

**LABRADOR IRON MINES HOLDINGS LIMITED**

*(A Development Stage Company)*

**Interim Consolidated Financial Statements**

(Unaudited – prepared by management)

Third Quarter

For the period ended December 31, 2010

In accordance with National Instrument 51-102, issued by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited interim consolidated financial statements for the period ended December 31, 2010

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*(A Development Stage Company)*

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For the period ended December 31, 2010

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# LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

## Consolidated Balance Sheets

	As at December 31, 2010	As at March 30, 2010
	(Unaudited)	(Audited)
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (Note 9(f)(g))	27,949,904	48,299,095
Accounts receivable and prepaid expenses	589,475	676,750
	<u>28,539,379</u>	<u>48,975,845</u>
<b>Non current assets</b>		
Mineral property interests (Note 3)	161,144,950	150,883,030
Long-term prepaid expenses	2,350,000	2,255,000
Property, plant and equipment (Note 4)	25,540,930	7,919,845
	<u>189,035,880</u>	<u>161,057,875</u>
	<u>217,575,259</u>	<u>210,033,720</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	7,850,881	2,118,827
Capital lease obligation (Note 11)	600,000	-
	<u>8,450,881</u>	<u>2,118,827</u>
<b>Non current liabilities</b>		
Long-term payables (Note 3)	-	1,000,000
Capital lease obligation (Note 11)	1,552,652	-
Asset retirement obligation (Note 12)	1,806,108	-
Future income taxes (Note 10(b))	30,451,074	31,305,364
	<u>42,260,715</u>	<u>34,424,191</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 5(a))	163,077,838	160,837,192
Warrants (Note 5(b))	873,059	1,146,876
Contributed surplus (Note 5(d))	14,340,712	14,095,216
Deficit	(2,977,065)	(469,755)
	<u>175,314,544</u>	<u>175,609,529</u>
	<u>217,575,259</u>	<u>210,033,720</u>

Commitments and contingencies (Notes 1, 3 and 9)

APPROVED ON BEHALF OF THE BOARD:

"Richard L. Lister"  
Director

"John F. Kearney"  
Director

# LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

## Consolidated Statements of Operations and Comprehensive Loss and Retained Earnings (Deficit)

	For the three month period ended		For the nine month period ended	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	\$	\$	\$	\$
<b>Expenses</b>				
Administration	421,648	613,417	1,323,019	1,249,611
Corporate expenses	363,581	27,791	988,551	362,263
Management costs	101,270	50,000	276,270	150,000
Professional fees	50,330	48,757	227,296	233,522
Director's fees	47,750	11,500	95,750	50,500
Depreciation	45,060	37,949	118,763	76,974
Stock-based compensation (Note 5(c))	330,083	16,575	531,624	20,283
<b>Loss before the undernoted</b>	<b>1,359,722</b>	<b>805,989</b>	<b>3,561,273</b>	<b>2,143,153</b>
Interest earned	85,372	8,934	199,673	106,998
<b>Loss before income taxes</b>	<b>1,274,350</b>	<b>797,055</b>	<b>3,361,600</b>	<b>2,036,155</b>
Future income tax recovery	(279,150)	(3,153,656)	(854,290)	(3,575,759)
<b>Net income (loss) for the period</b>	<b>(995,200)</b>	<b>2,356,601</b>	<b>(2,507,310)</b>	<b>1,539,604</b>
Other comprehensive income	-	-	-	-
<b>Comprehensive income (loss) for the period</b>	<b>(995,200)</b>	<b>2,356,601</b>	<b>(2,507,310)</b>	<b>1,539,604</b>
<b>Deficit, beginning of period</b>	<b>(1,981,865)</b>	<b>(2,451,524)</b>	<b>(469,755)</b>	<b>(1,634,527)</b>
<b>Deficit, end of period</b>	<b>(2,977,065)</b>	<b>(94,923)</b>	<b>(2,977,065)</b>	<b>(94,923)</b>
<b>Earnings (loss) per share - Basic and diluted</b>	<b>(0.02)</b>	<b>0.06</b>	<b>(0.06)</b>	<b>0.04</b>
<b>Weighted average number of shares outstanding - Basic and diluted</b>	<b>43,620,192</b>	<b>37,148,451</b>	<b>43,573,583</b>	<b>37,148,451</b>

# LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

## Consolidated Statements of Cash Flows

	For the three month period ended		For the nine month period ended	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	\$	\$	\$	\$
<b>Cash provided by (used in) operating activities</b>				
(Loss) for the period	(995,200)	2,356,601	(2,507,310)	1,539,604
Items not involving cash				
Stock-based compensation	330,083	16,575	531,624	20,283
Depreciation	45,060	37,949	118,763	76,974
Future income tax recovery	(279,150)	(3,153,656)	(854,290)	(3,575,759)
Changes in working capital	3,154,428	(1,164,435)	5,726,009	(365,546)
Cash provided by (used in) operating activities	2,255,221	(1,906,966)	3,014,796	(2,304,444)
<b>Cash provided by (used in) investing activities</b>				
(Increase) in mineral property interests	(5,040,338)	(1,607,373)	(8,334,887)	(5,911,071)
Decrease (increase) in long term prepaid expenses	-	(1,650,000)	-	(2,100,000)
(Decrease) in long term payables	(500,000)	-	(1,000,000)	-
Property, plant, and equipment purchases	(5,022,643)	(2,598,817)	(15,227,374)	(4,209,769)
Cash used in investing activities	(10,562,981)	(5,856,190)	(24,562,261)	(12,220,840)
<b>Cash provided by (used in) financing activities</b>				
Exercise of stock options	628,148	-	986,508	-
Exercise of warrants	502,942	-	561,766	-
Repayment of capital lease obligation	(150,000)	-	(350,000)	-
Cash provided by financing activities	981,090	-	1,198,274	-
<b>Changes in cash and cash equivalents</b>	(7,326,670)	(7,763,156)	(20,349,191)	(14,525,284)
<b>Cash and cash equivalents, beginning of the period</b>	35,276,574	28,439,861	48,299,095	35,201,989
<b>Cash and cash equivalents, end of the period</b>	27,949,904	20,676,705	27,949,904	20,676,705
Cash and cash equivalents consist of:				
Cash (cheques issued in excess of cash)	-	(476,667)	-	(476,667)
Cash equivalents	27,949,904	21,153,372	27,949,904	21,153,372
	27,949,904	20,676,705	27,949,904	20,676,705
<b>Supplemental Cash Flow Information</b>				
Stock-based compensation expense included in mineral property interests	83,635	22,973	132,747	25,857

See accompanying Notes to the Interim Consolidated Financial Statements.

# LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

## Notes to the Consolidated Financial Statements

For the period ended December 31, 2010 and 2009

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### 1. NATURE OF OPERATIONS

Labrador Iron Mines Holdings Limited (the "Company") is a mineral resource company engaged in the exploration and development of iron ore projects in Canada. The Company is in the development stage, as defined by the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 11, as the Schefferville Projects, which collectively comprise the Company's primary mineral property interests, are not in production.

The business of exploration, development and mining of minerals involves a high degree of risk and there can be no assurance that current exploration, development and mining plans will result in profitable mining operations. The recoverability of the carrying value of assets and the Company's continued existence is dependent upon the preservation of its interests in the underlying properties, the development of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise additional financing, or, alternatively, upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs to the carrying values of the Company's assets, in particular its mineral property interests.

Notwithstanding the above risks, at December 31, 2010, the Company believes it has sufficient working capital to complete the commissioning of the first phase of its iron ore mining projects and to commence shipments of iron ore to begin generating operating cash flows. Accordingly, the Company does not believe significant doubt exists about its ability to continue as a going concern.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), consistently applied, except as disclosed. Significant accounting policies are summarized below.

#### **Basis of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Labrador Iron Mines Limited, Schefferville Mines Inc., Labrail Inc. and Centre Ferro Ltee. All significant intercompany transactions and balances have been eliminated.

#### **Financial Instruments**

Financial assets and liabilities are initially recognized and subsequently measured based on their classification as "held-for-trading", "available-for-sale", "held-to-maturity", or "loans and receivables" financial assets, or "other" financial liabilities.

In accordance with these standards, the Company has classified its financial instruments as follows:

<u>Assets/Liabilities</u>	<u>Classification</u>	<u>Measurement</u>
Cash and cash equivalents	Held-for-trading	Fair value
Accounts receivable	Loans and receivable	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Long-term payables	Other financial liabilities	Amortized cost

# LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

## Notes to the Consolidated Financial Statements

For the period ended December 31, 2010 and 2009

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Financial Instruments (Continued)**

Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in net income (loss) for the period. Available-for-sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive income until the asset is removed from the balance sheet or until impairment is determined to be other than temporary. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method.

#### **Cash and cash equivalents**

Cash and cash equivalents include cash and highly liquid investments with original maturities of three months or less. The cash and cash equivalents are invested in investment grade short-term money market instruments and deposits with a major Canadian bank.

#### **Comprehensive income**

Comprehensive income, composed of net income (loss) and other comprehensive income, is defined as the change in shareholders' equity from transactions and other events from non-owner sources. Other comprehensive income for the Company includes unrealized gains and losses on available-for-sale securities net of related income taxes. The components of comprehensive income are disclosed in the statement of operations and comprehensive income. Cumulative changes in other comprehensive income are included in accumulated other comprehensive income which is presented as a separate category in shareholders' equity.

#### **Mineral property interests and deferred exploration expenditures**

Where properties are acquired in exchange for the Company's shares, the properties are valued at the fair market value of the shares at the date of issue. The cost of mineral property interests and related exploration and development costs are deferred. These costs will be amortized over the estimated useful life of the properties following commencement of commercial production or written off if the properties are sold, allowed to lapse, or the property shows no promise from prior exploration and development results, or management determines that there is a permanent and significant impairment in value. All of the Company's properties are considered to be in the exploration or development stage and none have achieved commercial production. Accordingly, any revenue generated from testing or pilot plant processing is credited to mineral property interests. The Company does not accrue future costs to keep the properties in good standing. Administrative expenditures, not directly related to property maintenance, are charged to operations as incurred.

The Company reviews its exploration properties to determine if events or changes in circumstances have transpired which indicate that the carrying value of its assets may not be recoverable. The recoverability of costs incurred on the exploration properties is dependent upon numerous factors including exploration results, environmental risks, commodity risks, political risks, and the Company's ability to attain profitable production. It is reasonably possible, based on existing knowledge, that changes in future conditions in the near-term could require a change in the determination of the need for, and amount of, any write down.

#### **Asset retirement obligations**

The Company is required to record a liability for the estimated future costs associated with legal obligations relating to the reclamation and closure of its mineral property interests and certain property, plant and equipment. This amount is initially recorded in the period in which it is identified at its discounted present value with subsequent annual recognition of an accretion amount on the discounted liability. An equivalent amount is recorded as an increase to mineral property interests and is amortized over the useful life of the asset.

# LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

## Notes to the Consolidated Financial Statements

For the period ended December 31, 2010 and 2009

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and the income tax bases of assets and liabilities, and are measured using the enacted or substantively enacted income tax rates and laws that are expected to be in effect when the temporary differences are expected to reverse. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

#### Earnings (loss) per share

Basic earnings (loss) per share is calculated using the weighted average number of shares outstanding. Diluted earnings (loss) per share is calculated using the treasury stock method. In order to determine diluted loss per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted (loss) per share calculation excludes any potential conversion of options and warrants that would decrease (loss) per share.

#### Foreign currency translation

Transactions in foreign currencies have been translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are translated at the period-end exchange rate. Non-monetary assets have been translated at the historical rate of exchange prevailing at the date of the transaction. Expenses have been translated at the average rate of exchange during the period. Realized and unrealized foreign exchange gains and losses are included in operations.

#### Flow-through financing

The Company has financed a portion of its future exploration activities in Canada through the issuance of flow-through shares, which transfer the tax deductibility of exploration expenditures to the investor. Proceeds received on the issue of such shares have been credited to share capital and the related exploration costs, when incurred, are charged to mineral property interests.

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renunciation will reduce share capital. The Company has indemnified the subscribers of the flow-through shares for any tax related amounts that become payable in connection with their flow-through share subscriptions.

#### Use of estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the period. Actual results could differ from estimates. During the fiscal period presented, management has made a number of significant estimates and valuation assumptions, including the recoverability of mineral property interests, the future costs associated with environmental remediation and site restoration matters, fair value of financial instruments and valuation of tax accounts and stock-based compensation. These estimates and valuation assumptions are based on present conditions and management's planned course of action, as well as an assumption about future business and economic conditions. Should the underlying valuation assumptions and estimates change, the recorded amounts could change by a material amount.



# LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

## Notes to the Consolidated Financial Statements

For the period ended December 31, 2010 and 2009

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company does not believe that the potential effects of global warming will have any material impact on the Company's future operations.

#### Stock-based compensation

The Company records compensation cost based on the fair value method of accounting for stock-based compensation. The fair value of stock options is determined using the Black-Scholes option pricing model. The fair value of the options is recognized over the vesting period as compensation expense and contributed surplus. When options are exercised, the proceeds received, together with any related amount in contributed surplus, are credited to share capital.

#### Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated amortization. Amortization is provided based on the following annual rates and methods:

Service buildings	5% declining balance
Computer equipment	30% declining balance
Field equipment	30% declining balance
Office equipment	30% declining balance
Vehicles	30% declining balance

Leasehold improvements are amortized over the eleven-year term of the lease.

Capital leases are amortized over the term of the lease.

#### New accounting pronouncements:

##### Fair Value Hierarchy and Liquidity Risk Disclosure

In June 2009, the Canadian Accounting Standards Board issued an amendment to CICA Section 3862, "Financial Instruments Disclosures" in an effort to make Section 3862 consistent with IFRS Section 7 – Disclosures. The purpose was to establish a framework for measuring fair value in Canadian GAAP and expand disclosures about fair value measurements. To make the disclosures an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). The adoption of these amendments resulted in additional disclosures in the notes to the consolidated financial statements.

#### Future accounting changes:

##### International Financial Reporting Standards ("IFRS")

In February 2008, the CICA Accounting Standards Board confirmed that the use of IFRS will be required in 2011 for public companies in Canada (IFRS will replace Canadian GAAP for public companies). The official changeover date will apply for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company has developed a changeover plan to address the impact of IFRS on its consolidated financial statements and continues to evaluate the impact that the transition to IFRS will have on its consolidated financial statements.

# LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

## Notes to the Consolidated Financial Statements

For the period ended December 31, 2010 and 2009

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Section 1582, Business Combinations

In January 2009, the CICA issued Section 1582 to replace Section 1581, "Business Combinations". Section 1582 will apply to a transaction in which the acquirer obtains control of one or more businesses (as defined in the Section). Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. A bargain purchase will result in the recognition of a gain. Acquisition costs will be expensed. Any non-controlling interest will be recognized as a separate component of shareholders' equity and net income will be allocated between the controlling and non-controlling interests. These new standards will apply to fiscal years beginning on or after January 1, 2011. The Company expects to adopt these standards on April 1, 2011.

#### Section 1601, Consolidations and Section 1602, Non-Controlling Interests

CICA Handbook Section 1601, "Consolidations" and Section 1602, "Non-Controlling Interests" replace Section 1600, "Consolidated Financial Statements". Section 1602 provides the Canadian equivalent to International Accounting Standard 27 – "Consolidated and Separate Financial Statements", for non-controlling interests. The Company expects to adopt this standard on April 1, 2011.

### 3. MINERAL PROPERTY INTERESTS

The Company holds a 100% interest in the Schefferville Projects. The Schefferville Projects comprise a series of iron ore deposits located in western Labrador in the Province of Newfoundland and Labrador and in north-eastern Quebec, near the town of Schefferville, Quebec.

All of the iron ore properties located in Labrador are held subject to a royalty in the amount of 3% of the selling price (FOB Port) of iron ore produced and shipped from such properties, subject to such royalty being no greater than \$1.50 per tonne, with such royalty being payable quarterly in arrears.

In December 2009, the Company, through a wholly owned subsidiary, Schefferville Mines Inc. ("SMI"), acquired interests in additional mineral properties located in Quebec for total consideration of \$2,900,000, of which \$1,150,000 was paid on signing, \$250,000 was paid on June 30, 2010, \$500,000 was paid on December 31, 2010, and \$1,000,000 remains payable in interest-free installment amounts to December 31, 2011 (\$1,000,000 which is included in accounts payable and accrued liabilities being due in the next 12 months). The Company also acquired additional manganese properties in Labrador for consideration of \$100,000 in December 2009.

The properties in Quebec are held subject to a royalty of \$2.00 per tonne of iron ore and 3% of FOB value of any other metals shipped from the properties, such royalty being payable quarterly in arrears. An advance royalty payment of \$2,000,000 was paid on signing which will be credited against future royalties payable on certain of the properties acquired.

In December, 2009, the Company, through SMI, acquired, subject to all regulatory and government consents and approvals, an exclusive operating license in certain properties held under a 1953 Quebec Mining Lease (the "1953 Lease"). The current term of the 1953 Lease runs until 2013 and, subject to its provisions and the provisions of its governing Act, is renewable for a further term of 20 years to 2033. Pursuant to its operating license, SMI has the option, subject to approval of the Government of Quebec, to sublease the properties. The operating license is held subject to the payment of a royalty of \$2.00 per tonne of iron ore shipped from the area of the 1953 Lease. The Company has agreed to assume certain existing liabilities and liens related to the 1953 Lease properties. Any amounts paid in respect of such liabilities and liens in excess of \$1,500,000 will be deemed to be an advance royalty payment. Amounts totaling \$800,000 had been paid at December 31, 2010 and included in Mineral Property Interests as property acquisitions.

# LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

## Notes to the Consolidated Financial Statements

For the period ended December 31, 2010 and 2009

### 3. MINERAL PROPERTY INTERESTS (Continued)

Although the Company has taken steps to verify its title to the properties on which it is conducting its exploration and development activities, these procedures do not guarantee the Company's title.

Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal land claims and non-compliance with regulatory and environmental requirements. Certain of the properties acquired in calendar 2009 are subject to pre-existing litigation by third parties against the previous holders of the properties claiming rights to or ownership of such properties.

Increases in mineral property interests for the three months and nine months ended December 31, 2010 and for the year ended March 31, 2010 are as follows:

	Three months ended December 31, 2010	Nine months ended December 31, 2010	Year ended March 31, 2010
	\$	\$	\$
Balance, beginning of period	154,715,034	150,883,030	140,797,497
Additions:			
Property development	2,220,726	3,503,939	970,025
Community outreach	15,436	51,813	56,864
Engineering	100,381	415,400	731,658
Environment and permits	319,922	721,193	1,068,802
Exploration	2,018,914	3,018,874	3,758,076
Transport services	68,004	125,094	213,357
Travel and accommodation	296,955	487,072	219,883
Stock-based compensation	83,635	132,427	66,868
Property acquisitions	-	-	3,000,000
Asset retirement obligation	1,305,943	1,806,108	-
	<u>6,429,916</u>	<u>10,261,920</u>	<u>10,085,533</u>
Balance, end of period	<u>161,144,950</u>	<u>161,144,950</u>	<u>150,883,030</u>

# LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

## Notes to the Consolidated Financial Statements

For the period ended December 31, 2010 and 2009

### 4. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2010		
	Cost	Accumulated	Net book
	\$	Depreciation	value
Service buildings	938,023	103,675	834,348
Computer equipment	88,680	46,649	42,030
Field equipment	763,258	34,025	729,233
Leasehold improvements	88,556	9,263	79,293
Processing equipment	12,976,232	-	12,976,232
Pumping facilities	2,234,573	-	2,234,573
Office equipment	24,415	13,698	10,717
Silver yard track	4,797,277	-	4,797,277
Vehicles	249,954	72,179	177,776
Port improvements	106,552	-	106,552
Settling ponds	429,597	-	429,597
Mine Camp	3,123,302	-	3,123,302
	<u>25,820,419</u>	<u>279,489</u>	<u>25,540,930</u>

  

	March 31, 2010		
	Cost	Accumulated	Net book
	\$	Depreciation	value
Service buildings	905,396	69,401	835,995
Computer equipment	62,926	28,337	34,589
Field equipment	63,258	19,792	43,466
Leasehold improvements	26,484	4,456	22,028
Processing equipment	3,148,950	-	3,148,950
Pumping facilities	2,022,332	-	2,022,332
Office equipment	24,415	8,949	15,466
Silver yard track	1,580,698	-	1,580,698
Vehicles	101,727	29,791	71,936
Port improvements	81,723	-	81,723
Settling ponds	62,662	-	62,662
	<u>8,080,571</u>	<u>160,726</u>	<u>7,919,845</u>

Property, plant and equipment with a cost of \$23,667,533 has not been amortized pending the commencement of commercial production.

# LABRADOR IRON MINES HOLDINGS LIMITED

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## Notes to the Consolidated Financial Statements

For the period ended December 31, 2010 and 2009

### 5. SHARE CAPITAL

#### (a) Common shares

##### Authorized

Unlimited common shares

##### Issued

	Shares #	Amount \$
Balance, March 31, 2009	37,148,451	128,545,307
Exercise of options	55,500	111,000
Exercise of options - valuation allocation	-	70,254
Common shares issued at \$5.55 per share	5,406,000	30,003,300
Flow-through shares issued at \$6.65 per share	760,000	5,054,000
Share issue costs	-	(1,799,793)
Broker warrants	-	(1,146,876)
Balance, March 31, 2010	43,369,951	160,837,192
Exercise of options	469,235	986,508
Exercise of options - valuation allocation	-	418,555
Exercise of broker warrants	88,328	561,766
Exercise of broker warrants - valuation allocation	-	273,817
Balance, December 31, 2010	43,927,514	163,077,838

On March 25, 2010 the Company issued 5,406,000 common shares at an issue price of \$5.55 per share and 760,000 flow-through shares at an issue price of \$6.65 per flow-through share pursuant to a short form prospectus for gross proceeds of \$35,057,300.

#### (b) Share purchase warrants

On March 25, 2010, the Company issued 369,960 broker warrants as partial compensation to the underwriters of the short form prospectus offering. The broker warrants are exercisable into common shares of the Company at an exercise price of \$6.36 per share and expire on September 25, 2011. The broker warrants were assigned an estimated value of \$1,146,876, calculated using the Black-Scholes option pricing model, based on the following assumptions: risk-free interest rate of 1.69%, expected dividend rate of 0%, expected life of 18 months and an expected volatility of 132%.

During the nine months ended December 31, 2010, 88,328 broker warrants were exercised at an exercise price of \$6.36 per share, for gross proceeds of \$561,766 leaving 281,632 broker warrants outstanding.

During the year ended March 31, 2010, 6,596,975 warrants with a value of \$5,408,000 and 857,607 broker warrants with a value of \$919,781 expired. On expiry, the value was transferred to contributed surplus.

#### (c) Stock options

The Company operates a Stock Option Plan for directors, officers, management, employees and other persons who perform ongoing services for the Company or any of its subsidiaries. The purpose of the plan is to attract, retain and motivate these parties by providing them with the opportunity, through options, to acquire a proprietary interest in the Company and to benefit from its growth.

The maximum number of common shares reserved for issuance upon the exercise of options cannot exceed 10% of the total number of common shares outstanding immediately prior to such an issuance. The options are non-assignable and may be granted for a term not exceeding ten years. The exercise price of the options is fixed by the Board of Directors at no lesser than the market price of the shares at the time of grant, subject to all applicable regulatory requirements.

# LABRADOR IRON MINES HOLDINGS LIMITED

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## Notes to the Consolidated Financial Statements

For the period ended December 31, 2010 and 2009

### 5. SHARE CAPITAL (Continued)

The following are the option transactions during the nine months ended December 31, 2010:

	Options #	Weighted average exercise price \$
Balance, March 31, 2010	1,899,500	2.00
Cancelled	-	2.00
Issued	290,000	6.27
Issued	12,500	7.30
Exercised	(457,985)	2.00
Exercised	(11,250)	6.27
Balance, December 31, 2010	<u>1,732,765</u>	<u>2.73</u>

The following table sets out details of the stock options outstanding as at December 31, 2010:

Number of options outstanding	Number of vested options outstanding	Exercise price	Expiry date
1,441,515	1,325,265	\$2.00	August 31, 2012
278,750	25,000	\$6.27	September 14, 2015
12,500	1,563	\$7.30	November 9, 2015
<u>1,732,765</u>	<u>1,351,828</u>		

The stock-based compensation expense during the nine months ended December 31, 2010 related to the vesting of options granted has been recorded as to \$132,747 as a mineral property interest capitalized cost and as to \$531,624 as an operating expense.

On September 15, 2010, the Board of Directors approved the grant of an additional 290,000 options to new employees and current directors at an exercise price of \$6.27 per share, all with an expiry date of September 14, 2015, and all vesting as to one-eighth thereof quarterly over a period of two years. These options have a grant date estimated fair value of \$1,226,700 calculated using the Black-Scholes option pricing model based on the following assumptions: risk-free interest rate of 2.25%, expected life of 5 years, expected dividend rate of 0%, and current volatility of 88%.

On November 10, 2010, the Board of Directors approved the grant of an additional 12,500 options to a current employee at an exercise price of \$7.30 per share, with an expiry date of November 9, 2015, and all vesting as to one-eighth thereof quarterly over a period of two years. These options have a grant date estimated fair value of \$68,375 calculated using the Black-Scholes option pricing model based on the following assumptions: risk-free rate of 2.20%, expected life of 5 years, expected dividend rate of 0%, and current volatility of 102.97%.

#### (d) Contributed surplus

Contributed surplus transactions for the periods ended March 31, 2010 and December 31, 2010 were as follows:

Balance, March 31, 2009	\$ 7,684,848
Stock-based compensation on vesting of options to employees	152,841
Reallocated to share capital upon option exercise	(70,254)
Expiry of broker warrants issued in IPO	919,781
Expiry of share purchase warrants issued in IPO	<u>5,408,000</u>
Balance, March 31, 2010	14,095,216
Stock-based compensation on vesting of options to employees	664,051
Reallocated to share capital upon option exercise	<u>(418,555)</u>
Balance, December 31, 2010	<u>14,340,712</u>

# LABRADOR IRON MINES HOLDINGS LIMITED

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## Notes to the Consolidated Financial Statements

For the period ended December 31, 2010 and 2009

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### 6. RELATED PARTY TRANSACTIONS

During the nine month period ended December 31, 2010, the Company recovered \$90,045 (2009 - \$149,670) in respect of office rent (administration expense) from corporations with common directors and/or officers.

The Company also made payments to companies with common directors and/or officers, in respect of management compensation (management costs) provided in the amount of \$334,020 (2009 - \$225,000).

The Company incurred legal fees in respect of services provided by an officer in the amount of \$40,950 (2009 - \$22,279).

Transactions with related parties were within the normal course of operations and have been recorded at the exchange amounts, being the amounts agreed to by the transaction parties.

### 7. FINANCIAL INSTRUMENTS

#### Fair value

Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates. The carrying amounts for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and long-term payables on the balance sheet approximate fair value because of the limited term of the instruments.

#### Fair Value Hierarchy and Liquidity Risk Disclosure

At December 31, 2010, the Company's financial instruments that are carried at fair value, consisting of cash and cash equivalents, have been classified as Level 1 within the fair value hierarchy.

#### Financial risk management

This section provides disclosures relating to the nature and extent of the Company's exposure to risks arising from financial instruments, including credit risk, liquidity risk, foreign currency risk, interest rate risk and commodity price risk and how the Company manages those risks. The Company's objectives and management of risks have not changed significantly during the nine month period ended December 31, 2010.

#### i) Credit risk

The Company considers that financial assets are exposed to credit risk. Cash and cash equivalents are valued at \$27,949,904 at December 31, 2010. Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company does not currently generate any revenue from sales to customers nor does it hold derivative type instruments that would require a counterparty to fulfill a contractual obligation. The Company has never held any asset backed paper instruments. The Company seeks to place its cash and cash equivalents with reputable financial institutions. Accordingly, the Company believes that it is exposed to minimal credit risks at the current time. At December 31, 2010, the Company's cash and cash equivalents were held at a major Canadian bank. Accounts receivable consist primarily of commodity taxes recoverable from the Government of Canada. The carrying amount of financial assets represents the Company's maximum credit exposure.

# LABRADOR IRON MINES HOLDINGS LIMITED

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## Notes to the Consolidated Financial Statements

For the period ended December 31, 2010 and 2009

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### 7. Financial Instruments (continued)

#### ii) Liquidity risk

Liquidity risk encompasses the risk that the Company cannot meet its financial obligations as they come due. As at December 31, 2010, the Company had working capital of \$20,088,498. Accordingly, the Company is able to meet its current obligations and has minimal liquidity risk.

#### iii) Foreign currency risk

The majority of the Company's cash flows and financial assets and liabilities are denominated in Canadian dollars, which is the Company's functional and reporting currency. Foreign currency risk is limited to the portion of the Company's business transactions denominated in currencies other than the Canadian dollar. For the nine month period ended December 31, 2010, the Company had no sales and no significant expenses denominated in a currency other than the Canadian dollar, but incurred certain development costs related to its mineral property interests and certain acquisition of property, plant, and equipment in currencies other than the Canadian dollar.

The future expected sale of iron ore will be denominated in U.S. dollars and, as a result, fluctuations in the U.S. dollar exchange rate relative to the Canadian dollar could create volatility in the Company's cash flows and the reported amounts for sales in its consolidated statement of operations and comprehensive loss, both on a period-to-period basis and compared with operating budgets and forecasts.

Additional earnings volatility arises from the translation of monetary assets and liabilities denominated in currencies other than the Canadian dollar at the rates of exchange at each balance sheet date, the impact of which is reported as a foreign exchange gain or loss in the consolidated statement of operations and comprehensive loss.

The Company's objective in managing its foreign currency risk is to minimize its net exposures to foreign currency cash flows by holding cash and cash equivalents in Canadian dollars. The Company will monitor the values of net foreign currency cash flow and balance sheet exposures and in the future may consider using derivative financial instruments such as forward foreign exchange contracts to economically hedge a portion of any foreign currency cash flows. The Company does not use forward foreign exchange contracts for speculative purposes.

As at December 31, 2010, the Company was not exposed to any significant foreign currency risk.

#### iv) Interest rate risk

Included in loss for the period is interest earned on the Company's cash and cash equivalents. If interest rates throughout the nine month period had been 100 basis points higher (lower) then the loss would have been approximately \$290,000 lower (higher). The Company does not have any debt obligations which expose it to interest rate risk.

#### v) Commodity price risk

The future profitability of the Company is directly related to the market price of iron ore. As the Company is not yet in mining operations, there were no sales during the nine months ended December 31, 2010. However, fluctuations in the iron ore price could create volatility in the Company's future cash flows and the future reported amounts for sales in its consolidated statement of operations and comprehensive income, both on a period-to-period basis and compared with operating budgets and forecasts. In addition, a drop in actual iron ore prices or expected long-term iron ore prices could impact the Company's ability to raise additional financing, if required, to complete the development of its properties and development could also be halted if iron ore prices fall below expected operating costs.

### 8. CAPITAL MANAGEMENT

The capital of the Company consists of common shares, stock options and share purchase warrants. There were no changes to the Company's approach to capital management during the period. The Company is not subject to externally imposed capital requirements.



# LABRADOR IRON MINES HOLDINGS LIMITED

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## Notes to the Consolidated Financial Statements

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### 8. CAPITAL MANAGEMENT (Continued)

The Company manages its cash and cash equivalents, common shares, stock options, and share purchase warrants as capital. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of its mineral properties. As the Company has been in the exploration and development stage, its principal source of funds for its operations has been from the proceeds of the issuance of common shares. The issuance of common shares requires approval from the Board of Directors. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the Company's management to sustain future development of the business. It is the Company's objective to safeguard its ability to continue as a going concern, so that it can continue to explore and develop its Schefferville Projects for the benefit of its stakeholders. The Company uses stock options primarily to retain and provide future incentives to key employees and members of the management team. The granting of stock options is primarily determined by the Board of Directors.

The Company will continue to assess new properties and seek to acquire an interest in additional properties if it believes there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

### 9. COMMITMENTS AND CONTINGENCIES

- (a) The Company has committed to put phase one of the Schefferville Projects into production and has arranged production financing for the first one million tonnes of production from one or more of the properties comprising the Schefferville Projects.
- (b) The Company has undertaken a program of community consultation and has entered into memoranda of understanding and plans to later enter into impact benefits agreements, with each of the Aboriginal First Nations communities living in or adjacent to, or having an interest in or claims to, historic land or treaty rights in the Schefferville Projects area or who may be impacted by the Schefferville Projects.

The Company has an Impact Benefit Agreement ("IBA") with the Innu Nation of Labrador and with the Naskapi Nation (Kawawachikamach). Each IBA is a life of mine agreement that establishes the processes and sharing of benefits which will ensure an ongoing positive relationship between the Company and the Innu Nation of Labrador and the Naskapi Nation (Kawawachikamach). The Innu Nation of Labrador and the Naskapi Nation (Kawawachikamach) and their members will benefit through training, employment, business opportunities and financial participation in the Schefferville Projects.

The company has signed memoranda of understanding with the Innu Nation of Matimekush-Lac John (Schefferville) and with the Innu of Uashat and Mani-Utenam reflecting the agreement of the parties with respect to community support for the development of the Schefferville Projects and the parties commitment to negotiate more detailed co-operation agreements.

- (c) During December 2009, the Company acquired interests in certain mineral properties located in Quebec. See Note 3.

# LABRADOR IRON MINES HOLDINGS LIMITED

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## Notes to the Consolidated Financial Statements

For the period ended December 31, 2010 and 2009

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### 9. COMMITMENTS AND CONTINGENCIES (Continued)

- (d) As at December 31, 2010, the Company is committed to a minimum amount of rental payments under a long-term lease for its head office premises, which expires on August 31, 2019. Minimum rental commitments remaining under this lease approximate \$2,891,500 as follows:

2011	\$	83,500
2012		334,000
2013		334,000
2014		334,000
2015 and beyond		<u>1,806,000</u>
	\$	<u>2,891,500</u>

The Company expects to recover a portion of these lease commitments from corporations with common directors and officers that are sharing part of the office premises.

- (e) The Company's mining and exploration activities are subject to various Canadian federal and provincial laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.
- (f) The Company entered into flow-through share subscription agreements on March 25, 2010 whereby it is committed to incur, on or before December 31, 2011, a total of \$5,054,000 of qualifying Canadian Exploration Expenses as described in the Income Tax Act. As at December 31, 2010, \$3,018,874 had been incurred, leaving a balance of \$2,035,126 to be incurred on or before December 31, 2011. The Company has indemnified the subscribers for any tax related amounts that may become payable by the subscribers as a result of the Company not meeting its expenditure commitments.
- (g) The Company has established letters of credit for \$2,940,068 as financial assurance related to the rehabilitation of its mining operations. The Company has assigned guaranteed investment certificates included in its cash equivalents to its bank in the aggregate principal amount of its letters of credit as security for the letters of credit.

# LABRADOR IRON MINES HOLDINGS LIMITED

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## Notes to the Consolidated Financial Statements

For the period ended December 31, 2010 and 2009

### 10. INCOME TAXES

#### (a) Provision for income taxes

The major items causing the Company's income tax expense to differ from the Canadian combined federal and provincial statutory rate of 30.5% (2010 - 32.6%) were:

	For the three months ended December 31, 2010	For the three months ended December 31, 2009	For the nine months ended December 31, 2010	For the nine months ended December 31, 2009
Loss before income taxes	\$ 1,274,350	\$ 797,055	\$ 3,361,600	\$ 2,036,155
Expected income tax recovery at statutory rates	388,677	259,840	1,025,288	663,787
Adjustments resulting from:				
Change in tax rates	-	2,648,000	-	2,648,000
Stock-based compensation	(100,675)	(5,403)	(162,146)	(6,612)
Other	(8,852)	251,219	(8,852)	270,584
Future income tax recovery	\$ 279,150	\$ 3,153,656	\$ 854,290	\$ 3,575,759

#### (b) Future income tax balances

The future income tax liability initially arose due to the difference between the purchase price and the underlying income tax values of the mineral property interests acquired (Note 3).

The tax effect of temporary differences that give rise to future income tax assets and liabilities in Canada at December 31, 2010 and March 31, 2010 are as follows:

	December 31 2010 \$	March 31 2010 \$
Future income tax assets (liabilities)		
Non-capital losses	2,829,290	1,975,000
Mineral property interests	(34,583,000)	(34,583,000)
Capital losses	134,000	134,000
Share issue costs	1,129,000	1,129,000
Other	173,636	173,636
Valuation allowance	(134,000)	(134,000)
Future income tax liability (net)	(30,451,074)	(31,305,364)

- (c) The Company has approximately \$6,400,000 of non-capital losses in Canada and approximately \$23,500,000 of development and exploration expenditures as at December 31, 2010 which under certain circumstances can be used to reduce the taxable income of future years. The non-capital losses expire as follows: 2028 - \$900,000; 2029 - \$1,350,000; 2030 - \$4,150,000.

# LABRADOR IRON MINES HOLDINGS LIMITED

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## Notes to the Consolidated Financial Statements

For the period ended December 31, 2010 and 2009

### 11. CAPITAL LEASE OBLIGATION

The company entered into a capital lease agreement for a mine camp during the nine months ended December 31, 2010.

	Nine months ended December 31, 2010	Year Ended March 31, 2010
Balance, beginning of period	\$ -	\$ -
Fair value of capital lease recorded	2,378,569	-
Less: payments made during the year	(350,000)	-
Add: Interest portion of the payment	124,083	-
Balance, end of period	2,152,652	-
Less: current portion	(600,000)	-
Long-term portion of capital lease obligation	\$ 1,552,652	\$ -

Future minimum lease payments under the capital lease by year are as follows:

For the years ending March 31,	2011	150,000
	2012	600,000
	2013	600,000
	2014	600,000
	2015 and beyond	800,000
Total minimum lease payments		2,750,000
Amounts representing interest		(597,348)
Present value of minimum lease payments		2,152,652
Less: current portion		(600,000)
		\$1,552,652

### 12. ASSET RETIREMENT OBLIGATION

The Company has recorded a liability for asset retirement obligations related to a portion of its mining operations at December 31, 2010. The asset retirement obligation represents the legal and contractual obligations associated with the eventual closure of the Company's mining operations at the end of the mine life. These obligations consist of costs associated with reclamation and monitoring activities and the removal of tangible assets from the Company's mining sites.

The total undiscounted amount required to settle the Company's anticipated reclamation and remediation obligations was estimated as at December 31, 2010 to be \$2,940,068 (March 31, 2010 - \$0). The present value of the estimated cash flows relating to these obligations has been estimated at \$1,806,108 as at December 31, 2010.

In determining the present value of the asset retirement obligation, the Company has assumed a long-term inflation rate of 2%, a credit-adjusted discount rate of 11% and a weighted average useful

## LABRADOR IRON MINES HOLDINGS LIMITED

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### Notes to the Consolidated Financial Statements

For the period ended December 31, 2010 and 2009

#### 12. ASSET RETIREMENT OBLIGATION (Continued)

life, varying with the specific asset, of up to twenty years. Elements of uncertainty in estimating this amount include changes in the projected period of usage of the mining asset, reclamation expenditures incurred during ongoing operations and reclamation and remediation requirements and alternatives.

A summary of the Company's provision for asset retirement obligation and reclamation is presented below:

	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
Balance - beginning of period	\$ 500,164	\$ 60,046	\$ -	\$ -
Asset retirement obligation incurred	1,268,563	430,523	58,425	-
Accretion	37,381	9,595	1,621	-
Balance - end of period	\$1,806,108	\$ 500,164	\$ 60,046	\$ -

#### 13. COMPARATIVE AMOUNTS

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year. These reclassifications have no material effect on the financial statements.

#### 14. SUBSEQUENT EVENTS

Subsequent to December 31, 2010, 105,440 stock options were exercised at an exercise price of \$2.00 per share and 5,000 stock options were exercised at an exercise price of \$6.27 per share and 132,500 new stock options were granted at an exercise price of \$11.65 per share with an expiry date of Feb. 9, 2016 as part of the Company's stock option plan.

Subsequent to December 31, 2010, 2,312 warrants were exercised at an exercise price of \$6.36 per share.