

LABRADOR IRON ORE
ROYALTY CORPORATION

2021



**SECOND 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 second quarter report for the period ended June 30, 2021.

Financial Performance

In the second 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 second quarter of 2021 amounted to \$78.8 million compared to \$46.2 million for the second quarter of 2020. Equity earnings from Iron Ore Company of Canada (“IOC”) were \$66.2 million in the second quarter of 2021 compared to \$28.7 million in the second quarter of 2020. Net income per share for the second quarter of 2021 was \$1.72 per share, which was a 126% increase over the same period in 2020. The adjusted cash flow per share for the second quarter of 2021 was \$1.85 per share, which was 363% 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 second quarter of 2021, LIORC received a dividend in the amount of \$74.4 million from IOC.

In the second quarter of 2021, iron ore prices reached record levels as global steel production increased and seaborne iron ore supply growth was limited. According to the World Steel Association, global crude steel production in the first half of 2021 increased 14% over the first half of 2020. Strong increases in crude steel production were seen in China, which accounts for over 70% of all seaborne iron ore demand, as well as all other regions and major steel producing countries, as these nations continued to recover from the global downturn in 2020. While, in aggregate, the supply of seaborne iron ore from the major producers was generally in line with the prior annual production guidance, it wasn’t enough to lessen the tight supply dynamics in the market.

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 second quarter of 2021, the 65% Fe index averaged US\$233 per tonne, a 115% increase over the average of US\$108 per tonne in the second quarter of 2020, and a 22% increase over the average of US\$191 in the first quarter of 2021. The monthly Atlantic Blast Furnace 65% Fe pellet premium index as quoted by Platts (the “pellet premium”) averaged US\$65 per tonne in the second quarter of 2021, up substantially from an average of US\$30 in the same quarter of 2020, which had been negatively impacted by a reduction in demand from European steel producers due to COVID-19.

REPORT TO SHAREHOLDERS

Rio Tinto has disclosed that the average realised price achieved for IOC pellets, FOB Sept-Îles, in the second quarter of 2021 was US\$247 per tonne, compared to US\$118 per tonne in the same quarter of 2020. 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\$275 per tonne in the second quarter of 2021, compared to approximately C\$143 per tonne in the second quarter of 2020 and C\$226 per tonne in the first quarter of 2021.

Iron Ore Company of Canada Operations

Operations

IOC continues 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. As a result, IOC has been able to continue to safely operate throughout 2021. The IOC saleable production (CFS plus pellets) of 4.6 million tonnes in the second quarter of 2021 was 2% lower than the same period in 2020, due to labour and equipment availability which reduced the feed rate from the mine. The IOC saleable production in the second quarter of 2021 was 16% higher than the first quarter of 2021, predominantly due to the impacts of weather, loading unit availability on mine feed and reduced concentrator mill availability in the first quarter.

In the second quarter of 2021, CFS production of 2.0 million tonnes was 24% lower than the same quarter last year due to an increased focus on the production of pellets since the end of 2020, resulting in a corresponding reduction in CFS. CFS production in the second quarter of 2021 was 32% higher than the first quarter of 2021, due to lower concentrate production in the first quarter. Pellet production in the second quarter of 2021 of 2.7 million tonnes was 26% higher than the corresponding quarter in 2020 due to the increased focus on the production of pellets, and 6% higher than the first quarter of 2021, as issues related to regrinding reliability and lack of feed from the concentrator were greater in the first 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 second quarter of 2021 was 11% lower than the total sales tonnage for the same period in 2020 and consistent with the first quarter of 2021. Sales tonnage in the second quarter of 2021 was negatively impacted by the lack of availability of reclaimers during the quarter, as reclaimer #1 was unavailable for part of April due to unplanned maintenance and reclaimer #2 was the subject of a fire in late March and is not expected to be operational until mid-December. Sales tonnage in the first quarter of 2021 was negatively impacted by lower product availability. Pellet sales tonnage in the second quarter of 2021 was consistent with the same quarter last year and 8% lower than the first quarter of 2021. CFS sales tonnage was 23% lower than the same quarter last year and 9% higher than the first quarter of 2021.

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 and 8.6 million tonnes in the first half of 2021. The force majeure

REPORT TO SHAREHOLDERS

declared in April following the fire at the port facility in Sept-Îles has been lifted. Reclaimer #2 is scheduled to return to operation in mid-December with mobile tele-stackers being used in the interim to mitigate future impacts. As a result, the sales tonnage shortfalls experienced in the second quarter of 2021 are expected to be made up over the remainder of the year.

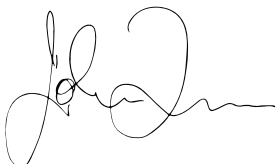
IOC is in an excellent financial position. In the first half of 2021, IOC generated net after tax cash from operating activities of US\$659 million, had capital expenditures of US\$123 million, and paid shareholder dividends of US\$500 million. As at June 30, 2021, IOC had no debt, total current assets of US\$831 million, and total current liabilities of US\$493 million.

The price outlook for seaborne iron ore remains robust. Despite China's recently stated aims to curb steel production, iron ore prices have remained firm. Since the end of the second quarter (July 1, 2021 to July 26, 2021), the average price of the 65% Fe index has been US\$248 per tonne, or 7% higher than the average of the 65% Fe index for the second quarter of 2021. As well, the outlook for pellet premiums remains positive, as the rest of the world continues to recover from the 2020 economic downturn. The pellet premium for July was US\$78 per tonne compared to the average of US\$65 per tonne in the second quarter of 2021.

The current record pricing environment continues to generate strong cash flows for LIORC. However, it is unlikely that these iron ore prices will persist in the long run. That said, LIORC is well positioned to profit throughout the pricing cycle given its unique assets. LIORC's equity interest in IOC generates substantial dividends, particularly during strong iron ore pricing environments. Whereas LIORC's royalty provides more consistency and downside protection as it has historically produced cash flow under all iron ore pricing environments.

LIORC has no debt and at June 30, 2021 had positive net working capital (current assets less current liabilities) of \$28.7 million. After the end of the second quarter LIORC paid a dividend on July 26, 2021 of \$1.75 per share or \$112.0 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,



John F. Tuer
President and Chief Executive Officer
August 5, 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 June 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 June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(unaudited)			
	(\$ in millions except per share information)			
Revenue	79.2	46.7	144.9	95.0
Equity earnings from IOC	66.2	28.7	123.2	53.4
Net income	110.2	48.9	196.8	95.5
Net income per share	\$ 1.72	\$0.76	\$ 3.08	\$1.49
Dividend(s) from IOC	74.4	—	93.4	—
Cash flow from operations	115.9	37.6	158.6	48.3
Cash flow from operations per share	\$ 1.81	\$0.58	\$ 2.48	\$0.75
Adjusted cash flow ⁽¹⁾	118.3	25.6	173.7	52.5
Adjusted cash flow per share	\$ 1.85	\$0.40	\$ 2.71	\$0.82
Dividends declared per share	\$ 1.75	\$0.45	\$ 2.75	\$0.80

(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 second quarter of 2021 as compared to 2020 were mainly due to higher iron ore prices, partly offset by lower sales of CFS. The second quarter of 2021 sales tonnage (pellets and CFS) were lower by 11% predominantly due to the lack of availability of reclaimers during the quarter, which limited the loading rate at the port facility in Sept-Îles. CFS sales tonnage was 23% lower and pellet

MANAGEMENT'S DISCUSSION AND ANALYSIS

sales tonnage was consistent with the same quarter last year. CFS sales tonnage was lower mainly due to lower CFS production as a result of IOC's refocus on pellet production this year, and despite a 26% increase in pellet production, pellet sales tonnage was constrained due to the loading restrictions caused by the lack of reclaimer availability at the port.

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 of \$78.8 million for the quarter as compared to \$46.2 million for the same period in 2020. Second quarter 2021 cash flow from operations was \$115.9 million or \$1.81 per share compared to \$37.6 million or \$0.58 per share for the same period in 2020. LIORC received an IOC dividend in the second quarter of 2021 in the amount of \$74.4 million or \$1.16 per share. Equity earnings from IOC amounted to \$66.2 million or \$1.03 per share in the second quarter of 2021 compared to \$28.7 million or \$0.45 per share for the same period in 2020.

Operating Highlights

IOC Operations	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
<i>(in millions of tonnes)</i>				
Sales⁽¹⁾				
Pellets	2.26	2.25	4.70	5.27
Concentrate for sale ("CFS") ⁽²⁾	1.83	2.36	3.51	4.04
Total ⁽³⁾	4.09	4.61	8.21	9.31
Production				
Concentrate produced	4.79	4.84	9.20	9.53
Saleable production				
Pellets	2.67	2.11	5.18	4.90
CFS	1.97	2.59	3.45	4.16
Total ⁽³⁾	4.63	4.70	8.63	9.06
Average index prices per tonne (US\$)				
65% Fe index ⁽⁴⁾	\$ 233	\$ 108	\$ 212	\$ 106
62% Fe index ⁽⁵⁾	\$ 200	\$ 93	\$ 184	\$ 91
Pellet premium ⁽⁶⁾	\$ 65	\$ 30	\$ 54	\$ 30

(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 second quarter of 2021, the 65% Fe index averaged US\$233 per tonne, a 115% increase over the average of US\$108 per tonne in the second quarter of 2020. Iron ore prices increased, as iron ore supply growth failed to match the record growth in global steel production as part of the economic recovery from the downturn in 2020. The monthly pellet premium averaged US\$65 per tonne in the second quarter of 2021, up substantially from an average of US\$30 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\$275 per tonne in the second quarter of 2021, compared to approximately C\$143 per tonne in the second quarter of 2020 and C\$226 per tonne in the first 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 \$1.81 for the quarter (2020 – \$0.58).

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 Jun. 30, 2021	3 Months Ended Jun. 30, 2020	6 Months Ended Jun. 30, 2021	6 Months Ended Jun. 30, 2020
	<i>(in thousands except per share information)</i>			
Standardized cash flow from operating activities	\$115,866	\$ 37,614	\$158,552	\$48,267
Changes in amounts receivable, accounts payable and income taxes payable	2,402	(11,975)	15,126	4,198
Adjusted cash flow	\$118,268	\$ 25,639	\$173,678	\$52,465
Adjusted cash flow per share	\$ 1.85	\$ 0.40	\$ 2.71	\$ 0.82

MANAGEMENT'S DISCUSSION AND ANALYSIS

Liquidity and Capital Resources

The Corporation had \$85.4 million in cash as at June 30, 2021 (December 31, 2020 – \$106.1 million) with total current assets of \$168.4 million (December 31, 2020 – \$164.4 million). The Corporation had working capital of \$28.7 million as at June 30, 2021 (December 31, 2020 – \$31.0 million). The Corporation's operating cash flow was \$115.9 million and the dividend paid during the quarter was \$64 million, resulting in cash balances increasing by \$51.9 million during the second quarter of 2021. In June the Directors of the Corporation declared the second quarter dividend of \$112 million that was paid on July 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, 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.

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

Toronto, Ontario
August 5, 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

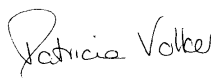
	As at	
	June 30, 2021	December 31, 2020
	<i>(Unaudited)</i>	
<i>(in thousands of Canadian dollars)</i>		
Assets		
Current Assets		
Cash and short-term investments	\$ 85,443	\$106,091
Amounts receivable (note 4)	82,963	58,336
Total Current Assets	168,406	164,427
Non-Current Assets		
Iron Ore Company of Canada ("IOC") royalty and commission interests	238,454	241,511
Investment in IOC (note 5)	450,750	417,284
Total Non-Current Assets	689,204	658,795
Total Assets	\$ 857,610	\$823,222
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	\$ 17,119	\$ 12,533
Dividend payable	112,000	115,200
Taxes payable	10,606	5,691
Total Current Liabilities	139,725	133,424
Non-Current Liabilities		
Deferred income taxes (note 6)	127,550	123,430
Total Liabilities	267,275	256,854
Shareholders' Equity		
Share capital	317,708	317,708
Retained earnings	282,811	262,000
Accumulated other comprehensive loss	(10,184)	(13,340)
	590,335	566,368
Total Liabilities and Shareholders' Equity	\$ 857,610	\$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

(in thousands of Canadian dollars except for per share information)	For the Three Months Ended June 30,	
	2021	2020
	(Unaudited)	
Revenue		
IOC royalties	\$ 78,793	\$46,213
IOC commissions	402	454
Interest and other income	35	45
	79,230	46,712
Expenses		
Newfoundland royalty taxes	15,758	9,243
Amortization of royalty and commission interests	1,591	1,642
Administrative expenses	773	816
	18,122	11,701
Income before equity earnings and income taxes	61,108	35,011
Equity earnings in IOC	66,215	28,691
Income before income taxes	127,323	63,702
Provision for income taxes (note 6)		
Current	18,857	11,014
Deferred	(1,697)	3,830
	17,160	14,844
Net income for the period	110,163	48,858
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 – \$40)	3,156	(226)
Comprehensive income for the period	\$ 113,319	\$48,632
Net income per share	\$ 1.72	\$ 0.76

See accompanying notes to interim condensed consolidated financial statements.

LABRADOR IRON ORE ROYALTY CORPORATION

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(in thousands of Canadian dollars except for per share information)	For the Six Months Ended June 30,	
	2021	2020
	(Unaudited)	
Revenue		
IOC royalties	\$ 144,041	\$ 93,828
IOC commissions	808	916
Interest and other income	100	267
	144,949	95,011
Expenses		
Newfoundland royalty taxes	28,808	18,766
Amortization of royalty and commission interests	3,057	3,267
Administrative expenses	1,544	1,373
	33,409	23,406
Income before equity earnings and income taxes	111,540	71,605
Equity earnings in IOC	123,192	53,360
Income before income taxes	234,732	124,965
Provision for income taxes (note 6)		
Current	34,358	22,407
Deferred	3,563	7,050
	37,921	29,457
Net income for the period	196,811	95,508
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 – \$80)	3,156	(452)
Comprehensive income for the period	\$ 199,967	\$ 95,056
Net income per share	\$ 3.08	\$ 1.49

See accompanying notes to interim condensed consolidated financial statements.

LABRADOR IRON ORE ROYALTY CORPORATION

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)	For the Six Months Ended June 30,	
	2021	2020
	(Unaudited)	
Net inflow (outflow) of cash related to the following activities		
Operating		
Net income for the year	\$ 196,811	\$ 95,508
Items not affecting cash:		
Equity earnings in IOC	(123,192)	(53,360)
Current income taxes	34,358	22,407
Deferred income taxes	3,563	7,050
Amortization of royalty and commission interests	3,057	3,267
Common share dividend from IOC	93,439	—
Change in amounts receivable	(24,627)	(10,982)
Change in accounts payable	4,586	2,093
Income taxes paid	(29,443)	(17,716)
Cash flow from operating activities	158,552	48,267
Financing		
Dividend paid to shareholders	(179,200)	(89,600)
Cash flow used in financing activities	(179,200)	(89,600)
Decrease in cash, during the period	(20,648)	(41,333)
Cash, beginning of period	106,091	77,859
Cash, end of period	\$ 85,443	\$ 36,526

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>	Share capital	Retained earnings	Accumulated other comprehensive loss	Total
	<i>(Unaudited)</i>			
Balance as at December 31, 2019	\$317,708	\$ 230,005	\$(10,376)	\$ 537,337
Net income for the period	—	95,508	—	95,508
Dividends declared to shareholders	—	(51,200)	—	(51,200)
Share of other comprehensive loss from investment in IOC (net of taxes)	—	—	(452)	(452)
Balance as at June 30, 2020	\$317,708	\$ 274,313	\$(10,828)	\$ 581,193
Balance as at December 31, 2020	\$317,708	\$ 262,000	\$(13,340)	\$ 566,368
Net income for the period	—	196,811	—	196,811
Dividends declared to shareholders	—	(176,000)	—	(176,000)
Share of other comprehensive income from investment in IOC (net of taxes)	—	—	3,156	3,156
Balance as at June 30, 2021	\$317,708	\$ 282,811	\$(10,184)	\$ 590,335

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 August 5, 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

	June 30, 2021	December 31, 2020
IOC royalties	\$82,576	\$58,140
IOC commissions	159	182
Other	228	14
	\$82,963	\$58,336

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.

	June 30, 2021	December 31, 2020
Investment in IOC, beginning of period	\$417,284	\$381,310
Equity earnings in IOC	123,192	126,024
Other comprehensive loss of IOC	3,713	(3,487)
Common share dividend received	(93,439)	(86,563)
Investment in IOC, end of period	\$450,750	\$417,284

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 \$40,783 as at June 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 June 30, 2021		For the Six Months Ended June 30, 2021	
	2021	2020	2021	2020
Income before income taxes	\$127,323	\$63,702	\$234,732	\$124,965
Income taxes at combined federal and provincial statutory tax rates of 30.0%	38,197	19,111	70,420	37,490
(Decrease) increase in income taxes resulting from:				
Undistributed equity earnings in investment in IOC	(9,932)	(4,304)	(18,479)	(8,004)
Equity earnings distributed as dividends	(11,164)	—	(14,016)	—
Other	59	37	(4)	(29)
Income tax expense	\$ 17,160	\$14,844	\$ 37,921	\$ 29,457

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
June 30, 2021				
Difference in tax and book value of assets	\$123,925	\$3,540	\$ 557	\$128,022
Tax benefit of deductible temporary differences	(495)	23	—	(472)
Net deferred income tax liability	\$123,430	\$3,563	\$ 557	\$127,550

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 June 30, 2021 was comprised of salaries, Restricted Share Units ("RSUs"), and fees totaling \$430 (2020 – \$426). Their remuneration for the six months ended June 30, 2021 was comprised of salaries, Restricted Share Units ("RSUs"), and fees totaling \$872 (2020 – \$662)

8. Share-based payments

On March 15, 2018, the Corporation adopted a restricted share unit plan ("Plan") for its employees that uses notional units that are valued based on the Corporation's common share price on the Toronto Stock Exchange. The RSUs accumulate dividend equivalents in the form of additional units based on the dividends paid on the Corporation's common shares. The Plan is settled in cash and, as a result, is classified as a liability. Fluctuations in the Corporation's share price change the value of the RSUs, which affects the Corporation's compensation expense.

Under the Plan, selected employees receive an award of RSUs which vest in three equal installments on each of the first, second and third anniversary of the award date. Upon vesting all RSUs are paid in cash to the employee. The share-based payment expense is recognized evenly over the vesting period. As at June 30, 2021, there were 16,631 (2020 – 24,152) RSUs awarded and outstanding. For the three month and six month period ended June 30, 2021, compensation expense of approximately \$172 (2021 – \$131) and \$353 (2020 – \$78) were accrued in connection with the RSUs.

CORPORATE INFORMATION

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William H. McNeil
Company Director

Douglas F. McCutcheon⁽¹⁾
President of 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*

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