked feeders in the ore barn. Total concentrate production in the second quarter of 2019 was negatively impacted by a delay in the restart after the planned annual outage in June as a result of a flooding issue.

CFS production in the second quarter of 2019 of 2.0 million tonnes was 109% higher than in the second quarter of 2018 and 34% higher than the previous quarter. Pellet production in the second quarter of 2019 of 2.3 million tonnes was 347% higher than the second quarter of 2018 and 16% lower than the previous quarter. The pellet plant production in the second quarter of 2019 was negatively impacted by lack of feed as a result of lower concentrate production than planned, as well as lower indurating machine availability during the quarter.

Total iron ore tonnage sold by IOC (CFS plus pellets) was 4.6 million tonnes in the second quarter of 2019 compared to 0.5 million tonnes in the same period in 2018, largely as a result of the lower production in 2018 due to the work stoppage. Second quarter 2019 sales tonnage of CFS was 2.1 million tonnes and pellet sales tonnage was 2.4 million tonnes, compared to second quarter 2018 sales tonnage of 0.05 million tonnes of CFS and 0.5 million tonnes of pellets. IOC sells CFS based on the 65% Fe index. The average price for the 65% Fe index was US$115 per tonne in the second quarter of 2019, a 34% increase over the average price in the second quarter of 2018 of US$86 per tonne, and 20% higher than the average price in the first quarter of 2019 of US$95 per tonne. The seaborne iron ore prices continued to be positively affected by a reduction of iron ore supply as a result of mine closures in Brazil and lower production in Australia. The premium for the 65% Fe index compared to the 62% Fe index, which had been expanding over the last few years as the Chinese governments enacted and enforced measures to reduce pollution, remained lower in the second quarter of 2019 at 15%, as compared to 31% in the second quarter of 2018 and 15% in the first quarter of 2019, as steel producers continued to react to lower profit margins by substituting higher quality iron ore with cheaper lower quality iron ore. The quarterly Atlantic Basin blast furnace pellet premium, as reported by Platts, averaged US$68 per tonne in the second quarter of 2019, a 17% increase over the second quarter of 2018 and 1% higher than the first quarter of 2019.

Results for the six months were affected by the same factors as affected the three month period. Royalty and commission interests amortization expense increased by $1.1 million for the six months compared to the same period in 2018 due to the increase in production. The 2018 production was negatively impacted by a nine-week work stoppage.

The following table sets out quarterly revenue, net income, cash flow and dividend data for 2019, 2018 and 2017.

	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)						
2019							
First Quarter	$ 39.2	$ 39.3	$ 0.61	$ 25.0	$ 0.39	$ 0.34	$ 1.05
Second Quarter	$ 53.3	$ 61.1	$ 0.95	$ 47.8(2)	$ 0.75(2)	$ 0.86(2)	$ 0.90
2018							
First Quarter	$ 34.3	$ 30.3	$ 0.47	$ 20.3	$ 0.32	$ 0.29	$ 0.35
Second Quarter	$ 5.2	$ (3.2)	$ (0.05)	$ 15.5	$ 0.24	$ 0.04	$ 0.25
Third Quarter	$ 44.6	$ 58.1	$ 0.91	$ 59.7(3)	$ 0.93(3)	$ 1.30(3)	$ 0.55
Fourth Quarter	$ 46.8	$ 43.4	$ 0.68	$ 53.3(4)	$ 0.83(4)	$ 0.79(4)	$ 0.60
2017							
First Quarter	$ 43.4	$ 42.9	$ 0.67	$ 28.2(5)	$ 0.44(5)	$ 0.53(5)	$ 0.50
Second Quarter	$ 34.2	$ 32.3	$ 0.50	$ 45.6(6)	$ 0.71(6)	$ 0.53(6)	$ 0.60
Third Quarter	$ 40.4	$ 43.8	$ 0.69	$ 53.6(7)	$ 0.84(7)	$ 0.85(7)	$ 1.00
Fourth Quarter	$ 40.6	$ 38.3	$ 0.60	$ 39.6(8)	$ 0.62(8)	$ 0.65(8)	$ 0.55

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

(2) *Includes $25.4 million IOC dividend.*

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

(4) *Includes $25.3 million IOC dividend.*

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

(6) *Includes $15.2 million IOC dividend.*

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

(8) *Includes $19.3 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 $0.75 for the quarter (2018 – $0.24). Cumulative standardized cash flow from inception of the Corporation is $28.61 per share and total cash distributions since inception is $28.29 per share, for a payout ratio of 99%.

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. 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 Jun. 30, 2019	3 Months Ended Jun. 30, 2018	6 Months Ended Jun. 30, 2019	6 Months Ended Jun. 30, 2018
Standardized cash flow from operating activities	$ 47,837	$ 15,496	$ 72,800	$ 35,773
Changes in amounts receivable, accounts payable and income taxes payable	6,943	(13,210)	3,492	(14,801)
Adjusted cash flow	$ 54,780	$ 2,286	$ 76,292	$ 20,972
Adjusted cash flow per share	$ 0.86	$ 0.04	$ 1.19	$ 0.33

Liquidity and Capital Resources

The Corporation had $47.7 million in cash as at June 30, 2019 (December 31, 2018 – $80.5 million) with total current assets of $102.8 million (December 31, 2018 – $127.0 million). The Corporation had working capital of $27.6 million as at June 30, 2019 (December 31, 2018 – $76.3 million). The Corporation's operating cash flow for the quarter was $47.8 million and the dividend paid during the quarter was $67.2 million, resulting in cash balances decreasing by $19.4 million during the second quarter of 2019.

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 normally pays cash dividends from its net income to the maximum extent possible, subject to the maintenance of appropriate levels of working capital.

The Corporation has a $50 million revolving credit facility with a term ending September 18, 2021 with provision for annual one-year extensions. No amount is currently drawn under this facility (2018 – nil) leaving $50.0 million available to provide for any capital required by IOC or requirements of the Corporation.

Outlook

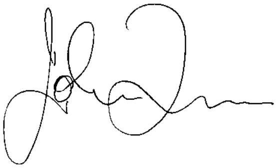
As a result of lower than anticipated first half production, Rio Tinto lowered the 2019 guidance for IOC's saleable production of CFS and pellets on a 100% basis to between 18.2 and 19.3 million tonnes from between 19.2 and 20.9 million tonnes.

Benchmark prices for concentrate and pellet premiums remain attractive relative to historical levels despite recent price declines due to softer demand and uncertainty over trade tensions. On August 7, 2019 the 62% Fe index was US$93 per tonne as compared to an average of US$120 per tonne in July. Supply continues to be constrained, predominantly as a result of mine closures in Brazil. Vale reaffirmed its 2019 iron ore sales guidance of 307 to 332 million tonnes, stating that expected sales volume will move towards the midpoint of the range with the restart of the Brucutu mine in June and the partial resumption of dry processing operations at Vargem Grande. This compares to Vale's 2018 iron ore production of 385 million tonnes.

China crude steel production was up 9.9% in the first half of 2019 as compared to the same period in 2018, and the immediate outlook for China steel production continues to be positive despite higher iron ore prices and weaker steel producer margins. Weaker steel producer margins are expected to continue to have some effect on iron ore demand outside of China. Despite the pullback, higher China import fines prices have made iron ore pellet premiums under existing formulas unaffordable for some producers given prevailing steel and raw materials prices. As a result, some steel producers in Europe have reduced output or replaced high cost pellets where possible with lower quality grades. Longer term, we would expect an increase in the global seaborne iron ore supply and for iron ore prices to begin to revert to levels more in line with historical averages.

The LIORC cash balance at June 30, 2019 stood at $47.7 million before LIORC dividends payable on July 25, 2019 of $0.90 per share or $57.6 million. The net royalty from IOC was paid on the same date, maintaining the Corporation's strong cash balance.

On August 7, 2019 the Board of IOC declared a dividend of US$200 million, payable to shareholders of IOC on August 22, 2019.



John F. Tuer
President and Chief Executive Officer
Toronto, Ontario
August 14, 2019

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, the renewal of the mining leases, outcomes of existing or future litigation, 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 7, 2019 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	
	June 30, 2019	**December 31, 2018**
	(Unaudited)	
Assets		
Current Assets		
Cash and short-term investments	$ 47,695	$ 80,495
Amounts receivable (note 4)	55,080	46,548
Total Current Assets	102,775	127,043
Non-Current Assets		
Iron Ore Company of Canada (“IOC”) royalty and commission interests	250,913	253,846
Investment in IOC (note 5)	412,273	382,704
Total Non-Current Assets	663,186	636,550
Total Assets	$ 765,961	$ 763,593
Liabilities and Shareholders’ Equity		
Current Liabilities		
Accounts payable	$ 11,377	$ 9,969
Dividend payable	57,600	38,400
Taxes payable	6,201	2,613
Total Current Liabilities	75,178	50,982
Non-Current Liabilities		
Deferred income taxes (note 6)	125,420	121,760
Total Liabilities	200,598	172,742
Shareholders’ Equity		
Share capital	317,708	317,708
Retained earnings	256,313	280,759
Accumulated other comprehensive loss	(8,658)	(7,616)
	565,363	590,851
Total Liabilities and Shareholders’ Equity	$ 765,961	$ 763,593

See accompanying notes to interim condensed consolidated financial statements.

Approved by the Directors,

John F. Tuer
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 June 30, 2019	2018
	(Unaudited)	
Revenue		
IOC royalties	$ 52,610	$ 5,081
IOC commissions	449	53
Interest and other income	245	94
	53,304	5,229
Expenses		
Newfoundland royalty taxes	10,522	1,016
Amortization of royalty and commission interests	1,325	461
Administrative expenses	787	808
	12,634	2,285
Income before equity earnings and income taxes	40,670	2,943
Equity earnings (losses) in IOC	33,935	(6,060)
Income (loss) before income taxes	74,605	(3,117)
Provision for income taxes (note 6)		
Current	12,609	1,118
Deferred	896	(1,035)
	13,505	83
Net income for the period	61,100	(3,200)
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 2019 – $386; 2018 – $5)	(2,187)	(28)
Comprehensive income (loss) for the period	$ 58,913	$ (3,228)
Net income (loss) per share	$ 0.95	$ (0.05)

See accompanying notes to interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Income and Comprehensive Income

(in thousands of Canadian dollars except for per share information)	For the Six Months Ended June 30, 2019	2018
	(Unaudited)	
Revenue		
IOC royalties	$ 91,106	$ 38,892
IOC commissions	797	436
Interest and other income	611	213
	92,514	39,541
Expenses		
Newfoundland royalty taxes	18,221	7,778
Amortization of royalty and commission interests	2,933	1,790
Administrative expenses	1,559	1,670
	22,713	11,238
Income before equity earnings and income taxes	69,801	28,303
Equity earnings in IOC	56,344	8,589
Income before income taxes	126,145	36,892
Provision for income taxes (note 6)		
Current	21,838	9,121
Deferred	3,860	720
	25,698	9,841
Net income for the period	100,447	27,051
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 2019 – $184; 2018 – $10)	(1,042)	(55)
Comprehensive income for the period	$ 99,405	$ 26,996
Net income per share	$ 1.57	$ 0.42

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 Six Months Ended June 30, 2019	2018
	(Unaudited)	
Net inflow (outflow) of cash related to the following activities		
Operating		
Net income for the period	$ 100,447	$ 27,051
Items not affecting cash:		
Equity earnings in IOC	(56,344)	(8,589)
Current income taxes	21,838	9,121
Deferred income taxes	3,860	720
Amortization of royalty and commission interests	2,933	1,790
Common share dividend from IOC	25,440	—
Change in amounts receivable	(8,532)	36,496
Change in accounts payable	1,408	(7,263)
Income taxes paid	(18,250)	(23,553)
Cash flow from operating activities	72,800	35,773
Financing		
Dividends paid to shareholders	(105,600)	(57,600)
Cash flow used in financing activities	(105,600)	(57,600)
Decrease in cash, during the period	(32,800)	(21,827)
Cash, beginning of period	80,495	40,498
Cash, end of period	$ 47,695	$ 18,671

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, 2017	$ 317,708	$ 264,272	$ (8,391)	$ 573,589
Net income for the period	—	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	$ 317,708	$ 252,923	$ (8,446)	$ 562,185
Balance as at December 31, 2018	$ 317,708	$ 280,759	$ (7,616)	$ 590,851
Adjustment on initial application of IFRS 16 (note 3)		(93)		(93)
Net income for the period	—	100,447	—	100,447
Dividends declared to shareholders	—	(124,800)	—	(124,800)
Share of other comprehensive loss from investment in IOC (net of taxes)	—	—	(1,042)	(1,042)
Balance as at June 30, 2019	$ 317,708	$ 256,313	$ (8,658)	$ 565,363

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 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 International Accounting Standard 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 16, *Leases* on January 1, 2019, and accordingly, certain accounting policies have changed in preparing these financial statements from those used for the December 31, 2018 audited financial statements of the Corporation. Changes to significant accounting policies are outlined in Note 3.

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 14, 2019.

3. Significant Accounting Policies

Except as noted below, 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, 2018. 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, 2018.

IFRS 16 Leases ("IFRS 16")

IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all major leases. IFRS 16 does not apply to leases of mineral rights. The Corporation has no major leases but is impacted by the standard through its Investment in IOC.

Impact of transition to IFRS 16

IOC adopted IFRS 16 using the modified retrospective approach and accordingly, the information presented for 2017 has not been restated. It remains as previously reported under IAS 17 and related interpretations. IOC's lease agreements relate primarily to leases of residential real property, equipment and vehicles. On initial application, IOC recognized right-of-use assets of $12,333, lease obligations of $13,410 and a reduction to retained earnings of approximately $722. The impact on the Corporation was a decrease in investment in IOC of $109, a decrease in deferred income taxes of $16 and a decrease in retained earnings of $93.

4. Amounts Receivable

	June 30, 2019	December 31, 2018
IOC royalties	$ 54,670	$ 46,241
IOC commissions	104	178
Other	306	129
	$ 55,080	$ 46,548

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, 2019 and December 31, 2018. The Series B and Series C common shares have identical voting rights to all other issued and outstanding common shares of IOC.

	June 30, 2019	December 31, 2018
Investment in IOC, beginning of period	$ 382,704	$ 408,691
Equity earnings in IOC	56,344	56,987
Other comprehensive (loss) income of IOC	(1,226)	912
Adjustment on initial application of IFRS 16 (note 3)	(109)	—
Common share dividend received	(25,440)	(83,886)
Investment in IOC, end of period	$ 412,273	$ 382,704

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 $42,914 as at June 30, 2019 (December 31, 2018 – $43,416) 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 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,	
	2019	2018	2019	2018
Income before income taxes	$ 74,605	$ (3,117)	$ 126,145	$ 36,892
Income taxes at combined federal and provincial statutory tax rates of 30.0%	22,382	(935)	37,844	11,068
(Decrease) increase in income taxes resulting from:				
Undistributed equity (earnings) losses in investment in IOC	(5,090)	909	(8,452)	(1,288)
Equity earnings distributed as dividends	(3,816)		(3,816)	
Other	29	109	122	61
Income tax expense	$ 13,505	$ 83	$ 25,698	$ 9,841

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, 2018				
Difference in tax and book value of assets	$ 127,885	$ (5,591)	$ 137	$ 122,431
Tax benefit of deductible temporary differences	(665)	(6)	—	(671)
Net deferred income tax liability	$ 127,220	$ (5,597)	$ 137	$ 121,760
June 30, 2019				
Difference in tax and book value of assets	$ 122,431	$ 3,763	$ (184)	$ 126,010
Adjustment on initial application of IFRS 16 (note 3)	(16)	—	—	(16)
Tax benefit of deductible temporary differences	(671)	97	—	(574)
Net deferred income tax liability	$ 121,744	$ 3,860	$ (184)	$ 125,420

7. Key Management Personnel Compensation

Key management personnel are the President and Chief Executive Officer, Executive Vice Presidents, the Chief Financial Officer, the Secretary and directors. Their remuneration for the three months ended June 30, 2019 was comprised of salaries, restricted share units ("RSUs"), and fees totaling $354 (2018 – $313). Their remuneration for the six months ended June 30, 2019 was comprised of salaries, RSUs, and fees totaling $732 (2018 – $732).

8. 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, 2019, there were 16,255 RSUs outstanding. For the three month and six month period ended June 30, 2019, compensation expense of approximately $105 (2018 – $37) and $184 (2018 – $40) was accrued in connection with the RSUs.

Corporate Information

Administration and Investor Relations

PO Box 957, STN Adelaide
Toronto, Ontario
M5C 2K3
Telephone: (416) 863-7133

Directors

John F. Tuer
President and Chief Executive Officer
Labrador Iron Ore Royalty Corporation

William J. Corcoran(1)
Company Director

Mark J. Fuller(1)
President and CEO of
Ontario Pension Board

William H. McNeil
Company Director

Sandra L. Rosch
Executive Vice President,
Labrador Iron Ore Royalty Corporation

Patricia M. Volker(1)
Company Director

Officers

William H. McNeil
Non- Executive Chairman of the Board

John F. Tuer
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

Registrar & Transfer Agent

Computershare Investor Services Inc.
100 University Avenue
Toronto, Ontario M5J 2Y1

Legal Counsel

McCarthy Tétrault LLP
Toronto, Ontario

Auditors

PricewaterhouseCoopers LLP
Toronto, Ontario

Stock Exchange Listing

The Toronto Stock Exchange

Symbol

LIF

Website

www.labradorironore.com

E-mail

investor.relations@labradorironore.com

Labrador Iron Ore
Royalty Corporation

PO Box 957, STN Adelaide
Toronto, ON
M5C 2K3
Telephone (416) 863-7133