Labrador Iron Ore Royalty Corporation - 2012 Results of Operations

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TORONTO, March 1, 2013 /CNW/ - Labrador Iron Ore Royalty Corporation ("LIORC") (TSX: LIF) announced the results of its operations for the year ended December 31, 2012.

To the Holders of Common Shares of Labrador Iron Ore Royalty Corporation

At a special meeting held on September 28, 2012, the holders of stapled units approved an exchange of their subordinated notes for common shares of LIORC and a consolidation of common shares. Approximately 99.9% of the votes cast at the meeting were in favour of the exchange. The transactions were completed on October 3, 2012. The $248 million subordinated notes were cancelled and each holder of common shares ended up holding the same number of common shares as before the transactions, and LIORC continued to have 64 million common shares outstanding. Interest on the subordinated notes ceased to accrue after September 30, 2012. For the purposes of this report, all references to shareholders and per share figures may refer to holders of stapled units and per stapled units, respectively, as applicable.

Prior to the transactions, the net income attributed to the holders of stapled units consisted of the net income of LIORC plus the interest paid on the subordinated notes. Thus all net income, adjusted cash flow and per share figures referred to in this report use the total according to the financial statements plus (where applicable) the $7,488,000 ($0.117 per share) interest on the subordinated notes for each quarter resulting in increases of $22,464,000 ($0.351 per share) and $29,952,000 ($0.468 per share) for the years ended December 31, 2012 and December 31, 2011, respectively.

Financial Performance

The Shareholders' adjusted cash flow (see Management's Discussion & Analysis for definition and calculation) for the year ended December 31, 2012 was $75.1 million or $1.17 per share as compared to $158.1 million or $2.47 per share for 2011.

Iron ore sales of IOC amounted to 14.1 million tonnes compared to 13.2 million tonnes in 2011. Although this reflects an improvement over the previous year, we had expected sales to be higher. However, sales were constrained by production, which was impacted by difficult operating conditions during the first part of the year and a number of problems encountered during the commissioning of the first phase of the expansion and integrating it into the operations. Iron ore prices remained reasonably strong in the first half of the year but suddenly weakened sharply in the third quarter, with a partial recovery occurring in the fourth quarter. As a result, in spite of increased production, royalty revenue for the year was 24% lower than last year's level. The Canadian dollar continued to trade close to par against its U.S. counterpart, averaging $1.00 against $1.01 in 2011

The Shareholders' consolidated net income for the year ended December 31, 2012 was $121.8 million or $1.90 per share compared to $209.3 million or $3.27 per share in 2011. Equity earnings from IOC amounted to $57.9 million compared to $124.0 million in 2011.

IOC Developments

During the year a number of improvements helped achieve efficiency gains, notably in the mobile equipment and operations sectors. A number of challenges remain as a result of the Concentrate Expansion Program (CEP) first stage, which impacted concentrate production. The first stage is basically complete and we expect to see the benefits in the second quarter. The second stage expansion is more than 80% complete and some increased production should result in the second half of 2013. Pellet production was stable through the year.

In March, IOC successfully secured a six-year labour contract with its unions without disruption. This agreement will enable IOC to be competitive, attract the necessary skills, and reward, attract and retain the right people to generate greater value.

Outlook

With the of the commissioning of the first phase of the expansion now basically complete, we should see production starting in the second quarter closer to the nameplate capacity of 22 million tonnes per annum. With additional production and the resulting sales and, if prices remain close to current levels, we should see substantially higher royalty revenue in 2013. The chief risk to substantially increased revenue is the price of iron ore which is reliant on a continuation of a strong economy in China and continued recovery of the economies in the rest of the world. We are optimistic that 2013 should be a good year for your company.

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 Labrador Iron Ore Royalty Corporation,

Bruce C. Bone, President and Chief Executive Officer
March 1, 2013

Corporate Structure

Labrador Iron Ore Royalty Corporation ("LIORC" or the "Corporation") is a Canadian corporation resulting from the conversion of the Labrador Iron Ore Royalty Income Fund (the "Fund") under an Arrangement effective on July 1, 2010. LIORC is also the successor by amalgamation under the Arrangement of Labrador Mining Company Limited, formerly a wholly-owned subsidiary of the Fund. Under the Arrangement, the Fund distributed $248 million of subordinated notes to its unitholders and the unitholders exchanged their units of the Fund for common shares of LIORC. Effective on October 3, 2012 the $248 million subordinated notes outstanding were exchanged for additional common shares and the common shares were consolidated, with the result that each holder of common shares ("Shareholder") ended up holding the same number of common shares as before the transactions, and LIORC had 64 million common shares outstanding. Interest on the subordinated notes ceased to accrue after September 30, 2012.

LIORC, 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") 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 on the 25th day of the month following the end of each quarter.

Eight 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. Two of the eight Directors sit on the board of IOC and the five independent Directors serve as members of the Audit, Nominating and Compensation Committees. Scotia Managed Companies Administration Inc., pursuant to an administration agreement, acts as the administrator of the Corporation and Hollinger-Hanna.

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 royalty tax. Expenses of the Corporation include interest and administrative expenses. For fiscal 2012, interest payments on the $248 million of subordinated notes were expensed up to September 30, 2012. Hollinger-Hanna is a taxable corporation.

Income Taxes

Distributions 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. Up to September 30, 2012 quarterly distributions were comprised of interest and dividends and thereafter were comprised entirely of dividends. The dividend component will be eligible for the dividend tax credit and, accordingly, will be subject to a lower effective tax rate than that applicable to the interest component. The dividends paid in 2012 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 Canada's largest iron ore producer, operating a mine, concentrator and pellet plant at Labrador City, Newfoundland, and is among the top five producers of 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 the markets of the Great Lakes and the balance of the world from its year-round port facilities at Sept-Îles, Quebec.

IOC has ore reserves sufficient for at least 30 years at current production rates with additional resources of a greater magnitude. It currently has the nominal capacity to extract around 50 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, Quebec via its wholly-owned Quebec North Shore and Labrador Railway, 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 2012 sales totaled 14.1 million tonnes comprised of 4.2 million tonnes of iron ore concentrate and 9.9 million tonnes of iron ore pellets. Production in 2012 was 9.7 million tonnes of pellets and 4.4 million tonnes of concentrate. Production in 2012 was affected by the commissioning of a new primary crusher and ore delivery system and an additional grinding mill. IOC generated ore sales revenues (excluding third party ore sales) of $1,779 million in 2012 (2011 - $2,288 million). IOC sales traditionally have been approximately 35% in Europe, 35% in North America and 25% in Asia with minor amounts to other areas. The strong market in Asia with some weakness in North America and Europe resulted in more sales to Asia in 2012.

Selected IOC Financial Information

($ in thousands)

	2012	2011	2010	2009	2008
Operating Revenues	1,963,444	2,443,195	2,521,935	1,144,2	
Cash flow from operating activities	494,079	946,240	911,637		
Net income2	387,714	826,677	863,226	215,254	567,
Capital expenditures	746,083	647,209	237,977	190,467	

1 Revenue in 2009 was reduced by idling of pellet machines and a shut down of Carol Lake operations from July 7 to August 10.

2 Net income includes unrealized foreign exchange gains before tax on U.S. debt translation of $1,143 in 2012 ($4,122) in 2011, $10,033 in 2010, $11,494 in 2009 and $8,643 in 2008. 2012, 2011 and 2010 are presented in accordance with IFRS.

IOC Royalty

The Corporation holds certain leases and licenses covering approximately 18,200 hectares of land near Labrador City. IOC has leased 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 2012, the average royalty (net of the 20% tax) had been approximately $100.3 million per year and in 2012 the net royalty was $98.0 million (2011 - $128.6 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 2012, Hollinger-Hanna received a total of $1.4 million in commissions from IOC (2011 - $1.3 million).

Quarterly Distributions

Distributions of $1.50 per share, including special distributions of $0.50 per share, were declared in 2012 (2011 - distribution of $2.25 per share including special distributions of $1.25 per share). These distributions were allocated as follows:

Period Payment Dividend
Income Interest
Income Distribution Total
Distribution
Ended Date per Share Per Share Per Share ($ Million)

Mar. 31, 2012 Apr. 25, 2012 $ 0.133 0.117 $ 0.250 $ 16.0
Special Distribution Apr. 25, 2012 0.125 - 0.125 8.0
Jun. 30, 2012 Jul. 25, 2012 0.133 0.117 0.250 16.0
Special Distribution Jul. 25, 2012 0.125 - 0.125 8.0
Sep. 30, 2012 Oct. 25, 2012 0.133 0.117 0.250 16.0
Special Distribution Oct. 25, 2012 0.125 - 0.125 8.0
Dec. 31, 2012 Jan. 25, 2013 0.250 - 0.250 16.0
Special Distribution Jan. 25, 2013 0.125 - 0.125 8.0

Distribution to Shareholders - 2012 $ 1.149 $ 0.351 $ 1.50 $ 96.0

Mar. 31, 2011 Apr. 25, 2011 $ 0.133 $ 0.117 $ 0.250 $ 16.0
Special Distribution Apr. 25, 2011 0.500 - 0.500 32.0
Jun. 30, 2011 Jul. 25, 2011 0.133 0.117 0.250 16.0
Special Distribution Jul. 25, 2011 0.125 - 0.125 8.0
Sep. 30, 2011 Oct. 25, 2011 0.133 0.117 0.250 16.0
Special Distribution Oct. 25, 2011 0.500 - 0.500 32.0
Dec. 31, 2011 Jan. 25, 2012 0.133 0.117 0.250 16.0
Special Distribution Jan. 25, 2012 0.125 - 0.125 8.0

Distribution to Shareholders - 2011 $ 1.782 $ 0.468 $ 2.25 $144.0

The quarterly dividends are payable to all shareholders of record on the last day of each calendar quarter and are paid on the 25th 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 Labrador Iron Ore Royalty Corporation ("LIORC" or the "Corporation") for the years ended December 31, 2012 and 2011. This discussion should be read in conjunction with the Consolidated Financial Statements of the Corporation and notes thereto for the years ended December 31, 2012 and 2011. 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.

As explained more fully in note 1 to the Financial Statements, the Corporation is a Canadian corporation resulting from the conversion of the Labrador Iron Ore Royalty Income Fund (the "Fund") under an Arrangement effective on July 1, 2010. LIORC is also the successor by amalgamation under the Arrangement of Labrador Mining Company Limited, formerly a wholly-owned subsidiary of the Fund. Under the Arrangement, the Fund distributed $248 million of subordinated notes to its unitholders and the unitholders exchanged their units of the Fund for common shares of LIORC. Effective on October 3, 2012, the $248 million subordinated notes outstanding were exchanged for additional common shares and the common shares were consolidated, with the result that each holder of common shares ("Shareholder") ended up holding the same number of common shares as before the transactions, and LIORC had 64 million common shares outstanding. Interest on the subordinated notes ceased to accrue after September 30, 2012. For the purposes of the following discussion and analysis, all references to shareholders and per share figures may refer to holders of stapled units and per stapled units, respectively, as applicable.

General

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 sold 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.

Liquidity and Capital Resources

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 intends to pay cash dividends of the net income derived from IOC to the maximum extent possible, subject to the maintenance of appropriate levels of working capital and debt.

The Corporation has a $50 million revolving credit facility with a term ending September 18, 2015 with provision for annual one-year extensions. No amount is currently drawn under this facility leaving $50.0 million available to provide for any capital required by IOC or requirements of the Corporation.

Prior to the October 2012 transactions, the net income of the holders of stapled units consisted of net income of LIORC plus the interest paid on the subordinated notes. Thus all net income, adjusted cash flow and per share figures referred to in this report use the total according to the financial statements plus (where applicable) the $7,488,000 ($0.117 per share) interest on the subordinated notes for each quarter resulting in increases of $22,464,000 ($0.351 per share) and $29,952,000 ($0.468 per share) for the years ended December 31, 2012 and December 31, 2011, respectively.

Operating Results

The following table summarizes the Corporation's 2012 operating results as compared to 2011 results.
Revenue 2012 2011
IOC royalties (net of 20% Newfoundland royalty tax) $97,967,041 $128,584,113
IOC commissions 1,380,402 1,334,301
Other 370,179 482,845
99,717,622 130,401,259
Expenses
Administrative expenses 2,414,220 2,121,968
Interest expense:
Credit facility 376,027 495,365
Subordinated notes 22,464,000 29,952,000
Income taxes expense - current 21,873,226 29,844,763
47,127,473 62,414,096
Net Income before undernoted items 52,590,149 67,987,163
Non cash revenue (expense)
Equity earnings in IOC 57,883,108 124,015,087
Deferred income taxes (7,312,000) (7,934,000)
Amortization (3,867,792) (4,753,868)
46,703,316 111,327,219

Net income for the year 99,293,465 179,314,382
Other comprehensive loss (4,611,000) (4,916,000)
Comprehensive income for the year $94,682,465 $174,398,382

Iron ore sales of IOC amounted to 14.1 million tonnes compared to 13.2 million tonnes in 2011. Although this reflects an improvement over the previous year, we had expected sales to be higher. However, sales were constrained by production, which was impacted by difficult operating conditions during the first part of the year and a number of problems encountered during the commissioning of the first phase of the expansion and integrating it into the operations. Iron ore prices remained reasonably strong in the first half of the year but suddenly weakened sharply in the third quarter, with a partial recovery occurring in the fourth quarter. As a result, in spite of increased production, royalty revenue for the year was 24% lower than last year's level.

The Canadian dollar remained strong against the U.S. dollar, averaging $1.00 against $1.01 in 2011, which negatively affected royalty revenue.

The Shareholders' consolidated net income for the year ended December 31, 2012 was $121.8 million or $1.90 per share compared to $209.3 million or $3.27 per share in 2011. Equity earnings from IOC amounted to $57.9 million compared to $124.0 million in 2011.

Fourth quarter sales at 3.9 million tonnes were slightly better than last year but the lower sales price in 2012 produced royalty income of $32.4 million as compared to $37.0 million in 2011. Adjusted cash flow from operations was $19.9 million ($0.31 per share) compared to 2011 of $23.4 million ($0.37 per share). Production in the fourth quarter was adversely affected by weather related operating problems and the integration of the first phase of the expansion program.

Selected Consolidated Financial Information

The following table sets out financial data from a Shareholder's perspective for the three years ended December 31, 2012, 2011 and 2010. (See note 1 to the financial statements.)
Years Ended December 31
Description 2012 2011 2010
(in millions except per Share information)
Revenue $124.2 $162.5 $164.4
Net Income(1) $121.8 $209.3 $214.1
Net Income per Share(1) $1.90 $3.27 $3.34
Adjusted Cash Flow(1) (2) $75.1 $158.1 $170.6
Adjusted Cash Flow per Share(1) (2) $1.17 $2.47 $2.67
Total Assets $694.4 $669.0 $658.1
Cash Distribution per Share $1.50 $2.25 $2.25
Number of Common Shares outstanding 64.0 64.0 64.0
Notes: (1)
Includes interest income for the year ended December 31, 2012 of
$22,464,000 or $0.351 per share (2011 includes $29,952,000 or
$0.468 per share and 2010 includes $14,976,000 or $0.234 per share)
on the subordinated notes of the Corporation.
(2) "Adjusted cash flow" (see below)

The following table sets out quarterly revenue, net income and cash flow data for 2012 and 2011.
Revenue Net
Income Net
Income
per Share(1) Adjusted Cash
Flow(2) Adjusted Cash
Flow
per Share(1) (2) Distributions
Declared
per Share(1)

(in millions except per Common Share/Unit information)
2012
First Quarter(3) $22.4 $23.0 $0.36 $14.4 $0.23 $0.375
Second Quarter(3) $36.4 $36.8 $0.57 $22.3 $0.35 $0.375
Third Quarter(3) $32.6 $29.7 $0.47 $18.5 $0.28 $0.375
Fourth Quarter $32.8 $32.3 $0.50 $19.9 $0.31 $0.375
2011
First Quarter(3) $30.7 $38.9 $0.61 $48.0 (4) $0.75 $0.75
Second Quarter(3) $38.1 $48.2 $0.75 $23.0 $0.36 $0.375
Third Quarter(3) $54.9 $76.3 $1.19 $63.7 (5) $0.99 $0.75
Fourth Quarter(3) $38.8 $45.9 $0.72 $23.4 $0.37 $0.375

Notes: (1) Per share amounts have been retroactively adjusted to reflect the two-for-one share subdivision completed on
July 1, 2011
(2) "Adjusted cash flow" (see below)
(3) Prior to the fourth quarter of 2012, net income, adjusted cash flow, distributions and per share figures referred to in
this table use the totals according to the consolidated financial statements plus (where applicable) the

$7,488,000
($0.117 per unit) interest on the subordinated notes
(4) Includes a $29.0 million IOC dividend
(5) Includes a $31.2 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 $0.80(1) for 2012 (2011 - $1.91(1)). Cumulative standardized cash flow from inception of the Corporation is $16.94 per share and total cash distributions since inception are $16.41 per share, for a payout ratio of 96.8%.

(1) Excludes interest on subordinated notes paid directly to Shareholders of $0.351 per share and $0.468 per share, respectively.

"Adjusted cash flow" is defined as cash flow from operating activities after adjustments for changes in amounts receivable, accounts and interest payable and income taxes 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.
2012 2011
Standardized cash flow from operating activities $51,473,237 $121,934,296
Changes in amounts receivable, accounts and interest payable
and income taxes payable
1,116,912 6,220,128
Adjusted cash flow (1) $52,590,149 $128,154,424
Adjusted cash flow per share (1) $0.82 $2.00

(1) The year ended December 31, 2012 excludes interest on subordinated notes paid directly to Shareholders of $22,464,000 or $0.351 per share (2011 - $29,952,000 or $0.468 per share).

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 officers 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, the Executive Vice President and Secretary 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, 2012.

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, 2012.

No material change in the Corporation's internal control over financial reporting occurred during the year ended December 31, 2012.

Outlook

With the of the commissioning of the first phase of the expansion now basically complete, we should see production starting in the second quarter closer to the nameplate capacity of 22 million tonnes per annum.

With additional production and the resulting sales and, if prices remain close to current levels, we should see substantially higher royalty revenue in 2013. The chief risk to substantially increased revenue is the price of iron ore which is reliant on a continuation of a strong economy in China and continued recovery of the economies in the rest of the world. We are optimistic that 2013 should be a good year for your company.

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.

Bruce C. Bone, President and Chief Executive Officer
Toronto, Ontario
March 1, 2013

LABRADOR IRON ORE ROYALTY CORPORATION
CONSOLIDATED BALANCE SHEETS

As at
December 31, December 31,
Canadian $ 2012 2011

Assets
Current Assets
Cash $ 26,923,421 $ 41,498,184
Amounts receivable (note 5) 29,308,484 40,669,780
Income taxes recoverable 3,130,130 392,173
Total Current Assets 59,362,035 82,560,137

Non-Current Assets
Iron Ore Company of Canada ("IOC"),
royalty and commission interests (note 6) 283,263,500 287,131,292
Investment in IOC (note 7) 351,770,591 299,280,483
Total Non-Current Assets 635,034,091 586,411,775

Total Assets $ 694,396,126 $ 668,971,912

Liabilities and Shareholders' Equity
Current Liabilities
Accounts payable $ 6,167,138 $ 8,419,389
Interest payable on subordinated notes - 7,488,000
Dividends payable (note 8) 24,000,000 16,512,000
Total Current Liabilities 30,167,138 32,419,389

Non-Current Liabilities
Deferred income taxes (note 10) 121,360,000 114,830,000
Subordinated notes (note 11) - 248,000,000
Total Non-Current Liabilities 121,360,000 362,830,000

Total Liabilities 151,527,138 395,249,389

Shareholders' Equity
Share capital (note 12) 317,708,147 69,708,147
Retained earnings 244,758,841 219,001,376
Accumulated other comprehensive loss (note 13) (19,598,000) (14,987,000)
542,868,988 273,722,523

Liabilities and Shareholders' Equity $ 694,396,126 $ 668,971,912

LABRADOR IRON ORE ROYALTY CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended
December 31,

Canadian $ 2012 2011

Revenue
IOC royalties $ 122,463,597 $ 160,730,141
IOC commissions 1,380,402 1,334,301
Interest and other income 370,179 482,845
124,214,178 162,547,287
Expenses
Newfoundland royalty taxes 24,496,556 32,146,028
Amortization of royalty and commission interests 3,867,792 4,753,868
Administrative expenses 2,414,220 2,121,968
Interest expense:
Credit facility 376,027 495,365
Subordinated notes (note 11) 22,464,000 29,952,000
53,618,595 69,469,229

Income before equity earnings and income taxes 70,595,583 93,078,058
Equity earnings in IOC (note 7) 57,883,108 124,015,087
Income before income taxes 128,478,691 217,093,145

Provision for income taxes (note 10)
Current 21,873,226 29,844,763
Deferred 7,312,000 7,934,000
29,185,226 37,778,763

Net income for the year 99,293,465 179,314,382

Other comprehensive loss
Share of other comprehensive loss of IOC,
net of taxes (note 10) (4,611,000) (4,916,000)

Comprehensive income for the year $ 94,682,465 $ 174,398,382

Net income per share (note 12) $ 1.55 $ 2.80

LABRADOR IRON ORE ROYALTY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended
December 31,
Canadian $ 2012 2011

Net inflow (outflow) of cash related
to the following activities

Operating
Net income for the year $ 99,293,465 $ 179,314,382
Items not affecting cash:
Equity earnings in IOC (57,883,108) (124,015,087)
Current income taxes 21,873,226 29,844,763
Deferred income taxes 7,312,000 7,934,000
Amortization of royalty and commission interests 3,867,792 4,753,868
Interest expense 22,840,027 30,447,365
Common share dividend from IOC - 60,167,261
Change in amounts receivable and accounts payable 9,109,045 8,687,291
Interest paid (30,328,027) (30,447,365)
Income taxes paid (24,611,183) (44,752,182)
Cash flow from operating activities 51,473,237 121,934,296

Financing
Dividends paid to shareholders (66,048,000) (154,048,000)
Cash flow used in financing activities (66,048,000) (154,048,000)

Decrease in cash during the year (14,574,763) (32,113,704)

Cash, beginning of year 41,498,184 73,611,888

Cash, end of year $ 26,923,421 $ 41,498,184

LABRADOR IRON ORE ROYALTY CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Accumulated
other
Capital Retained comprehensive
Canadian $ stock earnings income (loss) Total
(Note 13)

Balance as at December 31, 2010 69,708,147 147,934,994 (4,271,000) 213,372,141
Net income for the year - 179,314,382 - 179,314,382
Dividends declared to shareholders - (114,048,000) - (114,048,000)
Share of other comprehensive loss from investment in IOC - (4,916,000) (4,916,000)
Transfer of actuarial gains on defined benefit plans in IOC - 5,800,000 (5,800,000) -
Balance as at December 31, 2011 $ 69,708,147 $ 219,001,376 $ (14,987,000) $ 273,722,523

Exchange of subordinated notes for common shares
on October 3, 2012 (note 4) 248,000,000 - - 248,000,000
Net income for the year - 99,293,465 - 99,293,465
Dividends declared to shareholders - (73,536,000) - (73,536,000)
Share of other comprehensive loss from investment in IOC - - (4,611,000) (4,611,000)
Balance as at December 31, 2012 $ 317,708,147 $ 244,758,841 $ (19,598,000) $ 542,868,988

For further information:

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