

LABRADOR IRON ORE
ROYALTY CORPORATION

2023



**ANNUAL
REPORT**

86 YEARS IN LABRADOR WEST

■ Annual and Special Meeting

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

Date Thursday, May 16, 2024

Time 11.00 a.m

Place The Lennox Hall, Oliver & Bonacini Events, 77 Adelaide Street West, First Canadian Place, Fourth Floor, Toronto, Ontario, Canada. For information on attending the meeting virtually, see Labrador Iron Ore Royalty Corporation's Notice of Annual and Special 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 14, 2024, pursuant to the requirements set out in the Form of Proxy and Management Information Circular.

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 licenses 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 12, 2024 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.sedarplus.ca.

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CORPORATE PROFILE

■ 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, sold and shipped by IOC and a \$0.10 per tonne commission on all iron ore products produced and sold by IOC from the leased lands.

As at December 31, 2023, 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 the free cash flow generated from IOC to the maximum extent possible, subject to the maintenance of appropriate levels of working capital. Currently, quarterly dividends are payable to all shareholders of record on the last business day of each calendar quarter and are paid on or after the 26th day of the following month. 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, 2023 LIORC had a Board of seven Directors, an Audit Committee and a Governance and Human Resources Committee. The Audit and Governance and Human Resources Committees are composed of four independent Directors.

The financial statements and information derived therefrom are 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	2023	2022
	(\$ in millions except per share information)	
Revenue	201.3	232.9
Net Income	186.3	265.4
Cash Flow from Operations	152.5 ⁽¹⁾	184.2 ⁽²⁾
Net Income per Share	\$ 2.91	\$ 4.15
Cash Flow from Operations per Share	\$ 2.38 ⁽¹⁾	\$ 2.88 ⁽²⁾
Dividends Declared per Share	\$ 2.55	\$ 3.10

(1) Includes IOC dividends totaling \$50.4 million or \$0.79 per Share.

(2) Includes IOC dividends totaling \$69.1 million or \$1.08 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, 2023.

86 Years in Labrador West

Labrador Iron Ore Royalty Corporation has been involved in Labrador West for 86 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 sublets 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 2023, LIORC’s financial results were negatively impacted by lower iron ore prices and lower pellet premiums, as well as a less advantageous product mix (lower volumes of pellet sales and higher volumes of concentrate for sale (“CFS”) sales). Net income per share for the year ended December 31, 2023 was \$2.91 per share, which was a 30% decrease over 2022. The cash flow from operations per share for 2023 was \$2.38 per share, which was 17% lower than in 2022 due to lower royalty revenues and decreased dividends from IOC. IOC dividends decreased as a result of lower earnings at IOC and a decision by IOC to pay lower shareholder dividends in order to retain a higher cash balance due in part to expectations of higher capital expenditure needs going forward. In 2023, IOC paid dividends to its shareholders totalling US\$250 million and had a year-end net working capital balance of US\$345.8 million, compared to dividends of US\$345 million and a year-end net working capital balance of US\$274.7 million in 2022.

In December 2023 steel production in China, which had seen 1.5% growth year-to-date, dropped 15% relative to December 2022. As a result, global steel production ended the year flat relative to 2022, and 5% lower than 2021, when the market experienced record prices for iron ore. On the supply side, three producers, Rio Tinto, BHP and Vale, account for over half the world’s volume of seaborne iron ore. The combined production of iron ore in calendar 2023 by these producers was 907 million tonnes, an increase of 2.4% over calendar 2022.

IOC sells CFS based on the the Platts index for 65% Fe, CFR China (the “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 2023, the average price for the 65% Fe index was US\$132 per tonne, a decrease of 5% year over year. The 65% Fe index continued to be quite volatile throughout the year, starting the year at US\$131 per tonne and trading as low as US\$110 per tonne in May, before ending the year at US\$151 per tonne.

In addition to the reduction in iron ore prices, pellet premiums dropped as steel producers, faced with tightening profit margins, substituted high quality pellets with cheaper, lower quality iron feed.

The monthly Atlantic Blast Furnace 65% Fe pellet premium index as quoted by Platts (the “pellet premium”) averaged US\$45 per tonne in 2023, a decrease of 38% from 2022.

Rio Tinto disclosed that IOC achieved an average realised price for pellets, FOB Sept-Îles of approximately US\$155 per tonne, a decrease of 18% year over year. 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 US\$130 per tonne in 2023, a decrease of 15% year over year. The decrease in the average realized price FOB Sept-Îles in 2023 was a result of lower CFS and pellet prices.

REPORT TO SHAREHOLDERS

Iron Ore Company of Canada Operations

Operations

Total concentrate production in 2023 was 17.7 million tonnes. This was 7% lower than 2022. While concentrate production was 5% higher in the fourth quarter of 2023 compared to the fourth quarter of 2022, this was not enough to offset the lower concentrate production in the third quarter due to unexpected equipment failures with the thickener rake drive and the overland delivery system conveyor belt and the lower concentrate production in the second quarter due to the impact of the forest fires.

The IOC saleable production (CFS plus pellets) of 16.5 million tonnes in 2023 was 6% lower than 2022 and was 8% lower than the low end of the range of Rio Tinto's original annual guidance of 17.9 to 19.6 million tonnes, due to extended plant downtime in the second and third quarters as a result of the equipment failures and forest fires referred to above. Saleable production in the fourth quarter of 4.6 million tonnes was 7% higher than the fourth quarter of 2022. In 2023, CFS production of 8.2 million tonnes was 3% higher than 2022, mainly due to less concentrate being diverted to make pellets. Pellet production in 2023 of 8.3 million tonnes was 14% lower than 2022, partly as a result of lack of feed, as well as an increase in the duration of the induration machine 3 rebuild.

Despite the forest fires that limited rail service in the second quarter of 2023, third party iron ore haulage by the Québec North Shore and Labrador Railway Company, Inc. ("QNS&L") of 17.7 million tonnes in 2023 was 21% higher than in 2022 and 38% higher than in 2021, predominantly due to increased shipments of iron ore from Champion Iron Limited.

Sales as Reported for the LIORC Royalty

Total iron ore sales tonnage by IOC (CFS plus pellets) of 16.3 million tonnes in 2023 was 1% lower than the total sales tonnage in 2022, predominantly due to inventory availability in both 2023 and 2022.

Capital Expenditures

Capital expenditures for IOC were US\$362 million in 2023, or 2% lower than 2022. Capital expenditures in 2023 were 11% lower than the US\$407 million that IOC had originally forecasted, mainly due to the decision by IOC to defer certain capital projects, including the rebuild of shovel 101 at the mine and culvert replacements along the QNS&L line, and delays in the development of the mine wireless network, the execution of the Mill 11 fine circuit redesign project to increase recovery yield, and the replacement of existing heavy fuel oil steam capacity with an electric boiler to reduce carbon emissions.

Outlook

Rio Tinto's 2024 guidance for IOC's saleable production tonnage (CFS plus pellets) is 16.7 million to 19.6 million tonnes. This compares to 16.5 million tonnes of saleable production in 2023.

Despite ongoing lower pellet premiums, it is expected that IOC will continue to focus on maximizing pellet production in 2023.

The capital expenditures for 2024 at IOC are forecasted by IOC to be approximately US\$431 million. The 2024 forecast includes approximately US\$80 million of growth and development projects. Significant development capital expenditure projects include the redesign of Mill 11 Fine Circuit and the replacement of existing heavy fuel oil steam capacity with an electric boiler, which projects were previously scheduled for 2023 but delayed. Significant sustaining capital expenditure projects include the track replacement program at QNS&L to ensure the safe and efficient operation of the increased rail traffic.

In September, IOC announced a major donation of \$4 million over two years to the Cégep de Sept-Îles in Québec, Canada for the construction of its new pavilion for training, research and innovation in the railway, industrial maintenance and energy intelligence industries. The new partnership will strengthen Sept-Îles' position as a centre of excellence for specialised training in railway operations and provide local Indigenous communities with additional training and employment opportunities.

REPORT TO SHAREHOLDERS

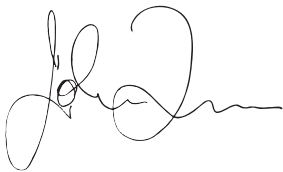
IOC's operator, Rio Tinto, continues to be committed to reaching net zero emissions by 2050 and is targeting a 15% reduction in Scope 1 & 2 emissions by 2025 and a 50% reduction by 2030⁽¹⁾ (from a 2018 equity baseline). Approximately 70% of IOC's current total greenhouse gas ("GHG") emissions come from pelletizing. In 2023, IOC began its pilot project to test the use of four new plasma torches in the pellet plant, which could potentially replace the use of bunker 'C' fuel oil in the induration process. More immediately, IOC has initiated a project (expected to be completed in the first half of 2025) to install an electric boiler to displace emissions from the usage of the heavy fuel oil boilers, as well as instrumentation and fuel-efficient burners to further reduce heavy fuel oil consumption in the induration process. Through the Low Carbon Economy Fund, the Government of Canada has awarded \$18.1 million (or approximately 25% of the expected total cost of the project) to IOC to support the project, which is expected to eliminate approximately 9% of IOC's GHG emissions, or a cumulative reduction of about 2.2 million tonnes of GHG emissions over the lifetime of the project.

Rio Tinto's approach to addressing Scope 3 emissions is to engage with its customers on climate change and work with them to develop the technologies to decarbonize. Steel production currently accounts for approximately 9% of GHG emissions. Strategies to reduce steel production GHG emissions include optimizing the use of traditional blast furnaces through the use of higher-grade iron ore (such as that produced by IOC), and more importantly processing high-grade direct reduction iron ore pellets (such as those produced by IOC) for use as direct feed in electric arc furnaces. In regard to this second process, Rio Tinto has stated that it is studying the feasibility of building a hydrogen-based hot briquetted iron plant at IOC. The proposed plant would have access to high-grade Direct Reduction pellets from IOC, and renewable electricity, with the prospect of producing green hydrogen.

Despite ongoing concerns regarding the global economy and the property sector in China in particular, the outlook for steel demand and for iron ore prices remains quite robust. Currently, the World Steel Association is forecasting a 1.9% increase in global steel production for 2024. Thus far in 2024 (January and February), the average price of the 65% Fe index has been US\$142 per tonne, up from an average of US\$132 per tonne in 2023. However, the demand for pellets has remained weaker and thus far in 2024 (January and February) the average pellet premium has averaged US\$40 per tonne compared to an annual average of US\$45 per tonne in 2023 and an annual average of US\$72 per tonne in 2022.

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

Respectfully submitted on behalf of the
Directors of the Corporation,



John E. Tuer
President and Chief Executive Officer
March 12, 2024

(1) Source: Rio Tinto Climate Change Report 2023.

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 on all iron ore products produced, sold and shipped by IOC and a 10 cent per tonne commission on all iron ore products produced and sold by IOC. Generally, LIORC pays cash dividends from the free cash flow generated from IOC to the maximum extent possible, subject to the maintenance of appropriate levels of working capital. Quarterly dividends are payable to all shareholders of record on the last business day of each calendar quarter and are paid on or after the 26th day of the following month.

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 and Governance and Human Resources 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 2023 were “eligible dividends” under the Income Tax Act.

REVIEW OF OPERATIONS

Quarterly Dividends

Dividends of \$2.55 per share were declared in 2023 (2022 – dividends of \$3.10 per share). These dividends were allocated as follows:

Period Ended	Record Date	Payment Date	Dividend Income per Share	Total Dividend (\$ millions)
Mar. 31, 2023	Mar. 31, 2023	Apr. 26, 2023	\$ 0.50	\$ 32.0
Jun. 30, 2023	Jun. 30, 2023	Jul. 26, 2023	0.65	41.6
Sep. 30, 2023	Sep. 29, 2023	Oct. 26, 2023	0.95	60.8
Dec. 31, 2023	Dec. 29, 2023	Jan. 26, 2024	0.45	28.8
Dividend to Shareholders – 2023			\$ 2.55	\$ 163.2
Mar. 31, 2022	Mar. 31, 2022	Apr. 26, 2022	\$ 0.50	\$ 32.0
Jun. 30, 2022	Jun. 30, 2022	Jul. 26, 2022	0.90	57.6
Sep. 30, 2022	Sep. 29, 2022	Oct. 26, 2022	1.00	64.0
Dec. 31, 2022	Dec. 30, 2022	Jan. 26, 2023	0.70	44.8
Dividend to Shareholders – 2022			\$ 3.10	\$ 198.4

The quarterly dividends are payable to all shareholders of record on the last business 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, 2023 and 2022. This discussion should be read in conjunction with the consolidated financial statements of the Corporation and notes thereto for the years ended December 31, 2023 and 2022 which are 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 economically 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,		Twelve Months Ended December 31,	
	2023	2022	2023	2022
	<i>(in millions except per share information)</i>			
Revenue	\$ 54.9	\$ 48.3	\$ 201.3	\$ 232.9
Equity earnings from IOC	\$ 26.2	\$ 19.7	\$ 84.7	\$ 154.1
Net income	\$ 51.4	\$ 44.6	\$ 186.3	\$ 265.4
Net income per share	\$ 0.80	\$ 0.70	\$ 2.91	\$ 4.15
Dividend from IOC	—	\$ 15.4	\$ 50.4	\$ 69.1
Cash flow from operations	\$ 26.4	\$ 60.5	\$ 152.5	\$ 184.2
Cash flow from operations per share ⁽¹⁾	\$ 0.41	\$ 0.95	\$ 2.38	\$ 2.88
Adjusted cash flow ⁽¹⁾	\$ 30.2	\$ 41.9	\$ 161.5	\$ 197.8
Adjusted cash flow per share ⁽¹⁾	\$ 0.47	\$ 0.65	\$ 2.52	\$ 3.09
Dividends declared per share	\$ 0.45	\$ 0.70	\$ 2.55	\$ 3.10

(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 lower revenue, net income and equity earnings achieved in 2023 as compared to 2022 were mainly due to lower iron ore prices and lower pellet premiums, as well as a less advantageous product mix (lower volumes of pellet sales and higher volumes of CFS sales). Iron ore prices and pellet premiums were lower as a result of flat demand for steel and low margins causing steel producers to favour cheaper, low quality iron ore over high quality iron ore products. Total sales tonnage (pellets and CFS) at IOC was 1% lower in 2023 than 2022, predominantly due to operational issues (thickener, overland conveyor, rebuild of induration machine #3, and forest fires, as referenced above) leading to inventory availability issues.

Fourth quarter 2023 sales tonnage (pellets and CFS) was higher year-over-year by 9% due to higher saleable production and improved inventory availability. Royalty revenue was \$54.1 million for the quarter as compared to \$47.6 million for the same period in 2022. Fourth quarter 2023 cash flow from operations was \$26.4 million or \$0.41 per share compared to fourth quarter 2022 cash flow from operations of \$60.5 million or \$0.95 per share. LIORC received no IOC dividend in the fourth quarter of 2023 (2022 – \$15.4 million or \$0.24 per share). Equity earnings from IOC amounted to \$26.2 million or \$0.41 per share in the fourth quarter of 2023 compared to \$19.7 million or \$0.31 per share for the same period in 2022.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Highlights

IOC Operations	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2023	2022	2023	2022
	<i>(in millions of tonnes)</i>			
Sales⁽¹⁾				
Pellets	2.29	1.94	8.37	9.17
Concentrate for sale ("CFS") ⁽²⁾	2.04	2.02	7.92	7.21
Total ⁽³⁾	4.33	3.96	16.29	16.38
Production				
Concentrate produced	5.01	4.76	17.73	19.09
Saleable production				
Pellets	2.39	2.29	8.31	9.61
CFS	2.21	2.02	8.17	7.95
Total ⁽³⁾	4.60	4.31	16.48	17.56
Average index prices per tonne (US\$)				
65% Fe index ⁽⁴⁾	\$ 139	\$ 111	\$ 132	\$ 139
62% Fe index ⁽⁵⁾	\$ 128	\$ 99	\$ 120	\$ 120
Pellet premium ⁽⁶⁾	\$ 37	\$ 61	\$ 45	\$ 72

(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's total concentrate production in 2023 of 17.7 million tonnes, was 7% lower than 2022. While concentrate production was 5% higher in the fourth quarter of 2023 compared to the fourth quarter of 2022, this was not enough to offset the lower concentrate production in the third quarter due to unexpected equipment failures with the thickener rake drive and the overland delivery system conveyor belt and the lower concentrate production in the second quarter due to the impact of the forest fires. IOC's total saleable production (CFS plus pellets) of 16.5 million tonnes in 2023 was 6% lower than 2022, due to extended plant downtime in the second and third quarters as a result of the equipment failures and forest fires referred to above. In 2023, CFS production of 8.2 million tonnes was 3% higher than 2022, mainly due to less concentrate being diverted to make pellets. Pellet production in 2023 of 8.3 million tonnes was 14% lower than 2022, partly as a result of lack of feed, as well as an increase in the duration of the induration machine 3 rebuild.

IOC sells CFS based on the 65% Fe index. In 2023, the average price for the 65% Fe index was US\$132 per tonne, a decrease of 5% year over year, mainly due to an increase in iron ore supply not being met by an increase in global steel production. In addition to the reduction in iron ore prices, pellet premiums dropped as steel producers, faced with tightening profit margins, substituted high quality pellets with cheaper, lower quality iron feed. The monthly pellet premium averaged US\$45 per tonne in 2023, a decrease of 38% from 2022. 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 US\$130 per tonne in 2023, a decrease of 15% year over year. The decrease in the average realized price FOB Sept-Îles in 2023 was a result of lower CFS and pellet prices.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital expenditures for IOC were US\$362 million in 2023, or 2% lower than 2022. Capital expenditures in 2023 were 11% lower than the US\$407 million that IOC had originally forecasted, mainly due to the decision by IOC to defer certain capital projects, including the rebuild of shovel 101 at the mine and culvert replacements along the QNS&L line, and delays in the development of the mine wireless network, the execution of the Mill 11 fine circuit redesign project to increase recovery yield, and the replacement of existing heavy fuel oil steam capacity with an electric boiler to reduce carbon emissions.

Liquidity and Capital Resources

The Corporation had \$13.2 million (2022 – \$39.9 million) in cash as at December 31, 2023 with total current assets of \$67.5 million (2022 – \$83.0 million). The Corporation had working capital of \$27.2 million (2022 – \$29.0 million). The Corporation's operating cash flow was \$152.5 million (2022 – \$184.2 million) and dividends paid during the year were \$179.2 million, resulting in cash balances decreasing by \$26.7 million during 2023.

Cash balances consist of deposits in Canadian dollars and US dollars with a Canadian chartered bank. 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 the free cash flow generated from IOC 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, 2026 with provision for annual one-year extensions. No amount is currently drawn under this facility (2022 – nil) 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, 2023, 2022 and 2021.

Description	Years Ended December 31		
	2023	2022	2021
	<i>(in millions except per share information)</i>		
Revenue	\$ 201.3	\$ 232.9	\$ 279.7
Net Income	\$ 186.3	\$ 265.4	\$ 379.8
Net Income per Share	\$ 2.91	\$ 4.15	\$ 5.93
Cash Flow from Operations	\$ 152.5 ⁽¹⁾	\$ 184.2 ⁽²⁾	\$ 402.4 ⁽³⁾
Cash Flow from Operations per Share	\$ 2.38 ⁽¹⁾	\$ 2.88 ⁽²⁾	\$ 6.29 ⁽³⁾
Total Assets	\$ 837.0	\$ 825.8	\$ 789.3
Dividends Declared per Share	\$ 2.55	\$ 3.10	\$ 6.00
Number of Common Shares outstanding	64.0	64.0	64.0

(1) Includes IOC dividends totaling \$50.4 million or \$0.79 per Share.

(2) Includes IOC dividends totaling \$69.1 million or \$1.08 per Share.

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

The following table sets out quarterly revenue, net income, cash flow and dividend data for 2023 and 2022. 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 from Operations	Cash Flow from Operations per Share	Adjusted Cash Flow per Share ⁽¹⁾	Dividends Declared per Share
(in millions except per share information)							
2023							
First Quarter	\$ 47.2	\$ 43.6	\$ 0.68	\$ 19.5	\$ 0.30	\$ 0.41	\$ 0.50
Second Quarter	\$ 51.5	\$ 41.9	\$ 0.65	\$ 40.9 ⁽²⁾	\$ 0.64 ⁽²⁾	\$ 0.75 ⁽²⁾	\$ 0.65
Third Quarter	\$ 47.7	\$ 49.4	\$ 0.77	\$ 65.7 ⁽³⁾	\$ 1.03 ⁽³⁾	\$ 0.89 ⁽³⁾	\$ 0.95
Fourth Quarter	\$ 54.9	\$ 51.4	\$ 0.80	\$ 26.4	\$ 0.41	\$ 0.47	\$ 0.45
2022							
First Quarter	\$ 54.2	\$ 63.2	\$ 0.99	\$ 4.1	\$ 0.06	\$ 0.47	\$ 0.50
Second Quarter	\$ 66.3	\$ 78.4	\$ 1.22	\$ 41.1 ⁽⁴⁾	\$ 0.64 ⁽⁴⁾	\$ 0.88 ⁽⁴⁾	\$ 0.90
Third Quarter	\$ 64.1	\$ 79.2	\$ 1.24	\$ 78.5 ⁽⁵⁾	\$ 1.23 ⁽⁵⁾	\$ 1.09 ⁽⁵⁾	\$ 1.00
Fourth Quarter	\$ 48.3	\$ 44.6	\$ 0.70	\$ 60.5 ⁽⁶⁾	\$ 0.95 ⁽⁶⁾	\$ 0.65 ⁽⁶⁾	\$ 0.70

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

(2) Includes \$19.9 million IOC dividend.

(3) Includes \$30.5 million IOC dividend.

(4) Includes \$19.6 million IOC dividend.

(5) Includes \$34.2 million IOC dividend.

(6) Includes \$15.4 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 \$2.38 for 2023 (2022 – \$2.88).

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.

	2023	2022
(in millions except per share information)		
Cash flow from operating activities	\$ 152.5	\$ 184.2
Changes in amounts receivable, accounts payable and income taxes recoverable	9.0	13.6
Adjusted cash flow	\$ 161.5	\$ 197.8
Adjusted cash flow per share	\$ 2.52	\$ 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 Analysis, the Annual Information Form, any prospectuses and all press releases related to the disclosure of quarterly and annual financial statements and the declaration of dividends. An evaluation of the design and operating effectiveness of the Corporation's disclosure controls and procedures was conducted under the supervision of the President and 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, 2023.

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 President and 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, 2023.

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, 2023.

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 licenses 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 12, 2024 under the heading, "Risk Factors". Although the forward-looking statements contained in this report are based upon what

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.sedarplus.ca.

Additional Information

Additional information relating to the Corporation, including the Annual Information Form, is on SEDAR+ at www.sedarplus.ca. 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 12, 2024

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 IFRS Accounting 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 judgments 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.

KPMG LLP, the independent auditors, have audited the Corporation's consolidated financial statements in accordance with Canadian generally accepted auditing standards.



John F. Tuer
President and Chief Executive Officer



Alan R. Thomas
Chief Financial Officer

Toronto, Ontario
March 12, 2024

INDEPENDENT AUDITOR'S REPORT



To the Shareholders of Labrador Iron Ore Royalty Corporation

Opinion

We have audited the consolidated financial statements of Labrador Iron Ore Royalty Corporation (“the Entity”), which comprise:

- the consolidated statements of financial position as at December 31, 2023 and December 31, 2022
- the consolidated statements of income and comprehensive income for the years then ended
- the consolidated statement of cash flows for the years then ended
- the consolidated statement of changes in equity for the years then ended
- and notes to the consolidated financial statements, including a summary of material accounting policy information

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2023 and December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (“IFRS Accounting Standards”).

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 Financial Statements*” section of our auditor’s report.

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matter described below to be the key audit matter to be communicated in our auditor’s report.

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

Description of the matter

We draw attention to notes 3 (f) and (i) to the financial statements. The Entity’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 including significant changes in long-term commodity prices and a decline in IOC’s financial performance. In addition, ore reserves and resources amounts are applied in assessing the recoverability of the carrying value of the investment in IOC and the IOC royalty and commission interests. The carrying value of the investment in IOC and the IOC royalty and commission interests is \$223 million and \$547 million, respectively.

INDEPENDENT AUDITOR'S REPORT

Why the matter is a key audit matter

We identified the evaluation of evidence of impairment for the investment in IOC and IOC royalty and commission interests as a key audit matter. This matter represented an area of higher assessed risk of material misstatement which required significant auditor judgment in evaluating the results of our procedures.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

- We assessed the expected future financial performance of IOC to determine whether there was evidence of a significant decline in financial performance by evaluating trends in IOC's revenues, net income and dividends paid to the Company.
- We assessed the competence, capabilities and objectivity of the IOC personnel who prepared the ore reserves and resources information, including the industry and regulatory standards they applied.
- We evaluated IOC's ore reserves and resources by comparing IOC's historical amounts to actual production results.
- We assessed changes in long-term commodity prices by inspecting external market data.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditor's report thereon, included in a document likely to be entitled "Annual Report".

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

In connection with our audit of the 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 financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditor's report thereon, included in a document likely to be entitled "Annual Report" is expected to be made available to us after the date of this auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the 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

INDEPENDENT AUDITOR'S REPORT

when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Public Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditor's report is Heather Joan Cheeseman.

Toronto, Canada

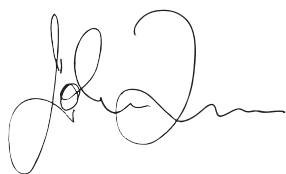
March 12, 2024

LABRADOR IRON ORE ROYALTY CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

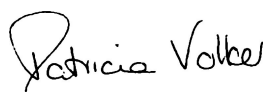
	As at December 31,	
	2023	2022
<i>(in thousands of Canadian dollars)</i>		
Assets		
Current Assets		
Cash	\$ 13,192	\$ 39,904
Amounts receivable (note 4)	53,872	42,758
Income taxes recoverable	465	357
Total Current Assets	67,529	83,019
Non-Current Assets		
Iron Ore Company of Canada (“IOC”) royalty and commission interests (note 5)	222,901	228,918
Investment in IOC (note 6)	546,614	513,828
Total Non-Current Assets	769,515	742,746
Total Assets	\$ 837,044	\$ 825,765
Liabilities and Shareholders’ Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 11,542	\$ 9,286
Dividend payable (note 7)	28,800	44,800
Total Current Liabilities	40,342	54,086
Non-Current Liabilities		
Deferred income taxes (note 9)	137,370	134,220
Total Liabilities	177,712	188,306
Shareholders’ Equity		
Share capital (note 10)	317,708	317,708
Retained earnings	347,927	324,821
Accumulated other comprehensive loss	(6,303)	(5,070)
	659,332	637,459
Total Liabilities and Shareholders’ Equity	\$ 837,044	\$ 825,765

See accompanying notes to consolidated financial statements.

Approved by the Directors,



John F. Tuer
Director



Patricia M. Volker
Director

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

	For the Year Ended December 31,	
	2023	2022
<i>(in thousands of Canadian dollars except for per share information)</i>		
Revenue		
IOC royalties	\$ 198,562	\$ 230,709
IOC commissions	1,604	1,613
Interest and other income	1,131	539
	<u>201,297</u>	<u>232,861</u>
Expenses		
Newfoundland royalty taxes	39,712	46,142
Amortization of royalty and commission interests	6,017	6,423
Administrative expenses	3,054	3,093
	<u>48,783</u>	<u>55,658</u>
Income before equity earnings and income taxes	152,514	177,203
Equity earnings in IOC (note 6)	84,684	154,103
Income before income taxes	<u>237,198</u>	<u>331,306</u>
Provision for income taxes (note 9)		
Current	47,524	54,998
Deferred	3,368	10,859
	<u>50,892</u>	<u>65,857</u>
Net income for the year	186,306	265,449
Other comprehensive (loss) income		
Share of other comprehensive (loss) income of IOC that will not be reclassified subsequently to profit or loss (net of income taxes of 2023 – \$218; 2022 – \$1,121)	(1,233)	6,350
Comprehensive income for the year	<u>\$ 185,073</u>	<u>\$ 271,799</u>
Basic and diluted income per share (note 10)	<u>\$ 2.91</u>	<u>\$ 4.15</u>

See accompanying notes to consolidated financial statements.

LABRADOR IRON ORE ROYALTY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended December 31,	
	2023	2022
<i>(in thousands of Canadian dollars)</i>		
Net inflow (outflow) of cash related to the following activities		
Operating		
Net income for the period	\$ 186,306	\$ 265,449
Items not affecting cash:		
Equity earnings in IOC	(84,684)	(154,103)
Current income taxes	47,524	54,998
Deferred income taxes	3,368	10,859
Amortization of royalty and commission interests	6,017	6,423
Common share dividends from IOC	50,447	69,122
Change in amounts receivable	(11,114)	6,923
Change in accounts payable	2,256	(1,500)
Income taxes paid	(47,632)	(73,980)
Cash flow from operating activities	<u>152,488</u>	<u>184,191</u>
Financing		
Dividends paid to shareholders	(179,200)	(227,200)
Cash flow used in financing activities	<u>(179,200)</u>	<u>(227,200)</u>
Decrease in cash, during the year	(26,712)	(43,009)
Cash, beginning of year	39,904	82,913
Cash, end of year	<u>\$ 13,192</u>	<u>\$ 39,904</u>

See accompanying notes to consolidated financial statements.

LABRADOR IRON ORE ROYALTY CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Common shares	Share capital	Retained earnings	Accumulated other comprehensive loss	Total
<i>(in thousands of Canadian dollars except share amounts)</i>					
Balance as at December 31, 2021	64,000,000	\$ 317,708	\$ 257,772	\$ (11,420)	\$ 564,060
Net income for the period	—	—	265,449	—	265,449
Dividends declared to shareholders	—	—	(198,400)	—	(198,400)
Share of other comprehensive income from investment in IOC (net of taxes)	—	—	—	6,350	6,350
Balance as at December 31, 2022	64,000,000	\$ 317,708	\$ 324,821	\$ (5,070)	\$ 637,459
Balance as at December 31, 2022	64,000,000	\$ 317,708	\$ 324,821	\$ (5,070)	\$ 637,459
Net income for the period	—	—	186,306	—	186,306
Dividends declared to shareholders	—	—	(163,200)	—	(163,200)
Share of other comprehensive loss from investment in IOC (net of taxes)	—	—	—	(1,233)	(1,233)
Balance as at December 31, 2023	64,000,000	\$ 317,708	\$ 347,927	\$ (6,303)	\$ 659,332

See accompanying notes to consolidated financial statements.

LABRADOR IRON ORE ROYALTY CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

(in thousands of Canadian dollars)

1. Corporate Information and Economic Dependence

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 and a \$0.10 per tonne commission interest on all iron ore products produced and sold 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 12, 2024.

2. Basis of Presentation

These consolidated financial statements of the Corporation have been prepared in accordance with IFRS Accounting 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.

3. Summary of Material 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 amortized cost include cash and amounts receivable. There are no financial assets recorded at fair value.

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

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in a transferred financial asset that is created or retained by the Corporation is recognized as a separate asset or liability.

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

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.

LABRADOR IRON ORE ROYALTY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2023 AND 2022

(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 legal ownership interest, combined with its representation on the board of directors, participation in policy-making and approval processes, and the mineral sublease agreements from the Corporation 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 IOC's 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.

IOC is a related party to the Corporation. The significant related party transactions with IOC include royalties and commissions income and common share dividends received from IOC. At December 31, 2023, the Corporation has amounts receivable from IOC for \$53,829 (2022 – \$42,632) (note 4).

(d) Revenue recognition

Royalty and commission revenue are based on iron ore produced, 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 and 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 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.

LABRADOR IRON ORE ROYALTY CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

(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 substantively 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.

(h) 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.

(i) 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.

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 and approval process and mineral sublease agreements under which IOC conducts its operations.

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. These estimates are applied in determining the amortization of and assessing the recoverability of the carrying value of the investment in IOC and the IOC royalty and commission interest. 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

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of each reporting period, such as significant changes in long-term commodity prices and a decline in IOC's financial performance. 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.

4. Amounts Receivable

Amounts receivable consist of the following:

	2023	2022
IOC royalties	\$ 53,654	\$ 42,482
IOC commissions	175	150
Other	43	126
	<u>\$ 53,872</u>	<u>\$ 42,758</u>

5. IOC Royalty and Commission Interests

	2023	2022
7% Overriding royalty interest, at cost	\$ 351,617	\$ 351,617
Commission interest, at cost	13,661	13,661
Accumulated amortization	(142,377)	(136,360)
	<u>\$ 222,901</u>	<u>\$ 228,918</u>

Amortization expense for royalty and commission interests was \$6,017 and \$6,423 for the years ended December 31, 2023 and 2022, respectively.

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 IOC as at December 31, 2023 and 2022. The Series B and Series C common shares have identical voting rights to all other issued and outstanding common shares of IOC.

	2023	2022
Investment in IOC, beginning of year	\$ 513,828	\$ 421,376
Equity earnings in IOC	84,684	154,103
Other comprehensive (loss) gain of IOC	(1,451)	7,471
Common share dividend received	(50,447)	(69,122)
Investment in IOC, end of year	<u>\$ 546,614</u>	<u>\$ 513,828</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 excess of cost of the Investment in IOC over the book value of underlying net assets amounts to \$38,123 (2022 – \$39,152) and is being amortized to net income 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.

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

	2023	2022
Common share dividends received from IOC	\$ 50,447	\$ 69,122
Amounts per IOC's financial statements:		
Current assets	\$ 1,141,653	\$ 1,042,621
Non-current assets	4,206,184	4,091,524
Current liabilities	685,686	679,059
Non-current liabilities	1,329,141	1,338,424
Revenue	3,122,761	3,425,805
Net income	567,634	1,027,818
Other comprehensive (loss) income	(9,606)	49,476
Comprehensive income	558,028	1,077,294

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

	2023	2022
IOC net assets, beginning of year	3,117,717	2,500,197
Net income of IOC	567,634	1,027,818
Share based transactions with other shareholders	(1,750)	(2,012)
Other comprehensive income of IOC	(9,606)	49,476
Common share dividends declared and paid	(334,086)	(457,762)
IOC net assets, end of year	3,339,909	3,117,717
Ownership interest	15.1%	15.1%
Share of net assets	504,326	470,775
Adjustments:		
Excess cost over net book value	38,123	39,152
Other	4,165	3,901
Carrying value – Investment in IOC	546,614	513,828

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 \$0.45 per common share was declared by the Directors of the Corporation payable to shareholders of record on December 29, 2023 and paid on January 26, 2024.

Total dividends to shareholders as declared by the Directors of the Corporation in 2023 were \$163,200 or \$2.55 per share (2022 – \$198,400 or \$3.10 per share).

On March 12, 2024 a cash dividend of \$0.45 per common share was declared by the Directors of the Corporation payable to shareholders of record on March 29, 2024 and to be paid on April 26, 2024.

8. Debt

The Corporation has a \$30,000 revolving senior secured credit facility maturing on September 18, 2026 with provision for annual one year extensions. The credit facility provides for various forms of advances at the option of the Corporation. Various

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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. The Corporation is in compliance with all covenants.

As at December 31, 2023, no amount was drawn on the credit facility (2022 – 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:

	2023	2022
Income before income taxes	\$ 237,198	\$ 331,306
Income taxes at combined federal and provincial statutory tax rates of 30.0%	71,159	99,392
Increase (decrease) in income taxes resulting from:		
Undistributed equity earnings in investment in IOC	(12,703)	(23,115)
Equity earnings distributed as dividends	(7,567)	(10,368)
Other	3	(52)
Income tax expense	<u>\$ 50,892</u>	<u>\$ 65,857</u>

In addition to income taxes, the Corporation pays 20% Government of Newfoundland and Labrador royalty tax on the IOC royalties, 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, 2022				
Difference in tax and book value of assets	\$ 122,689	\$ 10,816	\$ 1,121	\$ 134,627
Tax benefit of deductible temporary differences	(449)	43	—	(407)
Net deferred income tax liability	<u>\$ 122,240</u>	<u>\$ 10,859</u>	<u>\$ 1,121</u>	<u>\$ 134,220</u>
December 31, 2023				
Difference in tax and book value of assets	\$ 134,627	\$ 3,331	\$ (218)	\$ 137,740
Tax benefit of deductible temporary differences	(407)	37	—	(370)
Net deferred income tax liability	<u>\$ 134,220</u>	<u>\$ 3,368</u>	<u>\$ (218)</u>	<u>\$ 137,370</u>

The deferred tax liability attributable to the difference in tax and book value of the IOC royalty and commission interests is \$66,870 (2022 – \$68,675). The deferred tax liability attributable to the difference in tax and book value of the investment in IOC is \$70,868 (2022 – \$65,950).

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, 2023 and 2022. There have been no changes to outstanding share capital in the years ended December 31, 2023 or 2022.

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There are no instruments with rights to convert to common shares and accordingly, the weighted average number of shares during the year is 64 million shares and the Corporation's net income per share represents both basic and diluted.

11. Capital Management

The Corporation's capital consists of the shareholders' equity (2023 – \$659,332 and 2022 – \$637,459) and the undrawn revolving senior secured credit facility of \$30,000. 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 from the free cash flow generated from IOC to the maximum extent possible, subject to the maintenance of appropriate levels of working capital.

12. 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.

13. Financial Instrument Risk Management

Commodity price risk

The Corporation is economically 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.

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, 2023 and 2022, there were no foreign exchange derivative contracts outstanding.

Based on financial instrument balances as at December 31, 2023, 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 (2022 – \$236), 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, 2023 the Corporation held \$67,064 in cash and accounts receivables (2022 – \$82,662). The Corporation's financial liabilities of \$40,342 (2022 – \$54,086) are due within one year.

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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.

14. 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, 2023 was comprised of salaries, bonus, restricted share units (“RSUs”) accrued to date and fees totaling \$1,432 (2022 – \$1,488).

15. 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, 2023, there were 11,762 (2022 – 13,844) RSUs awarded and outstanding. For the year ended December 31, 2023, compensation expense of \$178 (2022 – \$296) was accrued in connection with the RSUs, respectively.

CORPORATE INFORMATION

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Douglas F. McCutcheon⁽²⁾
President of Longview
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Dorothea E. Mell⁽²⁾
Company Director

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

John F. Tuer
President and Chief Executive Officer
Labrador Iron Ore Royalty Corporation

Patricia M. Volker⁽²⁾
Company Director

Officers

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) *Chair of the Board*

(2) *Member of Audit and Governance and
Human Resources Committees*

(3) *Lead Director*

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