HOUSTON IRON ROYALTIES LIMITED

Financial Statements

For the period from September 26, 2016 (Incorporation Date) to March 31, 2017

(Expressed in Canadian dollars)

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Houston Iron Royalties Limited

We have audited the accompanying financial statements of Houston Iron Royalties Limited, which comprise the statements of financial position as at March 31, 2017 and September 26, 2016, and the statement of operations and comprehensive loss, the statement of cash flows, and the statement of changes in equity for the period ended March 31, 2017, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Houston Iron Royalties Limited as at March 31, 2017 and September 26, 2016, and its financial performance and its cash flows for the period ended March 31, 2017 in accordance with International Financial Reporting Standards.

UHY McGovern Hurley LLP

UHY McGovern Hurley LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
November 24, 2017

HOUSTON IRON ROYALTIES LIMITED
Statements of Financial Position
(Expressed in Canadian dollars)

	March 31, 2017	September 26, 2016 (Incorporation Date)
ASSETS		
Non-current assets		
Cash	$ -	$ 1
Royalty interest (Note 5)	1	-
Total assets	$ 1	$ 1
LIABILITIES		
Total liabilities	$ -	$ -
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	$ 7,000,000	$ 1
Deficit	(6,999,999)	-
Total shareholders' equity	1	1
Total liabilities and shareholders' equity	$ 1	$ 1

Going concern (Note 1)

The financial statements were approved by the Board of Directors on November 24, 2017, and signed on its behalf by:

Signed *"John F. Kearney"*
Director

Signed *"Richard Pinkerton"*
Director

The accompanying notes form an integral part of these financial statements.

HOUSTON IRON ROYALTIES LIMITED
Statement of Operations and Comprehensive Loss
(Expressed in Canadian dollars)

	The period from September 26, 2016 (Incorporation Date) to March 31, 2017
Revenue	$ -
Expenses	
Impairment of royalty interest (Note 5)	(6,999,999)
Net loss and comprehensive loss	$ (6,999,999)
Net loss per share	$ (0.36)
Weighted average number of shares outstanding	19,193,549

The accompanying notes form an integral part of these financial statements.

HOUSTON IRON ROYALTIES LIMITED
Statement of Cash Flows
(Expressed in Canadian dollars)

	The period from September 26, 2016 (Incorporation Date) to March 31, 2017
Cash provided by operating activities	
Net loss	$ (6,999,999)
Items not involving cash:	
Impairment (Note 5)	6,999,999
Cash provided by operating activities	$ -
Cash (used in) financing activities	
Cancellation of common share (Note 6)	$ (1)
Cash (used in) financing activities	$ (1)
Changes in cash and cash equivalents	$ (1)
Cash and cash equivalents, beginning of period	1
Cash and cash equivalents, end of period	$ -

The accompanying notes form an integral part of these financial statements.

HOUSTON IRON ROYALTIES LIMITED
Statement of Changes in Equity
(Expressed in Canadian dollars)

	Share Capital		Deficit	Shareholders' Equity
	Number	Amount	Deficit	Total
Common share issued on Incorporation Date, September 26, 2016	1	$ 1	$ -	$ 1
Cancellation of common share on December 19, 2016 (Note 6)	(1)	(1)	-	(1)
Issuance of common shares to acquire Houston Royalty on December 19, 2016 (Note 5)	35,000,000	7,000,000	-	7,000,000
Net loss for the period	-	-	(6,999,999)	(6,999,999)
Balance, March 31, 2017	35,000,000	$ 7,000,000	$ (6,999,999)	$ 1

The accompanying notes form an integral part of these financial statements.

1. Nature of Operations, Corporate Information and Going Concern

Nature of Operations and Corporate Information

Houston Iron Royalties Limited ("RoyaltyCo") was incorporated on September 26, 2016 by Labrador Iron Mines Limited ("LIM") as a royalty investment company.

These financial statements have been prepared for the period from September 26, 2016 ("Incorporation Date") to March 31, 2017, RoyaltyCo's fiscal year-end.

RoyaltyCo's head office is located at 55 University Avenue, Suite 1805, Toronto, Ontario M5J 2H7.

On December 19, 2016, in connection with the plan of arrangement of LIM and Schefferville Mines Inc. ("SMI") under the Companies' Creditors Arrangement Act (the "Plan of Arrangement"), RoyaltyCo acquired from LIM and SMI a royalty interest equal to 2% of the sales proceeds (FOB Port of Sept-Iles) from sales of iron ore from LIM's Houston property in western Labrador, Canada and from SMI's Malcolm property in north-eastern Quebec, Canada (with such properties collectively referred to as the "Houston Project" and such royalties collectively referred to as the "Houston Royalty"). Refer to Note 5.

In consideration for the acquisition of the Houston Royalty, RoyaltyCo issued 35,000,000 common shares to LIM at an issue price of $0.20 per share. As part of the Plan of Arrangement, LIM transferred the 35,000,000 common shares to arm's length creditors of LIM and SMI.

On December 19, 2016 RoyaltyCo entered into a management services agreement with LIM. Pursuant to this agreement, LIM agreed to provide all necessary administrative services, personnel and office infrastructure as RoyaltyCo may reasonably request, with such services provided at LIM's actual direct cost. As RoyaltyCo was inactive during the reporting period ended March 31, 2017, no management fee for such administrative services was charged by LIM. RoyaltyCo and LIM share common management, directors and head office location.

Going Concern

As at March 31, 2017, RoyaltyCo held only one asset, being the Houston Royalty, and had no working capital. The Houston Royalty, which is a passive asset and represents the right to receive royalties at a future date if and when the Houston Project is brought into production, is not currently generating any royalty payments, as the Houston Project is not currently in production.

RoyaltyCo had no obligations or liabilities at March 31, 2017 and the directors of RoyaltyCo believe the Company has access to sufficient resources to continue its operations over the next 12 months. LIM has agreed to provide administrative services at cost, which cost is not expected to be significant, and therefore the Company's only commitment over the next 12 months relates to the nominal management services to be provided by LIM, the cost of which LIM has agreed to defer. Accordingly, the financial statements for the period ended March 31, 2017 have been prepared on a going concern basis, using the historical cost convention.

There are no assurances that the Houston Royalty will ever generate royalty payments and there are no assurances that RoyaltyCo will be able to generate revenue or financing from an alternative source. If RoyaltyCo is unable to generate revenue or financing from an alternative source, RoyaltyCo could be required to discontinue as a going concern.

2. Basis of Preparation

The financial statements of RoyaltyCo were prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

These financial statements were prepared on a going concern basis, under the historical cost convention. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

RoyaltyCo does not have any subsidiaries.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of financial statements in conformity with IFRS requires RoyaltyCo's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates and these differences could be material. The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

Assets' carrying values and impairment charges

Royalty interests are initially recorded at their estimated fair value. Subsequently, royalty interests are tested for impairment if there is an indicator of impairment. Where an indicator of impairment exists, a formal estimate of the recoverable amount, which is considered to be the higher of the fair value less costs of disposal and value in use, is made. These assessments require the use of estimates and assumptions such as long term commodity prices, discount rates and production volumes. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's-length transaction between knowledgeable and willing parties. Value in use is generally determined as the present value of estimated future cash flows arising from the continued use of the asset. These cash flows are discounted by an appropriate discount rate to determine the estimated value in use. Projections inherently require assumptions and judgments to be made about each of the factors affecting future cash flows. Changes in any of these assumptions or judgments could result in a significant difference in the recoverable amount.

Mineral resources

Mineral resources are estimates of the amount of mineral product that can be extracted from a mineral property, subject to certain ore specifications. Mineral resource estimates are an integral component of the determination of the fair value of RoyaltyCo's royalty interests. In calculating mineral resources, estimates and assumptions are required about a range of geological and technological factors, including, among other things, quantities, grades, production techniques, production rates and recovery rates.

4. Significant Accounting Policies

Presentation currency and foreign currency transactions

The Canadian dollar is the functional and presentation currency of RoyaltyCo. Amounts receivable and payable denominated in foreign currencies are translated at exchange rates in effect at the reporting date and revenues and expenses denominated in foreign currencies are translated at exchange rates in effect at the transaction date.

Royalty interests

Royalty interests are carried at cost less accumulated amortization. Amortization is recognized on the units-of-production method based on actual production in a given period and estimated production over the life of the project to which the royalty relates. The rate of amortization is based on estimates of mineral resources, which may differ from actual.

Asset impairment

At each reporting date RoyaltyCo assesses whether there is any indication that its assets are impaired. Impairment is recognized if the recoverable amount, determined as the higher of the estimated fair value less cost of disposal and value in use, is less than its carrying value.

In assessing fair value, estimated future cash flows are discounted to their present value using a discount rate that reflects market assessments of the time value of money and the risks specific to the relevant asset for which the future cash flows have been estimated.

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 been previously recognized.

4. Significant Accounting Policies (continued)

Revenue recognition

Royalty income is measured at the fair value of the consideration received or receivable on an accrual basis provided that it is probable that the economic benefis will flow to RoyaltyCo and the amount of revenue can be measured reliably and collectability is reasonably assured. In the case of the Houston Royalty, the revenue recognition criteria will generally be met when LIM or SMI have sold (FOB Sept-Iles) a cargo of iron ore from the Houston or Malcolm properties and the price of such cargo has been reasonably determined and collectability is reasonably assured.

Income taxes

RoyaltyCo is a taxable corporation.

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 statement of financial position date. Taxable income differs from income as reported in the statements of income and comprehensive income because of items of income or expense that are taxable or deductible in other periods and items that are never taxable or deductible. Deferred income tax liabilities are recognized using the liability method on taxable temporary differences between the tax bases and carrying amounts of assets and liabilities. Deferred income taxes 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 substantially enacted tax rates at the statement of financial position date. Deferred income taxes are presented as non-current.

Share-based payments

RoyaltyCo issued common shares to acquire the Houston Royalty. Refer to Note 5. RoyaltyCo does not have any convertible securities outstanding.

Share-based payments are measured at the fair value of the shares issued at the issue date of such shares. The fair value of share-based payments is determined using generally accepted valuation techniques. Assumptions are made and judgment is used in applying valuation techniques. These assumptions and judgments include estimating the future earnings and cash flows of RoyaltyCo. Such judgments and assumptions are inherently uncertain. Changes in these assumptions may affect the fair value estimates.

(Expressed in Canadian dollars)

5. Royalty Interest

On December 19, 2016, RoyaltyCo acquired the Houston Royalty for a purchase price of $7,000,000, representing the estimated fair value of the Houston Royalty on the date of acquisition as determined using a discounted cash flow methodology. As consideration, RoyaltyCo issued 35,000,000 common shares at an issue price of $0.20 per share.

The Houston Royalty is a royalty interest equal to 2% of the sales proceeds (FOB Port of Sept-Iles) received by LIM and SMI from sales of iron ore from LIM's Houston property in western Labrador and from SMI's Malcolm property in north-eastern Quebec.

In estimating the fair value of the Houston Royalty, the discounted cash flow model assumed annual production from the Houston Project of approximately 2.0 million tonnes of saleable product per year for ten years at an assumed average long term iron ore price of US$90 per tonne (62% Fe CFR China basis) using a risk adjusted discount rate of 15% and a CAD/US exchange rate of 0.75.

This assessment was made in the context of market conditions and trends then prevailing. As at December 2016, the historical five year average price of iron ore was US$95 per tonne and the price had doubled in 2016 and continued to move higher into early 2017, reaching a high of US$97 per tonne in February 2017 . In accordance with the Company's accounting policies, the carrying value of the Houston Royalty was assessed for impairment as at year end March 31, 2017. As required by IFRS and IAS 36, the year end impairment assessment took into consideration economic conditions prevailing at and throughout the assessment period subsequent to year end. Although the iron ore price was US$80 per tonne at March 31, 2017, the iron ore price declined to an average of approximately US$65 per tonne during the period subsequent to year end when the year end impairment assessment was conducted. Accordingly, based on the market conditions prevailing during the assessment period, an impairment of $6,999,999 on the carrying value of the Houston Royalty was recorded effective March 31, 2017.

	Houston Royalty $
Cost:	
Opening, September 26, 2016	-
Acquisition of Houston Royalty, December 19, 2016	7,000,000
Impairment, effective March 31, 2017	(6,999,999)
Closing, March 31, 2017	1
Accumulated Amortization:	
Opening, September 26, 2016	-
Amortization	-
Closing, March 31, 2017	-
Carrying Value:	
Opening, September 26, 2016	-
Closing, March 31, 2017	1

6. Share Capital

Authorized
Unlimited common shares, no par value

Issued	Shares #	Amount $
Common share issued on Incorporation Date, September 26, 2016	1	1
Cancellation of common share, December 19, 2016	(1)	(1)
Common shares issued to acquire Houston Royalty, December 19, 2016 (Note 5)	35,000,000	7,000,000
Balance March 31, 2017	35,000,000	7,000,000

On December 19, 2016, in connection with the Plan of Arrangement, the original common share issued by RoyaltyCo to LIM on Incorporation Date was cancelled and RoyaltyCo issued 35,000,000 new common shares to LIM at an issue price of $0.20 per share as consideration for the acquisition of the Houston Royalty. As part of the Plan of Arrangement, LIM transferred the 35,000,000 common shares to arm's length creditors of LIM and SMI.

7. Financial Risk Management

This section provides disclosure relating to the nature and extent of RoyaltyCo's exposure to financial risks.

Commodity price risk

RoyaltyCo is dependent on royalty income from LIM and SMI. The amount and frequency of royalty payments are affected by LIM and SMI's ability to commence production, the volume of iron ore products sold, the price of those products, operating costs, and currency movements. The demand for and price of iron ore fluctuate as a result of numerous factors outside the control of RoyaltyCo, LIM and SMI. 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

RoyaltyCo may derive royalty income from LIM and SMI denominated in U.S. dollars. RoyaltyCo does not currently have a foreign currency hedging program in place. Accordingly, RoyaltyCo may be exposed to fluctuations in the rate of exchange between the U.S. dollar and the Canadian dollar.

Liquidity risk

Liquidity risk is the risk of loss from not having access to sufficient funds to meet both expected and unexpected cash demands. As at March 31, 2017, RoyaltyCo believes it has sufficient resources to continue its operations over the next 12 months because it has no liabilities or other obligations to fulfill over that period. Refer to Note 1.

Credit risk

RoyaltyCo is economically dependent on LIM and SMI and may be exposed to credit risk with respect to amounts receivable from LIM and SMI in the future. RoyaltyCo does not currently have any amounts receivable from LIM or SMI.