

**LABRADOR IRON ORE**  
ROYALTY CORPORATION

2021

A circular inset image showing an underground mine. Two yellow haul trucks are visible, one in the foreground and one further back. Several workers in hard hats are standing near the trucks. The mine has a rough, rocky ceiling and floor.

**FIRST QUARTER  
REPORT**

**83 YEARS IN LABRADOR WEST**

# REPORT TO SHAREHOLDERS

---

## ■ 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 first quarter report for the period ended March 31, 2021.

### Financial Performance

In the first quarter of 2021, LIORC’s financial results benefited from higher iron ore prices and pellet premiums, partially offset by lower volumes of pellet sales. Royalty revenue for the first quarter of 2021 amounted to \$65.2 million compared to \$47.6 million for the first quarter of 2020. Equity earnings from Iron Ore Company of Canada (“IOC”) were \$57.0 million in the first quarter of 2021 compared to \$24.7 million in the first quarter of 2020. Net income per share for the first quarter of 2021 was \$1.35 per share, which was a 86% increase over the same period in 2020. The adjusted cash flow per share for the first quarter of 2021 was \$0.87 per share, which was 107% higher than in the same period in 2020, as a result of higher royalty revenues and the decision by IOC to pay a dividend. In the first quarter of 2021, LIORC received a dividend in the amount of \$19.0 million from IOC.

Increased demand for iron ore by steel producers and a lack of expected growth of supply led to higher iron ore prices in the first quarter of 2021. Increased steel demand, partly as a result of stimulus spending on infrastructure and construction, resulted in higher steel prices and strong profit margins for steel producers, which in turn translated to increased demand for seaborne iron ore. According to the World Steel Association, global crude steel production in the first quarter of 2021 increased 10% over the first quarter of 2020, and crude steel production in China, which accounts for over 70% of all seaborne iron ore demand, was 16% higher in the first quarter of 2021 compared to the same quarter of 2020. At the same time, the expected growth in supply of seaborne iron ore did not materialize as the world’s three largest suppliers of seaborne iron ore all reported lower production in the first quarter of 2021, compared to the last quarter of 2020. Iron ore production by Rio Tinto and BHP was lower by 11% and 5%, predominantly due to adverse weather in Australia, and iron ore production by Vale was lower by 19.5%, predominantly due to maintenance work at its S11D mine.

IOC sells concentrate for sale (“CFS”) based on the Platts index for 65% Fe, CFR China (“65% Fe index”). In the first quarter of 2021, the 65% Fe index averaged US\$191 per tonne, an 85% increase over the average of US\$104 per tonne in the first quarter of 2020. The monthly Atlantic Blast Furnace 65% Fe pellet premium index as quoted by Platts (the “pellet premium”) averaged US\$43 per tonne in the first quarter of 2021, up substantially from an average of US\$29 in the same quarter of 2020, which had been negatively impacted by a reduction in demand from European steel producers due to COVID-19. Overall, the average price realized by IOC for CFS and pellets, FOB Sept-Îles, net of selling costs was approximately C\$226 per tonne in the first quarter of 2021, compared to approximately C\$145 per tonne in the first quarter of 2020.

# REPORT TO SHAREHOLDERS

---

## Iron Ore Company of Canada Operations

Throughout 2021, IOC has continued to take measures in order to protect IOC's people and to prevent COVID-19 outbreaks within IOC's operations which could affect IOC's capacity to operate. These measures include limiting on-site presence of personnel to essential operational activities (remote work for administration and supports) and reducing the number of contractors on-site (favouring local rather than out-of-province when possible). In parallel, several protocols remain in place including strict approval processes for all travel between sites and out-of-province contractors, mandatory on-line health questionnaire linked to gate access, COVID-19 screening for all out-of-province contractors and employees and daily temperature checks at all site access points. As a result of these and other procedures and protocols, IOC has been able to continue to safely operate throughout 2021. The IOC saleable production (CFS plus pellets) of 4.0 million tonnes in the first quarter of 2021 was 8% lower than the same period in 2020, and 14% lower than the fourth quarter of 2020, predominantly due to the impacts of weather, loading unit availability on mine feed and reduced concentrator mill availability.

CFS production of 1.5 million tonnes was 6% lower than the same quarter last year and 33% lower than the fourth quarter of 2020 due to an increased focus on the production of pellets (the pellet plant returned to operating six lines in December 2020 resulting in a corresponding reduction in CFS), feed related issues from the mine (weather, loading unit utilization/availability), and concentrator reliability. Pellet production of 2.5 million tonnes was 10% lower than the corresponding quarter in 2020 and 2% higher than the fourth quarter of 2020, as reliability issues with filtering equipment, feed system motors and regrind mills restricted production throughput during the quarter.

## Sales as Reported for the LIORC Royalty

Total iron ore sales tonnage by IOC (CFS plus pellets) of 4.1 million tonnes in the first quarter of 2021 was 12% lower than the total sales tonnage for the same period in 2020, and 6% lower than the fourth quarter of 2020, predominantly due to limited product availability, weather related delays and equipment reliability. Pellet sales were 19% lower than the same quarter last year and 4% lower than the fourth quarter of 2020. CFS sales were consistent with the same quarter last year and 7% lower than the fourth quarter of 2020.

## Outlook

Rio Tinto's 2021 guidance for IOC's saleable production (CFS plus pellets) remains at 17.9 million to 20.4 million tonnes. This compares to 17.7 million tonnes of saleable production in 2020. At the end of March, there was a significant fire event at the port in Sept-Îles which will impact shipments in the second quarter of 2021. However, the 2021 saleable production guidance for IOC remains unchanged and IOC expects that any sales tonnage shortfalls will be recovered over the remainder of the year.

# REPORT TO SHAREHOLDERS

---

The price outlook for seaborne iron ore remains robust. Since the end of the first quarter iron ore prices have strengthened. So far in April (April 1, 2021 to April 28, 2021), the average price of the 65% Fe index has been US\$210 per tonne, or 10% higher than the average of the 65% Fe index for the first quarter of 2021. The pellet premium for April was US\$66 per tonne compared to the average of US\$43 per tonne in the first quarter of 2021. With a possible global economic recovery and a positive outlook for domestic growth in China, the near-term outlook for global steel production looks positive. While there is expected to be some increase in the supply of seaborne iron ore over the remainder of 2021, any increase should be absorbed by the strong demand. In addition, as a result of higher steel prices and strong profit margins and in order to keep up with the downstream demand for steel, steel producers are utilizing higher grade iron ore products, like those sold by IOC, in an effort to prioritize production efficiency.

LIORC is well positioned to continue to benefit from the strong iron ore pricing environment through royalty revenues and expected future dividends from IOC.

The LIORC cash balance at March 31, 2021 stood at \$33.6 million before LIORC dividends payable on April 26, 2021 of \$1.00 per share or \$64.0 million. The net royalty from IOC was received by LIORC on the same date, maintaining the Corporation's strong cash balance.

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, flowing script.

John F. Tuer  
President and Chief Executive Officer  
May 6, 2021

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis should be read in conjunction with the Management's Discussion and Analysis section of Labrador Iron Ore Royalty Corporation's ("LIORC" or the "Corporation") 2020 Annual Report, and the financial statements and notes contained therein and the March 31, 2021 interim condensed consolidated financial statements.

## Overview of the Business

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 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.

## Financial Highlights

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
	<i>(Unaudited)</i> <i>(\$ in millions except per share information)</i>	
Revenue	65.7	48.3
Equity earnings from IOC	57.0	24.7
Net income	86.6	46.7
Net income per share	\$1.35	\$0.73
Dividend(s) from IOC	19.0	—
Cash flow from operations	42.7	10.7
Cash flow from operations per share	\$0.67	\$0.17
Adjusted cash flow <sup>(1)</sup>	55.4	26.8
Adjusted cash flow per share	\$0.87	\$0.42
Dividends declared per share	\$1.00	\$0.35

(1) This is a non-IFRS financial measure and does not have a standard meaning under IFRS.

Please refer to Standardized Cash Flow and Adjusted Cash Flow section in the MD&A.

The higher revenue, net income and equity earnings achieved in the first quarter of 2021 as compared to 2020 were mainly due to higher iron ore prices, partly offset by lower sales of pellets. The first quarter of 2021 sales tonnages (pellets and CFS) were lower by 12%

# MANAGEMENT'S DISCUSSION AND ANALYSIS

predominantly due to limited product availability, weather related delays and equipment reliability. Pellet sales were 19% lower and CFS sales were consistent with the same quarter last year. Pellet sales were lower mainly due to lower pellet production as a result of availability constraints on concentrate, as well as reliability issues with filtering equipment, feed system motors and regrind mills which restricted production throughput during the quarter.

However, the lower sales tonnages were more than offset by an increase in the realized sales price of pellets and CFS, resulting in royalty income of \$65.2 million for the quarter as compared to \$47.6 million for the same period in 2020. First quarter 2021 cash flow from operations was \$42.7 million or \$0.67 per share compared to \$10.7 million or \$0.17 per share for the same period in 2020. LIORC received an IOC dividend in the first quarter of 2021 in the amount of \$19.0 million or \$0.30 per share. Equity earnings from IOC amounted to \$57.0 million or \$1.35 per share in the first quarter of 2021 compared to \$24.7 million or \$0.39 per share for the same period in 2020.

## Operating Highlights

IOC Operations	Three Months Ended March 31,	
	2021	2020
	(in millions of tonnes)	
<b>Sales<sup>(1)</sup></b>		
Pellets	2.44	3.02
Concentrate for sale ("CFS") <sup>(2)</sup>	1.68	1.68
Total <sup>(3)</sup>	4.12	4.70
<b>Production</b>		
Concentrate produced	4.40	4.69
<b>Saleable production</b>		
Pellets	2.51	2.79
CFS	1.48	1.57
Total	3.99	4.36
<b>Average index prices per tonne</b>		
65% Fe index <sup>(4)</sup>	\$191	\$104
62% Fe index <sup>(5)</sup>	\$167	\$89
Pellet premium <sup>(6)</sup>	\$43	\$29

(1) For calculating the royalty to LIORC.

(2) Excludes third party ore sales.

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

(4) The Platts index for 65% Fe, CFR China.

(5) The Platts index for 62% Fe, CFR China.

(6) The Platts Atlantic Blast Furnace 65% Fe pellet premium index.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

IOC sells CFS based on the 65% Fe index. In the first quarter of 2021, the 65% Fe index averaged US\$191 per tonne, an 85% increase over the average of US\$104 per tonne in the first quarter of 2020. Iron ore prices increased as strong domestic steel demand in China and the beginnings of a global economic recovery from COVID-19 increased the demand for seaborne iron ore. At the same time, the expected growth in supply of the seaborne iron ore did not materialize as large producers experienced lower output because of weather issues in Australia and maintenance issues at Vale's S11D mine. The monthly pellet premium averaged US\$43 per tonne in the first quarter of 2021, up substantially from an average of US\$29 in the same quarter of 2020, which had been negatively impacted by a reduction in demand from European steel producers due to COVID-19.

The average price realized by IOC for CFS and pellets, FOB Sept-Îles, net of selling costs was approximately C\$226 per tonne in the first quarter of 2021 compared to C\$145 per tonne in the first quarter of 2020. The increase in the average realized price FOB Sept-Îles in 2020 was a result of higher CFS prices and higher pellet premiums.

## 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 \$0.67 for the quarter (2020 – \$0.17). Cumulative standardized cash flow from inception of the Corporation is \$34.39 per share and total cash distributions since inception is \$34.39 per share, for a payout ratio of 100%.

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 millions).

	<b>3 Months Ended Mar. 31, 2021</b>	<b>3 Months Ended Mar. 31, 2020</b>
Standardized cash flow from operating activities	\$ 42,686	\$ 10,653
Changes in amounts receivable, accounts payable and income taxes payable	12,724	16,173
Adjusted cash flow	\$55,410	\$26,826
Adjusted cash flow per share	\$0.87	\$0.42

# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **Liquidity and Capital Resources**

The Corporation had \$33.6 million in cash as at March 31, 2021 (December 31, 2020 – \$106.1 million) with total current assets of \$104.8 million (December 31, 2020 – \$164.4 million). The Corporation had working capital of \$22.4 million as at March 31, 2021 (December 31, 2020 – \$31.0 million). The Corporation's operating cash flow was \$42.7 million and the dividend paid during the quarter was \$115.2 million, resulting in cash balances decreasing by \$72.5 million during the first quarter of 2021.

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 \$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 (2020 – nil) leaving \$30.0 million available to provide for any capital required by IOC or requirements of the Corporation.



John F. Tuer  
President and Chief Executive Officer

Toronto, Ontario  
May 6, 2021

# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

## **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 crises, changes affecting IOC's customers, competition from other iron ore producers, estimates of reserves and resources, government regulation and taxation and cybersecurity. A discussion of these factors is contained in LIORC's annual information form dated March 4, 2021 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](http://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

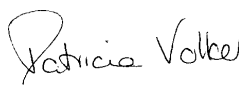
(in thousands of Canadian dollars)	As at	
	March 31, 2021	December 31, 2020
	(Unaudited)	
<b>Assets</b>		
Current Assets		
Cash and short-term investments	\$ 33,577	\$ 106,091
Amounts receivable (note 4)	71,194	58,336
Total Current Assets	104,771	164,427
Non-Current Assets		
Iron Ore Company of Canada ("IOC") royalty and commission interests	240,045	241,511
Investment in IOC (note 5)	455,248	417,284
Total Non-Current Assets	695,293	658,795
Total Assets	\$ 800,064	\$ 823,222
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities		
Accounts payable	\$14,567	\$12,533
Dividend payable	64,000	115,200
Taxes payable	3,791	5,691
Total Current Liabilities	82,358	133,424
Non-Current Liabilities		
Deferred income taxes (note 6)	128,690	123,430
Total Liabilities	211,048	256,854
Shareholders' Equity		
Share capital	317,708	317,708
Retained earnings	284,648	262,000
Accumulated other comprehensive loss	(13,340)	(13,340)
	589,016	566,368
Total Liabilities and Shareholders' Equity	\$ 800,064	\$ 823,222

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

	For the Three Months Ended March 31,	
	2021	2020
(in thousands of Canadian dollars except for per share information)		
	(Unaudited)	
<b>Revenue</b>		
IOC royalties	\$ 65,248	\$ 47,615
IOC commissions	406	462
Interest and other income	65	222
	65,719	48,299
<b>Expenses</b>		
Newfoundland royalty taxes	13,050	9,523
Amortization of royalty and commission interests	1,466	1,625
Administrative expenses	771	557
	15,287	11,705
<b>Income before equity earnings and income taxes</b>	50,432	36,594
<b>Equity earnings in IOC</b>	56,977	24,669
<b>Income before income taxes</b>	107,409	61,263
<b>Provision for income taxes</b> (note 6)		
Current	15,501	11,393
Deferred	5,260	3,220
	20,761	14,613
<b>Net income for the period</b>	86,648	46,650
<b>Other comprehensive loss</b>		
Share of other comprehensive loss of IOC that will not be reclassified subsequently to profit or loss (net of income taxes of 2021 – nil; 2020 – \$40)	—	(226)
<b>Comprehensive income for the period</b>	\$ 86,648	\$ 46,424
<b>Net income per share</b>	\$ 1.35	\$ 0.73

See accompanying notes to interim condensed consolidated financial statements.

# LABRADOR IRON ORE ROYALTY CORPORATION

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended March 31,	
	2021	2020
(in thousands of Canadian dollars)	(Unaudited)	
<b>Net inflow (outflow) of cash related to the following activities</b>		
<b>Operating</b>		
Net income for the year	\$ 86,648	\$ 46,650
Items not affecting cash:		
Equity earnings in IOC	(56,977)	(24,669)
Current income taxes	15,501	11,393
Deferred income taxes	5,260	3,220
Amortization of royalty and commission interests	1,466	1,625
Common share dividend from IOC	19,013	—
Change in amounts receivable	(12,858)	(11,906)
Change in accounts payable	2,034	2,056
Income taxes paid	(17,401)	(17,716)
Cash flow from operating activities	42,686	10,653
<b>Financing</b>		
Dividend paid to shareholders	(115,200)	(67,200)
Cash flow used in financing activities	(115,200)	(67,200)
<b>Decrease in cash, during the period</b>	(72,514)	(56,547)
<b>Cash, beginning of period</b>	106,091	77,859
<b>Cash, end of period</b>	\$ 33,577	\$ 21,312

See accompanying notes to interim condensed consolidated financial statements.

# LABRADOR IRON ORE ROYALTY CORPORATION

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

<i>(in thousands of Canadian dollars)</i>	<b>Share capital</b>	<b>Retained earnings</b>	<b>Accumulated other comprehensive loss</b>	<b>Total</b>
	<i>(Unaudited)</i>			
Balance as at December 31, 2019	\$ 317,708	\$ 230,005	\$ (10,376)	\$ 537,337
Net income for the period	—	46,650	—	46,650
Dividend declared to shareholders	—	(22,400)	—	(22,400)
Share of other comprehensive loss from investment in IOC (net of taxes)	—	—	(226)	(226)
Balance as at March 31, 2020	<u>\$ 317,708</u>	<u>\$ 254,255</u>	<u>\$ (10,602)</u>	<u>\$ 561,361</u>
Balance as at December 31, 2020	\$ 317,708	\$ 262,000	\$ (13,340)	\$ 566,368
Net income for the period	—	86,648	—	86,648
Dividend declared to shareholders	—	(64,000)	—	(64,000)
Balance as at March 31, 2021	<u>\$ 317,708</u>	<u>\$ 284,648</u>	<u>\$ (13,340)</u>	<u>\$ 589,016</u>

See accompanying notes to interim condensed consolidated financial statements.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

---

(in thousands of Canadian dollars)

## 1. Corporate Information

Labrador Iron Ore Royalty Corporation (the “Corporation”) directly and through its wholly-owned subsidiary, Hollinger Hanna Limited (“Hollinger-Hanna”), holds a 15.10% equity interest in Iron Ore Company of Canada (“IOC”), a 7% gross overriding royalty on all iron ore products produced, sold, delivered and shipped by IOC, a \$0.10 per tonne commission interest on sales of iron ore by IOC and certain lease interests and, accordingly, is economically dependent on IOC. The Corporation is listed on the Toronto Stock Exchange under the symbol LIF. The registered office of the Corporation is 235 Water Street, P.O. Box 610, St. John’s, Newfoundland and Labrador, A1C 5L3.

### Seasonality

The results of operations and operating cash flows of the Corporation vary considerably from quarter to quarter. The operations of the Corporation are dependent on the royalty and commission revenues from IOC, whose production and revenues are not constant throughout the year, being lower during the winter months when the St. Lawrence Seaway is closed. The results reported in these interim condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

## 2. Basis of Presentation

These interim condensed consolidated financial statements have been prepared in accordance with 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.

Following the declaration on March 11, 2020 of a pandemic by the World Health Organization, the restrictions imposed by governments around the world have had significant impact on the global economy. The COVID-19 pandemic increases the uncertainty regarding the immediate outlook for the Corporation. At present, IOC’s mining, processing, rail and shipping operations continue to operate safely within the COVID-19 guidelines of both the Québec and Newfoundland and Labrador governments. As an understanding of the longer-term effects of COVID-19 on IOC’s operations and iron ore markets evolves, management will continue to assess its impact on the Corporation’s investment in IOC and the IOC royalty and commission interests.

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 May 6, 2021.

## 3. Significant Accounting Policies

These interim condensed consolidated financial statements have been prepared using the same accounting policies as the annual consolidated financial statements for the year ended December 31, 2020. 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

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

conjunction with the consolidated financial statements for the year ended December 31, 2020.

## 4. Amounts Receivable

	March 31, 2021	December 31, 2020
IOC royalties	\$ 70,743	\$ 58,140
IOC commissions	138	182
Other	313	14
	<u>\$ 71,194</u>	<u>\$ 58,336</u>

## 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 March 31, 2021 and December 31, 2020. The Series B and Series C common shares have identical voting rights to all other issued and outstanding common shares of IOC.

	March 31, 2021	December 31, 2020
Investment in IOC, beginning of period	\$ 417,284	\$ 381,310
Equity earnings in IOC	56,977	126,024
Other comprehensive loss of IOC	—	(3,487)
Common share dividend received	(19,013)	(86,563)
Investment in IOC, end of period	<u>\$ 455,248</u>	<u>\$ 417,284</u>

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 \$41,055 as at March 31, 2021 (December 31, 2020 – \$41,306) 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

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

the Corporation's income before income taxes. The reasons for the difference and the related tax effects are as follows:

	<b>For the Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
Income before income taxes	\$ 107,409	\$ 61,263
Income taxes at combined federal and provincial statutory tax rates of 30.0%	32,223	18,379
(Decrease) increase in income taxes resulting from:		
Undistributed equity earnings in investment in IOC	(8,547)	(3,700)
Equity earnings distributed as dividends	(2,852)	—
Other	(63)	(66)
Income tax expense	\$ 20,761	\$ 14,613

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:

	<b>Opening Balance</b>	<b>Recognized in net income</b>	<b>Recognized in other comprehensive loss</b>	<b>Closing Balance</b>
<b>December 31, 2020</b>				
Difference in tax and book value of assets	\$ 120,386	\$ 4,062	\$ (523)	\$ 123,925
Tax benefit of deductible temporary differences	(546)	51	—	(495)
Net deferred income tax liability	\$119,840	\$4,113	\$(523)	\$123,430
<b>March 31, 2021</b>				
Difference in tax and book value of assets	\$ 123,925	\$ 5,249	\$ —	\$ 129,174
Tax benefit of deductible temporary differences	(495)	11	—	(484)
Net deferred income tax liability	\$ 123,430	\$ 5,260	\$ —	\$ 128,690

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

---

## 7. Key Management Personnel Compensation

Key management personnel are the President and Chief Executive Officer, the Executive Vice President, the Chief Financial Officer and directors. Their remuneration for the three months ended March 31, 2021 was comprised of salaries, Restricted Share Units ("RSUs"), and fees totaling \$443 (2020 – \$236).

## 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 March 31, 2021, there were 16,034 (2020 – 23,713) RSUs awarded and outstanding. For the three month period ended March 31, 2021, compensation expense (recovery) of approximately \$181 (2020 – (\$53)) was accrued in connection with the RSUs.

# CORPORATE INFORMATION

---

## Administration and Investor Relations

PO Box 957, STN Adelaide  
Toronto, Ontario  
M5C 2K3  
Telephone: (416) 362-0066

## Directors

### **John F. Tuer**

President and Chief Executive Officer  
Labrador Iron Ore Royalty Corporation

### **William J. Corcoran**<sup>(1)</sup>

Company Director

### **Mark J. Fuller**<sup>(1)</sup>

President and CEO of  
Ontario Pension Board

### **William H. McNeil**

Company Director

### **Douglas F. McCutcheon**<sup>(1)</sup>

President of Longview  
Asset Management Ltd

### **Dorothea E. Mell**<sup>(1)</sup>

Company Director

### **Sandra L. Rosch**

Executive Vice President  
Labrador Iron Ore Royalty Corporation

### **Patricia M. Volker**<sup>(1)</sup>

Company Director

## Officers

### **William H. McNeil**

Chair of the Board

### **John F. Tuer**

President and Chief Executive Officer

### **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](http://www.labradorironore.com)

## E-mail

[investor.relations@labradorironore.com](mailto:investor.relations@labradorironore.com)

**Labrador Iron Ore  
Royalty Corporation**

PO Box 957, STN Adelaide  
Toronto, ON  
M5C 2K3

**Telephone** (416) 362-0066