

LABRADOR IRON ORE
ROYALTY CORPORATION

2021

A circular inset image showing a mining truck in an open-pit mine. The truck is yellow and is driving on a dirt road. The background of the inset shows a large, dark, rocky excavation site.

**ANNUAL
REPORT**

84 YEARS IN LABRADOR WEST

■ Annual General Meeting

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

Date May 12, 2022

Time 11:00 a.m.

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

The holders of common shares are encouraged to complete the Form of Proxy and forward it on or before May 10, 2022.

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; the performance of IOC; market conditions in the steel industry; fluctuations in the value of the Canadian and U.S. dollar; mining risks that cause a disruption in operations and availability of insurance; disruption in IOC's operations caused by natural disasters, severe weather conditions and public health crises, including the COVID-19 outbreak; failure of information systems or damage from cyber security attacks; adverse changes in domestic and global economic and political conditions; changes in government regulation and taxation; national, provincial and international laws, regulations and policies regarding climate change that further limit the emissions of greenhouse gases or increase the costs of operations for IOC or its customers; changes affecting IOC's customers; competition from other iron ore producers; renewal of mining licences and leases; relationships with indigenous groups; litigation; and uncertainty in the estimates of reserves and resources. A discussion of these factors is contained in LIORC's annual information form dated March 11, 2022 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.

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■ Labrador Iron Ore Royalty Corporation

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

As at December 31, 2021, there were 64 million common shares issued and outstanding which are listed for trading on the Toronto Stock Exchange under the symbol LIF. Generally, LIORC pays cash dividends from its net income to the maximum extent possible, subject to the maintenance of appropriate levels of working capital. Currently, the holders of common shares receive quarterly dividends on or after the 26th day of the month following the end of each quarter. The common shares are qualified investments under the *Income Tax Act (Canada)* for deferred plans including registered retirement savings plans, registered retirement income funds and deferred profit sharing plans.

As at December 31, 2021 LIORC had a Board of seven Directors, an Audit Committee, a Compensation Committee and a Nominating Committee. The Audit, Compensation and Nominating Committees are composed of four independent Directors.

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

■ Shareholders’ Investment Highlights

Years Ended December 31	2021	2020
	(\$ in millions except per share information)	
Revenue	279.7	202.3
Net Income	379.8	227.2
Cash Flow from Operations	402.4 ⁽¹⁾	175.4 ⁽²⁾
Net Income per Share	\$ 5.93	\$ 3.55
Cash Flow from Operations per Share	\$ 6.29 ⁽¹⁾	\$ 2.74 ⁽²⁾
Dividends Declared per Share	\$ 6.00	\$ 3.05

(1) Includes IOC dividends totaling \$227.8 million or \$3.56 per Share.

(2) Includes IOC dividend totaling \$86.6 million or \$1.35 per Share.

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 Annual Report for the year ended December 31, 2021.

84 Years in Labrador West

Labrador Iron Ore Royalty Corporation has been involved in Labrador West for 84 years. Under a Statutory Agreement with Newfoundland made in 1938, a predecessor company, Labrador Mining and Exploration Limited (“LM&E”), was granted extensive exploration and mining rights in Labrador West. LM&E found the iron ore bodies that now constitute the mine operated by Iron Ore Company of Canada. LM&E received grants of leases and licences under the Statutory Agreement. It also received a grant of surface rights to establish the town site that became Labrador City. LM&E sublet the leases to IOC and IOC, with major steel companies as original shareholders, built the infrastructure, mine, railway and port. Under the sublease, LIORC receives a 7% gross overriding royalty on iron ore products produced and sold by IOC.

Financial Performance

In 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. Net income per share for the year ended December 31, 2021 was \$5.93 per share, which was a 67% increase over 2020. The adjusted cash flow per share for 2021 was \$5.98 per share, which was 94% higher than in 2020 due to higher royalty revenues and increased dividends from IOC. IOC dividends increased as a result of higher earnings at IOC and a reversal of IOC’s decision in 2020 to pay lower shareholder dividends in order to retain a higher cash balance due in part to concerns that the COVID-19 pandemic may adversely affect IOC’s operations. In 2021, IOC paid dividends to its shareholders of US\$1,200 million and had a year-end net working capital balance of \$16.9 million, compared to dividends of US\$450 million and a year-end net working capital balance of \$229.7 million in 2020. LIORC’s strong financial results are mainly due to the high iron ore price environment in the first half of the year.

In 2021 global steel production rebounded as the global economy recovered from the COVID-19 lock-downs of 2020. This resulted in increased demand from China and the rest of the world for seaborne iron ore. However, iron ore prices were also volatile throughout the year. The Platts index for 65% Fe, CFR China (the “65% Fe index”) which started the year at US\$181 per tonne on January 4, 2021, increased to a high of US\$264 per tonne on May 12, 2021. In the second half of the year iron ore prices decreased rapidly as China, which accounts for over 70% of seaborne iron ore demand, curbed steel production in order to reduce emissions and lower input prices, including iron ore prices. As a result, the 65% Fe index decreased to a low of US\$102 per tonne on November 18, 2021, before recovering to end the year at US\$140 per tonne on December 31, 2021.

IOC sells CFS based on the 65% Fe index. In 2021, the average price for the 65% Fe index was US\$185 per tonne, an increase of 52% year over year. The rebound in the global economy during 2021 also increased the demand for pellets in China and various markets across Europe and North America. The monthly Atlantic Blast Furnace 65% Fe pellet premium index as quoted by Platts (the “pellet premium”) averaged US\$60 per tonne in 2021, an increase of 108% from 2020.

Overall, the average price realized by IOC for CFS and pellets, FOB Sept-Îles was approximately C\$246 per tonne in 2021, an increase of 58% year over year.

Iron Ore Company of Canada Operations Operations

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, IOC took measures early in March 2020 to limit the exposure risk at different levels. Throughout 2021, most measures were maintained or adjusted in accordance with public health agencies, including a mandatory vaccination requirement for employees and contractors accessing the Sept-Îles port facilities and the railway operations.

REPORT TO SHAREHOLDERS

Main actions taken by IOC included limiting the on-site presence of personnel to essential operational activities (remote work for administration and supports) and the reduction of contractors on-site (favouring local rather than out-of-province when possible). In parallel, several protocols were put in place including, (i) strict approval processes for all travel between sites and use of out-of-province contractors, (ii) mandatory on-line health questionnaires linked to gate access, and (iii) COVID-19 screening for all out-of-province contractors and employees. Additionally, the use of masks, more strict hygiene practices, additional janitorial resources and physical distancing measures were maintained.

Total concentrate production in 2021 was 17.9 million tonnes. This was 4% lower than 2020 due mainly to labour and equipment availability issues during the year which impacted feed availability. In particular, IOC experienced lower feed rates from the mine at various times throughout the year, as there were issues with higher cycle times, haul truck availability and the availability of operators, in part due to COVID-19. There were also certain reliability issues in the concentrator, including AG Mill conveyor and feed chute issues and a service overrun of the annual maintenance shutdown in September.

The IOC saleable production (CFS plus pellets) of 16.6 million tonnes in 2021 was 6% lower than 2020, and below the lower end of Rio Tinto's original guidance of 17.9 to 20.4 million tonnes. In 2021, CFS production of 6.6 million tonnes was 19% lower than the same quarter last year, mainly due to lower concentrate production referred to above, as well as the decision by IOC to produce fewer pellets and more CFS in 2020. Pellet production in 2021 of 10.0 million tonnes was 4% higher than 2020 due to IOC's decision to reduce the focus on the production of pellets in 2020.

Third party haulage by the Québec North Shore and Labrador Railway Company, Inc. ("QNS&L") of 12.8 million tonnes in 2021 was 9% higher than in 2020, predominantly due to increased shipments of iron ore from Champion Iron and Tata Steel.

Sales as Reported for the LIORC Royalty

Total iron ore sales tonnage by IOC (CFS plus pellets) of 16.8 million tonnes in 2021 was 8% lower than the total sales tonnage in 2020 mainly as a result of the lower production volumes referred to above. Sales volumes in 2021 were also adversely affected by a fire at the Sept-Îles port facility on Reclaimer No. 2 in March. While force majeure was declared, mobile tele-stackers were used during the year on a temporary basis to meet sales commitments as best as possible. Pellet sales were favoured during the year when possible. The Reclaimer No. 2 returned to service in December with the tele-stackers remaining as backup.

Capital Expenditures

IOC has more recently anticipated higher than historical levels of capital expenditures in order to maintain and upgrade existing infrastructure. Capital expenditures for IOC of \$498 million in 2021 were 73% higher than in 2020 and 8% higher than IOC had forecasted for 2021, mainly because of the decision by IOC in 2020 to defer some projects to 2021 and 2022 because the impact of COVID-19 on the market for high grade iron ore was unknown at that time, and because of the difficulty in getting contractors to site due to COVID-19 restrictions and protocols. Capital expenditures in 2021 also included the repair of Reclaimer No. 2 that incurred fire damage.

Outlook

Rio Tinto's 2022 guidance for IOC's saleable production tonnage (CFS plus pellets) is 17.0 million to 18.7 million tonnes. This compares to 16.6 million tonnes of saleable production in 2021. Given current pellet premiums, it is expected that IOC will continue to focus on maximizing pellet production in 2022.

Mike McCann was appointed as IOC's new President and Chief Executive Officer, effective September 20, 2021. Mike and his management are committed to improving operations at IOC, which includes improved capital asset management. The capital expenditures for 2022 at IOC are forecasted by IOC to be approximately \$606 million. The 2022 forecast includes approximately \$174 million of growth and development projects. Significant development capital expenditure projects scheduled for 2022 include the redesign of the tailings system to increase the life of use and reduce electricity and water usage, and the replacement of the dumper cages and refurbishment of the dumper auxiliary system at Sept-Îles. Significant sustaining capital expenditure projects include the rebuild of induration machine #3 at the pellet plant and the track replacement program on the QNS&L.

In October 2021 Rio Tinto unveiled a longer term decarbonisation strategy that set a new target for its subsidiaries, including IOC, to reduce its Scope 1 and 2 carbon emissions by 50% by 2030, more than tripling its previous target, and is bringing

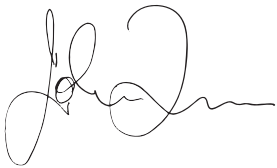
REPORT TO SHAREHOLDERS

forward its target of 15% reduction in emissions to 2025 (previously 2030). Reduction targets are calculated using 2018 as a baseline. Rio Tinto is also focused on developing technologies such as hydrogen or plasma torches which can use renewable energy to potentially replace fossil fuels for heat and steam. Four plasma torches were ordered in 2021 for a trial at IOC's pellet plant.

Despite the significant volatility in the iron ore market in the second half of 2021, the price outlook for seaborne iron ore remains attractive. Steel production in China is expected to increase from levels in the second half of 2021, when government authorities in China implemented production constraints, as China's fiscal and monetary policy stances shift to stabilizing economic growth in 2022. Iron ore prices have rebounded from the lows in November 2021 and thus far in 2022 (January and February), the average price of the 65% Fe index has been US\$164, which is 12% lower than the average of the 65% Fe index in 2021 and 34% higher than the average in 2020. In addition, thus far in 2022 (January and February) the average pellet premium has averaged US\$67 compared to an average of US\$60 in 2021 and an average of US\$29 in 2020. More recently, the Russia-Ukraine conflict could adversely affect the supply of seaborne iron ore pellets in 2022, as Ferrexpo, the third-largest exporter of pellets, was forced to declare force majeure on some contracts as Ukraine's logistics networks continue to experience disruption.

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

Respectfully submitted on behalf of the
Directors of the Corporation,



John F. Tuer
President and Chief Executive Officer
March 11, 2022

CORPORATE STRUCTURE

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

LIORC, directly and through its wholly-owned subsidiary Hollinger-Hanna, holds a 15.10% equity interest in IOC and receives a 7% gross overriding royalty and a 10 cent per tonne commission on all iron ore products produced, sold and shipped by IOC. Generally, LIORC pays cash dividends from its net income to the maximum extent possible, subject to the maintenance of appropriate levels of working capital. The common shareholders receive quarterly dividends on the common shares which are paid on or after the 26th day of the month following the end of each quarter.

Seven Directors are responsible for the governance of the Corporation and also serve as directors of Hollinger-Hanna. The Directors, in addition to managing the affairs of the Corporation and Hollinger-Hanna, oversee the Corporation’s interests in IOC. The Audit, Compensation and Nominating Committees are composed of four independent Directors.

Taxation

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

Income Taxes

Dividends to a shareholder that are paid within a particular year are to be included in the calculation of the shareholder’s taxable income for that year. All dividends paid in 2021 were “eligible dividends” under the Income Tax Act.

REVIEW OF OPERATIONS

Iron Ore Company of Canada

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

IOC has ore reserves sufficient for approximately 23 years at current production rates with additional resources of a greater magnitude. It currently has the nominal capacity to extract around 55 million tonnes of crude ore annually. The crude ore is processed into iron ore concentrate and then either sold or converted into many different qualities of iron ore pellets to meet its customers' needs. The iron ore concentrate and pellets are transported to IOC's port facilities at Sept-Îles, Québec via its wholly-owned QNS&L, a 418 kilometer rail line which links the mine and the port. From there, the products are shipped to markets throughout North America, Europe, the Middle East and the Asia-Pacific region.

IOC's 2021 sales totaled 17.0 million tonnes, comprised of 10.0 million tonnes of iron ore pellets and 7.0 million tonnes of iron ore concentrate. Production in 2021 was 10.0 million tonnes of pellets and 6.6 million tonnes of CFS. IOC generated ore sales revenues (excluding third party ore sales) of \$3,922 million in 2021 (2020 – \$2,915 million).

Selected IOC Financial Information

	2021	2020	2019	2018	2017
			(\$ in millions)		
Operating Revenues ⁽¹⁾	4,147	3,099	2,719	1,930	2,315
Cash Flow from					
Operating Activities	1,955	837	1,302	578	923
Net Income	1,551	842	749	383	499
Capital Expenditures ⁽²⁾	498	288	294	205	265

(1) 2021 Ore sales revenue is presented on a net basis (net of related freight costs) to align with IFRS financial statements presentation.

(2) Reported on an incurred basis.

IOC Royalty

The Corporation holds certain leases and licenses covering approximately 18,200 hectares of land near Labrador City. IOC has subleased certain portions of these lands from which it currently mines iron ore. In return, IOC pays the Corporation a 7% gross overriding royalty on all sales of iron ore products produced from these lands. A 20% tax on the royalty is payable to the Government of Newfoundland and Labrador. For the five years prior to 2021, the average royalty net of the 20% tax had been \$123.8 million per year and in 2021 the net royalty was \$222.2 million (2020 – \$160.1 million).

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

IOC Equity

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

IOC Commissions

Hollinger-Hanna has the right to receive a payment of 10 cents per tonne on the products produced and sold by IOC. Pursuant to an agreement, IOC is obligated to make the payment to Hollinger-Hanna so long as Hollinger-Hanna is in existence and solvent. In 2021, Hollinger-Hanna received a total of \$1.7 million in commissions from IOC (2020 – \$1.8 million).

REVIEW OF OPERATIONS

Quarterly Dividends

Dividends of \$6.00 per share were declared in 2021 (2020 – dividends of \$3.05 per share including special dividends of \$0.50). These dividends were allocated as follows:

Period Ended	Record Date	Payment Date	Dividend Income per Share	Total Dividend (\$ million)
Mar. 31, 2021	Mar. 31, 2021	Apr. 26, 2021	\$ 1.00	\$ 64.0
Jun. 30, 2021	Jun. 30, 2021	Jul. 26, 2021	1.75	112.0
Sep. 30, 2021	Sep. 30, 2021	Oct. 26, 2021	2.10	134.4
Dec. 31, 2021	Dec. 31, 2021	Jan. 26, 2022	1.15	73.6
Dividend to Shareholders – 2021			\$ 6.00	\$ 384.0
Mar. 31, 2020	Mar. 31, 2020	Apr. 25, 2020	\$ 0.25	\$ 16.0
Special Dividend	Mar. 31, 2020	Apr. 25, 2020	0.10	6.4
Jun. 30, 2020	Jun. 30, 2020	Jul. 25, 2020	0.25	16.0
Special Dividend	Jun. 30, 2020	Jul. 25, 2020	0.20	12.8
Sep. 30, 2020	Sep. 30, 2020	Oct. 25, 2020	0.25	16.0
Special Dividend	Sep. 30, 2020	Oct. 25, 2020	0.20	12.8
Dec. 31, 2020	Dec. 31, 2020	Jan. 26, 2021	1.80	115.2
Dividend to Shareholders – 2020			\$ 3.05	\$ 195.2

The quarterly dividends are payable to all shareholders of record on the last day of each calendar quarter and are paid on or after the 26th day of the following month.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion of the consolidated financial condition and results of operations of the Corporation for the years ended December 31, 2021 and 2020. This discussion should be read in conjunction with the consolidated financial statements of the Corporation and notes thereto for the years ended December 31, 2021 and 2020. This information is prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and all amounts are shown in Canadian dollars unless otherwise indicated.

Overview of the Business

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

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

Financial Highlights

	Three Months Ended December 31,		Year Ended December 31,	
	2021	2020	2021	2020
	(\$ in millions except per share information)			
Revenue	60.1	54.4	279.7	202.3
Equity earnings from IOC	45.9	37.8	229.6	126.0
Net income	78.2	73.9	379.8	227.2
Net income per share	\$ 1.22	\$ 1.16	\$ 5.93	\$ 3.55
Dividend(s) from IOC	48.5	86.6	227.8	86.6
Cash flow from operations	106.6	116.0	402.4	175.4
Cash flow from operations per share ⁽¹⁾	\$ 1.67	\$ 1.81	\$ 6.29	\$ 2.74
Adjusted cash flow ⁽¹⁾	81.6	116.4	382.6	198.0
Adjusted cash flow per share ⁽¹⁾	\$ 1.27	\$ 1.82	\$ 5.98	\$ 3.09
Dividends declared per share	\$ 1.15	\$ 1.80	\$ 6.00	\$ 3.05

(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 2021 as compared to 2020 were mainly due to (i) higher iron ore concentrate prices and pellet premiums as global steel production rebounded as the global economy recovered from the COVID-19 lock-downs of 2020, (ii) partially offset by lower sales of CFS. Sales were lower in 2021 than in 2020 mainly as a result of the lower production volumes due to labour and equipment availability issues during the year which impacted feed availability, as well as a fire at the Sept-Îles port facility on Reclaimer No. 2 in March.

Capital expenditures for IOC in 2021 were \$498 million in total as compared to \$288 million in 2020. At the beginning of 2021 IOC forecasted that capital expenditures for 2021 would be approximately \$460 million. Capital expenditures in 2021 were higher than 2020, mainly because of the decision by IOC in 2020 to defer some projects to 2021 and 2022 because the impact of COVID-19 on the market for high grade iron ore was unknown at that time, and because of the difficulty in getting contractors to site due to COVID-19 restrictions and protocols. Capital expenditures in 2021 also included the repair of Reclaimer No. 2 that incurred fire damage.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fourth quarter 2021 sales (pellets and CFS) were higher year-over-year by 2% despite lower saleable production due to timing differences in the sales process. Royalty income was \$59.5 million for the quarter as compared to \$53.9 million for the same period in 2020. Fourth quarter 2021 cash flow from operations was \$106.6 million or \$1.67 per share compared to 2020 of \$116.0 million or \$1.81 per share. LIORC received an IOC dividend in the fourth quarter of 2021 in the amount of \$48.5 million or \$0.76 per share (2020 – \$86.6 million or \$1.35 per share). Equity earnings from IOC amounted to \$45.9 million or \$0.72 per share in the fourth quarter of 2021 compared to \$37.8 million or \$0.59 per share for the same period in 2020.

Operating Highlights

IOC Operations	Three Months Ended December 31,		Year Ended December 31,	
	2021	2020	2021	2020
	(in millions of tonnes)			
Sales⁽¹⁾				
Pellets	2.89	2.56	9.97	10.17
Concentrate for sale (“CFS”) ⁽²⁾	1.55	1.81	6.87	8.16
Total ⁽³⁾	4.44	4.37	16.84	18.33
Production				
Concentrate produced	4.77	4.88	17.89	18.66
Saleable production				
Pellets	2.54	2.46	9.99	9.58
CFS	1.72	2.21	6.58	8.14
Total ⁽³⁾	4.25	4.67	16.57	17.72
Average index prices per tonne (US\$)				
65% Fe index ⁽⁴⁾	\$ 129	\$ 146	\$ 185	\$ 122
62% Fe index ⁽⁵⁾	\$ 110	\$ 134	\$ 159	\$ 109
Pellet premium ⁽⁶⁾	\$ 56	\$ 28	\$ 60	\$ 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. The average price for the 65% Fe index increased 52% to US\$185 per tonne in 2021 compared to the average price in 2020 of US\$122 per tonne. In 2021 global steel production rebounded as the global economy recovered from the Covid-19 lock-downs of 2020. This resulted in increased demand from China and the rest of the world for seaborne iron ore. IOC also benefited from the fact that the premium for the 65% Fe index compared to the 62% Fe index, increased to US\$26 per tonne in 2021 as compared to US\$13 per tonne in 2020. The 62% Fe index averaged US\$159 per tonne in 2021 compared to US\$109 per tonne in 2020. The rebound in the global economy during 2021 also increased the demand for pellets in China and various markets across Europe and North America. The pellet premium averaged US\$60 per tonne in 2021, an increase of 108% from 2020.

The average price realized by IOC for CFS and pellets, FOB Sept-Îles, was approximately C\$246 per tonne in 2021 compared to C\$155 per tonne in 2020. The increase in the average realized price FOB Sept-Îles in 2021 was a result of higher CFS prices, and higher pellet premiums.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Liquidity and Capital Resources

The Corporation had \$82.9 million (2020 – \$106.1 million) in cash as at December 31, 2021 with total current assets of \$132.6 million (2020 – \$164.4 million). The Corporation had working capital of \$29.7 million (2020 – \$31.0 million). The Corporation's operating cash flow was \$402.4 million (2020 – \$175.4 million) and dividends paid during the year were \$425.6 million, resulting in cash balances decreasing by \$23.2 million during 2021.

Cash balances consist of deposits in Canadian dollars and US dollars with Canadian chartered banks. Accounts receivable primarily consist of royalty payments from IOC. Royalty payments are received in U.S. dollars and converted to Canadian dollars on receipt, usually 25 days after the quarter end. The Corporation does not normally attempt to hedge this short-term foreign currency exposure.

Operating cash flow of the Corporation is sourced entirely from IOC through the Corporation's 7% royalty, 10 cents commission per tonne and dividends from its 15.10% equity interest in IOC. The Corporation normally pays cash dividends from its net income to the maximum extent possible, subject to the maintenance of appropriate levels of working capital. The Corporation has a \$30 million revolving credit facility with a term ending September 18, 2024 with provision for annual one-year extensions. No amount is currently drawn under this facility leaving \$30 million available to provide for any capital required by IOC or requirements of the Corporation.

Selected Consolidated Financial Information

The following table sets out financial data from a Shareholder's perspective for the three years ended December 31, 2021, 2020 and 2019.

Description	Years Ended December 31		
	2021	2020	2019
	<i>(in millions except per share information)</i>		
Revenue	\$ 279.7	\$ 202.3	\$ 178.3
Net Income	\$ 379.8	\$ 227.2	\$ 205.3
Net Income per Share	\$ 5.93	\$ 3.55	\$ 3.21
Cash Flow from Operations	\$ 402.4 ⁽¹⁾	\$ 175.4 ⁽²⁾	\$ 224.6 ⁽³⁾
Cash Flow from Operations per Share	\$ 6.29 ⁽¹⁾	\$ 2.74 ⁽²⁾	\$ 3.51 ⁽³⁾
Total Assets	\$ 789.3	\$ 823.2	\$ 743.0
Dividends Declared per Share	\$ 6.00	\$ 3.05	\$ 4.00
Number of Common Shares outstanding	64.0	64.0	64.0

(1) Includes IOC dividends totaling \$227.8 million or 3.56 per Share.

(2) Includes IOC dividend totaling \$86.6 million or 1.35 per Share.

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

The following table sets out quarterly revenue, net income, cash flow and dividend data for 2021 and 2020. Due to seasonal weather patterns the first and fourth quarters generally have lower production and sales. Royalty revenues and equity earnings in

MANAGEMENT'S DISCUSSION AND ANALYSIS

IOC track iron ore spot prices, which can be very volatile. Dividends, included in cash flow, are declared and paid by IOC irregularly according to the availability of cash.

	Revenue	Net Income	Net Income per Share	Cash Flow	Cash Flow from Operations per Share	Adjusted Cash Flow per Share ⁽¹⁾	Dividends Declared per Share
<i>(in millions except per share information)</i>							
2021							
First Quarter	\$ 65.7	\$ 86.6	\$ 1.35	\$ 42.7 ⁽²⁾	\$ 0.67 ⁽²⁾	\$ 0.87 ⁽²⁾	\$ 1.00
Second Quarter	\$ 79.2	\$ 110.2	\$ 1.72	\$ 115.9 ⁽³⁾	\$ 1.81 ⁽³⁾	\$ 1.85 ⁽³⁾	\$ 1.75
Third Quarter	\$ 74.7	\$ 104.8	\$ 1.64	\$ 137.3 ⁽⁴⁾	\$ 2.15 ⁽⁴⁾	\$ 1.99 ⁽⁴⁾	\$ 2.10
Fourth Quarter	\$ 60.1	\$ 78.2	\$ 1.22	\$ 106.6 ⁽⁵⁾	\$ 1.67 ⁽⁵⁾	\$ 1.27 ⁽⁵⁾	\$ 1.15
2020							
First Quarter	\$ 48.3	\$ 46.7	\$ 0.73	\$ 10.7	\$ 0.17	\$ 0.42	\$ 0.35
Second Quarter	\$ 46.7	\$ 48.9	\$ 0.76	\$ 37.6	\$ 0.58	\$ 0.40	\$ 0.45
Third Quarter	\$ 52.9	\$ 57.7	\$ 0.90	\$ 11.1	\$ 0.17	\$ 0.46	\$ 0.45
Fourth Quarter	\$ 54.4	\$ 73.9	\$ 1.16	\$ 116.0 ⁽⁶⁾	\$ 1.81 ⁽⁶⁾	\$ 1.82 ⁽⁶⁾	\$ 1.80

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

(2) Includes \$19.0 million IOC dividend.

(3) Includes \$74.4 million IOC dividend.

(4) Includes \$85.8 million IOC dividend.

(5) Includes \$48.5 million IOC dividend.

(6) Includes \$86.6 million IOC dividend.

Standardized Cash Flow and Adjusted Cash Flow

For the Corporation, standardized cash flow is the same as cash flow from operating activities as recorded in the Corporation's cash flow statements as the Corporation does not incur capital expenditures or have any restrictions on dividends. Standardized cash flow per share was \$6.29 for 2021 (2020 – \$2.74).

The Corporation also reports "Adjusted cash flow" which is defined as cash flow from operating activities after adjustments for changes in amounts receivable, accounts payable and income taxes recoverable and payable. It is not a recognized measure under IFRS. The Directors believe that adjusted cash flow is a useful analytical measure as it better reflects cash available for distributions to Shareholders.

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

	2021	2020
Standardized cash flow from operating activities	\$402,422	\$175,432
Changes in amounts receivable, accounts and interest payable and income taxes recoverable and payable	(19,842)	22,605
Adjusted cash flow	\$382,580	\$198,037
Adjusted cash flow per share	\$ 5.98	\$ 3.09

MANAGEMENT'S DISCUSSION AND ANALYSIS

Disclosure Controls and Internal Control over Financial Reporting

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

The Directors are informed of all material information relating to the Corporation and its subsidiary by the officers of the Corporation on a timely basis and approve all core disclosure documents including the Management Information Circular, the annual and interim financial statements and related Management's Discussion and Analyses, the Annual Information Form, any prospectuses and all press releases. An evaluation of the design and operating effectiveness of the Corporation's disclosure controls and procedures was conducted under the supervision of the CEO and CFO. Based on their evaluation, they concluded that the Corporation's disclosure controls and procedures were effective in ensuring that all material information relating to the Corporation was accumulated and communicated for the year ended December 31, 2021.


The President and CEO and the CFO have designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. An evaluation of the design and operating effectiveness of the Corporation's internal control over financial reporting was conducted under the supervision of the CEO and CFO. Based on their evaluation, they concluded that the Corporation's internal control over financial reporting was effective and that there were no material weaknesses therein for the year ended December 31, 2021.

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

No material change in the Corporation's internal control over financial reporting occurred during the year ended December 31, 2021.

Additional information

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



John F. Tuer
President and Chief Executive Officer

Toronto, Ontario
March 11, 2022


MANAGEMENT'S REPORT

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

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

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

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



John F. Tuer
President and Chief Executive Officer



Alan R. Thomas
Chief Financial Officer

Toronto, Ontario
March 11, 2022

INDEPENDENT AUDITOR'S REPORT

■ To the Shareholders of Labrador Iron Ore Royalty Corporation

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Labrador Iron Ore Royalty Corporation and its subsidiary (together, the Company) as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2021 and 2020;
- the consolidated statements of income and comprehensive income for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of changes in equity for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

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

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

INDEPENDENT AUDITOR'S REPORT

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

How our audit addressed the key audit matter

Assessment of impairment indicators for investment in Iron Ore Company of Canada (IOC) and the IOC royalty and commission interests

Refer to note 3 – Summary of significant accounting policies, note 5 – IOC royalty and commission interests and note 6 – Investment in IOC to the consolidated financial statements.

IOC royalty and commission interests are carried at cost less accumulated amortization and the investment in IOC is accounted for using the equity method and their carrying values as at December 31, 2021 were \$235 million and \$421 million, respectively. The Company's investment in IOC and the IOC royalty and commission interests are tested for impairment if there is an indicator of impairment. Management applies significant judgement in assessing whether indicators of impairment exist at the end of each reporting period, such as significant changes in long-term commodity prices, a decline in IOC's financial performance and changes in interest rates.

We considered this a key audit matter due to (i) the significant of the IOC royalty and commissions interests and investment in IOC, (ii) the significant judgement required by management and (iii) the significant audit effort and subjectivity in applying audit procedures to assess the factors evaluated by management in its assessment of impairment indicators.

Our approach to addressing the matter included the following procedures, among others:

- Assessed the completeness of factors that could be considered as indicators of impairment of the Company's investment in IOC and the IOC royalty and commission interests, including consideration of evidence obtained in other areas of the audit.
- Assessed the past and current financial performance of IOC to determine whether there was evidence of a decline in financial performance.
- Assessed changes in long-term commodity prices by considering external market data.
- Assess changes in interest rates by considering external market data.

Other information

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

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

*PricewaterhouseCoopers LLP
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T: +1 416 863 1133, F: +1 416 365 8215*

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INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 11, 2022

LABRADOR IRON ORE ROYALTY CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

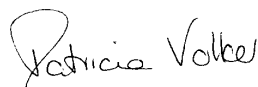
	As at	
	December 31,	
	2021	2020
	<i>(Audited)</i>	
<i>(in thousands of Canadian dollars)</i>		
Assets		
Current Assets		
Cash and short-term investments	\$ 82,913	\$ 106,091
Amounts receivable (note 4)	49,681	58,336
Total Current Assets	132,594	164,427
Non-Current Assets		
Iron Ore Company of Canada (“IOC”) royalty and commission interests (note 5)	235,341	241,511
Investment in IOC (note 6)	421,376	417,284
Total Non-Current Assets	656,717	658,795
Total Assets	\$ 789,311	\$ 823,222
Liabilities and Shareholders’ Equity		
Current Liabilities		
Accounts payable	\$ 10,786	\$ 12,533
Dividend payable (note 7)	73,600	115,200
Taxes payable	18,625	5,691
Total Current Liabilities	103,011	133,424
Non-Current Liabilities		
Deferred income taxes (note 9)	122,240	123,430
Total Liabilities	225,251	256,854
Shareholders’ Equity		
Share capital (note 10)	317,708	317,708
Retained earnings	257,772	262,000
Accumulated other comprehensive loss (note 11)	(11,420)	(13,340)
	564,060	566,368
Total Liabilities and Shareholders’ Equity	\$ 789,311	\$ 823,222

See accompanying notes to consolidated financial statements.

Approved by the Directors,



John F. Tuer
Director



Patricia M. Volker
Director

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

(in thousands of Canadian dollars except for per share information)

	For the Year Ended December 31,	
	2021	2020
	<i>(Audited)</i>	
Revenue		
IOC royalties	\$ 277,809	\$ 200,125
IOC commissions	1,657	1,804
Interest and other income	259	365
	<u>279,725</u>	<u>202,294</u>
Expenses		
Newfoundland royalty taxes	55,562	40,025
Amortization of royalty and commission interests	6,170	6,190
Administrative expenses	3,002	3,126
	<u>64,734</u>	<u>49,341</u>
Income before equity earnings and income taxes	214,991	152,953
Equity earnings in IOC (note 6)	229,590	126,024
Income before income taxes	<u>444,581</u>	<u>278,977</u>
Provision for income taxes (note 9)		
Current	66,338	47,669
Deferred	(1,529)	4,113
	<u>64,809</u>	<u>51,782</u>
Net income for the year	379,772	227,195
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 (recovery) of 2021 – \$339; 2020 – (\$523)) (note 11)	1,920	(2,964)
Comprehensive income for the year	<u>\$ 381,692</u>	<u>\$ 224,231</u>
Net income per share	<u>\$ 5.93</u>	<u>\$ 3.55</u>

See accompanying notes to consolidated financial statements.

LABRADOR IRON ORE ROYALTY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

	For the Year Ended December 31,	
	2021	2020
	<i>(Audited)</i>	
Net inflow (outflow) of cash related to the following activities		
Operating		
Net income for the year	\$ 379,772	\$ 227,195
Items not affecting cash:		
Equity earnings in IOC	(229,590)	(126,024)
Current income taxes	66,338	47,669
Deferred income taxes	(1,529)	4,113
Amortization of royalty and commission interests	6,170	6,190
Common share dividend from IOC	227,757	86,563
Change in amounts receivable	8,655	(22,180)
Change in accounts payable	(1,747)	4,594
Income taxes paid	(53,404)	(52,688)
Cash flow from operating activities	<u>402,422</u>	<u>175,432</u>
Financing		
Dividend paid to shareholders	(425,600)	(147,200)
Cash flow used in financing activities	<u>(425,600)</u>	<u>(147,200)</u>
(Decrease) increase in cash, during the year	(23,178)	28,232
Cash, beginning of year	106,091	77,859
Cash, end of year	<u>\$ 82,913</u>	<u>\$ 106,091</u>

See accompanying notes to consolidated financial statements.

LABRADOR IRON ORE ROYALTY CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Retained earnings	Accumulated other comprehensive loss	Total
<i>(in thousands of Canadian dollars)</i>				
			<i>(Audited)</i>	
Balance as at December 31, 2019	\$ 317,708	\$ 230,005	\$ (10,376)	\$ 537,337
Net income for the year	—	227,195	—	227,195
Dividends declared to shareholders	—	(195,200)	—	(195,200)
Share of other comprehensive loss from investment in IOC (net of taxes)	—	—	(2,964)	(2,964)
Balance as at December 31, 2020	\$ 317,708	\$ 262,000	\$ (13,340)	\$ 566,368
Balance as at December 31, 2020	\$ 317,708	\$ 262,000	\$ (13,340)	\$ 566,368
Net income for the year	—	379,772	—	379,772
Dividends declared to shareholders	—	(384,000)	—	(384,000)
Share of other comprehensive income from investment in IOC (net of taxes)	—	—	1,920	1,920
Balance as at December 31, 2021	\$ 317,708	\$ 257,772	\$ (11,420)	\$ 564,060

See accompanying notes to consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

1. Corporate Information

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

These consolidated financial statements were authorized for issuance by the Board of Directors of the Corporation on March 11, 2022.

2. Basis of Presentation

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

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.

3. Summary of Significant Accounting Policies

(a) Basis of consolidation

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

(b) Financial instruments

The Corporation initially recognizes deposits, receivables and liabilities on the date that they were originated. All other financial assets and liabilities are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

All financial assets and liabilities are initially measured at fair value and in the case of a financial asset or liability not at fair value through profit or loss, plus or minus transaction costs that are directly attributable to its acquisition or issue. In subsequent periods, financial instruments are recorded at amortized cost.

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

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

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

rewards of ownership of the financial asset are transferred. Any interest in a transferred financial asset that is created or retained by the Corporation is recognized as a separate asset or liability.

The Corporation derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statements of financial position when, and only when, the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(c) Investment in associate

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

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

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

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

(d) Revenue recognition

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

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

(e) IOC royalty and commission interests

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

(f) Asset impairment

At each balance sheet date, the Corporation's investment in IOC and the IOC royalty and commission interests are tested for impairment if there is an indicator of impairment. Impairment is recognized if the recoverable amount, determined as the higher of the estimated fair value less costs of disposal or the value in use, is less than the carrying value.

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the relevant asset for which the estimates

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

of future cash flows have not been adjusted. The projections of future cash flows take into account the relevant operating plans and management's best estimate of the most probable set of conditions anticipated to prevail.

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

(g) Income taxes

The Corporation and Hollinger-Hanna are taxable corporations.

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

(h) Restricted share units

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

(i) Foreign currency transactions

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

(j) Segment reporting

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

(k) Critical judgments and estimates

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Critical judgments in applying accounting policies

Determination of significant influence over investment in IOC

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

Income taxes

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

Critical accounting estimates and assumptions

Ore reserves and resources

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

Asset impairment

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Amounts Receivable

Amounts receivable consist of the following:

	2021	2020
IOC royalties	\$ 49,530	\$ 58,140
IOC commissions	136	182
Other	15	14
	<u>\$ 49,681</u>	<u>\$ 58,336</u>

5. IOC Royalty and Commission Interests

	2021	2020
7% Overriding royalty interest, at cost	\$ 351,617	\$ 351,617
Commission interest, at cost	13,661	13,661
Accumulated amortization	(129,937)	(123,767)
	<u>\$ 235,341</u>	<u>\$ 241,511</u>

6. Investment in IOC

The Corporation holds, directly and through Hollinger-Hanna, all of the Series B and Series C common shares of IOC, representing a 15.10% equity interest in the company as at December 31, 2021 and 2020. The Series B and Series C common shares have identical voting rights to all other issued and outstanding common shares of IOC.

	2021	2020
Investment in IOC, beginning of year	\$ 417,284	\$ 381,310
Equity earnings in IOC	229,590	126,024
Other comprehensive gain (loss) of IOC	2,259	(3,487)
Common share dividend received	(227,757)	(86,563)
Investment in IOC, end of year	<u>\$ 421,376</u>	<u>\$ 417,284</u>

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

The net excess of cost of the Investment in IOC over the net book value of underlying net assets amounts to \$40,251 (2020 – \$41,306) and is being amortized to net income on the units-of-production method based on actual production in the current year and estimated production of iron ore over the life of mine at IOC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	2021	2020
Common share dividends received from IOC	\$ 227,757	\$ 86,563
Amounts per IOC's financial statements:		
Current assets	\$ 757,029	\$ 896,125
Non-current assets	3,767,102	3,437,753
Current liabilities	740,174	666,427
Non-current liabilities	1,290,331	1,192,612
Revenue	4,147,028	3,098,559
Net income	1,551,169	841,609
Other comprehensive income	14,961	(23,095)
Comprehensive income	1,566,130	818,514

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

	2021	2020
IOC net assets, beginning of year	2,470,302	2,228,470
Net income of IOC	1,551,169	841,609
Accounting policy alignment adjustments	(23,721)	—
Share based transactions with other shareholders	(4,189)	(3,417)
Other comprehensive income of IOC	14,961	(23,095)
Common share dividends declared and paid	(1,508,325)	(573,265)
IOC net assets, end of year	2,500,197	2,470,302
Ownership interest	15.1%	15.1%
Share of net assets	377,530	373,016
Adjustments:		
Excess cost over net book value	40,251	41,306
Other	3,596	2,962
Carrying value – Investment in IOC	421,376	417,284

Commitments

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

7. Dividends to Shareholders

A cash dividend of \$1.15 per common share was declared by the Directors of the Corporation payable to shareholders of record on December 31, 2021 and paid on January 26, 2022.

Total dividends to shareholders as declared by the Directors of the Corporation in 2021 were \$384,000 or \$6.00 per share (2020 – \$195,200 or \$3.05 per share).

On March 11, 2022 a cash dividend of \$0.50 per common share was declared by the Directors of the Corporation payable to shareholders of record at the close of business on March 31, 2022 and to be paid on April 26, 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. Debt

The Corporation has a \$30,000 revolving senior secured credit facility to September 18, 2024 with provision for annual one-year extensions. The credit facility provides for various forms of advances at the option of the Corporation. Various interest options are available for these revolving credits and a standby fee is payable on the unadvanced portion of the facility. The facility is secured by an assignment of the Corporation's and Hollinger-Hanna's interests in the IOC common shares, the IOC royalty and commission interests, and other assets of the Corporation and requires that the Corporation maintain certain financial ratios.

As at December 31, 2021, no amount was drawn on the credit facility (2020 – nil) leaving \$30,000 available to provide for any investment in IOC or other Corporation requirements.

9. Income Taxes

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

	2021	2020
Income before income taxes	\$ 444,581	\$ 278,977
Income taxes at combined federal and provincial statutory tax rates of 30.0%	133,374	83,693
Increase (decrease) in income taxes resulting from:		
Undistributed equity earnings in investment in IOC	(34,439)	(18,904)
Equity earnings distributed as dividends	(34,164)	(12,984)
Other	38	(23)
Income tax expense	\$ 64,809	\$ 51,782

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

The deferred tax liability is comprised of the following:

	Opening Balance	Recognized in net income	Recognized in other comprehensive income (loss)	Closing Balance
December 31, 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
December 31, 2021				
Difference in tax and book value of assets	\$ 123,925	\$ (1,575)	\$ 339	\$ 122,689
Tax benefit of deductible temporary differences	(495)	46	—	(449)
Net deferred income tax liability	\$ 123,430	\$ (1,529)	\$ 339	\$ 122,240

The deferred tax liability attributable to the difference in tax and book value of the IOC royalty and commission interests is \$70,602 (2020 – \$72,453). The deferred tax liability attributable to the difference in tax and book value of the investment in IOC is \$52,085 (2020 – \$51,469).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. Share Capital

The Corporation's authorized share capital includes an unlimited number of common shares (64 million common shares issued and outstanding) having no par value as at December 31, 2021 and 2020.

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

11. Accumulated Other Comprehensive Loss

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

	Net actuarial gain (loss) on IOC's defined benefit plans (net of tax)
Balance, January 1, 2020	\$ (10,376)
Other comprehensive loss, net of income tax recovery of \$523	(2,964)
Balance, December 31, 2020	\$ (13,340)
Balance, January 1, 2021	\$ (13,340)
Other comprehensive income, net of income tax expense of \$339	1,920
Balance, December 31, 2021	\$ (11,420)

12. Capital Management

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

13. Fair Value of Financial Instruments

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

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

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

14. Financial Instrument Risk Management

Commodity price risk

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

Based on gross royalties for the year ended December 31, 2021, an increase or decrease in sale price of iron ore by 5% with all other variables held constant could have a favourable or unfavourable impact of approximately \$7,779 (2020 – \$5,603), respectively, on net income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Currency risk

The Corporation derives dividends and royalty income from IOC denominated in US dollars. From time to time the Corporation may enter into financial agreements with banks and other financial institutions to reduce the underlying risks associated with this foreign currency denominated income. As at December 31, 2021 and 2020, there were no foreign exchange contracts outstanding.

Based on financial instrument balances as at December 31, 2021, a strengthening or weakening of the Canadian dollar to the U.S. dollar by 1% with all other variables held constant could have an unfavourable or favourable impact of approximately \$290 (2020 – \$295), respectively, on net income.

Based on gross royalties for the year ended December 31, 2021, a strengthening or weakening of the Canadian dollar to the U.S. dollar by 1% with all other variables held constant could have an unfavourable or favourable impact of approximately \$1,578 (2020 – \$1,072), respectively, on net income.

Liquidity risk

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

As at December 31, 2021 the Corporation held \$82,913 in cash and cash equivalents (2020 – \$106,091). The Corporation's financial liabilities of \$103,011 (2020 – \$133,424) are due within one year.

Credit risk

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

15. Key Management Personnel Compensation

Key management personnel are the President and Chief Executive Officer, Executive Vice President, the Chief Financial Officer, the Secretary and directors. Their remuneration for the year ended December 31, 2021 was comprised of salaries, bonus, RSUs accrued to date and fees totaling \$1,630 (2020 – \$1,746).

16. Share-Based Payments

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

Under the Plan, selected employees receive an award of RSUs which vest in three equal installments on each of the first, second and third anniversary of the award date. Upon vesting all RSUs are paid in cash to the employee. The share-based payment expense is recognized evenly over the vesting period. As at December 31, 2021, there were 13,761 (2020 – 13,842) RSUs awarded and outstanding. For the year ended December 31, 2021, compensation expense of \$450 (2020 – \$426) was accrued in connection with the RSUs, respectively.

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President and CEO of
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Company Director

Douglas F. McCutcheon⁽¹⁾

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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

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