

LABRADOR IRON ORE
ROYALTY CORPORATION

2021

A circular inset image showing a mining truck and a person in a mining facility.

**THIRD 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 third quarter report for the period ended September 30, 2021.

Financial Performance

In the third quarter of 2021, LIORC’s financial results benefited from higher iron ore prices and pellet premiums, partially offset by lower volumes of concentrate for sale (“CFS”) sales. Royalty revenue for the third quarter of 2021 amounted to \$74.2 million compared to \$52.4 million for the third quarter of 2020. Equity earnings from Iron Ore Company of Canada (“IOC”) were \$60.5 million in the third quarter of 2021 compared to \$34.9 million in the third quarter of 2020. Net income per share for the third quarter of 2021 was \$1.64 per share, which was an 82% increase over the same period in 2020. The adjusted cash flow per share for the third quarter of 2021 was \$1.99 per share, which was 333% 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 third quarter of 2021, LIORC received a dividend in the amount of \$85.8 million from IOC.

In the third quarter of 2021, iron ore prices dropped from the record levels experienced in the second quarter of 2021, as China, which accounts for a majority of the world’s steel production and over 70% of all seaborne iron ore demand, placed restrictions on its steel production in an effort to curb year-over-year production growth. According to the World Steel Association, global crude steel production in China in the third quarter of 2021 was 14% lower than the same quarter of 2020 and 16% lower than the second quarter of 2021. In addition, in the quarter ending September 30, iron ore production by the three largest seaborne iron ore producers, Vale, Rio Tinto and BHP, while consistent with the same quarter of 2020, was 9% higher than the prior quarter.

IOC sells CFS based on the Platts index for 65% Fe, CFR China (“65% Fe index”). All references to tonnes and per tonne prices in this report refer to wet metric tonnes, other than references to Platts quoted pricing, which refer to dry metric tonnes. Historically, IOC’s wet ore contains approximately 3% less ore per equivalent volume than dry ore. In the third quarter of 2021, the 65% Fe index averaged US\$190 per tonne, a 47% increase over the average of US\$129 per tonne in the third quarter of 2020, and an 18% decrease over the average of US\$233 in the second quarter of 2021. The monthly Atlantic Blast Furnace 65% Fe pellet premium index as quoted by Platts (the “pellet premium”) averaged US\$77 per tonne in the third 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.

Based on sales as reported for the LIORC Royalty, the overall average price realized by IOC for CFS and pellets, FOB Sept-Îles, was approximately C\$247 per tonne in the third quarter of 2021, compared to approximately C\$162 per tonne in the third quarter of 2020 and C\$275 per tonne in the second quarter of 2021.

REPORT TO SHAREHOLDERS

Iron Ore Company of Canada Operations

Operations

IOC continues to follow COVID-19 procedures and protocols to prevent COVID-19 outbreaks within IOC's operations, which has allowed IOC to effectively operate throughout 2021. Total concentrate production in the third quarter of 2021 was 3.9 million tonnes. This was 8% lower than the third quarter of 2020 and 18% lower than the second quarter of 2021 due mainly to labour and equipment availability issues during the quarter which impacted feed availability. As well, the annual maintenance shutdown, which was completed in September, took longer than expected.

The IOC saleable production (CFS plus pellets) of 3.7 million tonnes in the third quarter of 2021 was 8% lower than the same period in 2020 and 20% lower than the second quarter of 2021, mainly as a result of lower concentrate production referred to above.

In the third quarter of 2021, CFS production of 1.4 million tonnes was 20% lower than the same quarter last year, mainly due to lower concentrate production, as well as the decision by IOC to produce less pellets and more CFS in 2020. CFS production in the third quarter of 2021 was 28% lower than the second quarter of 2021, due to lower concentrate production. Pellet production in the third quarter of 2021 of 2.3 million tonnes was 3% higher than the corresponding quarter in 2020 due to IOC's decision to reduce the focus on the production of pellets in 2020, and 15% lower than the second quarter of 2021, due to issues related to lack of feed from the concentrator.

Sales as Reported for the LIORC Royalty

Total iron ore sales tonnage by IOC (CFS plus pellets) of 4.2 million tonnes in the third quarter of 2021 was 10% lower than the total sales tonnage for the same period in 2020 mainly as a result of lower product availability. Total iron ore sales tonnage in the third quarter of 2021 was 2% higher than the second quarter of 2021, as sales tonnage in the second quarter of 2021 was negatively impacted by the lack of availability of reclaimers during the quarter. Pellet sales in the third quarter of 2021 of 2.4 million tonnes was 1% higher than the total sales tonnage for the same quarter last year and 5% higher than the second quarter of 2021. CFS sales tonnage was 22% lower than the same quarter last year and 2% lower than the second quarter of 2021.

Outlook

Rio Tinto has lowered the 2021 guidance for IOC's saleable production (CFS plus pellets) from 17.9 to 20.4 million tonnes to 16.2 to 17.9 million tonnes. This compares to 17.7 million tonnes of saleable production in 2020 and 12.3 million tonnes in the first nine months of 2021.

Despite lower than expected sales in the first nine months, IOC is in an excellent financial position, having benefitted in 2021 from a very strong iron ore pricing environment. In the first nine months of 2021, IOC generated net after tax cash from operating activities of US\$1,259 million, had capital expenditures of US\$170 million, and paid shareholder

REPORT TO SHAREHOLDERS

dividends of US\$950 million. As at September 30, 2021, IOC had no debt, total current assets of US\$665 million, and total current liabilities of US\$517 million.

IOC experienced decreasing iron ore prices throughout the third quarter. The monthly average price of the 65% Fe index dropped from an average of US\$244 in July to an average of US\$143 in September. Since the end of the third quarter (October 1, 2021 to October 26, 2021), the average price of the 65% Fe index has been US\$146 per tonne. To put this in perspective, this is 28% lower than the average of US\$204 for the first nine months of 2021, but 20% higher than the annual average of US\$122 for 2020. The pellet premium has also declined. In October, 2021, the pellet premium of US\$56 was 10% lower than the average of first nine months of 2021, but 92% higher than the annual average of 2020.

Future government action regarding steel production output in China and its resulting impact on iron ore prices remains somewhat uncertain. That said, in the current pricing environment LIORC remains well positioned to profit from its royalty and commission interests in IOC and to receive future IOC dividends, albeit at lower levels than in the first three quarters of 2021.

LIORC has no debt and at September 30, 2021 had positive net working capital (current assets less current liabilities) of \$21.6 million. After the end of the third quarter LIORC paid a dividend on October 26, 2021 of \$2.10 per share or \$134.4 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,



John F. Tuer
President and Chief Executive Officer
November 4, 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 September 30, 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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	<i>(unaudited)</i>			
	<i>(\$ in millions except per share information)</i>			
Revenue	74.7	52.9	219.7	147.9
Equity earnings from IOC	60.5	34.9	183.7	88.3
Net income	104.8	57.7	301.6	153.2
Net income per share	\$ 1.64	\$0.90	\$ 4.71	\$ 2.39
Dividend(s) from IOC	85.8	—	179.3	—
Cash flow from operations	137.3	11.1	295.9	59.4
Cash flow from operations per share	\$ 2.15	\$0.17	\$ 4.62	\$ 0.93
Adjusted cash flow ⁽¹⁾	127.3	29.2	301.0	81.6
Adjusted cash flow per share	\$ 1.99	\$0.46	\$ 4.70	\$ 1.28
Dividends declared per share	\$ 2.10	\$0.45	\$ 4.85	\$ 1.25

(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 third quarter of 2021 as compared to 2020 were mainly due to higher iron ore prices, partly offset by lower sales of CFS. The third quarter of 2021 sales tonnage (pellets and CFS) were lower by 10% mainly due to lower CFS production. CFS sales tonnage was 22% lower and pellet sales tonnage was consistent with the same quarter last year. However, the lower sales tonnage was more than offset by an increase in the realized sales price of pellets and CFS, resulting in royalty income

MANAGEMENT'S DISCUSSION AND ANALYSIS

of \$74.2 million for the quarter as compared to \$52.4 million for the same period in 2020. Third quarter 2021 cash flow from operations was \$137.3 million or \$2.15 per share compared to \$11.1 million or \$0.17 per share for the same period in 2020. LIORC received an IOC dividend in the third quarter of 2021 in the amount of \$85.8 million or \$1.34 per share. Equity earnings from IOC amounted to \$60.5 million or \$0.95 per share in the third quarter of 2021 compared to \$34.9 million or \$0.55 per share for the same period in 2020.

Operating Highlights

IOC Operations	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	<i>(in millions of tonnes)</i>			
Sales⁽¹⁾				
Pellets	2.37	2.35	7.08	7.61
Concentrate for sale ("CFS") ⁽²⁾	1.80	2.31	5.32	6.35
Total ³	4.18	4.65	12.40	13.96
Production				
Concentrate produced	3.92	4.25	13.12	13.78
Saleable production				
Pellets	2.27	2.22	7.45	7.12
CFS	1.41	1.77	4.86	5.93
Total ⁽³⁾	3.68	3.99	12.31	13.05
Average index prices per tonne (US\$)				
65% Fe index ⁽⁴⁾	\$ 190	\$ 129	\$ 205	\$ 114
62% Fe index ⁽⁵⁾	\$ 163	\$ 118	\$ 177	\$ 100
Pellet premium ⁽⁶⁾	\$ 77	\$ 29	\$ 62	\$ 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.

IOC sells CFS based on the 65% Fe index. In the third quarter of 2021, the 65% Fe index averaged US\$190 per tonne, a 47% increase over the average of US\$129 per tonne in the third quarter of 2020, and an 18% decrease over the average of US\$233 in the second quarter of 2021. Iron ore prices decreased from the prior quarter, as the demand for seaborne iron ore from China weakened as a result of government efforts to curb steel production growth in China. The monthly pellet premium averaged US\$77 per tonne in the third quarter of

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

Based on sales as reported for the LIORC Royalty, the overall average price realized by IOC for CFS and pellets, FOB Sept-Îles, was approximately C\$247 per tonne in the third quarter of 2021, compared to approximately C\$162 per tonne in the third quarter of 2020 and C\$275 per tonne in the second quarter of 2021. The increase in the average realized price FOB Sept-Îles in 2021 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 \$2.15 for the quarter (2020 – \$0.17).

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.

	3 Months Ended Sept. 30, 2021	3 Months Ended Sept. 30, 2020	9 Months Ended Sept. 30, 2021	9 Months Ended Sept. 30, 2020
	<i>(in thousands except for per share information)</i>			
Standardized cash flow from operating activities	\$137,298	\$11,084	\$295,850	\$59,351
Changes in amounts receivable, accounts payable and income taxes payable	(9,963)	18,070	5,163	22,268
Adjusted cash flow	\$127,335	\$29,154	\$301,013	\$81,619
Adjusted cash flow per share	\$ 1.99	\$ 0.46	\$ 4.70	\$ 1.28

MANAGEMENT'S DISCUSSION AND ANALYSIS

Liquidity and Capital Resources

The Corporation had \$110.7 million in cash as at September 30, 2021 (December 31, 2020 – \$106.1 million) with total current assets of \$188.6 million (December 31, 2020 – \$164.4 million). The Corporation had working capital of \$21.6 million as at September 30, 2021 (December 31, 2020 – \$31.0 million). The Corporation's operating cash flow was \$137.3 million and the dividend paid during the quarter was \$112 million, resulting in cash balances increasing by \$25.3 million during the third quarter of 2021. In September, the Directors of the Corporation declared the third quarter dividend of \$134.4 million that was paid on October 26, 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, 2024 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
November 4, 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.

Notice:

The following unaudited interim condensed consolidated financial statements of the Corporation have been prepared by and are the responsibility of the Corporation’s management. The Corporation’s independent auditor has not reviewed these interim financial statements.

LABRADOR IRON ORE ROYALTY CORPORATION

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

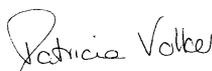
	As at	
	September 30, 2021	December 31, 2020
	(Unaudited)	
<i>(in thousands of Canadian dollars)</i>		
Assets		
Current Assets		
Cash and short-term investments	\$ 110,741	\$106,091
Amounts receivable (note 4)	77,852	58,336
Total Current Assets	188,593	164,427
Non-Current Assets		
Iron Ore Company of Canada ("IOC") royalty and commission interests	236,975	241,511
Investment in IOC (note 5)	425,429	417,284
Total Non-Current Assets	662,404	658,795
Total Assets	\$ 850,997	\$823,222
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	\$ 16,170	\$ 12,533
Dividend payable	134,400	115,200
Taxes payable	16,407	5,691
Total Current Liabilities	166,977	133,424
Non-Current Liabilities		
Deferred income taxes (note 6)	123,320	123,430
Total Liabilities	290,297	256,854
Shareholders' Equity		
Share capital	317,708	317,708
Retained earnings	253,176	262,000
Accumulated other comprehensive loss	(10,184)	(13,340)
	560,700	566,368
Total Liabilities and Shareholders' Equity	\$ 850,997	\$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 September 30,	
	2021	2020
<i>(in thousands of Canadian dollars except for per share information)</i>		
	<i>(Unaudited)</i>	
Revenue		
IOC royalties	\$ 74,224	\$52,354
IOC commissions	411	458
Interest and other income	70	48
	74,705	52,860
Expenses		
Newfoundland royalty taxes	14,845	10,470
Amortization of royalty and commission interests	1,479	1,541
Administrative expenses	607	828
	16,931	12,839
Income before equity earnings and income taxes	57,774	40,021
Equity earnings in IOC	60,522	34,894
	118,296	74,915
Provision for income taxes (note 6)		
Current	17,763	12,408
Deferred	(4,230)	4,779
	13,533	17,187
Net income for the period	104,763	57,728
Other comprehensive loss		
Share of other comprehensive income of IOC that will not be reclassified subsequently to profit or loss (net of income taxes of 2020 — \$439)	—	(2,487)
Comprehensive income for the period	\$ 104,763	\$55,241
Net income per share	\$ 1.64	\$ 0.90

See accompanying notes to interim condensed consolidated financial statements.

LABRADOR IRON ORE ROYALTY CORPORATION

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	For the Nine Months Ended September 30,	
	2021	2020
<i>(in thousands of Canadian dollars except for per share information)</i>		
	<i>(Unaudited)</i>	
Revenue		
IOC royalties	\$ 218,265	\$146,182
IOC commissions	1,219	1,374
Interest and other income	170	315
	219,654	147,871
Expenses		
Newfoundland royalty taxes	43,653	29,236
Amortization of royalty and commission interests	4,536	4,808
Administrative expenses	2,149	2,201
	50,338	36,245
Income before equity earnings and income taxes	169,316	111,626
Equity earnings in IOC	183,714	88,254
Income before income taxes	353,030	199,880
Provision for income taxes (note 6)		
Current	52,121	34,815
Deferred	(667)	11,829
	51,454	46,644
Net income for the period	301,576	153,236
Other comprehensive income (loss)		
Share of other comprehensive income (loss) of IOC that will not be reclassified subsequently to profit or loss (net of income taxes of 2021 — \$557; 2020 — \$519)	3,156	(2,939)
Comprehensive income for the period	\$ 304,732	\$150,297
Net income per share	\$ 4.71	\$ 2.39

See accompanying notes to interim condensed consolidated financial statements.

LABRADOR IRON ORE ROYALTY CORPORATION

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)	For the Nine Months Ended September 30,	
	2021	2020
	<i>(Unaudited)</i>	
Net inflow (outflow) of cash related to the following activities		
Operating		
Net income for the period	\$ 301,576	\$ 153,236
Items not affecting cash:		
Equity earnings in IOC	(183,714)	(88,254)
Current income taxes	52,121	34,815
Deferred income taxes	(667)	11,829
Amortization of royalty and commission interests	4,536	4,808
Common share dividend from IOC	179,282	—
Change in amounts receivable	(19,516)	(18,365)
Change in accounts payable	3,637	3,471
Income taxes paid	(41,405)	(42,189)
Cash flow from operating activities	295,850	59,351
Financing		
Dividend paid to shareholders	(291,200)	(118,400)
Cash flow used in financing activities	(291,200)	(118,400)
Increase (decrease) in cash, during the period	4,650	(59,049)
Cash, beginning of period	106,091	77,859
Cash, end of period	\$ 110,741	\$ 18,810

See accompanying notes to interim condensed consolidated financial statements.

LABRADOR IRON ORE ROYALTY CORPORATION

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Retained earnings	Accumulated other comprehensive loss	Total
<i>(in thousands of Canadian dollars)</i>				
	<i>(Unaudited)</i>			
Balance as at December 31, 2019	\$ 317,708	\$ 230,005	\$(10,376)	\$ 537,337
Net income for the period	—	153,236	—	153,236
Dividends declared to shareholders	—	(80,000)	—	(80,000)
Share of other comprehensive loss from investment in IOC (net of taxes)	—	—	(2,939)	(2,939)
Balance as at September 30, 2020	<u>\$ 317,708</u>	<u>\$ 303,241</u>	<u>\$(13,315)</u>	<u>\$ 607,634</u>
Balance as at December 31, 2020	\$ 317,708	\$ 262,000	\$(13,340)	\$ 566,368
Net income for the period	—	301,576	—	301,576
Dividends declared to shareholders	—	(310,400)	—	(310,400)
Share of other comprehensive income from investment in IOC (net of taxes)	—	—	3,156	3,156
Balance as at September 30, 2021	<u>\$ 317,708</u>	<u>\$ 253,176</u>	<u>\$(10,184)</u>	<u>\$ 560,700</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 Quebec 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 November 4, 2021.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

4. Amounts Receivable

	September 30, 2021	December 31, 2020
IOC royalties	\$77,617	\$58,140
IOC commissions	114	182
Other	121	14
	<u>\$77,852</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.

	September 30, 2021	December 31, 2020
Investment in IOC, beginning of period	\$ 417,284	\$381,310
Equity earnings in IOC	183,714	126,024
Other comprehensive gain (loss) of IOC	3,713	(3,487)
Common share dividend received	(179,282)	(86,563)
Investment in IOC, end of period	<u>\$ 425,429</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 \$40,530 as at September 30, 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. Income Taxes

The provision for income taxes in the statements of comprehensive income differs from the amount computed by applying the combined Canadian federal and provincial tax rate to the Corporation's income before income taxes. The reasons for the difference and the related tax effects are as follows:

	For the Three Months Ended September 30, 2021		For the Nine Months Ended September 30, 2021	
	2021	2020	2021	2020
Income before income taxes	\$118,296	\$74,915	\$353,030	\$199,880
Income taxes at combined federal and provincial statutory tax rates of 30.0%	35,489	22,475	105,909	59,964
(Decrease) increase in income taxes resulting from:				
Undistributed equity earnings in investment in IOC	(9,078)	(5,234)	(27,557)	(13,238)
Equity earnings distributed as dividends	(12,876)	—	(26,892)	—
Other	(2)	(54)	(6)	(82)
Income tax expense	<u>\$ 13,533</u>	<u>\$17,187</u>	<u>\$ 51,454</u>	<u>\$ 46,644</u>

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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, 2020				
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
September 30, 2021				
Difference in tax and book value of assets	\$123,925	\$ (701)	\$ 557	\$123,781
Tax benefit of deductible temporary differences	(495)	34	—	(461)
Net deferred income tax liability	\$123,430	\$ (667)	\$ 557	\$123,320

7. Key Management Personnel Compensation

Key management personnel are the President and Chief Executive Officer, the Executive Vice President, the Chief Financial Officer, the Secretary and directors. Their remuneration for the three months ended September 30, 2021 was comprised of salaries, Restricted Share Units (“RSUs”), and fees totaling \$219 (2020 – \$457). Their remuneration for the nine months ended September 30, 2021 was comprised of salaries, Restricted Share Units (“RSUs”), and fees totaling \$1,091 (2020 – \$1,107)

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 September 30, 2021, there were 17,623 (2020 – 10,523) RSUs awarded and outstanding. For the three month and nine month period ended September 30, 2021, compensation (recovery) expense of approximately \$(26) (2021 – \$167) and \$327 (2020 – \$245) were accrued in connection with the RSUs.

CORPORATE INFORMATION

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President and CEO
Ontario Pension Board

William H. McNeil
Company Director

Douglas F. McCutcheon⁽¹⁾
President
Longview Asset Management Ltd

Dorothea E. Mell⁽¹⁾
Company Director

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

Patricia M. Volker⁽¹⁾
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

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