

LABRADOR IRON ORE ROYALTY CORPORATION

**ANNUAL INFORMATION FORM
FOR THE YEAR ENDED DECEMBER 31, 2010**

March 1, 2011

LABRADOR IRON ORE ROYALTY CORPORATION
ANNUAL INFORMATION FORM

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LABRADOR IRON ORE ROYALTY CORPORATION

LIORC

Labrador Iron Ore Royalty Corporation ("**LIORC**") is a corporation existing under the *Canada Business Corporations Act*. LIORC was formed to give effect to the conversion of the Labrador Iron Ore Royalty Income Fund (the "**Fund**") into a corporation under an arrangement (the "**Arrangement**") completed on July 1, 2010. LIORC is also the successor by amalgamation under the Arrangement of a predecessor of LIORC with Labrador Mining Company Limited ("**LabMin**"), formerly a wholly-owned subsidiary of the Fund. Under the Arrangement, the Fund distributed \$248 million of subordinated notes of LabMin to its unitholders and the unitholders exchanged their trust units of the Fund for common shares of LIORC. From July 1, 2010, the common shares of LIORC and the subordinated notes (now obligations of LIORC as a result of the amalgamation) have traded together as stapled units on the Toronto Stock Exchange under the symbol LIF.UN.

The information in this Annual Information Form is presented on a continuity of interest basis, which recognizes LIORC as the successor to the Fund and LabMin.

LIORC, directly and through its wholly-owned subsidiary Hollinger-Hanna Limited ("**Hollinger-Hanna**"), holds a 15.10% equity interest (the "**IOC Equity**") in Iron Ore Company of Canada ("**IOC**"). LIORC receives a 7% gross overriding royalty (the "**Royalty**") and Hollinger-Hanna receives a 10 cent per tonne fee (the "**Fee**") on all iron ore products produced, sold and shipped by IOC.

Generally, LIORC makes cash distributions from its net income to the maximum extent possible, subject to the maintenance of appropriate levels of working capital. The stapled unitholders currently receive quarterly distributions of interest on the subordinated notes and dividends on the common shares on the 25th day of the month following the end of each quarter.

As at December 31, 2010, LIORC had 32 million stapled units outstanding. Each stapled unit consists of: (a) one subordinated note receipt representing \$7.75 face amount of subordinated notes and entitled to interest payments of \$0.936 per annum; and (b) one common share of LIORC. The subordinated notes and common shares comprising the stapled units 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.

Pursuant to an administration agreement (the "**Administration Agreement**") extended on July 1, 2010, Scotia Capital Inc. ("**Scotia Capital**") acts as administrator for LIORC and its subsidiary, Hollinger-Hanna, for an aggregate annual fee of \$250,000 (payable monthly in advance). Scotia Capital, as administrator, has agreed to provide or arrange for the provision of services required in the administration of LIORC and Hollinger-Hanna. The Administration Agreement had an original term of five years, renewable annually thereafter on consent of both parties. The Agreement may be terminated by either party on six months' written notice.

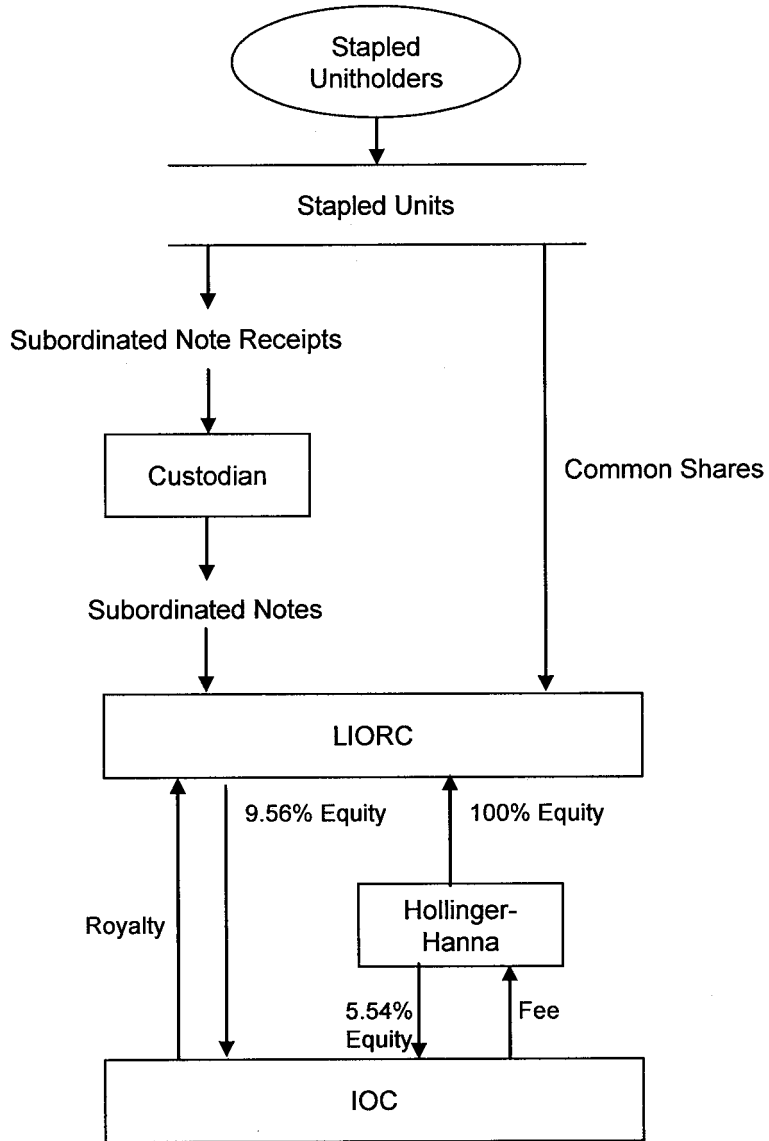
The registered office of LIORC is located at Suite 1000, Scotia Centre, 235 Water Street, St. John's, Newfoundland and Labrador, A1C 1B6. Administration and Investor Relations is at 40 King Street West, Scotia Plaza, 26th Floor, Toronto, Ontario M5W 2X6.

Hollinger-Hanna Limited

Hollinger-Hanna, a wholly-owned subsidiary of LIORC, was continued on May 28, 1980 under the *Canada Business Corporations Act*. Hollinger-Hanna holds a 5.54% equity interest in IOC and is entitled to the Fee on all iron ore products sold and shipped by IOC. Pursuant to an agreement with IOC, the Fee is payable on all sales for so long as Hollinger-Hanna is in existence and solvent.

Corporate Structure

The following diagram sets forth the organizational structure of LIORC and its subsidiary.



GENERAL DEVELOPMENT OF THE BUSINESS

Three-Year History (2008-2010)

The Royalty

The Royalty received by LIORC from IOC depends on sales volumes, prices and, because sales are in U.S. dollars, the U.S.-Canadian dollar exchange rate. In 2008, sales volumes were 12.3 million tonnes for pellets and 2.8 million tonnes for concentrates. Prices increased by 86.67% for pellets and 68.75% for concentrates. In the fourth quarter, particularly in December, sales were affected by progressively weakening demand. Production of pellets was 12.6 million tonnes and of concentrate for sale was 3.2 million tonnes, with pellet production being reduced in the fourth quarter as a result of the weakening market. The Royalty was positively affected by the 24% decline in the value of the Canadian dollar against its U.S. counterpart during 2008.

In 2009, sales volumes were 9.0 million tonnes for pellets and 5.2 million tonnes for concentrates. Benchmark prices were reduced by 48.3% for pellets and 29.8% for concentrates. The Royalty was adversely affected by a 14% appreciation in the Canadian dollar during the year. The decreases in sales and prices reflected the fall in demand for iron ore caused by the worldwide recession, which started in late 2008. In the first half of 2009, pellet sales of IOC were substantially lower than 2008, with the decreased volume partially offset by increased sales of concentrates. IOC first idled some pellet machines and then shut down its Carol Lake operations in Labrador City from July 7 to August 10, 2009 in order to balance inventories with demand. Shipments from IOC's terminal in Sept-Îles, Quebec continued during this period. With the recovery of pellet demand in the international markets, IOC resumed full pellet production subsequent to the summer shut down.

In 2010, sales recovered from the low levels of 2009, as steel companies rebuilt their inventories and as demand increased, particularly in the Asian-Pacific region and Europe. In 2010, sales volumes were 12.1 million tonnes for pellets and 3.0 million tonnes for concentrates. 2010 marked the shift from annual benchmark pricing to quarterly pricing in iron ore markets. IOC negotiated long term contracts with customers based on quarterly pricing, as described below under Iron Ore Company of Canada, Sales Volumes, Prices and Revenues. While the iron ore prices recovered strongly in 2010 as compared to 2009, IOC's revenues (and LIORC's royalty) was adversely affected by a 10% appreciation in the Canadian dollar over 2009.

Expansion

During 2008, IOC completed an expansion program to increase annual ore production capacity to 43 million tonnes which supports a nominal annual concentrate production capacity of 18 ± 0.5 million tonnes depending on ore quality.

In 2008, IOC also commenced a programme to creep nominal annual pellet production capacity to above 13 million tonnes. On March 11, 2008, IOC announced a \$500 million expansion program to increase annual concentrate production capacity to 22 million tonnes. On September 4, 2008, IOC announced a \$300 million expansion project to further increase production capacity to 22.8 million tonnes, including \$75 million for a feasibility study to increase production capacity to 26 million tonnes.

In December 2008, in addition to cutting back production, IOC suspended the expansion projects in response to adverse market conditions. In 2009, \$40 million was spent on completing small projects and equipment purchases that had been committed before suspension of the expansion projects.

On May 6, 2010, IOC announced the resumption of its expansion program, with a proposed \$435 million investment to increase its annual production capacity by 4 million tonnes to 22 million tonnes by 2012. The investment is the first stage of a three-stage expansion program that could increase concentrate annual capacity to 26 million tonnes. The first stage comprises an overland conveyor to remove bottlenecks in the current ore delivery system, a fourth autogenous grinding mill to increase primary grinding capacity and associated mine and rail equipment.

On February 8, 2011, IOC announced the restart of the second stage of its expansion program which can increase IOC's annual concentrate capacity from 22 million tonnes to 23.3 million tonnes. IOC will invest C\$289 million during the second stage to expand its magnetite processing facility and add new spiral lines to the gravity separation circuit. The second stage will also include the purchase of additional mining equipment, railway cars and a locomotive, as well as upgrades at the Wabush terminal sub-station.

Long-Term Debt

LIORC has outstanding \$248 million of Subordinated Notes, as described under Capital Structure.

LIORC has a \$50 million revolving senior secured credit facility with a term ending September 18, 2013. Each year LIORC may request a one year extension of the maturity date. The credit facility provides for various forms of advances at the option of the company. Various interest options are available for the revolving credit and a standby fee is payable on the unadvanced portion of the facility. The facility is secured by an assignment of LIORC's and Hollinger-Hanna's interests in the IOC Equity, the Royalty and the Fee and requires that LIORC maintain certain financial ratios.

As at December 31, 2010, there was no amount drawn under the credit facility.

THE BUSINESS

History of Operations

LIORC holds the Royalty, a 9.56% equity interest in IOC, a 100% interest in Hollinger-Hanna, and certain other passive assets.

The Royalty

LIORC holds 12 long-term leases and six licences (collectively, the "**Labrador Leases**") from the Government of Newfoundland and Labrador covering approximately 18,200 hectares of land near Labrador City. LIORC's leasehold interests authorize mining and mineral extraction, whereas the licences grant LIORC exclusive authority to explore such lands for mineralization. Labrador City is approximately 410 kilometres by railway from Sept-Îles, Quebec, a deep water port located on the Gulf of St. Lawrence. The Labrador Leases include all mineral interests contained upon or under the lands, excluding oil and natural gas rights. Active mining is presently being conducted on three of the 12 leases covering approximately 3,900 hectares of land.

The 12 leases which constitute the leasehold portion of the Labrador Leases were initially granted in 1960, 1962, 1965 and 1971 and were for terms of 30 years with the right to renew the leases for two additional 30 year terms. In accordance with their terms all 12 leases were renewed in 1990 for second terms of 30 years which, subject to their renewal right for a third term, will expire in 2020, 2022, 2025 and 2031.

Six licences were initially issued in 1962 for 40 year terms, and one was issued in 1964 for a 40 year term. The six licences were converted to map staked licences in 2002 and two of these were grouped together in 2004. All of these were extended for a further five years on July 15, 2007. The remaining licence was converted to a map staked licence in 2004 and extended for a further five years on January 5, 2009. Map staked licences confer the exclusive right to explore for a period of five years, subject to assessment work, and the holder has a right to apply for three five year extensions.

On February 25, 1953, LIORC entered into a sublease agreement with IOC (as amended from time to time, the "**sublease**") whereby LIORC leased to IOC mineral interests in iron ore on certain lands ("**IOC Lands**"). Subject to certain reserve allocations between LIORC and IOC, the sublease provided that, in consideration for the Royalty, IOC had the right to extract all of the iron ore from some of the IOC Lands and two-thirds of the iron ore from certain other of the IOC Lands, while LIORC retained the right to one-third of the iron ore present on or under such other lands. On August 31, 2006, agreement was reached with IOC to simplify the sublease with LIORC granting IOC rights to mine 100% of the ore for the Royalty. The previously excluded Wabush 3 property was included in the sublease in consideration of a 7% royalty on sales of iron ore products derived from that property. Parts of the Knight deposit previously held exclusively by IOC were also included in the sublease and subject to a 7% royalty.

As of September 1, 2006, LIORC and IOC entered into an amended and restated sublease ("**Labrador Sublease**") to amend and restate the original sublease agreement dated February 25, 1953 and 7 amendments dated June 2, 1965, December 31, 1970, June 28, 1974, January 1, 1986, May 25, 1995, June 1, 2000 and August 31, 2006. The Labrador Sublease is a consolidation of the predecessor documents, with deletions of parts that are no longer applicable.

In addition to the Royalty payable to LIORC, IOC is obligated to pay certain amounts to the Government of Newfoundland and Labrador on behalf of LIORC in order to maintain the Labrador Leases, including annual rental payments and a royalty of 5% of profits as defined in the Labrador Leases. A 20% Government of Newfoundland and Labrador royalty tax, which is deducted at source and remitted by LIORC, is also payable pursuant to the *Mining and Mineral Rights Tax Act* (Newfoundland).

IOC's mining operations are conducted on lands governed by three of the 12 leases, which have terms expiring in 2020 and 2022, with a right of renewal for a further 30 year term. All of IOC's proven and probable reserves are located on these three leases. The resources are located on the same three leases and on three additional leases.

The Labrador Sublease has a term equal to the term of each Labrador Lease less one day including any renewal term of such lease. IOC can terminate the Labrador Sublease with respect to all or a portion of the IOC Lands by providing LIORC with seven calendar months' notice. In this event, LIORC has the right to acquire IOC's mining and production facilities at a negotiated or arbitrated price.

As provided in the Labrador Sublease, the Royalty is paid in U.S. dollars quarterly (on a calendar basis in arrears) on April 25, July 25, October 25 and January 25 in each year in amounts equal to 7% of the selling price f.o.b. Sept-Îles, Quebec, for each iron ore product produced, sold and shipped by IOC during the applicable quarterly period. Subject to adjustment, the Royalty must be paid in respect of minimum volumes of iron ore. The Labrador Sublease provides for a maximum payment in situations where premium-priced products are developed in the future. If the price of a premium-priced iron ore product exceeds the market price for a similar concentrate or pellet product by 10%, then the Royalty is based on the market price for the similar concentrate or pellet product rather than the market price for the premium-priced iron ore product.

LIORC currently retains all non-iron ore mineral rights with respect to the Labrador Leases. LIORC believes that the exploration potential of such licences and leases for non-iron ore mineralization is low.

The IOC Equity

IOC is currently owned by three shareholders, including LIORC (directly and through Hollinger-Hanna). The shares of common stock are divided into seven series. Dividends are paid equally in respect of all shares and the shares are in all respects identical to one another. The IOC shareholders and their respective interests in IOC are as follows: Rio Tinto 58.72%, Mitsubishi Corporation 26.18% and LIORC 15.10%.

The declaration of dividends by the directors of IOC is discretionary. In 2008, LIORC received one dividend of U.S.\$75.5 million or approximately Cdn.\$77.9 million; in 2009, LIORC received one dividend of U.S.\$7.5 million or approximately Cdn.\$8.2 million; and in 2010, LIORC received dividends of U.S.\$11.3 million or approximately Cdn.\$11.9 million, and U.S.\$60.4 million or approximately Cdn.\$62.7 million.

Pursuant to IOC's amended and restated certificate of incorporation, its common shares cannot be transferred, except in certain limited circumstances, without such shares first being offered to the other shareholders of IOC on a pro rata basis. Further, to the extent such shareholders do not acquire the stock offered for sale, then all shareholders must consent to the transfer of IOC stock to any proposed transferee. All existing shareholders have a pre-emptive right to participate in any issuance of stock of IOC on a pro rata basis.

Hollinger-Hanna

LIORC also owns a 100% interest in Hollinger-Hanna. Hollinger-Hanna was previously involved in marketing iron ore for IOC. In return for relinquishing the right to market IOC's iron ore, Hollinger-Hanna

receives the Fee on all iron ore products sold and shipped by IOC. The Fee is payable for so long as Hollinger-Hanna is in existence and solvent.

Employees

LIORC and Hollinger-Hanna have no employees other than the officers listed under "Directors and Officers" in this Annual Information Form.

Reorganization

On July 1, 2010, the Fund, LabMin and LIORC completed the Arrangement resulting in the reorganization of the Fund's income trust structure into a public corporation, LIORC, which continued the business of the Fund and its subsidiaries. Pursuant to the Arrangement, the Fund was dissolved and its unitholders became holders of stapled units. The completion of the Arrangement enabled LIORC to pay interest on its subordinated notes and dividends on its common shares directly to holders of stapled units on essentially the same basis as interest and dividends were previously distributed to the Fund's unitholders.

IRON ORE COMPANY OF CANADA

General

IOC was incorporated under the laws of the State of Delaware on November 18, 1949. IOC commenced production at Labrador City, Newfoundland and Labrador, in 1962. IOC produces all of its iron ore from the IOC Lands. Iron ore is used in blast furnaces to produce pig iron or in direct reduction facilities and is subsequently transformed into steel.

All information relating to IOC in this annual information form has been provided by the management of IOC.

IOC's principal business is mining the iron ore present on the IOC Lands leased under the Labrador Sublease and operating the associated mining facilities and plants required for the production of iron ore concentrate and pellets. These facilities are located at Labrador City. In normal circumstances, IOC operates its facilities 24 hours a day on a year round basis. Management of IOC has advised that IOC currently has the nominal capacity to extract approximately 43 million tonnes of crude ore annually. In 2010, a total of 39 million tonnes of crude ore was mined from 3 open pits. IOC's concentrating plant has a nominal capacity to produce approximately 18 ± 0.5 million tonnes of iron ore concentrate per year depending on ore quality for either direct shipping or as feed to IOC's pellet plant. In 2010, 15.5 million tonnes of iron ore concentrate were produced. IOC's pellet plant has a nominal capacity of 13 million tonnes of iron ore pellets per year depending on product mix. In 2010, IOC produced 2.8 million tonnes of concentrate for sale and 11.9 million tonnes of pellets. Concentrate for sale and pellets are shipped by the Quebec North Shore & Labrador Railway Company, Inc. ("QNS&L"), a wholly-owned subsidiary of IOC, from IOC's mining facilities in Labrador City, Newfoundland and Labrador to Sept-Îles, Quebec where IOC also owns and operates a marine terminal with materials storage and docking facilities. From the Sept-Îles deep water port, IOC's products are shipped to markets throughout the world on a year round basis.

IOC has an ongoing program to embed a continuous improvement culture in the company. The program includes measures to improve productivity, utilization of materials and machinery and practices for purchasing of materials and services. In 2010, IOC continued to implement an asset management program to improve reliability across the business through better maintenance and operating practices. This helped improve product manufacturing, ore delivery system, and mine hauling fleet performance. IOC made good progress with respect to the Lean production system in 2010, deploying information centres, improving the layout of work areas, and standardising work processes throughout the operations to better engage employees in improving the business. These improvements, along with the ongoing expansion projects, are expected to enhance IOC's cost competitiveness and position IOC to continue to be a competitive supplier of iron ore pellets and concentrate to the global market well into the future.

Mineral Reserves and Resources

IOC's active mining operations are conducted in the Labrador City area (the "Mine"). IOC has operated the Mine for 49 years. IOC holds its interest in the Mine pursuant to the Labrador Sublease. In 2010, iron ore was extracted from 3 mining areas (Luce, Humphrey West and newly developed Sherwood Pond).

The iron ore deposits in the Labrador City area occur as specular hematite and magnetite, generally in the ratio of 65:35. The proven ore bodies, with an average grade of approximately 38% iron, occupy the middle iron unit of the Sokoman formation overlain by waste rock. The deposits are intricately folded and overturned. Generally, the iron ore deposits at the Mine are close to the surface thereby facilitating open pit mining.

The total estimated iron ore reserves and resources at the Mine at December 31, 2010, as calculated by IOC, were as follows:

	<u>Tonnes</u> (in millions)	Average Iron Ore <u>Grade</u> (Fe %)
Proven Reserves	859.7	38.2%
Probable Reserves	<u>629.7</u>	37.8%
Total Reserves	<u>1489.4</u>	38.0%
Measured Resources	201.9	39.3%
Indicated Resources	753.7	38.2%
Inferred Resources	<u>1417.1</u>	38.2%
Total Resources	<u>2372.7</u>	38.1%

Total Ore Reserves increased by 121 million tonnes in 2010 due to re-optimised pit designs that transferred resources to reserves, with mineral resources decreasing by 168 million tonnes due to the transfer to reserves and revised geological models.

The estimated Proven and Probable Reserves of crude iron ore located on the IOC Lands are approximately 1.5 billion tonnes. At the post CEP 1 concentrate production rate of 22 million tonnes per year, the estimated Proven and Probable Reserves of crude iron ore are equivalent to approximately 29 years of production. The annual stripping ratio for IOC's reserves ranges between 0.5 and 1.3 tonnes of waste per tonne of ore, with an average of 1.0. In addition to the Proven and Probable Reserves, there are also estimated Resources of 2.4 billion tonnes.

Mine

Mining is carried out using open pit techniques, which involve the drilling, blasting and hauling of waste rock and ore. Broken ore is loaded by electric shovels and transported by truck to one of three underground loading pockets where the ore is transferred to unmanned automatic trains. The automatic trains then carry the broken ore to the crusher located adjacent to IOC's processing facilities, a distance of between 8 and 12 kilometres from the loading pockets. Currently the mine and the automatic train have a nominal capacity to deliver 43 million tonnes per year of ore to the concentrator.

Concentrator

IOC employs an entirely mechanical process to separate the ore from the waste rock. In order to extract the iron ore from the associated rock and silica gangue, the crushed ore is ground to a size of approximately one millimetre at which point it is liberated from the associated undesirable minerals. The grinding is currently done in three wet mills.

Ground ore is then concentrated in the spiral plant using gravity spirals to increase the iron content from 38% to approximately 65%. The spirals utilize the forces of gravity, centrifugal action and friction to separate the heavier iron ore grains from the lighter waste rock particles. The ground ore slurry must pass through three successive stages of spiralling (including rougher, cleaner and recleaner) before the concentrate is of sufficient grade and can be conveyed to a stockpile for direct shipping or used as feed for the pelletizing plant. A magnetic separation plant extracts magnetite from the spiral plant's tailings, while a hematite recovery plant recovers fine particles of hematite from the tailings of the magnetic separation plant.

In 2010, concentrate production was about 15.5 million tonnes. The ratio of tonnes of iron ore concentrate produced to the total tonnes of crude ore fed into the concentrator plant (the iron ore weight yield) was 40.2%, a value which was adversely impacted by work underway to open up the Luce mining area into a single pit.

On March 11, 2008, IOC announced a \$500 million expansion project to increase annual concentrate production capacity to 22 million tonnes. On September 4, 2008, IOC announced a \$300 million expansion project to increase capacity to 22.8 million tonnes, including \$75 million for a feasibility study to increase capacity to 26 million tonnes. These expansion programs include construction of an additional crusher and ore delivery system to transport ore from the mine to the concentrator to supplement the capacity of the existing Automatic Train System and construction of additional primary milling and magnetite recovery equipment in the concentrator. In December 2008, in addition to cutting back production, IOC suspended these expansion projects as part of its cost-cutting response to adverse market conditions.

On May 6, 2010, IOC announced the resumption of its expansion program, with a proposed \$435 million investment to increase its annual production capacity by 4 million tonnes to 22 million tonnes by 2012. The investment is the first stage of a three-stage expansion program that could increase concentrate annual capacity to 26 million tonnes. The first stage will comprise an overland conveyor to remove bottlenecks in the current ore delivery system, a fourth autogenous grinding mill to increase primary grinding capacity and associated mine and rail equipment.

On February 8, 2011, IOC announced the restart of the second stage which can increase IOC's annual concentrate capacity from 22 million tonnes to approximately 23.3 million tonnes from 2013. IOC will invest C\$289 million during the second stage to expand its magnetite processing facility and add new spiral lines to the gravity separation circuit. The second stage will also include the purchase of additional mining equipment, railway cars and a locomotive, as well as upgrades at the Wabush terminal sub-substation.

In 2010, approximately 18% of IOC's concentrate production was sold as concentrate while the remaining production was converted into pellets at IOC's pelletizing plant before sale. IOC's production of concentrate and pellets is sold to steel manufacturers. IOC tries to maximise margins by optimising its product offering according to the changing market pricing.

Pellet Plant

In order for iron ore concentrate to be used in a blast furnace, it must first be converted into either sinter, which is typically produced on-site at the steel making facilities, or converted into iron ore pellets at a pelletizing plant such as the one at IOC's production facilities in Labrador City. The pellets can then be charged directly into a blast furnace.

Iron ore concentrate is received from the concentrating operations where it is ground in one of 11 ball mills. The ground concentrate, after being filtered, is mixed with bentonite, which acts as a binding agent and, in the case of fluxed pellets, limestone and/or dolomite is added. The ground concentrate and other additive mixtures are formed into balls 9.5 mm to 12.5 mm in diameter that after being placed on one of six travelling grate furnaces, are dried to remove moisture and then fired. Once cooled, the finished iron ore pellets are conveyed to storage for shipping by rail to the shipping terminal facilities in Sept-Îles.

A flotation plant uses bubble flotation technology to reduce silica to lower levels than can be achieved in the concentrator. It was originally installed to allow IOC to produce lower silica direct reduction pellets that contain less than 2% silica for use in DRI (direct reduced iron) and HBI (hot briqueted iron) plants which produce concentrated iron feed material primarily for electric arc furnaces. However, the plant is currently also being used to produce lower silica pellets for certain blast furnace customers.

IOC's Carol Lake pellet plant has the nominal capacity to produce 13 million tonnes per year, with actual capacity varying somewhat with product mix. The plant produces three primary products: acid pellets, fluxed pellets and direct reduction pellets, with a silica content of 1.2 to 4.7%. In 2010, 11.9 million tonnes of pellets were produced.

In 2008, IOC commenced a program of work to relieve production bottlenecks in its Carol Lake pellet plant to increase annual production capacity to approximately 14.5 million tonnes of pellets. This work was suspended in December, 2008, due to market conditions and the suspension remains in effect. The program will be revised in 2011 to understand the path forward.

Production

The production at IOC for the past five years was as follows:

	Years Ended December 31				
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
	(million tonnes)				
Total Feed Concentrate ⁽¹⁾	15.5	14.4 ⁽²⁾	16.4	14.0 ⁽³⁾	16.9
Pellets	11.9	8.1 ⁽²⁾	12.6	11.3 ⁽³⁾	12.7
Concentrate for Sale	2.8	5.7 ⁽²⁾	3.2	1.9 ⁽³⁾	3.4

Notes: ⁽¹⁾ The total volume of pellets and concentrate for sale does not equal the total feed concentrate due to changes in inventory and losses of material in the pelletizing operations.

⁽²⁾ Production in 2009 was reduced due to idling of pellet machines and a shut down of all of IOC's Carol Lake operations from July 7 to August 10 because of the recession.

⁽³⁾ Production in 2007 was reduced because of a 7 week strike.

Capital Expenditures

The capital expenditures for IOC for the past five years were as follows:

	Years Ended December 31				
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
	(C\$ millions)				
Capital Expenditures	304	166 ⁽¹⁾	318 ⁽²⁾	165	190

Notes: ⁽¹⁾ 2009 capital expenditures include \$40 million incurred on the suspended expansion program.

⁽²⁾ 2008 capital expenditures include \$152 million incurred on the suspended expansion program.

Employees

The numbers of employees of IOC for the past five years were as follows:

	Years Ended December 31				
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Number of employees	2,179	2,027	2,082	1,939	1,885

Three unions represent IOC's unionized employees. At December 31, 2010, the United Steelworkers of America represented approximately 1506 employees at Labrador City and Sept-Îles, the United Transportation Union represented approximately 78 employees mostly based at Sept-Îles and the Marine Guild represented 3 employees at Sept-Îles. New 5 year collective agreements were signed with the three unions in 2007.

Marketing and Sales

General

IOC is Canada's largest iron ore producer and a leading global supplier of iron ore pellets and concentrate. As of January 1, 2010, IOC appointed Rio Tinto Canada (Management) Inc. ("**Agent**") as its sole and exclusive agent and marketing services provider in connection with sales of iron ore products produced by IOC. As consideration for its services, Agent is paid a marketing fee based on a percentage of the price of product sold.

IOC typically enters into multi-year volume contracts with its customers. Iron ore contract pricing is denominated in U.S. dollars.

Iron Ore Products

IOC's primary products include standard acid pellets, flux pellets, direct reduction pellets and iron ore concentrate.

Acid pellets can be charged directly into blast furnaces without further processing. Fluxed pellets are similar to acid pellets, with the exception that more dolomite and/or limestone is added to the pellet during production. Fluxed pellets increase the efficiency of the operation of a blast furnace.

Iron ore concentrates must first be agglomerated in a sinter plant before being charged into a blast furnace. This is typically done on site at the steel making facilities.

North American integrated steel producers primarily use pellets in their blast furnace operations to produce pig iron. Integrated steel producers in Europe and in the Far East have primarily used sinter (made from iron ore fines and concentrates) combined with lesser amounts of lump or coarse ore and pellets in their blast furnace operations.

IOC also produces low silica pellets. Pellets with low silica content are required to produce DRI and HBI feeds for electric arc furnaces and are attractive to Asian steel producers because of their higher iron content.

Sales Volumes, Prices and Revenues

Overall macroeconomic developments during 2010 demonstrated a modest but steady recovery in the advanced economies and strong growth in the emerging and developing economies particularly in the Asian-Pacific region and Europe. In 2010, sales of iron ore products recovered from the low levels of 2009, as steel companies rebuilt their inventories and demand increased. Global crude steel production in 2010

surpassed the previous record set in 2008 with 1.4 billion tonnes produced, underpinned by robust growth in Asia, most notably in China.

IOC's 2010 pellet sales were substantially higher although concentrate sales were lower in 2010 than in 2009 due to the emphasis on pellet production. Sales to IOC's traditional markets (North America and Europe) represented more than 65% of IOC's shipments in 2010.

Until 2009, most of IOC's concentrate and pellet sales prices were negotiated annually with its customers with prices being denominated in U.S. dollars. During 2010, the big iron ore producers shifted to a quarterly system of benchmark pricing. The new quarterly pricing is based on spot iron ore market prices which will be adjusted by such other factors, including but not limited to freight, quality and value-in-use. In 2010, IOC negotiated long-term contracts with customers based on quarterly pricing.

The table below shows IOC's ore sales volume along with revenue and realized price (in C\$/tonne) for IOC's products over the past five years.

	Years Ended December 31				
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
	(C\$ millions)				
IOC Ore Sales Revenue	2,357 ⁽¹⁾	1,095	2,156	973	1,160
	(million tonnes)				
IOC Ore Sales Volumes					
Pellets	12.1 ⁽¹⁾	9.0 ⁽²⁾	12.3	11.0 ⁽³⁾	12.9
Concentrate	3.0 ⁽¹⁾	5.2 ⁽²⁾	2.8	2.4 ⁽³⁾	2.9
Total	15.1 ⁽¹⁾	14.2 ⁽²⁾	15.1	13.4 ⁽³⁾	15.9
	(C\$/tonne)				
Average Realized Price	156 ⁽¹⁾	77	143	73	73

Notes: (1) 2010 data for sales, ore sales revenue and realized prices do not take into account third party ore sales.

(2) Production in 2009 was reduced due to idling of pellet machines and a shut down of all of IOC's Carol Lake operations from July 7 to August 10 because of the recession.

(3) Production in 2007 was reduced because of a 7 week labour strike.

Quebec North Shore & Labrador Railway

IOC's wholly-owned subsidiary, QNS&L, is subject to the jurisdiction of the Canadian Transportation Agency. QNS&L hauls IOC's iron ore sales concentrate and pellets 418 kilometres from IOC's mining and production operations in Labrador City to its marine terminal and materials handling facility in Sept-Îles, Quebec.

Due to the severity of the winters, maintenance of the track (and associated sidings) including two tunnels, seven steel bridges and numerous culvert pipe installations, is done during a six month summer period. In December 2010, the railway was damaged or obstructed at 35 different locations over 77 kilometers due to heavy rains in the North Shore region. The damage was repaired in just over 10 days and effects on IOC's production and shipments were not major.

QNS&L currently operates up to seven iron ore trains in order to transport iron ore products from IOC and Wabush Mines from Labrador City to Sept-Îles. Each train is generally 240 cars in length and each car is

capable of carrying between 90 and 100 tonnes of iron ore. The round trip takes an average of 50 hours, including time for loading and unloading. All train movements are controlled by a centralized traffic control system and each ore train is run by a one person crew.

In addition to hauling IOC's iron ore production, QNS&L also hauls the iron ore production of the nearby Wabush mine to Sept-Îles junction. Wabush's ore is subsequently hauled on its own rail line to Wabush's Pointe Noire port.

In 2008, QNS&L entered into an agreement with Consolidated Thompson Iron Mines Ltd. to carry concentrate from operations under construction at Bloom Lake, Quebec to Sept-Îles junction. Haulage commenced in 2010.

Sept-Îles Terminal

The marine terminal in Sept-Îles uses a highly mechanized system to receive and stockpile iron ore concentrate and pellets from Labrador City for eventual loading into ships.

Trains with iron ore concentrate and pellets from Labrador City arrive at the dumper where the contents are automatically dumped, weighed and transported to stockpiles from which they will be reclaimed for loading onto ships. The stockpile yard is situated on 1,150 hectares of land and has the capacity to store 4.5 million tonnes of iron ore products. The stockpiling of product is handled by two travelling stackers which are fed by a conveyor system. During shiploading, product is transported from the stockpile yard to ships using two bucketwheel reclaimers. Product is reclaimed from stockpiles and transported by conveyor to the docks where two travelling shiploaders transfer the iron ore product onto the docked freighters.

The Sept-Îles terminal, operating year-round, can handle both lake and ocean going vessels with a capacity of between 25,000 and 255,000 tonnes. However, due to winter weather, shipping traffic from January to March of each year is reduced primarily due to the closure of the St. Lawrence Seaway to lake going vessels. In 2010, the terminal processed 196 vessels, of which 86 were lake going vessels and 110 were ocean going vessels.

The Sept-Îles terminal also periodically receives revenues from the provision of tug boat services to third parties which are currently not material.

Social and Environmental

IOC's annual Social and Environment Report provides information on IOC's performance in areas related to health, safety and community relations. The report outlines IOC's comprehensive program directed at achieving environmental protection within the governing framework of sustainable development.

IOC has a long-term tailings management plan and has developed wetlands on the existing tailings landform. IOC also has programs in place to reduce greenhouse gas emissions, particulate emissions, energy consumption and freshwater use.

IOC's safety performance has continued to improve over the last many years. IOC's All Injury Frequency Rate improved from 1.1 in 2009 to 0.88 in 2010. Tragically, a fatality occurred at the Labrador City site on March 19, 2010. Two employees fell from height; the second employee was injured.

IOC is vigorously pursuing its objective of attaining zero harm – both to the safety and health of its employees and reducing its environmental footprint. IOC hopes to achieve this through a step change in health and safety performance, environmental compliance and stewardship and a focus on sustainable development.

CAPITAL STRUCTURE

The Stapled Units

LIORC has outstanding 32 million common shares and \$248 million aggregate face amount of subordinated notes. The common shares and subordinated notes trade together as stapled units on the TSX.

Each stapled unit consists of: (a) one subordinated note receipt representing a \$7.75 face amount of subordinated notes of LIORC and entitled to interest payments of \$0.936 per annum; and (b) one common share of LIORC. The securities included in a stapled unit are transferred with each other as part of the stapled unit. Each stapled unit is equal to each other stapled unit in all respects and entitles the holder of the stapled unit to the rights of a holder of a subordinated note receipt and a common share.

The Subordinated Note Receipts

The subordinated notes of LIORC included in the stapled units are represented by subordinated note receipts. Under a note deposit agreement (the "**Note Deposit Agreement**") dated as of June 30, 2010 between LabMin and Computershare Trust Company of Canada (in this context, the "**Custodian**"), the Custodian is the registered holder of the subordinated notes and issued the subordinated note receipts forming part of the stapled units. Each subordinated note receipt ranks equally with all other subordinated note receipts. In order to ensure that each subordinated note receipt is equivalent to all other subordinated note receipts, each subordinated note receipt represents a portion of subordinated notes entitling the holder to an interest payment of \$0.936 per annum and to an equal amount per subordinated note receipt on any repayment of the principal of the subordinated notes registered in the name of the Custodian.

The subordinated note receipts trade together with the common shares on the TSX as a stapled unit and therefore the transfer of a subordinated note receipt also results in the concurrent transfer of a common share to the same transferee.

Common Shares

Holders of common shares of LIORC are entitled to receive notice of and to attend all meetings of shareholders of LIORC and to one vote per common share at such meetings. Holders of common shares are entitled to receive ratably any dividends declared by LIORC's board of directors on the common shares, and are entitled to participate ratably in any distribution to the shareholders of LIORC upon a liquidation, dissolution or winding-up. There are no pre-emptive, conversion or redemption rights attached to the common shares.

The common shares trade together with the subordinated note receipts on the TSX as a stapled unit and therefore the transfer of a common share also results in the concurrent transfer of a subordinated note receipt to the same transferee.

Note Indenture and Outstanding Subordinated Notes

Note Indenture

LabMin and Montreal Trust Company of Canada, as trustee, entered into a note indenture dated November 28, 1995, as supplemented by a supplemental indenture dated as of December 10, 2001, between LabMin, Montreal Trust Company of Canada and Computershare Trust Company of Canada (in this context, the "**Note Trustee**") (as further amended or supplemented, the "**Note Indenture**"). On July 1, 2010, LabMin and the Note Trustee entered into a second supplemental indenture pursuant to the Arrangement to give effect to the subordination of the outstanding notes issued by LabMin and to set out the events of default, as described below. Immediately following completion of the Arrangement on July 1, 2010, the Note Trustee and LIORC entered into a third supplemental indenture to evidence the assumption by LIORC of LabMin's liability regarding the payment of the subordinated notes and the performance of all the covenants and obligations of LabMin in the Note Indenture.

Set forth below is a description of the principal terms of the Note Indenture and the subordinated notes. The following description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the Note Indenture and the subordinated notes.

The aggregate principal amount of subordinated notes authorized to be issued under the Note Indenture is limited to a maximum of \$200 million, although LabMin issued additional subordinated notes in the aggregate principal amount of \$48 million that were not issued under the Note Indenture but incorporated the terms and conditions of the Note Indenture by reference.

The Note Indenture provides that an event of default ("**Event of Default**") will occur if any of the following described events has occurred: (i) failure to pay principal amount of the subordinated notes on maturity; (ii) failure to pay interest on the subordinated notes when due and such default continues for 12 months; (iii) certain events of bankruptcy, insolvency or reorganization of LIORC; and (iv) default in the observance or performance of any covenant or condition of the Note Indenture and, after notice in writing has been given by the Note Trustee to LIORC specifying such default, continuance of such default for a period of 30 days or any longer period agreed to by the Note Trustee.

Upon the occurrence of an Event of Default, the Note Trustee may, in its discretion, and must, upon request of holders of a majority in principal amount of the subordinated notes outstanding: (i) by notice in writing to LIORC, declare the principal of and interest on all the subordinated notes issued under the Note Indenture to be immediately due and payable; and (ii) proceed in its name as the Note Trustee to obtain or enforce payment of the principal and interest of all the subordinated notes then outstanding together with any other amounts due thereunder. The Note Trustee also has the power at any time and from time to time to institute and to maintain any suits and proceedings to preserve and protect its interests and the interests of the holders of the subordinated notes outstanding.

Unless an Event of Default has occurred and is continuing and has not been waived, LIORC may, at its option, and subject to applicable regulatory approval, elect to satisfy its obligation to repay the principal amount of the subordinated notes issued under the Note Indenture on maturity by the issue and delivery of common shares having a fair market value equal to the aggregate principal outstanding amount of the subordinated notes issued under the Note Indenture.

The Note Trustee or LIORC may, at any time and from time to time, and the Note Trustee must, on receipt of a request of LIORC or of holders of a majority in principal amount of the subordinated notes outstanding, convene a meeting of the holders of subordinated notes issued under the Note Indenture. At any meeting of the holders of subordinated notes, a quorum will consist of holders present in person or by proxy and representing a majority in principal amount of the subordinated notes outstanding.

In addition to the powers conferred to the holders of the subordinated notes by law or by the Note Indenture, the holders of the subordinated notes may, among other things, by extraordinary resolution, sanction any modification of the rights of the holders or the Note Trustee, assent to any modification to the Note Indenture, sanction any reorganization of LIORC, or direct or authorize the Note Trustee to exercise any power provided in the Note Indenture. An extraordinary resolution is a resolution duly passed at a meeting of the holders of the subordinated notes at which the holders of a majority in principal amount of the subordinated notes outstanding are present in person or by proxy and passed by the affirmative votes of the holders of not less than 75% of the principal amount of the subordinated notes represented at the meeting and voted on a poll upon such resolution.

Outstanding Subordinated Notes

The outstanding subordinated notes have an aggregate principal amount of \$248 million. Each of the outstanding subordinated notes ranks equally and ratably without priority or preference.

Each of the outstanding subordinated notes is a direct obligation of LIORC but is not secured by any mortgage, hypothec, charge or pledge. There are no restrictions under the Note Indenture or the terms of the subordinated notes on the right of LIORC or any subsidiary to borrow or give security for any of their obligations. The subordinated notes are not redeemable.

The following chart sets out the date of issue, principal amount, interest rate and maturity of the subordinated notes that are outstanding and held by the Custodian for the benefit of the holders of subordinated note receipts:

<u>Date of Issue</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Maturity</u>
November 28, 1995	\$200 million	12.5%	November 28, 2025
October 31, 1997*	\$4.8 million	11.5%	November 28, 2025
December 17, 1999*	\$6.5 million	11.5%	November 28, 2025
April 29, 2004*	\$36.5 million	10%	April 1, 2029
April 1, 2010*	\$0.2 million	1.25%	April 1, 2029

* Although these subordinated notes were not issued under the Note Indenture, these subordinated notes incorporate the terms and conditions of the Note Indenture by reference and therefore are subject thereto.

Note Deposit Agreement

Set forth below is a description of the principal terms of the Note Deposit Agreement. The following description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the Note Deposit Agreement.

Interest Payments

The holder of any subordinated note receipt is entitled to all interest payments made upon the portion of the subordinated notes of LIORC represented by such subordinated note receipt. All cash interest payments on any subordinated notes of LIORC will be remitted by the Custodian (net of any applicable taxes required by law to be withheld or deducted) to the holders of subordinated note receipts.

Voting Rights

Except as required by applicable law, the holders of subordinated note receipts are not, as such, entitled to receive notice of or to attend any meeting of the holders of the subordinated notes of LIORC or to vote at any such meeting.

The Custodian, as the holder of record of subordinated notes, is entitled to exercise voting rights, including the right to vote in person or by proxy, attached to the subordinated notes on any matter, question, proposal or proposition whatsoever that may properly come before any meeting of holders of subordinated notes. The Custodian will exercise such voting rights only on the basis of instructions received from holders of subordinated note receipts as to the voting thereof at the applicable meeting. To the extent that no instructions are received from a holder of subordinated note receipts with respect to the voting rights to which such holder would otherwise be entitled, the Custodian will not have voting rights with respect to the subordinated notes represented by such holder's subordinated note receipts.

Each holder of subordinated note receipts will be entitled: (i) to instruct the Custodian in writing with respect to the exercise of such holder's votes to which such holder is entitled; or (ii) as the proxy of the Custodian, to attend such meeting personally and to exercise thereat the voting rights of the Custodian.

Powers Exercisable by Extraordinary Resolution

The Note Deposit Agreement provides holders of subordinated note receipts of LIORC with certain powers that are exercisable by Extraordinary Resolution. An "Extraordinary Resolution" is a resolution proposed to be passed at a meeting at which the holders of a majority in number of the subordinated note receipts outstanding are present in person or by proxy and passed by the affirmative votes of the holders of not less than 75% of all outstanding subordinated note receipts. An Extraordinary Resolution also includes an instrument in writing signed by the holders of 75% of all outstanding subordinated note receipts. Powers exercisable by holders of subordinated note receipts by Extraordinary Resolution include the power to sanction changes to the rights of holders of subordinated note receipts, to assent to changes to the Note Deposit Agreement, to sanction certain reorganization transactions, to direct the Custodian how to act, to restrain holders from instituting legal actions, to assent to compromises or arrangements with creditors of LIORC, to appoint a committee of holders of subordinated note receipts, to replace the Custodian and to sanction the exchange of subordinated note receipts for other securities.

DIVIDENDS OR DISTRIBUTIONS

Quarterly distributions of \$0.234 interest on subordinated notes and dividends on common shares (in the aggregate) are paid to stapled unitholders of record on the last day of each calendar quarter and are expected to be paid on or before the 25th day of the next following month.

Distributions of \$1.50 per Fund unit and \$3.00 per stapled unit (\$4.50 in aggregate) were declared in 2010, made up of interest of \$0.917 and dividends of \$3.583. Distributions of \$2.00 per Fund unit were declared in 2009, made up of interest income of \$0.902 and dividend income of \$1.098 per unit. Distributions of \$4.85 per Fund unit were declared in 2008, made up of interest income of \$0.893 per unit and dividend income of \$3.957 per unit. Some cash received in 2010 was held back in order to support distributions in 2011, when capital expenditures of IOC are expected to be high.

MARKET FOR UNITS

The stapled units are listed for trading on the Toronto Stock Exchange under the symbol LIF.UN. The monthly price ranges and trading volumes for Fund units from January 1, 2010 to June 30, 2010 and for stapled units from July 1, 2010 to December 31, 2010 are set out below.

<u>2010</u>	<u>Price Range</u>	<u>Trading Volume</u>
January	\$50.50 - \$43.23	1,877,132
February	\$48.94 - \$44.50	975,985
March	\$54.76 - \$47.12	1,544,897
April	\$55.80 - \$50.20	1,295,861
May	\$51.38 - \$42.83	2,341,529
June	\$50.40 - \$41.60	1,547,784
July	\$49.46 - \$42.20	1,156,635
August	\$50.08 - \$45.20	1,341,306
September	\$54.33 - \$46.01	1,546,735
October	\$61.20 - \$52.46	1,217,256
November	\$69.45 - \$60.12	1,385,913
December	\$70.08 - \$64.47	1,051,584

REGISTRAR AND TRANSFER AGENT

The registrar and transfer agent for the stapled units is Computershare Investor Services Inc., 100 University Avenue, Toronto, Ontario M5J 2Y1.

DIRECTORS AND OFFICERS

The directors and officers of LIORC as at December 31, 2010 are set out below. The directors hold office until the next annual meeting of LIORC or until their successors are elected or appointed.

<u>Name and Residence</u>	<u>Office(s) Held</u>	<u>Principal Occupation</u>	<u>Director Since</u>
Bruce C. Bone Ontario, Canada	President, CEO and Director	President, CEO and Director of LIORC	2010 (Trustee of the Fund since 1995)
William J. Corcoran ^{(1) (2) (3)} Ontario, Canada	Non-executive Chairman of the Board and Chairman of Nominating Committee	Vice-Chairman of Jarislowsky Fraser Limited, Investment Counsel, a registered investment counselling firm	2010 (Trustee of the Fund since 1995)
Duncan N.R. Jackman ^{(1) (2) (3)} Ontario, Canada	Director	Chairman, President and CEO of E-L Financial Corporation Limited, an investment and insurance holding company	2010 (Trustee of the Fund since 2010)
James C. McCartney ⁽⁴⁾ Ontario, Canada	Executive Vice President, Secretary and Director	Company Director; Counsel, McCarthy Tétrault LLP, Barristers and Solicitors.	2010 (Trustee of the Fund since 1995)
Paul H. Palmer ^{(1) (2) (3)} Ontario, Canada	Director and Chairman of Audit Committee	Company Director	2010 (Trustee of the Fund since 1995)
Alan R. Thomas Ontario, Canada	CFO and Director	Company Director; prior to July 1, 2006 Vice President, Finance and CFO of ShawCor Ltd., energy services	2010 (Trustee of the Fund since 2004)
Donald J. Worth ^{(1) (2) (3)} Ontario, Canada	Director and Chairman of Compensation Committee	Company Director	2010 (Trustee of the Fund since 1995)

(1) Member of Audit Committee

(2) Member of Compensation Committee

(3) Member of Nominating Committee

(4) Mr. McCartney was a director of Algoma Steel Inc. when it filed under the *Companies' Creditors Arrangement Act* (Canada) in 2001 and was a director of Campbell Resources Inc. when it filed under that Act in 2005 and was a past director when it filed again in 2009.

As at December 31, 2010, directors and officers of LIORC collectively beneficially owned, directly or indirectly, or exercised control and direction over 33,300 stapled units, representing about 0.1 % of the stapled units.

The directors of LIORC are also directors and officers of Hollinger-Hanna. Mr. Bone and Mr. McCartney serve as directors of IOC.

Audit Committee

The charter of the Audit Committee is attached hereto as Schedule 1.

The members of the Audit Committee are William J. Corcoran, Duncan N.R. Jackman, Paul H. Palmer (Chairman) and Donald J. Worth. All of the members are independent and financially literate. Mr. Corcoran has over 40 years of experience in the financial services industry. Mr. Jackman has 21 years of experience in the financial services industry. Mr. Palmer is a chartered accountant and a retired financial executive. Mr. Worth is a retired banker with many years of experience in lending to the mining industry.

External Auditor Service Fees

Audit Fees. The aggregate fees billed by LIORC's and the Fund's external auditor for audit services were \$90,265 in 2010 and \$67,730 in 2009.

Audit-related Fees. The aggregate fees billed by LIORC's and the Fund's external auditor for assurance and related services that are related to the review of LIORC's interim financial statements were \$23,730 in 2010 and \$20,475 in 2009.

Other Fees. An aggregate of \$99,320 was billed by LIORC's and the Fund's external auditor for accounting consultation in 2010, mostly in connection with the restructuring, and \$13,650 in 2009.

MATERIAL CONTRACTS

The following are the only material contracts, other than contracts entered into the ordinary course of business, which have been entered into by LIORC after January 1, 2002 and on or before December 31, 2010 that are still in effect:

- the Note Deposit Agreement;
- the Note Indenture;
- the subordinated notes of LIORC;
- the Labrador Leases;
- the Labrador Sublease; and
- the Administration Agreement.

A copy of each document entered into on or after January 1, 2002 has been filed on SEDAR and is available at www.sedar.com.

EXPERTS

The auditor of LIORC is Deloitte & Touche LLP, who has prepared the auditors' report in respect of the audited annual consolidated financial statements of LIORC. Deloitte & Touche LLP is independent with respect to LIORC within the meaning of the Rules of Professional Conduct/Code of Ethics of the Institute of Chartered Accountants of Ontario.

RISK FACTORS

Iron Ore Price and Volume Volatility

Royalty payments to LIORC and IOC's earnings are directly related to the volume of iron ore products sold and the price of iron ore products. Demand and prices for iron ore products fluctuate and are affected by numerous factors beyond the control of LIORC and IOC, including demand for steel, the strength of the U.S. dollar, global and regional demand and production, political and economic conditions and production costs in major producing regions. The effect of these factors is impossible for LIORC to predict. If the market price for iron ore products falls below IOC's production cost and remains there for a prolonged period, IOC will experience losses and may decide to discontinue its operations, thereby eliminating Royalty and dividend payments.

Exchange Rates

While iron ore prices are denominated in U.S. dollars, a majority of IOC's production and operating costs are Canadian dollar based. Accordingly, fluctuations in currency exchange rates, principally the United States-Canadian dollar exchange rate, can significantly impact IOC's earnings and cash flows. Additionally,

the Royalty payments are in U.S. dollars and therefore the revenue in Canadian dollars of LIORC is impacted by fluctuations in the U.S. - Canadian dollar exchange rate.

Dependence Upon IOC

Royalty revenue is earned only when IOC mines and sells iron ore from the IOC Lands. A decision by IOC to cease operations or to mine iron ore from lands other than IOC Lands would eliminate revenue from the Royalty. Dividend income from the IOC equity is also dependent upon IOC's earnings and its dividend policy. LIORC also reports equity earnings or losses in IOC and, accordingly, is dependent upon the revenue, expenses and net income of IOC. LIORC only has a minority ownership interest in IOC and has a limited ability to influence decisions at IOC.

Dependence on the Steel Industry

The demand for iron ore is almost entirely dependent upon the raw material requirements of integrated steel producers and producers of virgin iron units for feed to electric arc furnaces.

The steel industry is cyclical in nature. Demand for steel is affected by a number of factors such as international economic and financial conditions. In late 2008, the market weakened substantially, with steel producers cutting back on production. In 2010, steel production recovered, particularly in the Asian-Pacific region and Europe.

Materials such as aluminium, composites and plastics are substitutes for steel and an increase in their use could adversely affect the demand for steel and consequently, the demand for iron ore.

Mining Risks and Insurance

The mining operations of IOC are subject to risks normally encountered in the mining business. Such risks include environmental hazards, industrial accidents, labour disputes, unusual or unexpected geological formations or conditions, pit wall slides, flooding and periodic interruptions due to inclement or hazardous weather conditions. Such risks could result in damage to, or destruction of, mines or production facilities, personal injury, environmental damage, delays in mining, monetary losses and possible legal liability. IOC maintains insurance coverage consistent with industry practice. However, no assurance can be given that such insurance will continue to be available at acceptable premiums. Insurance against environmental risks is not generally available to IOC or to other companies within the industry. LIORC does not maintain separate insurance coverage. Should IOC be unable to pay the cost of remedying an environmental problem, IOC could be required to enter into interim compliance measures or to suspend operations.

Customers

The majority of IOC's customers are foreign companies. IOC may be affected by changes in laws, import and export regulations and other matters which could influence IOC's operations and over which it might have no control.

Competition

The iron ore mining industry is highly competitive, and some iron ore producers benefit from higher grade ore bodies than those on the IOC Lands, and some benefit from more favourable climatic conditions and lower operating and regulatory compliance costs than the costs incurred by IOC.

Reserves and Resources

The ore reserves and resources presented herein have been estimated by IOC's technical personnel but no assurance can be given that the indicated level of recovery of the iron ore will be realized. Market price fluctuations for iron ore as well as increased production costs or reduced recovery rates, could render a portion or all of the reserves uneconomic and could ultimately result in a restatement of reserves.

Government Regulation and Taxation

The IOC Lands and IOC's activities are subject to extensive Canadian, Newfoundland and Labrador and Quebec laws and regulations controlling not only the mining and exploration of mineral properties, but also the possible effects of such activities upon the environment. Permits from a variety of regulatory authorities are required for many aspects of mining operations. It is foreseeable and probable that future legislation and regulations will cause additional expense and capital expenditures in IOC's operations and reclamation obligations, the extent of which cannot be predicted.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness and principal holders of LIORC's securities is contained in the most recent management information circular of LIORC. Additional financial information is provided in LIORC's comparative consolidated financial statements and Management Discussion and Analysis for the year ended December 31, 2010.

Additional information relating to LIORC may be found on LIORC's website at www.labradorironore.com and on SEDAR at www.sedar.com.

Schedule 1

AUDIT COMMITTEE CHARTER

1. Composition of Committee

- (a) The Committee will consist of independent directors, all of whom must be qualified in accordance with applicable regulatory and stock exchange requirements. An independent director, for the purposes of membership on the Audit Committee, means a director who has no direct or indirect material relationship with the Corporation where a material relationship is a relationship that could, in the view of the board of directors, reasonably interfere with the exercise of the member's independent judgment.
- (b) All members of the Committee must be financially literate. A member is financially literate if the member has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the financial statements of the Corporation.

2. Procedural Matters

- (a) The Committee operates under authority vested by the board of directors and reports to the board of directors. Each member of the Committee will be appointed by the board of directors and will serve during the pleasure of the board of directors, so long as he or she remains a director.
- (b) The directors will appoint a Chairman for the Committee.
- (c) The Chairman of the Committee or the Chairman of the board of directors or any member of the Committee may call a meeting of the Committee. The Committee will meet at such times during each year as it deems appropriate.

3. Duties and Responsibilities

- (a) The Committee will make recommendations to the Directors with respect to the external auditor to be nominated for the purpose of preparing or issuing an auditor's report on the annual financial statements or performing other audit, review or attest services for the Corporation and with respect to the compensation of the external auditor.
- (b) The Committee will oversee the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between management and the external auditor regarding financing reporting.
- (c) The Committee will pre-approve all significant non-audit services to be provided to the Corporation or its subsidiaries by the Corporation's external auditor.
- (d) The Committee will review the Corporation's financial statements, management's discussion and analysis and annual and interim earnings press releases before the Corporation publicly discloses that information, and recommend same to the directors for their approval.

- (e) The Committee will review the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, other than the public disclosure referred to in item (d).
- (f) The Committee will be responsible for:
 - (i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and
 - (ii) the confidential, anonymous submission by directors, officers and employees, if any, of the Corporation of concerns regarding questionable accounting or auditing matters.
- (g) The Committee will review with management and with the external auditors the effectiveness of control systems used by the Corporation in connection with financial reporting.
- (h) The Committee will review outstanding litigation.

4. Resources, Meetings and Reports

- (a) The Committee will have adequate resources to discharge its responsibilities.
- (b) The Committee may, for and on behalf of the Corporation and at the Corporation's sole expense, engage such consultants as it considers in its sole discretion necessary to assist it in fulfilling its duties and responsibilities.
- (c) The Committee will meet not less than four times per year.
- (d) The Committee will keep minutes of its meetings in which are recorded all actions taken by the Committee, and such minutes will be made available to the directors.

The Committee will review and reassess the adequacy of this charter annually