

LABRADOR IRON ORE ROYALTY CORPORATION

MATERIAL CHANGE REPORT

FORM 51-102F3

1. NAME AND ADDRESS OF COMPANY

LABRADOR IRON ORE ROYALTY CORPORATION (“LIORC”)
40 King Street West, Scotia Plaza, 26th Floor
Toronto, ON M5W 2X6
(416) 863-7133

2. DATE OF MATERIAL CHANGE

The material change occurred on August 8, 2012.

3. NEWS RELEASE

A news release was issued on behalf of LIORC on August 8, 2012 through CNW.

4. SUMMARY OF MATERIAL CHANGE

The LIORC Board of Directors has proposed to call a special meeting of holders of stapled units of LIORC to consider an exchange of its note receipts representing subordinated notes for common shares of LIORC.

5. FULL DESCRIPTION OF MATERIAL CHANGE

On August 8, 2012, LIORC announced that its Board of Directors has proposed to call a special meeting of holders of stapled units of LIORC to consider an exchange of its note receipts representing subordinated notes for common shares of LIORC.

Assuming that all requisite approvals are obtained, the proposed capital restructuring transaction will be implemented by way of a Court approved plan of arrangement under the *Canada Business Corporations Act*. Each subordinated note receipt will be exchanged for a number of common shares having a fair market value equal to \$3.875, which is the principal amount of the subordinated notes underlying each note receipt. After the exchange, all of the common shares will be consolidated, with the result that each unitholder will end up holding the same number of common shares as the unitholder held before the exchange and LIORC will have 64 million common shares outstanding.

The exchange is in response to changes in the *Income Tax Act* (Canada) first proposed by the Minister of Finance on July 20, 2011 and embodied in amendments released on July 25, 2012. The Board of Directors and management have considered the effect of the legislative changes and the alternatives available to LIORC at several meetings over the past year and have consulted with tax and financial advisors.

The effect of the legislative changes is that LIORC will be denied a deduction for income tax purposes on interest paid on the notes after July 20, 2012. Interest will be paid from

after tax dollars, similar to dividends, but without the preferred treatment of dividends in the hands of taxable unitholders.

The exchange will not affect the amount of income available for distribution to holders of stapled units. Instead of receiving a quarterly payment of interest and dividends, they will receive the same total amount as dividends. Taxable unitholders will pay less income tax due to the lower tax rate applicable to dividends. It is the intention of the Board of Directors to pay dividends to the maximum extent possible, subject to the maintenance of appropriate levels of working capital.

The Board of Directors believes that, after the legislative changes, common shares will be more attractive to investors than the stapled units. The Articles continue to provide that no additional shares can be issued without the approval of the shareholders.

These details of the proposed capital restructuring transaction will be set out more fully in a management information circular to be sent to holders of stapled units in the next few weeks. The transaction will be subject to approval by holders of stapled units at a special meeting to be held on September 28, 2012. The transaction also remains subject to approval by the Toronto Stock Exchange.

6. RELIANCE ON SUBSECTION 7.1(2) OF NATIONAL INSTRUMENT 51-102

Not applicable.

7. OMITTED INFORMATION

Not applicable.

8. EXECUTIVE OFFICER – FOR FURTHER INFORMATION CONTACT:

For further information, please contact Bruce C. Bone, President and Chief Executive Officer, at (416) 863-7133.

9. DATE OF THE REPORT:

August 13, 2012.