LABRADOR IRON MINES
HOLDINGS LIMITED

News Release

TSX: LIM

Labrador Iron Mines Operations Update and Outlook

- 1.2 million tonnes of iron ore sold in year to date
- Capital programs deferred in weak iron ore market

Toronto, Ontario, September 4, 2012. **Labrador Iron Mines Holdings Limited** ("LIM" or the "Company") (TSX: LIM) today provides an update on its Schefferville Area iron ore mining operations and guidance on capital spending programs for the balance of 2012.

August Operational Highlights

- **Three shipments of iron ore sold** in August totalling ~520,000 wet tonnes.
- **Year to date,** LIM has now sold seven shipments totalling 1.2 million wet tonnes of iron ore.
- **In August, 275,000 wet tonnes were railed to the Port of Sept-Îles** bringing the year to date total rail volume to 1.1 million wet tonnes.
- **Construction of the Phase 3 expansion of the Silver Yards process plant substantially completed**, with all civil, structural and mechanical works essentially in place.
- **LIM remains on track to meet its sales target of 2 million tonnes of iron ore in 2012**.

Iron Ore Sales and Market Conditions

In August, LIM sold three cape-size shipments totalling ~520,000 wet tonnes of iron ore in challenging market conditions.

Iron ore spot prices suffered a sharp decline in August, dropping more than 20% in the past four weeks to US$90 per tonne on a 62% Fe CFR China basis. Port inventories in China remain very high, with Chinese steel mills liquidating inventories and traders withdrawing from the spot market. It has been reported that some cargos offered for sale have been withdrawn and sales by some companies have had prices re-negotiated. Non-standard or off-spec products, including the Company's direct rail ore ("DRO"), have been difficult to sell, resulting in delays and/or lower than expected prices.

Currently, the Company's iron ore is re-sold by the Iron Ore Company of Canada ("IOC") through the Rio Tinto marketing organization on the Chinese spot market. LIM's association and arrangements with IOC and Rio Tinto enabled the placement and sale of LIM iron ore, which otherwise might have been difficult. The sale of LIM iron ore in August was made under provisional pricing arrangements and subject to final settlement, which occurs approximately one month after the ship has departed the Port. The aggregate realized price of the three shipments sold under these arrangements, consistent with forward swap pricing for September, is expected to average about $30 – 40 per tonne less than the Company's Q1 realized price of $122 per tonne on a CFR China basis.

Market commentators are speculating that the current iron ore spot price is at or near a bottom, as the current spot price is below the assumed marginal cost of domestic Chinese production and is currently creating an unsustainable spread between domestic and imported iron ore prices. The Company continues to believe, in line with market consensus, that a recovery in iron ore prices is likely as Chinese steel mills restock and anticipates prices recovering to higher levels later in the year.

Going forward, the Company plans to produce only standard sinter fines and lump and will continue to work closely with IOC and Rio Tinto to monitor market conditions to seek to achieve the most favourable sales outcomes under difficult market conditions.

2012 Capital Spending

In response to challenging market conditions and the sharp decline in spot iron ore prices, LIM has undertaken a critical review of its capital spending for the balance of 2012 and has implemented the following measures:

- All capital expenditure programs relating to the Silver Yards processing plant and development of the Houston deposits have been deferred;
- The 2012 exploration program has been reduced to $5 million from the original budget of $8.6 million;
- About $52 million of planned capital investment has been deferred into 2013 in order to prudently manage the Company's cash resources and requirements.

The Company's original 2012 budget for its capital investment programs totalled approximately $112 million, of which $54 million has been spent or committed to date and $6 million has been permanently cancelled.

Capital expenditure programs relating to the Silver Yards processing plant have been suspended. Construction of the Phase 3 expansion of the process plant is substantially complete, with the main remaining items being the installation of electrical equipment and instrumentation work. Commissioning of the Phase 3 plant is now planned for April and May 2013 as part of the seasonal start-up.

Connection to the hydro grid power has also been deferred and is now planned for completion in time for the plant start-up in spring 2013.

LIM has completed the expansion of the Bean Lake accommodation camp, which has been doubled in size and is now operating with 140 rooms, with no further capital investment required on the camp.

John Kearney, Chairman and CEO, commented: "*During this period of weakness and uncertainty in the iron ore market, it is essential that we remain disciplined in our cash management and capital spending programs and reduce operating costs. Consequently, consistent with announcements made by major iron ore companies, we have suspended some capital investment programs and deferred others in order to focus our resources on maximizing production in the short-term. This decision reflects a disciplined and pragmatic approach as we weather the current challenging market conditions."*

James Mine and Silver Yards

The James mine operated at a rate of 28,000 tonnes per day (ore and waste) during August. The ore in the James deposits continues to be soft and higher grade and lends itself to simple processing that does not require washing. Consequently, for the balance of 2012, LIM plans to utilize its new lower cost dry classifying system to produce lump and sinter and will not use the higher cost wet processing plant, which is now being winterised. The dry process stream has a design capacity of 1,000 tonnes per hour (20,000 tonnes per day) with a mass yield approaching 100%.

The James ore continues to be generally free digging, not requiring the use of explosives, and the higher grade experienced in the upper benches of the mine continues to be encountered as the mine gets deeper and accesses the lower levels. As previously reported, the bulk density of the James ore is lower than originally anticipated resulting in most of the deposit being of a higher grade but lower tonnage than predicted by the geological model. This also results in a lower strip ratio and less waste being moved in the James mine pit, and lower operating costs, in turn reducing the environmental footprint.

"*Despite the many operational achievements to date, our current second quarter is being impacted by the rapid drop in spot iron ore prices*" commented **Rod Cooper, LIM's President and COO**. *"We have been quick to respond and adjustments have been made with revised strategies in the pit, process plant and rail transport to optimize production at the lowest possible cost."*

The Company remains on track to meet its 2012 sales target of 2 million tonnes of iron ore at a cash operating cost of $60 – $65 per tonne unloaded at the Port and, subject to market conditions, plans for the sale of five or six more cape-size shipments over the next four months before the seasonal shut down in November. All remaining sales during 2012 are planned to be sinter fine and lump products.

Houston Development

All major capital expenditure programs relating to the development of the Houston deposits have been deferred. The Company will continue to process applications for permits and regulatory approvals required for the construction of mine infrastructure and related facilities to enable the development and construction at the Houston deposits. Ongoing drill programs and hydrological and metallurgical testing will be continued in 2012 in order to generate technical information required for detailed mine planning.

Commencement of full construction activities at Houston is now planned for 2013, subject to continuous assessment of market conditions and receipt of the remaining permits, with initial production of Houston ore targeted for the first half of 2014.

The delay in the development of Houston is currently expected to result in the Company's production target for 2013 being revised to a level similar to 2012, at about 2 million tonnes of iron ore, rather than the expanded 3 million tonnes previously anticipated.

However, when in production, Houston is expected to more than double the Company's current iron ore production and will represent LIM's main expansion project in future years.

Exploration

The 2012 exploration budget has been reduced to $5 million from the $8.6 million originally budgeted. As of the end of August, approximately 4,000 metres ("m") of reverse circulation ("RC") and diamond drilling has been completed. Although exploration spending has been reduced, the overall 2012 exploration program is still expected to achieve more than 10,000 m of drilling as a result of cost efficiencies and improved productivity.

For the remainder of 2012 the exploration program will focus on the following drilling priorities: James South Extension (core); Stockpiles (RC); Taconite (core): James Main and South – Metallurgical (core): Houston (geotechnical, core and RC).

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About Labrador Iron Mines Holdings Limited (LIM)

Labrador Iron Mines (LIM) is Canada's newest iron ore producer. We own a portfolio of direct shipping (DSO) iron ore operations and projects located in the prolific Labrador Trough. Initial production commenced at our 100%-owned James Mine in June 2011 and we recorded the sale of 400,000 tonnes of iron ore in our first start-up season. The first full production season commenced in April, 2012, with a sales target of 2 million tonnes of iron ore for the 2012 year.

LIM is focused on a strategic and robust growth plan arising from our portfolio of 20 iron ore deposits in Labrador and Quebec, all within 50 kilometres of the town of Schefferville. The James Mine is connected by a direct rail link to the Port of Sept-Iles, Québec. The area also benefits from established infrastructure including the town, airport hydro power and railway service. Starting with the James Mine and leading to the development of the expanding Houston flagship project, our objective is to provide shareholders with long-term value as we ramp up production and sales towards 5 million tonnes per year.

We are currently the only independently-owned Canadian iron ore producer listed on the Toronto Stock Exchange and trade under the symbol LIM.

For further information, please visit LIM's website at www.labradorironmines.ca or contact:

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Cautionary Statements:

Some of the statements contained herein may be forward-looking statements which involve known and unknown risks and uncertainties. Without limitation, statements regarding potential mineralization and resources, exploration results, and future plans and objectives of the Company are forward looking statements that involve various degrees of risk. The following are important factors that could cause the Company's actual results to differ materially from those expressed or implied by such forward looking statements: changes in the world wide price of iron ore and steel, general market conditions, the uncertainty of future profitability and access to additional capital, risks inherent in mineral exploration and risks associated with development, construction and mining operations, delays in obtaining or failures to reach agreements with any potentially impacted aboriginal groups or to obtain required governmental, environmental or other project approvals. There can be no assurance that the Company will be successful in reaching any agreement with any First Nations groups who may assert aboriginal rights or may have a claim which affects the Company's properties or may be impacted by the Schefferville Area project. Caution should be exercised on placing undue reliance on forward looking information.