

LABRADOR IRON ORE
ROYALTY CORPORATION

2019



**ANNUAL
REPORT**

82 YEARS IN LABRADOR WEST

■ Annual General Meeting

The Annual General Meeting of the holders of common shares of Labrador Iron Ore Royalty Corporation will be held:

Date Thursday, May 14, 2020

Time 11:00 a.m.

Mode The Annual General meeting will be a virtual meeting in view of the COVID-19 pandemic. For information on attending the meeting, see Labrador Iron Ore Royalty Corporation's Notice of Annual Meeting and Management Information Circular.

The holders of common shares are encouraged to complete the Form of Proxy and forward it on or before May 12, 2020.

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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 indigenous groups, natural disasters, severe weather conditions and public health epidemics, 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 5, 2020 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.

■ Labrador Iron Ore Royalty Corporation

Labrador Iron Ore Royalty Corporation (“LIORC”), a Canadian corporation, owns interests in Iron Ore Company of Canada (“IOC”) which operates a major iron mine near Labrador City, Newfoundland and Labrador on lands leased from LIORC. Directly and through its wholly-owned subsidiary, Hollinger-Hanna Limited (“Hollinger-Hanna”), LIORC owns a 15.10% equity interest in IOC and receives a 7% gross overriding royalty on all iron ore products produced from the leased lands, sold and shipped by IOC and a \$0.10 per tonne commission on sales of iron ore by IOC.

As at December 31, 2019, there were 64 million common shares issued and outstanding which are listed for trading on the Toronto Stock Exchange under the symbol LIF. Generally, LIORC pays cash dividends from its net income to the maximum extent possible, subject to the maintenance of appropriate levels of working capital. Currently, the holders of common shares receive quarterly dividends on the 25th day of the month following the end of each quarter. The common shares are qualified investments under the *Income Tax Act (Canada)* for deferred plans including registered retirement savings plans, registered retirement income funds and deferred profit sharing plans.

As at December 31, 2019 LIORC had a Board of six Directors, an Audit Committee, a Compensation Committee and a Nominating Committee. The Audit, Compensation and Nominating Committees are composed of three independent Directors. On January 7, 2020 LIORC appointed two additional independent Directors to the Board.

This information is prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and all amounts are shown in Canadian dollars unless otherwise indicated.

■ Shareholders’ Investment Highlights

Years Ended December 31	2019	2018
	(\$ in millions except per share information)	
Revenue	178.3	130.9
Net Income	205.3	128.5
Cash Flow from Operations	224.6 ⁽¹⁾	148.8 ⁽²⁾
Net Income per Share	\$ 3.21	\$ 2.01
Cash Flow from Operations per Share	\$ 3.51 ⁽¹⁾	\$ 2.32 ⁽²⁾
Dividends Declared per Share	\$ 4.00	\$ 1.75

(1) Includes IOC dividends totaling \$110.1 million or \$1.72 per Share.

(2) Includes IOC dividends totaling \$83.9 million or \$1.31 per Share.

■ 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 Annual Report for the year ended December 31, 2019.

82 Years in Labrador West

Labrador Iron Ore Royalty Corporation has been involved in Labrador West for 82 years. Under a Statutory Agreement with Newfoundland made in 1938, a predecessor company, Labrador Mining and Exploration Limited, was granted extensive exploration and mining rights in Labrador West. LM&E found the iron ore bodies that now constitute the mine operated by Iron Ore Company of Canada. LM&E received grants of leases and licences under the Statutory Agreement. It also received a grant of surface rights to establish the town site that became Labrador City. LM&E sublet the leases to IOC and IOC, with major steel companies as original shareholders, built the infrastructure, mine, railway and port. Under the sublease, LIORC receives a 7% gross overriding royalty on iron ore products produced and sold by IOC.

Financial Performance

The Shareholders’ cash flow from operations for the year ended December 31, 2019 was \$224.6 million or \$3.51 per share as compared to \$148.8 million or \$2.32 per share for 2018. The financial results for LIORC in 2019 benefited from higher iron ore prices and increased sales tonnages.

The Shareholders’ consolidated net income for the year ended December 31, 2019 was \$205.3 million or \$3.21 per share compared to \$128.5 million or \$2.01 per share in 2018. Equity earnings from Iron Ore Company of Canada (“IOC”) amounted to \$112.1 million compared to \$57.0 million in 2018. LIORC received dividends from IOC in 2019 totaling \$110.1 million or \$1.72 per share compared to \$83.9 million or \$1.31 per share in 2018. LIORC received an IOC dividend in the fourth quarter of 2019 in the amount of \$44.6 million or \$0.70 per share compared to \$25.3 million or \$0.40 per share in the fourth quarter of 2018. IOC’s 2019 iron ore sales for calculating the royalty to LIORC totaled 17.1 million tonnes compared to 15.1 million tonnes in 2018. Royalty revenue increased to \$175.4 million as compared to \$128.8 million due to higher realized iron ore prices and increased sales tonnages in 2019.

The cash flow from operations, equity earnings and net income for the year were higher than last year mainly due to: (i) higher sales tonnages for concentrate and pellets in 2019, as 2018 production and sales were negatively impacted by a work stoppage in the second quarter; and (ii) higher iron ore prices as a result of continued demand from China and reduced supply predominantly from Vale.

Total concentrate production of 19.0 million tonnes in 2019 was 21% higher as compared to 2018 of 15.7 million tonnes, largely due to the work stoppage in the second quarter of 2018. Increased concentrate production led to increased pellet and concentrate for sale (“CFS”) tonnages in 2019. Sales tonnage of pellets in 2019, for calculating the royalty to LIORC, was 14% higher than in 2018 and the CFS tonnage in 2019 was higher than in 2018 by 12%.

IOC sells CFS based on the Platts index for 65% Fe, CFR China (“65% Fe index”). The average price for the 65% Fe index increased 16% to US\$104 per tonne in 2019 compared to the average price in 2018 of US\$90 per tonne. The seaborne iron ore prices were affected by a reduction of iron ore supply, predominantly from Vale as a result of the collapse of the tailings dam at Vale’s Corrego do Feijao mine in Brumadinho, Minas Gerais state, Brazil (“Brumadinho”) and the subsequent closure of other dams. The premium for the 65% Fe index compared to the Platts index for 62% Fe, CFR China (“62% Fe index”), which had been expanding over the last few years, declined to 12% in 2019 as compared to 30% in 2018. The 62% Fe index averaged US\$93 per tonne in 2019 compared to US\$69 per tonne in 2018. The monthly Atlantic Blast Furnace 65% Fe pellet premium index (the “pellet premium”), as quoted by Platts, averaged US\$57 per tonne in 2019, compared to an average in 2018 of US\$59. Blast Furnace pellet premiums were relatively stable for the first half of 2019 at approximately US\$67 per tonne, but decreased in the second half of 2019 as high underlying benchmark prices combined with weak margins for steel producers caused buyers, particularly in Europe, to reduce demand and substitute lower quality product for higher quality pellets. In the fourth quarter of 2019 the pellet premium averaged US\$37 per tonne compared to US\$61 per tonne in the fourth quarter of 2018.

The average price realized by IOC for CFS and pellets, FOB Sept-Îles, net of selling costs was approximately C\$148 per tonne in 2019 compared to C\$119 per tonne in 2018. Higher iron ore prices, particularly for CFS, together with a slightly lower Canadian

REPORT TO SHAREHOLDERS

dollar exchange rate increased the average realized price FOB Sept-Îles in 2019. Despite greater variability throughout the year, on average shipping costs for 2019 were similar to shipping costs in 2018.

Iron Ore Company of Canada Operations

Production

Total concentrate production of 19.0 million tonnes in 2019 was 21% higher as compared to 2018 of 15.7 million tonnes, largely due to the work stoppage in the second quarter of 2018. Concentrate production in 2019 was adversely affected in the first half of 2019 by frozen material and blocked feeders in the ore barn and a delay in the restart after the planned annual outage in June as a result of a flooding issue. Fourth quarter concentrate production at IOC was 7% lower than the corresponding period of 2018 as a result of a derailment of an automated train and unscheduled autogenous mill repairs and tailings flume repairs.

The IOC saleable production (CFS plus pellets) of 17.9 million tonnes in 2019 was 18% higher than saleable production of 15.2 million tonnes in 2018, but slightly below the lower end of Rio Tinto's revised guidance of 18.2 to 19.3 million tonnes. Total pellet production in 2019 of 10.1 million tonnes was 18% higher than pellet production of 8.5 million tonnes in 2018, largely due to the work stoppage in the second quarter of 2018. Pellet production in 2019 was at times adversely affected by lack of feed from the concentrator and unplanned induration machine maintenance.

The total cost of goods sold, excluding depreciation, was higher in 2019 than in 2018 by 14%, predominantly due to higher production. The unit cost of goods sold, excluding depreciation, in 2019 was 4% lower than in 2018.

Third party haulage by the Québec North Shore and Labrador Railway Company, Inc. ("QNS&L") in 2019 was 30% higher than in 2018, predominantly from increased shipments of iron ore concentrate from the Bloom Lake Mine, owned by Champion Iron Limited ("Champion"). Champion reported that it sold 7.4 million dry metric tonnes of iron ore concentrate in the twelve months ending December 31, 2019.

Sales as Reported for the LIORC Royalty

Total iron ore sales tonnage by IOC (CFS plus pellets) of 17.1 million tonnes in 2019 was 14% higher than the total sales tonnage in 2018. The pellet sales tonnage was 14% higher and CFS sales tonnage was 12% higher than in 2018. The higher sales tonnages were the result of the higher saleable production, as explained above. Total iron ore sales tonnages were lower than saleable production in 2019, as a result of timing differences and breakdowns in reclaiming and ship loading equipment at the terminal. As a result, inventory levels of CFS and pellets at the terminal increased in 2019 by 1.3 million tonnes.

Capital Expenditures

Capital expenditures for IOC in 2019 were \$294 million in total as compared to \$205 million in 2018. At the beginning of 2019 IOC forecasted that capital expenditures for 2019 would be in the range of \$225 million to \$245 million. Increased capital expenditures in 2019 included the purchase of five haul trucks, increased costs related to the induration machine #6 rebuild, and the Mill 11 circuit redesign.

Outlook

Rio Tinto's 2020 guidance for IOC's saleable production tonnage (CFS and pellets) is 17.9 million to 20.4 million tonnes. On February 2, 2020 Platts listed the February price index for the Atlantic Blast Furnace 65% Fe pellet premium at US\$30 per tonne, up from the January 2019 price of \$29 per tonne. At these pellet premiums, it is in IOC's economic interest to continue to maximize pellet production in 2020. IOC's current pellet capacity is 12.5 million tonnes.

The capital expenditures for 2020 at IOC are forecasted to be approximately \$350 million, as compared to \$294 million in 2019. The 2020 forecast includes approximately \$115 million of growth and development projects, as compared to \$70 million of growth and development projects in 2019. The 2020 growth and development capital expenditure projects include the implementation of the Mill 11 circuit redesign to increase weight yield, various improvements to debottleneck and increase the pellet plant throughput rates and a redesign of the tailings system to increase the life of use and reduce electricity and water usage. The growth and development capital expenditure forecast also includes over \$40 million to increase third party haulage capacity, which is subject to finalizing the applicable third party service contracts.

The collapse of the Brumadinho tailings dam had a profound effect on the market for seaborne iron ore in 2019. Vale's total iron ore fines and pellet production in 2019 fell 21.5% and 24.4% to 302 million tonnes and 41.8 million tonnes, respectively. While some growth in supply is expected, Vale production levels in 2020 are not expected to reach 2018 levels. Vale predicts that

REPORT TO SHAREHOLDERS

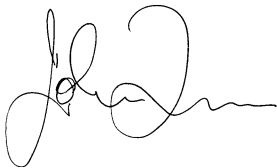
15 million tonnes of capacity will come back on line in 2020 followed by a further 25 million tonnes in 2021. In its fourth quarter production report, Vale maintained its iron ore fines production guidance for 2020 at 340 to 355 million tonnes, of which 44 million tonnes is expected to be pellet production.

The average price of the 65% Fe index from January 1, 2020 to February 13, 2020 was US\$104, the same as the average of the 65% Fe index for 2019. However, China continues to represent over 70% of the total demand for seaborne iron ore and it is unclear what the long-term effect of the coronavirus ("COVID-19") will be on iron ore prices. From January 23, 2020 (the first day of widespread concern about COVID-19) to February 13, 2020 the average price of the 65% Fe index dropped from US\$106 to US\$100.

If current iron ore prices and premiums continue for the rest of 2020 and IOC achieves its production guidance, LIORC should continue to be the beneficiary of strong revenues at IOC.

I would like to take this opportunity to thank our Shareholders for their interest and loyalty and my fellow Directors for their wisdom and support.

Respectfully submitted on behalf of the
Directors of the Corporation,

A handwritten signature in black ink, appearing to read 'John F. Tuer', with a stylized flourish at the end.

John F. Tuer
President and Chief Executive Officer
March 5, 2020

CORPORATE STRUCTURE

LIORC is a Canadian corporation formed to give effect to the conversion of the Labrador Iron Ore Royalty Income Fund (the “Fund”) into a corporation under a plan of arrangement completed on July 1, 2010. LIORC is also the successor by amalgamation of a predecessor of LIORC with Labrador Mining Company Limited, formerly a wholly-owned subsidiary of the Fund, that occurred pursuant to the plan of arrangement.

LIORC, directly and through its wholly-owned subsidiary Hollinger-Hanna, holds a 15.10% equity interest in IOC and receives a 7% gross overriding royalty and a 10 cent per tonne commission on all iron ore products produced, sold and shipped by IOC. Generally, LIORC pays cash dividends from its net income to the maximum extent possible, subject to the maintenance of appropriate levels of working capital. The common shareholders receive quarterly dividends on the common shares on the 25th day of the month following the end of each quarter.

Six Directors are responsible for the governance of the Corporation and also serve as directors of Hollinger-Hanna. The Directors, in addition to managing the affairs of the Corporation and Hollinger-Hanna, oversee the Corporation’s interests in IOC. The Audit, Compensation and Nominating Committees are composed of three independent Directors. On January 7, 2020 LIORC appointed two additional independent Directors to the Board. Effective January 1, 2019, Suske Capital Inc., pursuant to an administration agreement, acts as the administrator of the Corporation and Hollinger-Hanna.

Taxation

The Corporation is a taxable corporation. Dividend income received from IOC and Hollinger-Hanna is received tax free while royalty income is subject to income tax and Newfoundland royalty tax. Expenses of the Corporation include administrative expenses. Hollinger-Hanna is a taxable corporation.

Income Taxes

Dividends to a shareholder that are paid within a particular year are to be included in the calculation of the shareholder’s taxable income for that year. All dividends paid in 2019 were “eligible dividends” under the Income Tax Act.

REVIEW OF OPERATIONS

Iron Ore Company of Canada

The income of the Corporation is entirely dependent on IOC as the only assets of the Corporation and its subsidiary are related to IOC and its operations. IOC is one of Canada's largest iron ore producers, operating a mine, concentrator and pellet plant at Labrador City, Newfoundland and Labrador, and is among the top five producers of seaborne iron ore pellets in the world. It has been producing and processing iron ore concentrate and pellets since 1954. IOC is strategically situated to serve markets throughout the world from its year-round port facilities at Sept-Îles, Québec.

IOC has ore reserves sufficient for approximately 24 years at current production rates with additional resources of a greater magnitude. It currently has the nominal capacity to extract around 55 million tonnes of crude ore annually. The crude ore is processed into iron ore concentrate and then either sold or converted into many different qualities of iron ore pellets to meet its customers' needs. The iron ore concentrate and pellets are transported to IOC's port facilities at Sept-Îles, Québec via its wholly-owned QNS&L, a 418 kilometer rail line which links the mine and the port. From there, the products are shipped to markets throughout North America, Europe, the Middle East and the Asia-Pacific region.

IOC's 2019 sales totaled 17.2 million tonnes, comprised of 9.6 million tonnes of iron ore pellets and 7.6 million tonnes of iron ore concentrate. Production in 2019 was 10.1 million tonnes of pellets and 7.9 million tonnes of CFS. IOC generated ore sales revenues (excluding third party ore sales) of \$2,558 million in 2019 (2018 – \$1,815 million).

Selected IOC Financial Information

	2019	2018	2017	2016	2015
			(\$ in millions)		
Operating Revenues	2,719	1,930	2,315	1,676	1,495
Cash Flow from					
Operating Activities	1,302	578	923	456	267
Net Income	749	383	499	170	21
Capital Expenditures ⁽¹⁾	294	205	265	99	143

(1) Reported on an incurred basis.

IOC Royalty

The Corporation holds certain leases and licenses covering approximately 18,200 hectares of land near Labrador City. IOC has subleased certain portions of these lands from which it currently mines iron ore. In return, IOC pays the Corporation a 7% gross overriding royalty on all sales of iron ore products produced from these lands. A 20% tax on the royalty is payable to the Government of Newfoundland and Labrador. For the five years prior to 2019, the average royalty net of the 20% tax had been \$98.2 million per year and in 2019 the net royalty was \$140.4 million (2018 – \$103.0 million).

Because the royalty is "off-the-top", it is not dependent on the profitability of IOC. However, it is affected by changes in sales volumes, iron ore prices and, because iron ore prices are denominated in US dollars, the United States–Canadian dollar exchange rate.

IOC Equity

In addition to the royalty interest, the Corporation directly and through its wholly owned subsidiary, Hollinger-Hanna, owns a 15.10% equity interest in IOC. The other shareholders of IOC are Rio Tinto Limited with 58.72% and Mitsubishi Corporation with 26.18%.

IOC Commissions

Hollinger-Hanna has the right to receive a payment of 10 cents per tonne on the products produced and sold by IOC. Pursuant to an agreement, IOC is obligated to make the payment to Hollinger-Hanna so long as Hollinger-Hanna is in existence and solvent. In 2019, Hollinger-Hanna received a total of \$1.7 million in commissions from IOC (2018 – \$1.5 million).

REVIEW OF OPERATIONS

Quarterly Dividends

Dividends of \$4.00 per share including special dividends of \$3.00 per share were declared in 2019 (2018 – dividends of \$1.75 per share including special dividends of \$0.75). These dividends were allocated as follows:

Period Ended	Record Date	Payment Date	Dividend Income per Share	Total Dividend (\$ Million)
Mar. 31, 2019	Mar. 31, 2019	Apr. 25, 2019	\$ 0.25	\$ 16.0
Special Dividend	Mar. 31, 2019	Apr. 25, 2019	0.80	51.2
Jun. 30, 2019	Jun. 30, 2019	Jul. 25, 2019	0.25	16.0
Jun. 30, 2019	Jun. 30, 2019	Jul. 25, 2019	0.65	41.6
Sep. 30, 2019	Sep. 30, 2019	Oct. 25, 2019	0.25	16.0
Special Dividend	Sep. 30, 2019	Oct. 25, 2019	0.75	48.0
Dec. 31, 2019	Dec. 31, 2019	Jan. 25, 2020	0.25	16.0
Special Dividend	Dec. 31, 2019	Jan. 25, 2020	0.80	51.2
Dividend to Shareholders – 2019			\$ 4.00	\$ 256.0
Mar. 31, 2018	Mar. 31, 2018	Apr. 25, 2018	\$ 0.25	\$ 16.0
Special Dividend	Mar. 31, 2018	Apr. 25, 2018	0.10	6.4
Jun. 30, 2018	Jun. 30, 2018	Jul. 25, 2018	0.25	16.0
Sep. 30, 2018	Sep. 30, 2018	Oct. 25, 2018	0.25	16.0
Special Dividend	Sep. 30, 2018	Oct. 25, 2018	0.30	19.2
Dec. 31, 2018	Dec. 31, 2018	Jan. 25, 2019	0.25	16.0
Special Dividend	Dec. 31, 2018	Jan. 25, 2019	0.35	22.4
Dividend to Shareholders – 2018			\$ 1.75	\$ 112.0

The quarterly dividends are payable to all shareholders of record on the last day of each calendar quarter and are paid on the 25th day of the following month.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion of the consolidated financial condition and results of operations of the Corporation for the years ended December 31, 2019 and 2018. This discussion should be read in conjunction with the consolidated financial statements of the Corporation and notes thereto for the years ended December 31, 2019 and 2018. This information is prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and all amounts are shown in Canadian dollars unless otherwise indicated.

The Corporation is a Canadian corporation resulting from the conversion of the Fund into a corporation under a plan of arrangement completed on July 1, 2010. LIORC is also the successor by amalgamation of a predecessor of LIORC with Labrador Mining Company Limited, formerly a wholly-owned subsidiary of the Fund, that occurred pursuant to the plan of arrangement.

General

The Corporation is dependent on the operations of IOC. IOC's earnings and cash flows are affected by the volume and mix of iron ore products produced and sold, costs of production and the prices received. Iron ore demand and prices fluctuate and are affected by numerous factors which include demand for steel and steel products, the relative exchange rate of the US dollar, global and regional demand and production, political and economic conditions and production costs in major producing areas.

Liquidity and Capital Resources

The Corporation had \$77.9 million (2018 – \$80.5 million) in cash as at December 31, 2019 with total current assets of \$114.0 million (2018 – \$127.0 million). The Corporation had working capital of \$28.2 million (2018 – \$76.1 million). The Corporation's operating cash flow was \$224.6 million (2018 – \$148.8 million) and dividends paid during the year were \$227.2 million, resulting in cash balances decreasing by \$2.6 million during 2019.

Cash balances consist of deposits in Canadian dollars and US dollars with Canadian chartered banks. Accounts 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 \$30 million revolving credit facility with a term ending September 18, 2022 with provision for annual one-year extensions. No amount is currently drawn under this facility leaving \$30 million available to provide for any capital required by IOC or requirements of the Corporation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Results

The following table summarizes the Corporation's 2019 operating results as compared to 2018 results (in '000's).

Revenue	2019	2018
IOC royalties (<i>net of 20% Newfoundland royalty tax</i>)	\$ 140,360	\$ 103,047
IOC commissions	1,687	1,486
Other	1,126	580
	<hr/> 143,173	<hr/> 105,113
Expenses		
Administrative expenses	3,182	3,503
Income taxes expense – current	42,000	30,521
	<hr/> 45,182	<hr/> 34,024
Net Income before undernoted items	<hr/> 97,991	<hr/> 71,089
Non cash revenue (expense)		
Equity earnings in IOC	112,076	56,987
Deferred income taxes	1,417	5,597
Amortization	(6,145)	(5,186)
	<hr/> 107,348	<hr/> 57,398
Net income for the year	205,339	128,487
Other comprehensive (loss) income	(2,760)	775
Comprehensive income for the year	<hr/> \$ 202,579	<hr/> \$ 129,262

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

	First Quarter 2019	Second Quarter 2019	Third Quarter 2019	Fourth Quarter 2019	Total Year 2019	Total Year 2018
Pellets	2.70	2.42	2.04	2.46	9.62	8.41
Concentrates ⁽¹⁾	0.83	2.14	2.46	2.08	7.51	6.70
Total ⁽²⁾	<hr/> 3.53	<hr/> 4.57	<hr/> 4.51	<hr/> 4.54	<hr/> 17.14	<hr/> 15.10

(1) Excludes third party ore sales.

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

IOC's 2019 iron ore sales for calculating the royalty to LIORC totaled 17.1 million tonnes compared to 15.1 million tonnes in 2018. Royalty revenue increased to \$175.4 million as compared to \$128.8 million in 2018. The Shareholders' consolidated net income for the year ended December 31, 2019 was \$205.3 million or \$3.21 per share compared to \$128.5 million or \$2.01 per share in 2018. Equity earnings from IOC amounted to \$112.1 million compared to \$57.0 million in 2018. The higher royalty revenue, net income and equity earnings achieved in 2019 as compared to 2018 were mainly due to: (i) higher sales tonnages for concentrate and pellets in 2019, as 2018 production and sales were negatively impacted by a work stoppage in the second quarter; and (ii) higher iron ore prices as a result of continued demand from China and reduced supply predominantly from Vale.

MANAGEMENT'S DISCUSSION AND ANALYSIS

IOC sells CFS based on the 65% Fe index. The average price for the 65% Fe index increased 16% to US\$104 per tonne in 2019 compared to the average price in 2018 of US\$90 per tonne. The seaborne iron ore prices were affected by a reduction of iron ore supply, predominantly from Vale as a result of the collapse of the Brumadinho tailings dam and the subsequent closure of other dams. The premium for the 65% Fe index compared to the 62% Fe index, which had been expanding over the last few years, declined to 12% in 2019 as compared to 30% in 2018. The 62% Fe index averaged US\$93 per tonne in 2019 compared to US\$69 per tonne in 2018. The monthly Blast Furnace pellet premium, as quoted by Platts, averaged US\$57 per tonne in 2019, compared to an average in 2018 of US\$59. Blast Furnace pellet premiums were relatively stable for the first half of 2019 at approximately US\$67 per tonne, but decreased in the second half of 2019 as high underlying benchmark prices combined with weak margins for steel producers caused buyers, particularly in Europe, to reduce demand and substitute lower quality product for higher quality pellets. In the fourth quarter of 2019 the pellet premium averaged US\$37 per tonne compared to US\$61 per tonne in the fourth quarter of 2018.

The average price realized by IOC for CFS and pellets, FOB Sept-Îles, net of selling costs was approximately C\$148 per tonne in 2019 compared to C\$119 per tonne in 2018. Higher iron ore prices, particularly for CFS, together with a slightly lower Canadian dollar exchange rate increased the average realized price FOB Sept-Îles in 2019. Despite greater variability throughout the year, on average shipping costs for 2019 were similar to shipping costs in 2018.

Capital expenditures for IOC in 2019 were \$294 million in total as compared to \$205 million in 2018. At the beginning of 2019 IOC forecasted that capital expenditures for 2019 would be in the range of \$225 million to \$245 million. Increased capital expenditures in 2019 included the purchase of five haul trucks, increased costs related to the induration machine #6 rebuild, and the Mill 11 circuit redesign.

Administration expenses for the year ended December 31, 2019 totaling \$3.2 million include cash bonuses and grants of restricted share units accrued to date totaling \$0.3 million. Amortization expense for royalty and commission interests increased \$1.0 million for the year ended December 31, 2019, as 2018 production was negatively impacted by a work stoppage in the second quarter.

Fourth quarter 2019 CFS sales were lower year-over-year by 22%, and pellet sales were lower by 6% as a result of lower concentrate production due to a derailment of an automated train and unscheduled autogenous mill repairs and tailings flume repairs, as well lower shipments from the terminal due to breakdowns on reclaiming and ship-loading equipment. However, this was partially offset by an increase in the realized sales price of CFS, resulting in royalty income of \$38.9 million for the quarter as compared to \$45.9 million for the same period in 2018. Fourth quarter 2019 cash flow from operations was \$79.1 million or \$1.24 per share compared to 2018 of \$53.3 million or \$0.83 per share. LIORC received an IOC dividend in the fourth quarter of 2019 in the amount of \$44.5 million or \$0.70 per share (2018 – \$25.3 million or \$0.40 per share). Equity earnings from IOC amounted to \$23.7 million or \$0.37 per share in the fourth quarter 2019 compared to \$17.8 million or \$0.28 per share for the same period in 2018.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Selected Consolidated Financial Information

The following table sets out financial data from a Shareholder's perspective for the three years ended December 31, 2019, 2018 and 2017.

Description	Years Ended December 31		
	2019	2018	2017
	<i>(in millions except per share information)</i>		
Revenue	\$ 178.3	\$ 130.9	\$ 158.6
Net Income	\$ 205.3	\$ 128.5	\$ 157.3
Net Income per Share	\$ 3.21	\$ 2.01	\$ 2.46
Cash Flow from Operations	\$ 224.6 ⁽¹⁾	\$ 149.0 ⁽²⁾	\$ 167.0 ⁽³⁾
Cash Flow from Operations per Share	\$ 3.51 ⁽¹⁾	\$ 2.32 ⁽²⁾	\$ 2.61 ⁽³⁾
Total Assets	\$ 743.0	\$ 763.6	\$ 750.0
Dividends Declared per Share	\$ 4.00	\$ 1.75	\$ 2.65
Number of Common Shares outstanding	64.0	64.0	64.0

(1) Includes IOC dividends totaling \$110.1 million or \$1.72 per Share.

(2) Includes IOC dividends totaling \$83.9 million or \$1.31 per Share.

(3) Includes IOC dividends totaling \$76.7 million or \$1.20 per Share.

The following table sets out quarterly revenue, net income, cash flow and dividend data for 2019 and 2018. Due to seasonal weather patterns the first and fourth quarters generally have lower production and sales. Royalty revenues and equity earnings in IOC track iron ore spot prices, which can be very volatile. Dividends, included in cash flow, are declared and paid by IOC irregularly according to the availability of cash. There were limited sales in the second quarter of 2018 due to the labour strike.

	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
	<i>(in millions except per share information)</i>						
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
Third Quarter	\$ 46.2	\$ 57.5	\$ 0.90	\$ 72.6 ⁽³⁾	\$ 1.13 ⁽³⁾	\$ 1.02 ⁽³⁾	\$ 1.00
Fourth Quarter	\$ 39.6	\$ 47.4	\$ 0.74	\$ 79.1 ⁽⁴⁾	\$ 1.24 ⁽⁴⁾	\$ 1.03 ⁽⁴⁾	\$ 1.05
2018							
First Quarter	\$ 34.3	\$ 30.3	\$ 0.47	\$ 20.3	\$ 0.32	\$ 0.29	\$ 0.35
Second Quarter	\$ 5.2	\$ (3.3)	\$ (0.05)	\$ 15.5	\$ 0.24	\$ 0.04	\$ 0.25
Third Quarter	\$ 44.6	\$ 58.1	\$ 0.91	\$ 59.7 ⁽⁵⁾	\$ 0.93 ⁽⁵⁾	\$ 1.30 ⁽⁵⁾	\$ 0.55
Fourth Quarter	\$ 46.8	\$ 43.4	\$ 0.68	\$ 53.3 ⁽⁶⁾	\$ 0.83 ⁽⁶⁾	\$ 0.79 ⁽⁶⁾	\$ 0.60

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

(2) Includes \$25.4 million IOC dividend.

(3) Includes \$40.1 million IOC dividend.

(4) Includes \$44.6 million IOC dividend.

(5) Includes \$58.6 million IOC dividend.

(6) Includes \$25.3 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 \$3.51 for 2019 (2018 – \$2.32). Cumulative standardized cash flow from inception of the Corporation is \$30.98 per share and total cash distributions since inception are \$30.34 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. It is not a recognized measure under IFRS. The Directors believe that adjusted cash flow is a useful analytical measure as it better reflects cash available for distributions to Shareholders.

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

	2019	2018
Standardized cash flow from operating activities	\$ 224,564	\$ 148,797
Changes in amounts receivable, accounts payable and income taxes recoverable and payable	(16,459)	6,377
Adjusted cash flow	\$ 208,105	\$ 155,174
Adjusted cash flow per share	\$ 3.25	\$ 2.42

Disclosure Controls and Internal Control over Financial Reporting

The President and CEO and the CFO are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the Corporation. Two directors serve as directors of IOC and IOC provides monthly reports on its operations to them. The Corporation also relies on financial information provided by IOC, including its audited financial statements, and other material information provided to the President and CEO and the CFO by officers of IOC. IOC is a private corporation, and its financial statements are not publicly available.

The Directors are informed of all material information relating to the Corporation and its subsidiary by the officers of the Corporation on a timely basis and approve all core disclosure documents including the Management Information Circular, the annual and interim financial statements and related Management's Discussion and Analyses, the Annual Information Form, any prospectuses and all press releases. An evaluation of the design and operating effectiveness of the Corporation's disclosure controls and procedures was conducted under the supervision of the CEO and CFO. Based on their evaluation, they concluded that the Corporation's disclosure controls and procedures were effective in ensuring that all material information relating to the Corporation was accumulated and communicated for the year ended December 31, 2019.

The President and CEO and the CFO have designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. An evaluation of the design and operating effectiveness of the Corporation's internal control over financial reporting was conducted under the supervision of the CEO and CFO. Based on their evaluation, they concluded that the Corporation's internal control over financial reporting was effective and that there were no material weaknesses therein for the year ended December 31, 2019.

The preparation of financial statements requires the Corporation's management to make estimates and assumptions that affect the reported amounts of the assets, liabilities, revenue and expenses reported each period. Each of these estimates varies with respect to the level of judgment involved and the potential impact on the Corporation's reported financial results. Estimates are deemed critical when the Corporation's financial condition, change in financial condition or results of operations would be materially impacted by a different estimate or a change in estimate from period to period. By their nature, these estimates are subject to measurement uncertainty, and changes in these estimates may affect the consolidated financial statements of future periods.

No material change in the Corporation's internal control over financial reporting occurred during the year ended December 31, 2019.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Outlook

Rio Tinto's 2020 guidance for IOC's saleable production tonnage (CFS and pellets) is 17.9 million to 20.4 million tonnes. On February 2, 2020 Platts listed the February price index for the Atlantic Blast Furnace 65% Fe pellet premium at US\$30 per tonne, up from the January 2019 price of \$29 per tonne. At these pellet premiums, it is in IOC's economic interest to continue to maximize pellet production in 2020. IOC's current pellet capacity is 12.5 million tonnes.

The capital expenditures for 2020 at IOC are forecasted to be approximately \$350 million, as compared to \$294 million in 2019. The 2020 forecast includes approximately \$115 million of growth and development projects, as compared to \$70 million of growth and development projects in 2019. The 2020 growth and development capital expenditure projects include the implementation of the Mill 11 circuit redesign to increase weight yield, various improvements to debottleneck and increase the pellet plant throughput rates and a redesign of the tailings system to increase the life of use and reduce electricity and water usage. The growth and development capital expenditure forecast also includes over \$40 million to increase third party haulage capacity, which is subject to finalizing the applicable third party service contracts.


The collapse of the Brumadinho tailings dam had a profound effect on the market for seaborne iron ore in 2019. Vale's total iron ore fines and pellet production in 2019 fell 21.5% and 24.4% to 302 million tonnes and 41.8 million tonnes, respectively. While some growth in supply is expected, Vale production levels in 2020 are not expected to reach 2018 levels. Vale predicts that 15 million tonnes of capacity will come back on line in 2020 followed by a further 25 million tonnes in 2021. In its fourth quarter production report, Vale maintained its iron ore fines production guidance for 2020 at 340 to 355 million tonnes, of which 44 million tonnes is expected to be pellet production.

The average price of the 65% Fe index from January 1, 2020 to February 13, 2020 was US\$104, the same as the average of the 65% Fe index for 2019. However, China continues to represent over 70% of the total demand for seaborne iron ore and it is unclear what the long-term effect of COVID-19 will be on iron ore prices. From January 23, 2020 (the first day of widespread concern about COVID-19) to February 13, 2020 the average price of the 65% Fe index dropped from US\$106 to US\$100.

If current iron ore prices and premiums continue for the rest of 2020 and IOC achieves its production guidance, LIORC should continue to be the beneficiary of strong revenues at IOC.

Additional information

Additional information relating to the Corporation, including the Annual Information Form, is on SEDAR at www.sedar.com. Additional information is also available on the Corporation's website at www.labradorironore.com.



John F. Tuer
President and Chief Executive Officer

Toronto, Ontario
March 5, 2020

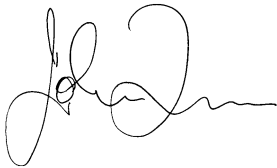
MANAGEMENT'S REPORT

The consolidated financial statements are the responsibility of the management of Labrador Iron Ore Royalty Corporation (the "Corporation"). They have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, using management's best estimates and judgements, where appropriate.

Management is responsible for the reliability and integrity of the consolidated financial statements, the notes to the consolidated financial statements and other financial information contained in this report. In the preparation of these consolidated financial statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgements and have been properly reflected in the accompanying consolidated financial statements.

Management is also responsible for maintaining a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information. The Directors are responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control.

PricewaterhouseCoopers LLP, the independent auditors, have audited the Corporation's consolidated financial statements in accordance with Canadian generally accepted auditing standards and have provided an independent professional opinion.



John F. Tuer
President and Chief Executive Officer



Alan R. Thomas
Chief Financial Officer

Toronto, Ontario
March 5, 2020

INDEPENDENT AUDITOR'S REPORT

■ To the Shareholders of Labrador Iron Ore Royalty Corporation

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Labrador Iron Ore Royalty Corporation and its subsidiary (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2019 and 2018;
- the consolidated statements of income and comprehensive income for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of changes in equity for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

INDEPENDENT AUDITOR'S REPORT

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITOR'S REPORT

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Michael Eric Clarke.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario

March 5, 2020

LABRADOR IRON ORE ROYALTY CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

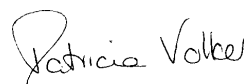
	As at December 31,	
	2019	2018
<i>(in thousands of Canadian dollars)</i>		
Assets		
Current Assets		
Cash and short-term investments	\$ 77,859	\$ 80,495
Amounts receivable (note 4)	36,156	46,548
Total Current Assets	114,015	127,043
Non-Current Assets		
Iron Ore Company of Canada (“IOC”) royalty and commission interests (note 5)	247,701	253,846
Investment in IOC (note 6)	381,310	382,704
Total Non-Current Assets	629,011	636,550
Total Assets	\$ 743,026	\$ 763,593
Liabilities and Shareholders’ Equity		
Current Liabilities		
Accounts payable	\$ 7,939	\$ 9,969
Dividend payable (note 7)	67,200	38,400
Taxes payable	10,710	2,613
Total Current Liabilities	85,849	50,982
Non-Current Liabilities		
Deferred income taxes (note 9)	119,840	121,760
Total Liabilities	205,689	172,742
Shareholders’ Equity		
Share capital (note 10)	317,708	317,708
Retained earnings	230,005	280,759
Accumulated other comprehensive loss (note 11)	(10,376)	(7,616)
	537,337	590,851
Total Liabilities and Shareholders’ Equity	\$ 743,026	\$ 763,593

See accompanying notes to consolidated financial statements.

Approved by the Directors,



John F. Tuer
Director



Patricia M. Volker
Director

LABRADOR IRON ORE ROYALTY CORPORATION
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	For the Year Ended December 31,	
	2019	2018
<i>(in thousands of Canadian dollars except for per share information)</i>		
Revenue		
IOC royalties	\$ 175,450	\$ 128,809
IOC commissions	1,687	1,486
Interest and other income	1,126	580
	<u>178,263</u>	<u>130,875</u>
Expenses		
Newfoundland royalty taxes	35,090	25,762
Amortization of royalty and commission interests	6,145	5,186
Administrative expenses	3,182	3,503
	<u>44,417</u>	<u>34,451</u>
Income before equity earnings and income taxes	133,846	96,424
Equity earnings in IOC (note 6)	112,076	56,987
Income before income taxes	<u>245,922</u>	<u>153,411</u>
Provision for income taxes (note 9)		
Current	42,000	30,521
Deferred	(1,417)	(5,597)
	<u>40,583</u>	<u>24,924</u>
Net income for the year	205,339	128,487
Other comprehensive (loss) income		
Share of other comprehensive (loss) income of IOC that will not be reclassified subsequently to profit or loss (net of income taxes of 2019 – \$487; 2018 – \$137) (note 11)	(2,760)	775
Comprehensive income for the year	<u>\$ 202,579</u>	<u>\$ 129,262</u>
Net income per share	<u>\$ 3.21</u>	<u>\$ 2.01</u>

See accompanying notes to consolidated financial statements.

LABRADOR IRON ORE ROYALTY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended December 31,	
	2019	2018
<i>(in thousands of Canadian dollars)</i>		
Net inflow (outflow) of cash related to the following activities		
Operating		
Net income for the period	\$ 205,339	\$ 128,487
Items not affecting cash:		
Equity earnings in IOC	(112,076)	(56,987)
Current income taxes	42,000	30,521
Deferred income taxes	(1,417)	(5,597)
Amortization of royalty and commission interests	6,145	5,186
Common share dividend from IOC	110,114	83,886
Change in amounts receivable	10,392	(4,456)
Change in accounts payable	(2,030)	1,368
Income taxes paid	(33,903)	(33,611)
Cash flow from operating activities	224,564	148,797
Financing		
Dividends paid to shareholders	(227,200)	(108,800)
Cash flow used in financing activities	(227,200)	(108,800)
(Decrease) increase in cash, during the year	(2,636)	39,997
Cash, beginning of year	80,495	40,498
Cash, end of year	\$ 77,859	\$ 80,495

See accompanying notes to consolidated financial statements.

LABRADOR IRON ORE ROYALTY CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of Canadian dollars)

	Share capital	Retained earnings	Accumulated other comprehensive loss	Total
Balance as at December 31, 2017	\$ 317,708	\$ 264,272	\$ (8,391)	\$ 573,589
Net income for the year	—	128,487	—	128,487
Dividends declared to shareholders	—	(112,000)	—	(112,000)
Share of other comprehensive income from investment in IOC (net of taxes)	—	—	775	775
Balance as at December 31, 2018	<u>\$ 317,708</u>	<u>\$ 280,759</u>	<u>\$ (7,616)</u>	<u>\$ 590,851</u>
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 year	—	205,339	—	205,339
Dividends declared to shareholders	—	(256,000)	—	(256,000)
Share of other comprehensive loss from investment in IOC (net of taxes)	—	—	(2,760)	(2,760)
Balance as at December 31, 2019	<u>\$ 317,708</u>	<u>\$ 230,005</u>	<u>\$ (10,376)</u>	<u>\$ 537,337</u>

See accompanying notes to consolidated financial statements.

NOTES TO THE 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 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 and Hollinger-Hanna were established under the laws of the Canada Business Corporations Act. 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.

These consolidated financial statements were authorized for issuance by the Board of Directors of the Corporation on March 5, 2020.

2. Basis of Presentation

These consolidated financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The consolidated financial statements are prepared on a going concern basis, under the historical cost convention. All financial information is presented in Canadian dollars, except as otherwise noted. 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. Certain reclassifications have been made to the prior year financial statements to conform with the current year presentation.

3. Summary of Significant Accounting Policies

(a) Basis of consolidation

These consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, Hollinger-Hanna. All inter-company transactions, balances, income and expenses are eliminated in full on consolidation.

(b) Financial instruments

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. In subsequent periods, financial instruments are recorded at amortized cost.

Financial assets recorded at cost include cash short-term investments and amounts receivable. There are no financial assets recorded at fair value.

Financial liabilities recorded at cost include accounts payable, dividend payable and taxes payable. There are no financial liabilities recorded at fair value.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

(c) Investment in associate

The Corporation has a 15.1% equity and voting interest in its associate, IOC, and exercises significant influence over IOC through its direct ownership interest, combined with its representation on the board of directors, participation in policy-making and approval processes, and the mineral sublease under which IOC conducts its operations near Labrador City, Newfoundland and Labrador. This investment is accounted for using the equity method.

The Corporation recognizes its share of earnings (loss) net of tax in the consolidated statements of income and comprehensive income which is adjusted against the carrying amount of its investment in IOC.

Unrealized gains and losses on transactions between the Corporation and IOC are eliminated to the extent of the Corporation's interest in this entity. Unrealized losses are eliminated only to the extent that there is no evidence of impairment.

The excess of the cost of the investment in IOC over the underlying book value at the date of acquisition is amortized on the unit-of-production method based on actual production in the current year and estimated production of iron ore over the life of mine at IOC. The rate of amortization is based on estimates of total proven and probable reserves and a portion of mineral resources, which may differ from actual.

(d) Revenue recognition

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

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

(e) IOC royalty and commission interests

The royalty and commission interests are carried at cost less accumulated amortization. Amortization is recognized on the unit-of-production method based on actual production in the current year and estimated production of iron ore over the life of mine at IOC. The rate of amortization is based on estimates of total proven and probable reserves along with a portion of mineral resources, which may differ from actual.

(f) Asset impairment

At each balance sheet date, the Corporation assesses whether for assets, including investment in IOC and IOC royalty and commission interests, there is any indication that such assets are impaired. Impairment is recognized if the recoverable amount, determined as the higher of the estimated fair value less costs of disposal or the value in use, is less than the carrying value.

Fair value less costs of disposal is best evidenced if obtained from an active market or binding sale agreement. Where neither exists, the fair value is based on the best estimates available to reflect the amount that could be received from an arm's length transaction.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the relevant asset for which the estimates of future cash flows have not been adjusted. The projections of future cash flows take into account the relevant operating plans and management's best estimate of the most probable set of conditions anticipated to prevail.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount and the carrying amount that would have been recorded had no impairment loss been recognized previously.

(g) Income taxes

The Corporation and Hollinger-Hanna are taxable corporations.

Current income taxes are measured at the amount expected to be paid to tax authorities, based on taxable profit for the period, net of recoveries using enacted tax rates at the balance sheet date. Taxable income differs from income as reported in the consolidated statements of income and comprehensive income because of items of income or expense that are taxable or deductible in other periods and items that are never taxable or deductible. Deferred income tax liabilities are recognized using the liability method on taxable temporary differences between the tax bases and carrying amounts of assets and liabilities. Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that deductions can be utilized. Deferred income tax assets and liabilities are measured at tax rates that are expected to apply to the year when the asset is realized or the liability settled, using enacted or substantively enacted tax rates at the statement of financial position date. Deferred income taxes are presented as non-current.

(h) Restricted share units

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

(i) Foreign currency transactions

The Canadian dollar is the functional and presentation currency of the Corporation and Hollinger-Hanna. Amounts receivable and payable denominated in U.S. dollars are translated at exchange rates in effect at the balance sheet date and revenues and expenses denominated in U.S. dollars are translated at exchange rates in effect at the transaction date.

(j) Segment reporting

The Corporation manages its business under a single operating segment, consisting of its investment in IOC and its IOC royalty and commission interests. All of the Corporation's assets and revenues are attributable to this single segment. The operating segment is reported in a manner consistent with the internal reporting provided to the President and Chief Executive Officer who fulfills the role of the chief operating decision-maker.

(k) Critical judgments and estimates

The preparation of financial statements requires the Corporation's management to make estimates and assumptions that affect the reported amounts of the assets, liabilities, revenue and expenses reported each period. Each of these estimates varies with respect to the level of judgment involved and the potential impact on the Corporation's reported financial results. Estimates are deemed critical when the Corporation's financial condition, change in financial condition or results of operations would be materially impacted by a different estimate or a change in estimate from period to period. By their nature, these estimates are subject to measurement uncertainty, and changes in these estimates may affect the consolidated financial statements of future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Critical judgments in applying accounting policies

Determination of significant influence over investment in IOC

The Corporation owns 15.1% of IOC. Judgment is needed to assess whether this interest meets the definition of significant influence and should be accounted for under the equity method. Management makes this determination based on its legal ownership interest, board representation and through an analysis of the Corporation's participation in IOC's policy making process and mineral sublease agreements under which IOC conducts its operations.

Income taxes

The Corporation applies judgment in determining the tax rate to calculate deferred income taxes based upon temporary differences between the assets and liabilities that are reported in its consolidated financial statements and their tax bases as determined under applicable tax legislation. The Corporation records deferred income tax assets when it determines that it is probable that such assets will be realized. The future realization of deferred tax assets can be affected by many factors, including current and future economic conditions, expected royalties and commissions and can either be increased or decreased where, in the view of management, such change is warranted.

Critical accounting estimates and assumptions

Ore reserves and resources

Reserves are estimates of the amount of product that can be economically and legally extracted from IOC's mining properties. Reserve and resource estimates are an integral component in the determination of the commercial viability of the investment in IOC, the IOC royalty and commission interest, amortization calculations and impairment analyses. In calculating reserves and resources, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, production decline rates, recovery rates, production costs, commodity demand, commodity prices and exchange rates. In addition, future changes in regulatory environments, including government levies or changes in the Corporation's rights to exploit the resource imposed over the producing life of the reserves and resources may also significantly impact estimates.

Asset impairment

The Corporation's investment in IOC and the IOC royalty and commission interests are tested for impairment if there is an indicator of impairment. Where an indicator of impairment exists, a formal estimate of the recoverable amount, which is considered to be the higher of the fair value less costs of disposal and value in use, is made. These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, and operating performance. Fair value is determined as the amount that would be obtained from the sale of the asset(s) in an arm's-length transaction between knowledgeable and willing parties. Value in use for mineral assets is generally determined as the present values of estimated future cash flows arising from the continued use of the assets. These cash flows are discounted by an appropriate pre-tax discount rate to determine the estimated value in use. Projections inherently require assumptions and judgments to be made about each of the factors affecting future cash flows. Changes in any of these assumptions or judgments could result in a significant difference in the recoverable amount. Management considers the investment in IOC and the IOC royalty and commission interests to be a single combined cash generating unit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(I) Adoption of 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.

IOC adopted IFRS 16 using the modified retrospective approach and accordingly, the information presented for 2018 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

Amounts receivable consist of the following:

	December 31,	
	2019	2018
IOC royalties	\$ 35,950	\$ 46,241
IOC commissions	168	178
Other	38	129
	<u>\$ 36,156</u>	<u>\$ 46,548</u>

5. IOC Royalty and Commission Interests

	December 31,	
	2019	2018
7% Overriding royalty interest, at cost	\$ 351,617	\$ 351,617
Commission interest, at cost	13,661	13,661
Accumulated amortization	(117,577)	(111,432)
	<u>\$ 247,701</u>	<u>\$ 253,846</u>

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

	2019	2018
Investment in IOC, beginning of year	\$ 382,704	\$ 408,691
Equity earnings in IOC	112,076	56,987
Other comprehensive income of IOC	(3,247)	912
Adjustment on initial application of IFRS 16 (note 3)	(109)	—
Common share dividend received	(110,114)	(83,886)
Investment in IOC, end of year	<u>\$ 381,310</u>	<u>\$ 382,704</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Corporation's ability to exercise significant influence over IOC is achieved through its legal ownership interest, combined with its representation on the board of directors, participation in policy making processes and in approval processes, and the mineral sublease agreement under which IOC conducts its operations near Labrador City, Newfoundland and Labrador.

The net excess of cost of the Investment in IOC over the net book value of underlying net assets amounts to \$42,365 (2018 – \$43,416) and is being amortized to net income on the units-of-production method based on actual production in the current year and estimated production of iron ore over the life of mine at IOC.

A summary of the financial information of IOC is as follows:

	2019	2018
Common share dividends received from IOC	\$ 110,114	\$ 83,886
Amounts per IOC's financial statements:		
Current assets	\$ 846,691	\$ 646,192
Non-current assets	3,295,516	3,073,608
Current liabilities	782,215	559,393
Non-current liabilities	1,116,618	932,034
Revenue	2,718,617	1,930,456
Net income	750,858	383,273
Other comprehensive income	(21,516)	6,040
Comprehensive income	729,342	389,313

Reconciliation of IOC's net assets to LIORC's investment per Statements of Financial Position:

	2019	2018
IOC net assets, beginning of year	\$ 2,234,234	\$ 2,396,776
Net income of IOC ⁽¹⁾	769,601	386,438
Adjustment for initial application of IFRS 16 (note 3)	(722)	—
Share based transactions with other shareholders	(306)	516
Other comprehensive income of IOC	(21,516)	6,040
Common share dividends declared and paid	(729,232)	(555,536)
IOC net assets, end of year	2,252,059	2,234,234
Ownership interest	15.1%	15.1%
Share of net assets	340,061	337,369
Adjustments:		
Excess cost over net book value	42,365	43,416
Other	2,446	2,397
Less: net income attributable to non-controlling interest	(3,561)	(478)
Carrying value – Investment in IOC	\$ 381,310	\$ 382,704

(1) The Corporation's share of net income is after tax and non-controlling interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Commitments

LIORC has no commitments from its investment in IOC that would give rise to future outflow of cash.

Contingent Liability

IOC is the defendant in a lawsuit by two Québec Innu communities, claiming damages of \$900,000 relating to aboriginal rights and titles on the land where IOC operates. At this stage, IOC's management does not consider the risk of a material financial impact of this action to be probable.

7. Dividends to Shareholders

A regular dividend of \$0.25 and a special dividend of \$0.80 per common share, being an aggregate dividend of \$67,200, was declared by the Directors of the Corporation payable to shareholders of record on December 31, 2019 and paid on January 25, 2020.

Total dividends to shareholders as declared by the Directors of the Corporation in 2019 were \$256,000 or \$4.00 per share (2018 – \$112,000 or \$1.75 per share).

On March 5, 2020 dividends of \$0.35 per common share, comprised of a regular dividend of \$0.25 and a special dividend of \$0.10 per common share, for a total of \$0.35 were declared by the Directors of the Corporation payable to shareholders of record at the close of business on March 31, 2020 and to be paid on April 25, 2020.

8. Debt

The Corporation has a \$30,000 revolving senior secured credit facility to September 18, 2022 with provision for annual one-year extensions. The credit facility provides for various forms of advances at the option of the Corporation. Various interest options are available for these revolving credits and a standby fee is payable on the unadvanced portion of the facility. The facility is secured by an assignment of the Corporation's and Hollinger-Hanna's interests in the IOC common shares, the IOC royalty and commission interests, and other assets of the Corporation and requires that the Corporation maintain certain financial ratios.

As at December 31, 2019, no amount was drawn on the credit facility (2018 – nil) leaving \$30,000 available to provide for any investment in IOC or other Corporation requirements.

9. Income Taxes

The provision for income taxes in the statements of income and 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:

	2019	2018
Income before income taxes	\$ 245,922	\$ 153,411
Income taxes at combined federal and provincial statutory tax rates of 30.0%	73,777	46,023
Increase (decrease) in income taxes resulting from:		
Undistributed equity earnings in investment in IOC	(16,811)	(8,548)
Equity earnings distributed as dividends	(16,517)	(12,583)
Other	134	32
Income tax expense	\$ 40,583	\$ 24,924

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In addition to income taxes, the Corporation pays 20% Government of Newfoundland and Labrador royalty tax, which is deducted at source and remitted by IOC.

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
December 31, 2019				
Difference in tax and book value of assets	\$ 122,431	\$ (1,542)	\$ (487)	\$ 120,402
Adjustment on initial application of IFRS 16 (note 3)	(16)			(16)
Tax benefit of deductible temporary differences	(671)	125	—	(546)
Net deferred income tax liability	\$ 121,744	\$ (1,417)	\$ (487)	\$ 119,840

The deferred tax liability attributable to the difference in tax and book value of the IOC royalty and commission interests is \$74,310 (2018 – \$76,150). The deferred tax liability attributable to the difference in tax and book value of the investment in IOC is \$46,073 (2018 – \$46,281).

10. Share Capital

The Corporation's authorized share capital includes an unlimited number of common shares (64 million common shares issued and outstanding) having no par value as at December 31, 2019 and 2018.

The Corporation's net income per share represents both basic and diluted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. Accumulated Other Comprehensive Loss

The following represents the Corporation's proportionate share of accumulated other comprehensive loss of IOC.

	Net actuarial gain (loss) on IOC's defined benefit plans (net of tax)
Balance, January 1, 2018	\$ (8,391)
Other comprehensive income, net of income tax expense of \$137	775
Balance, December 31, 2018	\$ (7,616)
Balance, January 1, 2019	\$ (7,616)
Other comprehensive loss, net of income tax recovery of \$487	(2,760)
Balance, December 31, 2019	\$ (10,376)

12. Capital Management

The Corporation's capital consists of the shareholders' equity and the undrawn revolving senior secured credit facility. The Directors are responsible for managing the investments and affairs of the Corporation, which consist mainly of the receipt of revenues from IOC and the payment of dividends to the shareholders, in a manner that retains sufficient liquidity to provide funds to protect its investment in IOC. The Corporation pays cash dividends of the net income to the maximum extent possible, subject to the maintenance of appropriate levels of working capital.

13. Fair Value of Financial Instruments

Fair value is the amount that willing parties would accept to exchange a financial instrument based on the current market for instruments with the same risk, principal and remaining maturity. The fair value of interest-bearing financial assets and liabilities is determined by discounting the contractual principal and interest payments at estimated current market interest rates for the instrument.

The carrying value of amounts of cash, amounts receivable, accounts payable and dividends payable to shareholders approximate their fair value because of the short-term nature of these items.

Such fair value estimates are not necessarily indicative of the amounts that would be realized upon disposition of the Corporation's financial instruments.

14. Financial Instrument Risk Management

Commodity price risk

The Corporation is dependent on royalty income, commissions and dividends received from IOC. IOC's earnings and cash flows are affected by the volume of iron ore products sold, the price of those products, operating costs, and currency movements. The demand for and price of iron ore fluctuate as a result of numerous factors outside the control of the Corporation and IOC. Such factors include, but are not limited to, the demand for steel and steel products, global and regional demand, political and economic conditions, and production conditions and costs in major producing regions.

Based on gross royalties for the year ended December 31, 2019, an increase or decrease in sale price of iron ore by 5% with all other variables held constant could have a favourable or unfavourable impact of approximately \$4,913 (2018 – \$3,607), respectively, on net income.

Currency risk

The Corporation derives dividends and royalty income from IOC denominated in US dollars. From time to time the Corporation 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 December 31, 2019 and 2018, there were no foreign exchange contracts outstanding.

Based on financial instrument balances as at December 31, 2019, a strengthening or weakening of the Canadian dollar to the U.S. dollar by 1% with all other variables held constant could have an unfavourable or favourable impact of approximately \$199 (2018 – \$259), respectively, on net income.

Based on gross royalties for the year ended December 31, 2019, a strengthening or weakening of the Canadian dollar to the U.S. dollar by 1% with all other variables held constant could have an unfavourable or favourable impact of approximately \$979 (2018 – \$749), respectively, on net income.

Liquidity risk

Liquidity risk is the risk of loss from not having access to sufficient funds to meet both expected and unexpected cash demands. The Corporation manages its exposure to liquidity risk through prudent management of its statement of financial position, including maintaining sufficient cash balances and access to undrawn credit facilities. Management monitors and reviews both actual and forecasted cash-flows.

As at December 31, 2019 the Corporation held \$77,859 in cash and cash equivalents (2018 – \$55,237) and nil in bankers acceptance instruments (2018 – \$25,258). All of the Corporation's financial liabilities are due within one year.

Credit risk

The Corporation is exposed to credit risk with respect to amounts receivable from IOC, with whom there is no history of credit losses or uncollectability. The Corporation is economically dependent on IOC. The Corporation maintains all of its cash with financial institutions having a minimum debt rating of A.

15. 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 year ended December 31, 2019 was comprised of salaries, RSUs accrued to date and fees totaling \$1,536 (2018 – \$1,439).

16. 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 December 31, 2019, there were 11,344 (2018 – 8,606) RSUs awarded and outstanding. For the year ended December 31, 2019, compensation expense of \$255 (2018 – \$108) was accrued in connection with the RSUs, respectively.

CORPORATE INFORMATION

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William H. McNeil

Company Director

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Dorothea E. Mell⁽¹⁾

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Sandra L. Rosch

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Patricia M. Volker⁽¹⁾

Company Director

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Non-Executive Chair of the Board

John F. Tuer

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James C. McCartney

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(1) Member of Audit, Nominating and Compensation Committees

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