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, 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 sales of iron ore by IOC.

As at December 31, 2012, there were 64 million common shares issued and outstanding which are listed for trading on the Toronto Stock Exchange under the symbol LIF. Generally, LIORC pays cash dividends from its net income to the maximum extent possible, subject to the maintenance of appropriate levels of working capital. Currently, the holders of common shares receive quarterly dividends on the 25th day of the month following the end of each quarter. The common shares are qualified investments under the *Income Tax Act (Canada)* for deferred plans including registered retirement savings plans, registered retirement income funds and deferred profit sharing plans.

LIORC has a Board of eight Directors, an Audit Committee, a Compensation Committee and a Nominating Committee. Each Committee is composed of five independent Directors. Scotia Managed Companies Administration Inc., pursuant to an administration agreement, acts as the administrator of LIORC.

All dollar amounts included herein are in Canadian dollars unless otherwise noted.

SHAREHOLDERS' INVESTMENT HIGHLIGHTS

Years Ended December 31	2012	2011
	($ in millions except per share information)	
Revenue	124.2	162.5
Net Income	121.8	209.3
Adjusted Cash Flow(1) (2)	75.1	158.1
Net Income per Share(3)	$ 1.90	$ 3.27
Adjusted Cash Flow per Share(1)(2)(3)	$ 1.17	$ 2.47
Cash Distributions per Share(3)	$ 1.50	$ 2.25

(1) See Management's Discussion & Analysis for definition
(2) 2011 includes IOC dividends totaling $60.2 million or $0.94 per Share
(3) Refer to Report to Shareholders

Report To Shareholders

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

	2012	2011	2010	2009	2008
			($ in thousands)		
Operating Revenues	1,963,444	2,443,195	2,521,935	1,144,204[(1)]	2,199,908
Cash flow from operating activities	494,079	946,240	911,637	42,450	1,195,472
Net income[2]	387,714	826,677	863,226	215,254	567,122
Capital expenditures	746,083	647,209	237,977	190,467	262,861

[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 Ended	Payment Date	Dividend Income per Share	Interest Income Per Share	Distribution Per Share	Total Distribution ($ 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.)

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

Years Ended December 31

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

Management's Report

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

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

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

Bruce C. Bone
President and Chief Executive Officer

Alan R. Thomas
Chief Financial Officer

Toronto, Ontario
March 1, 2013

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Independent Auditor's Report

To the Shareholders of
Labrador Iron Ore Royalty Corporation

We have audited the accompanying consolidated financial statements of Labrador Iron Ore Royalty Corporation, which comprise the consolidated balance sheets as at December 31, 2012 and December 31, 2011, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2012 and December 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Labrador Iron Ore Royalty Corporation as at December 31, 2012 and December 31, 2011 and its financial performance and its cash flows for the years then ended in accordance International Financial Reporting Standards.

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
March 1, 2013

LABRADOR IRON ORE ROYALTY CORPORATION
CONSOLIDATED BALANCE SHEETS

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

See accompanying notes to consolidated financial statements.

Approved by the Directors,

Bruce C. Bone
Director

Alan R. Thomas
Director

LABRADOR IRON ORE ROYALTY CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Canadian $	For the years ended December 31, 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

See accompanying notes to consolidated financial statements.

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

See accompanying notes to consolidated financial statements.

LABRADOR IRON ORE ROYALTY CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

See accompanying notes to consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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

These consolidated financial statements were authorized for issuance by the Board of Directors of the Corporation on March 1, 2013.

2. BASIS OF PRESENTATION

These consolidated financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and as effective for the year ended December 31, 2012. 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. The significant accounting policies described in Note 3 are consistently applied for all the years presented.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB.

(b) Basis of consolidation

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

(c) Investments in associate

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

The Corporation recognizes its share of earnings (loss) net of tax in the consolidated statements of 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 production and reserves of iron ore at IOC. The rate of amortization is based on estimates of total proven and probable reserves and a portion of mineral resources, which may differ from actual.

(d) Revenue recognition

Royalty and commission income are based on IOC sales, and are measured at the fair value of the consideration received or receivable. Royalty and commission income is recorded on an accrual basis in accordance with the substance of the mineral sublease provided that it is probable that the economic benefits will flow to the Corporation and the amount of revenue can be measured reliably and 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 production and reserves of iron ore at IOC. The rate of amortization is based on estimates of total proven and probable reserves along with a portion of mineral resources, which may differ from actual.

(f) Asset impairment

At each balance sheet date the Corporation assesses whether for assets, including investments in associates, other than those measured at fair value, there is any indication that such assets are impaired. Impairment is recognized if the recoverable amount, determined as the higher of the estimated fair value less costs to sell or the value in use is less than its carrying value. 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.

(g) Income taxes

The Corporation and Hollinger-Hanna are taxable corporations.

Current income taxes are measured at the amount expected to be paid to tax authorities, based on taxable profit for the period, net of recoveries using enacted tax rates at the balance sheet date. Taxable profit differs from profit as reported in the consolidated statements of 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 balance sheet date. Deferred income taxes are presented as non-current.

(h) Foreign currency transactions

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

(i) Financial instruments

Financial assets and financial liabilities are measured at fair value on initial recognition in the consolidated balance sheets. Measurement subsequent to initial recognition depends on the financial instrument's classification which is determined by the purpose for which the instrument was acquired or issued, the instrument's characteristics and the Corporation's designation of the instrument. Financial instruments are classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. Financial assets and financial liabilities classified as held-for-trading are measured at fair value with changes in those fair values recognized in net income. Financial assets classified as held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost, net of associated transaction costs, using the effective interest method. The Corporation includes transaction costs associated with the origination of interest-bearing financial assets and liabilities as a component of the initial carrying amount of the instrument, except for held-for-trading financial instruments, for which the transaction costs are expensed. Cash and cash equivalents are classified as loans and receivables measured at cost; all other financial assets and financial liabilities are measured at amortized cost.

(j) Financial liabilities and equity instruments

Debt and equity instruments issued by the Corporation are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

(k) Critical judgments and estimates

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

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 accounted under the equity method. Management makes this determination based on its legal ownership interest, board representation and through an analysis of the Corporation's participation in IOC's policy making process and mineral sub-lease agreements under which IOC conducts its operations.

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

Critical accounting estimates and assumptions

Ore reserves
Reserves are estimates of the amount of product that can be economically and legally extracted from the IOC's mining properties. Reserve estimates are an integral component in the determination of the

commercial viability of the investment in IOC, the IOC royalty and commission interest, amortization calculations and impairment analyses. In calculating reserves, 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 may also significantly impact estimates

Asset impairment
The Corporation assesses the carrying amount of non-financial assets including the investment in IOC and the IOC royalty and commission interest at each reporting date to determine whether there are any indicators that the carrying amount of the assets may be impaired or require a reversal of impairment. For purposes of determining fair value, management assesses the recoverable amount of the asset using the net present value of expected future cash flows. Projections of future cash flows are based on factors relevant to the asset and could include estimated recoverable production, commodity prices, production levels, cash costs of production and capital and reclamation costs. 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 between the carrying amount and fair value of these assets.

Fair value measurement of financial instruments
The Corporation estimated the fair value for disclosure purposes of the its subordinated notes as they are not separately traded and determined based on future cash flows and the timing of settlement and assumptions about discount rate, credit risk and by incorporating other assumptions made by market participants.

(m) Future Accounting Policies

(i) IFRS 9 *Financial Instruments* was issued by the IASB in November 2009 and will replace IAS 39, "Financial Instruments: Recognition and Measurement" (IAS 39) which addresses the classification and measurement of financial assets. Requirements for financial liabilities were added in October 2010. IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. This standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.

In December 2011, the IASB issued amendments to IFRS 9 that defer the mandatory effective date to annual periods beginning on or after January 1, 2015. The amendments also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9 which was originally limited to companies that chose to apply IFRS 9 prior to 2012. Alternatively, additional transition disclosures will be required to help investors understand the effect that the initial application of IFRS 9 has on the classification and measurement of financial instruments. The Corporation is currently evaluating the impact of this standard and amendments on its consolidated financial statements.

(ii) IAS 19 *Employee Benefits* (revised 2011) requires the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminates the "corridor approach" currently permitted. The amendment also requires all actuarial gains and losses to be immediately recognized in other comprehensive income rather than profit and loss and requires expected returns on plan assets recognized in profit or loss to be calculated based on the rate used to discount the defined benefit obligation. The amended standard is effective for annual periods beginning on or after January 1, 2013. The Corporation is currently evaluating the full impact of this standard on its consolidated financial statements.

(iii) IAS 28 *Investments in associates and joint ventures* was re-issued by the IASB in May 2011. IAS 28 continues to prescribe the accounting for investments in associates but is now the only source of guidance describing the application of the equity method. The amended IAS 28 will be applied by all entities that have an ownership interest with joint control of, or significant influence over, an investee. The amendments to IAS 28 are effective for annual periods beginning on or after January 1, 2013. The adoption of this standard is not expected to have a significant impact on the Corporation's consolidated financial statements.

(iv) IFRS 11, "Joint arrangements" (IFRS 11) was issued by the IASB in May 2011 and will supersede IAS 31, "Interest in joint ventures" and SIC 13, "Jointly controlled entities – non-monetary contributions by venturers" by removing the option to account for joint ventures using proportionate consolidation and requiring equity accounting. Venturers will transition the accounting for joint ventures from the proportionate consolidation method to the equity method by aggregating the carrying values of the proportionately consolidated assets and liabilities into a single line item on their financial statements. In addition, IFRS 11 will require joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement will no longer be the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. The adoption of this standard is not expected to have a significant impact on the Corporation's consolidated financial statements.

(v) IAS 32 *Financial Instruments: Presentation* was amended by the IASB in December 2011. The amendment clarifies that an entity has a legally enforceable right to offset financial assets and financial liabilities if that right is not contingent on a future event and it is enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014. . The adoption of this standard is not expected to have a significant impact on the Corporation's consolidated financial statements.

(vi) IFRS 7, *Financial Instruments: Disclosures* was amended by the IASB in December 2011. The amendment contains new disclosure requirements for financial assets and financial liabilities that are offset in the statement of financial position or subject to master netting arrangement or similar agreements. These new disclosure requirements will enable users of the financial statements to better compare financial statements prepared in accordance with IFRS and US GAAP. IFRS 7 is effective for annual periods beginning on or after January 1, 2013. The adoption of this standard is not expected to have a significant impact on the Corporation's consolidated financial statements.

(vii) IFRS 10 *Consolidated Financial Statements* was issued by the IASB in May 2011 and will replace SIC 12, *Consolidation-Special purpose entities* and parts of IAS 27, *Consolidated and separate financial statements*. Under the existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard (i) requires an entity that controls one or more other entities to present consolidated financial statements; (ii) defines the principle of control and establishes control as the basis for consolidation; (iii) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and (iv) sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. The adoption of this standard is not expected to have a significant impact on the Corporation's consolidated financial statements.

(viii) IFRS 12 *Disclosures of Interests in Other Entities* was issued by the IASB in May 2011. IFRS 12 requires enhanced disclosure of information about involvement with consolidated and unconsolidated entities, including structured entities commonly referred to as special purpose

vehicles or variable interest entities. IFRS 12 is effective for annual period beginning on or after January 1, 2013. The Corporation will include these enhanced disclosures with its 2013 first quarter financial statements.

(ix) IFRS 13, *Fair Value Measurement* was issued by the IASB in May 2011. This standard clarifies the definition of fair value, required disclosures for fair value measurement, and sets out a single framework for measuring fair value. IFRS 13 provides guidance on fair value in a single standard, replacing the existing guidance on measuring and disclosing fair value which is dispersed among several standards. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The adoption of this standard is not expected to have a significant impact on the Corporation's consolidated financial statements.

(x) IAS 1, *Presentation of Financial Statements* was issued by the IASB in June 2011. The amendment requires separate presentation for items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met, from those that would never be reclassified to profit or loss. The effective date is for annual periods beginning on or after July 1, 2012. The adoption of this standard is not expected to have a significant impact on the Corporation's consolidated financial statements.

(xi) IFRIC 20, *stripping costs in the production phase of a surface mine* was issued by the IASB in October 2011. IFRIC 20 is effective for annual periods beginning on or after January 1, 2013. The standard requires stripping costs incurred during the production phase of a surface mine to be capitalized as part of an asset, if certain criteria are met, and depreciated on a units of production basis unless another method is more appropriate. The adoption of this standard is not expected to have a significant impact on the Corporation's consolidated financial statements.

4. CAPITAL RESTRUCTURING

Pursuant to a Plan of Arrangement filed with the Ontario Superior Court of Justice (the "Plan of Arrangement") and approved by holders of stapled units at a special meeting held on September 28, 2012, a capital re-structuring occurred and was effective on October 3, 2012 involving an exchange of the $248 million subordinated note receipts outstanding for additional common shares of the Corporation having a fair market value of $3.875 being the principal amount of the subordinated notes represented by the subordinated note receipt so transferred (the "Exchange Ratio"). Immediately following such exchange, all of the issued and outstanding common shares were consolidated such that the total issued and outstanding shares remained at 64 million and each shareholder holds the same number of common shares after the consolidation as such shareholder held prior to the exchange and consolidation.

Legal and other costs incurred in relation to the restructuring of $0.3 million were included in administration expenses for the year ended December 31, 2012.

5. AMOUNTS RECEIVABLE

Amounts receivable consist of the following:

	December 31	
	2012	2011
IOC royalties	$ 29,152,438	$ 40,512,282
IOC commissions	136,933	138,092
Other	19,113	19,406
	$ 29,308,484	$ 40,669,780

6. IOC ROYALTY AND COMMISSION INTERESTS

	December 31	
	2012	2011
7% Overriding royalty interest, at cost	$ 351,617,440	$ 351,617,440
Commission interest, at cost	13,661,451	13,661,451
Accumulated amortization	(82,015,391)	(78,147,599)
	$ 283,263,500	$ 287,131,292

The Corporation reviews and tests the carrying amount of its royalty and commission interests when events or changes in circumstances suggest that their carrying amount may not be recoverable. If the recoverable amount falls below the carrying cost, a write-down would be recorded.

7. INVESTMENT IN IOC

The Corporation holds, directly and through Hollinger-Hanna, all of the Series B and Series C common shares of IOC, representing a 15.10% equity interest in the company as at December 31, 2012 and 2011. The Series B and Series C common shares have identical voting rights to all other issued and outstanding common shares of IOC.

	2012	2011
Investment in IOC, beginning of year	$ 299,280,483	$ 241,161,657
Equity earnings in IOC	57,883,108	124,015,087
Other comprehensive loss of IOC	(5,393,000)	(5,729,000)
Common share dividends received	-	(60,167,261)
Investment in IOC, end of year	$ 351,770,591	$ 299,280,483

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

The net excess of cost of the Investment in IOC over the net book value of underlying net assets amounts to $48,448,000 (2011 - $49,109,000) and is being amortized to net income on the units-of- production method based on production and reserve estimates at IOC.

A summary of the financial information of IOC is as follows (in millions):

	2012	**2011**
Operating Revenues	$1,963	$2,443
Cash flow from operating activities	494	946
Net income	388	827
Capital expenditures	746	647
Assets	3,349	2,826
Liabilities	1,355	1,183

The Corporation reviews and tests the carrying amount of its Investment in IOC for impairment when events or changes in circumstances suggest that its carrying amount may not be recoverable. If the recoverable amount falls below the carrying cost, a write-down would be recorded.

8. DISTRIBUTIONS TO SHAREHOLDERS

A dividend of $0.375 per common share, being an aggregate dividend of $24 million, was declared by the Directors of the Corporation payable to shareholders of record on December 31, 2012 and paid on January 25, 2013.

Total distributions to shareholders as declared by the Directors of the Corporation in 2012 and 2011 were allocated as follows:

	2012		**2011**	
	Total	**Per Share**	**Total**	**Per Share**
Interest on subordinated notes	$ 22,464,000	$ 0.351	$ 29,952,000	$ 0.468
Dividend income	73,536,000	1.149	114,048,000	1.782
Total interest and distributions	$ 96,000,000	$ 1.500	$ 144,000,000	$ 2.250

A dividend of $0.375 per common share, being an aggregate dividend of $24 million, was declared by the Directors of the Corporation payable to shareholders of record at the close of business on March 31, 2013 and to be paid on April 25, 2013.

9. DEBT

The Corporation has a $50 million revolving senior secured credit facility to September 18, 2015 with provision for annual one-year extensions. The credit facility provides for various forms of advances at the option of the Corporation. Various interest options are available for these revolving credits and a standby fee is payable on the unadvanced portion of the facility. The facility is secured by an assignment of the Corporation's and Hollinger-Hanna's interests in the IOC common shares, the IOC royalty and commission interests, and other assets of the Corporation and requires that the Corporation maintain certain financial ratios.

As at December 31, 2012, no amount was drawn on the credit facility (2011 – nil) leaving $50 million available to provide for any investment in IOC or other Corporation requirements.

10. INCOME TAXES

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

	2012	2011
Income before income taxes	$ 128,478,691	$ 217,093,145
Income taxes at combined federal and provincial statutory tax rates of 29% (2011 - 30.5%)	37,258,820	66,213,409
Increase (decrease) in income taxes resulting from:		
Undistributed equity earnings in investment in IOC	(8,393,051)	(19,842,414)
Equity earnings distributed as dividends	-	(8,724,253)
Other	319,457	132,021
Income tax expense	$ 29,185,226	$ 37,778,763

The change in the statutory rate over the prior year is a result of a reduction in the federal tax rate.

The deferred tax liability is comprised of the following:

	Opening Balance	Recognized in profit and loss	Recognized in other comprehensive income	Closing Balance
December 31, 2011				
Difference in tax and book value of assets	$ 108,914,243	$ 7,812,732	$ (813,000)	$ 115,913,975
Tax benefit of deductible temporary differences	(1,205,243)	121,268	-	(1,083,975)
Net deferred income tax liability	107,709,000	7,934,000	(813,000)	114,830,000
December 31, 2012				
Difference in tax and book value of assets	115,913,975	7,271,475	(782,000)	122,403,450
Tax benefit of deductible temporary differences	(1,083,975)	40,525	-	(1,043,450)
Net deferred income tax liability	$ 114,830,000	$ 7,312,000	$ (782,000)	$ 121,360,000

11. SUBORDINATED NOTES

Subordinated notes

	December 31	
	2012	2011
Notes, due November 28, 2025, 12.45%(1)	$ -	$ 211,300,000
Notes, due April 1, 2029, 9.95%(2)	-	36,700,000
	$ -	$ 248,000,000

[1]*Weighted average interest rate of three tranches of notes with fixed interest rates ranging from 11.5% to 12.5%.*
[2]*Weighted average interest rate of two tranches of notes with fixed interest rates ranging from 1.25% to 10.5%.*

As a result of the Plan of Arrangement (see Note 4), the shareholders approved to exchange the $248 million subordinated note receipts outstanding for common shares of the Corporation. As such, there were no subordinated notes outstanding as of December 31, 2012 (December 31, 2011 - $248 million aggregate principal amount of subordinated notes were outstanding represented by the note receipts held directly by the common shareholders of the Corporation).

12. SHARE CAPITAL

Prior to the completion of the Plan of Arrangement by the Corporation, there were 64 million stapled units issued and outstanding. Effective on October 3, 2012, the then-outstanding $248 million subordinated notes were exchanged in accordance with the Exchange Ratio (see note 4) for additional common shares of the Corporation, and which additional common shares were immediately consolidated such that each shareholder holds the same number of common shares after the consolidation as such shareholder held before the Plan of Arrangement. Accordingly, after giving effect to the Plan of Arrangement the Corporation had 64 million common shares outstanding as at December 31, 2012 (December 31, 2011 – 64 million).

After giving effect to the Plan of Arrangement, the common shares issued and outstanding and related amounts, held by the shareholders of the Corporation are as follows:

	Shares	Amounts
Share capital, January 1, 2011 and December 31, 2011(1)	64,000,000	$ 69,708,147
Exchange of Subordinated notes for common shares on October 3, 2012 and immediate consolidation of such common shares	-	248,000,000
Share capital, December 31, 2012	64,000,000	$ 317,708,147

(1) Reflects the two-for-one share subdivision on July 1, 2011.

Stapled Units Subdivision

Effective on July 1, 2011, the Corporation completed the subdivision of the then outstanding stapled units on a two-for-one basis resulting in 64 million stapled units outstanding.

13. ACCUMULATED OTHER COMPREHENSIVE LOSS

	Net unrealized gain (losses), net of tax		
	Net actuarial gains (losses) on defined benefit plans	Variation of effect of the limit on net actuarial gains (losses)	Total
Balance, January 1, 2011	$ (4,271,000)	$ -	$ (4,271,000)
Other comprehensive (loss) gain	(10,716,000)	5,800,000	(4,916,000)
Transfer to retained earnings of actuarial gains on defined benefit plans (IOC)	-	(5,800,000)	(5,800,000)
Balance, December 31, 2011	(14,987,000)	-	(14,987,000)
Balance, January 1, 2012	(14,987,000)	-	(14,987,000)
Other comprehensive loss	(4,611,000)	-	(4,611,000)
Balance, December 31, 2012	$ (19,598,000)	$ -	$ (19,598,000)

14. CAPITAL MANAGEMENT

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

15. 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

16. FINANCIAL INSTRUMENT RISK MANAGEMENT

Commodity price risk

The Corporation is dependent on royalty income, commissions and dividends received from IOC. IOC's earnings and cash flows are affected by the volume of iron ore products sold, the price of those products 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, 2012 and 2011, there were no foreign exchange contracts outstanding.

Based on financial instrument balances as at December 31, 2012, a strengthening or weakening of $0.01 of the Canadian dollar to the U.S. dollar with all other variables held constant could have an unfavourable or favourable impact of approximately $0.2 million, respectively, on net income.

Credit risk

The Corporation is exposed to credit risk with respect to accounts receivable from IOC. The Corporation is economically dependent on IOC.

17. KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel are the President and Chief Executive Officer, the Executive Vice President & Secretary, the Chief Financial Officer and directors. Their remuneration for the year ended December 31, 2012 was comprised of salaries totaling $495,000 (2011 – salaries, bonuses and fees totaling $472,500).

Corporate Information

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Chairman, President and CEO of
E-L Financial Corporation Limited

James C. McCartney
Company Director
Counsel, McCarthy Tétrault LLP

Paul H. Palmer(1)
Company Director

Harold S. (Hap) Stephen(1)
Chairman and CEO
Stonecrest Capital Inc.

Alan R. Thomas
Company Director

Donald J. Worth(1)
Company Director

(1) *Member of Audit, Nominating and Compensation Committees*

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Officers

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Non-executive Chairman of the Board

Bruce C. Bone
President and Chief Executive Officer

James C. McCartney
Executive Vice President & Secretary

Alan R. Thomas
Chief Financial Officer