



# Labrador Iron Mines Holdings Limited

**LABRADOR IRON MINES HOLDINGS LIMITED**

**Condensed Interim Consolidated Financial Statements**

**For the three and nine months ended December 31, 2013 and 2012**

**(Unaudited, expressed in Canadian dollars)**

The Company's auditors have not reviewed the unaudited condensed interim consolidated financial statements for the three and nine months ended December 31, 2013 and 2012.

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**LABRADOR IRON MINES HOLDINGS LIMITED**  
**Condensed Interim Consolidated Statements of Financial Position**  
(Unaudited, expressed in Canadian dollars)

	December 31, 2013	March 31, 2013
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 7,560,019	\$ 16,226,574
Restricted cash (Note 5)	4,749,645	-
Tax credits receivable	1,331,000	1,331,000
Accounts receivable and prepaid expenses (Note 17)	20,921,896	12,626,161
Inventories (Note 6)	4,744,587	11,040,648
<b>Total current assets</b>	<b>39,307,147</b>	<b>41,224,383</b>
<b>Non current assets</b>		
Restricted cash (Note 5)	4,940,194	7,654,334
Long-term prepaid expenses, advances and deferred expenses (Note 16)	17,595,500	32,699,891
Mineral property interests (Note 7 and 22)	85,747,398	105,897,392
Property, plant and equipment (Note 8)	101,559,894	108,883,367
<b>Total non-current assets</b>	<b>209,842,986</b>	<b>255,134,984</b>
<b>Total assets</b>	<b>\$ 249,150,133</b>	<b>\$ 296,359,367</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities (Note 18)	\$ 40,662,325	\$ 27,267,638
Finance lease obligation (Note 14)	928,830	855,599
Rehabilitation provision (Note 15)	1,294,853	514,853
Deferred revenue (Note 21(a))	21,268,680	-
Rail construction advance (Note 21(c))	2,000,000	-
Other liabilities (Note 19)	247,786	165,929
<b>Total current liabilities</b>	<b>66,402,474</b>	<b>28,804,019</b>
<b>Non current liabilities</b>		
Finance lease obligation (Note 14)	1,599,968	2,306,037
Rehabilitation provision (Note 15)	2,730,140	2,456,616
<b>Total liabilities</b>	<b>70,732,582</b>	<b>33,566,672</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 9)	393,500,526	393,500,526
Reserves (Note 10)	14,753,773	16,251,652
Deficit	(229,836,748)	(146,959,483)
<b>Total shareholders' equity</b>	<b>178,417,551</b>	<b>262,792,695</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 249,150,133</b>	<b>\$ 296,359,367</b>

Commitments and contingencies (Notes 13, 14, and 15)

The financial statements were approved by the Board of Directors on February 10, 2013, and signed on its behalf by:

Signed "John F. Kearney"  
Director

Signed "Gerald J. Gauthier"  
Director

*The accompanying notes form an integral part of these condensed interim consolidated financial statements.*

**LABRADOR IRON MINES HOLDINGS LIMITED**  
**Condensed Interim Consolidated Statements of Operations and Comprehensive Loss**  
(Unaudited, expressed in Canadian dollars)

	Three months ended		Nine months ended	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
<b>Revenue, net</b> (Note 20)	\$ 28,409,197	\$ 24,733,185	\$ 86,600,402	\$ 95,786,814
<b>Operating expenses</b>				
Mining	(6,030,051)	(7,655,769)	(21,470,281)	(26,308,704)
Processing	(12,223,320)	(3,803,718)	(35,773,225)	(14,983,152)
Site and camp operations	(5,062,221)	(3,295,390)	(13,139,269)	(12,459,116)
Rail and transportation	(20,309,313)	(18,062,042)	(57,463,390)	(59,335,825)
Royalties, social development and training	(1,305,914)	(766,252)	(3,428,892)	(3,075,144)
Depletion and depreciation	(11,296,732)	(5,129,182)	(37,641,130)	(29,253,239)
<b>Operating loss</b>	(27,818,354)	(13,979,168)	(82,315,785)	(49,628,366)
Corporate and administrative costs	\$ (2,328,820)	\$ (1,511,366)	\$ (6,272,001)	\$ (6,116,790)
Finance lease costs (Note 14)	(73,528)	(92,826)	(237,985)	(239,001)
Accretion (Note 15)	(10,802)	(9,174)	(32,255)	(31,510)
Foreign exchange (loss)	(1,044,143)	(17,141)	(1,564,084)	(470,539)
Put option contracts (Note 21(b))	-	-	(3,569,803)	-
Share-based payments (Note 10)	(58,174)	(581,672)	(445,554)	(2,223,777)
Gain on sale of property (Note 22)	-	-	9,591,104	-
	(3,515,467)	(2,212,179)	(2,530,578)	(9,081,617)
<b>Loss before the undernoted</b>	(31,333,821)	(16,191,347)	(84,846,363)	(58,709,983)
Interest earned	29,946	81,772	107,523	304,219
<b>Net loss and comprehensive loss for the period</b>	<u><u>\$(31,303,875)</u></u>	<u><u>\$ (16,109,575)</u></u>	<u><u>\$(84,738,840)</u></u>	<u><u>\$(58,405,764)</u></u>
<b>Net loss per share</b>				
Basic	\$ (0.25)	\$ (0.19)	\$ (0.67)	\$ (0.79)
Diluted	\$ (0.25)	\$ (0.19)	\$ (0.67)	\$ (0.79)
<b>Weighted average number of shares outstanding</b>				
Basic	126,200,807	86,024,177	126,200,807	73,711,525
Diluted	126,200,807	86,024,177	126,200,807	73,711,525

*The accompanying notes form an integral part of these condensed interim consolidated financial statements.*

**LABRADOR IRON MINES HOLDINGS LIMITED**  
**Condensed Interim Consolidated Statements of Cash Flows**  
(Unaudited, expressed in Canadian dollars)

	Three months ended		Nine months ended	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
<b>Cash provided by (used in) operating activities</b>				
Net (loss) for the period	\$ (31,303,875)	\$ (16,109,575)	\$ (84,738,840)	\$ (58,405,764)
Items not involving cash				
Share-based compensation	58,174	581,672	445,553	2,223,777
Depletion and depreciation	11,770,260	5,210,595	38,258,372	29,476,055
Accretion on rehabilitation provision	10,802	9,174	32,256	31,510
Interest on finance lease obligation	73,528	92,826	237,985	239,001
Interest	6,080	(24,984)	(49,190)	(75,249)
Foreign exchange	289,715	(11,200)	(606,159)	4,200
Loss on put option contracts	-	-	3,569,803	-
Gain on sale of mineral property	-	-	(9,591,104)	-
Changes in working capital	8,063,667	9,005,187	19,085,757	(292,880)
Cash (used in) operating activities	(11,031,649)	(1,246,305)	(33,355,567)	(26,799,350)
<b>Cash provided by (used in) investing activities</b>				
Proceeds of sale of mineral property interest (Note 22)	-	-	30,000,000	-
Allocation to restricted cash (Notes 5 and 22)	1,750,355	-	(4,749,645)	-
Long-term infrastructure advances	-	-	(1,000,000)	(18,645,500)
(Increase) mineral property interests	(1,137,426)	(3,839,678)	(8,323,624)	(6,888,073)
Property, plant and equipment	(1,128,424)	(13,519,249)	(14,413,213)	(38,381,157)
Security for letters of credit (Note 5)	4,554,338	-	2,763,330	1,393,271
Cash (used in) investing activities	4,038,843	(17,358,927)	4,276,848	(62,521,459)
<b>Cash provided by (used in) financing activities</b>				
Advance payment proceeds	-	-	35,824,286	-
(Repayment) of advance payment	(8,708,427)	-	(12,874,737)	-
Purchase of put options	-	-	(3,569,803)	-
Proceeds from rail construction advance	-	-	2,000,000	-
Exercise of stock options	-	-	-	860,000
Shares issued for cash	-	30,000,000	-	30,000,000
Share issue costs	-	(1,821,215)	-	(1,821,215)
Repayment of capital lease obligation	-	(290,274)	(967,582)	(583,791)
Cash provided by (used in) financing activities	(8,708,427)	27,888,511	20,412,164	28,454,994
<b>Change in cash and cash equivalents</b>	\$ (15,701,233)	\$ 9,283,279	\$ (8,666,555)	\$ (60,865,815)
Cash and cash equivalents, beginning of period	23,261,252	915,025	16,226,574	71,064,119
Cash and cash equivalents, end of period	\$ 7,560,019	\$ 10,198,304	\$ 7,560,019	\$ 10,198,304
Cash and cash equivalents consist of:				
Cash	1,595,045	296,128	1,595,045	296,128
Cash equivalents	5,964,974	9,902,176	5,964,974	9,902,176
	\$ 7,560,019	\$ 10,198,304	\$ 7,560,019	\$ 10,198,304
<b>Supplemental disclosure of cash flow information</b>				
Stock-based compensation recorded to mineral property interests	\$ -	\$ -	\$ -	\$ 73,051
Change in accrued non-current assets	4,811,959	(7,213,089)	5,399,137	(10,147,384)
Asset retirement obligation charged to mineral property interests	-	-	-	(94,759)
Property, plant and equipment interest under capital lease	-	-	-	2,228,093
Depreciation included in corporate and administrative costs	(473,528)	(81,413)	(617,242)	(222,816)

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

**LABRADOR IRON MINES HOLDINGS LIMITED**  
**Condensed Interim Consolidated Statements of Changes in Equity**  
(Unaudited, expressed in Canadian dollars)

	Reserves							Shareholders' Equity
	Share Capital		Warrants		Stock Options		Deficit	
	Number	Amount	Number	Amount	Number	Amount	Amount	
Balance, March 31, 2012	67,333,307	\$ 341,511,257	1,140,835	\$ 3,427,050	2,118,438	\$ 8,750,189	\$(20,598,038)	\$ 333,090,458
Exercise of options	430,000	860,000	-	-	(430,000)	-	-	860,000
Exercise of options – valuation allocation	-	552,398	-	-	-	(552,398)	-	-
Public offerings, net of transaction costs	30,000,000	27,683,785	1,500,000	495,000	-	-	-	28,178,785
Options granted	-	-	-	-	878,125	-	-	-
Expiry of warrants	-	-	(478,335)	(2,254,425)	-	-	2,254,425	-
Expiry of vested options	-	-	-	-	(780,938)	(1,046,069)	1,046,069	-
Forfeiture of unvested options	-	-	-	-	(48,750)	(163,519)	-	(163,519)
Stock based compensation	-	-	-	-	-	2,296,826	-	2,296,826
Loss for the period	-	-	-	-	-	-	(58,405,764)	(58,405,764)
Balance, December 31, 2012	97,763,307	370,607,440	2,162,500	1,667,625	1,736,875	9,285,029	(75,703,308)	305,856,786
Exercise of options –valuation allocation	-	(195,500)	-	-	-	195,500	-	-
Exercise of warrants	837,500	837,500	(837,500)	-	-	-	-	837,500
Exercise of warrants – valuation allocation	-	276,375	-	(276,375)	-	-	-	-
Public offerings, net of transaction costs	27,600,000	21,974,711	15,180,000	5,161,200	-	-	-	27,135,911
Expiry of vested options	-	-	-	-	(5,000)	(13,123)	13,123	-
Forfeiture of unvested options	-	-	-	-	(15,000)	111,836	-	111,836
Stock based compensation	-	-	-	-	-	119,960	-	119,960
Loss for the year	-	-	-	-	-	-	(71,269,298)	(71,269,298)
Balance, March 31, 2013	126,200,807	\$ 393,500,526	16,505,000	\$ 6,552,450	1,716,875	\$ 9,699,202	\$(146,959,483)	\$ 262,792,695
Expiry of warrants	-	-	(662,500)	(1,172,625)	-	-	1,172,625	-
Expiry of vested options	-	-	-	-	(132,500)	(688,950)	688,950	-
Forfeiture of unvested options	-	-	-	-	(30,625)	(38,721)	-	(38,721)
Stock based compensation	-	-	-	-	-	402,417	-	402,417
Loss for the period	-	-	-	-	-	-	(84,738,840)	(84,738,840)
Balance, December 31, 2013	126,200,807	\$ 393,500,526	15,842,500	\$ 5,379,825	1,553,750	\$ 9,373,948	\$(229,836,748)	\$ 178,417,551

*The accompanying notes form an integral part of these condensed interim consolidated financial statements.*

**LABRADOR IRON MINES HOLDINGS LIMITED**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**December 31, 2013 and 2012**  
(Unaudited, expressed in Canadian dollars)

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**1. Nature of Operations**

Labrador Iron Mines Holdings Limited (the "Company") is a mineral resource company engaged in the exploration, development and mining of iron ore projects in Canada. The Company's primary mineral property interests are iron ore projects in western Labrador and northeastern Quebec, near the town of Schefferville, Quebec (collectively, the "Schefferville Projects"). The Company's mining operations are carried out on a seasonal basis, from approximately the beginning of April until approximately the end of November, with a planned winter shutdown from approximately December to approximately March each year.

The Company's head office is located at 220 Bay Street, Suite 700, Toronto, Ontario, M5J 2W4.

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 resources, 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.

During the three months ended December 31, 2013, the Company had a net loss of \$31,303,875 negative cash flows from operations of \$11,031,649 and an ending working capital deficit of \$27,095,327.

Notwithstanding the above risks, financial results, and ending working capital deficit for the period ended December 31, 2013, subject to the Company completing certain financings currently under negotiation, the Company believes it will have sufficient working capital to operate over the next 12 months. Accordingly, the condensed interim consolidated financial statements for the period ended December 31, 2013 have been prepared on a going concern basis, using the historical cost convention.

The Company will need to secure additional financial arrangements in order to fund its current working capital deficit, continuing operations, 2014 working capital, planned development programs and corporate administration costs so as to continue as a going concern. There are no assurances that the Company will be successful in obtaining any required financing, or in obtaining financing on a timely basis or on reasonable or acceptable terms. If the Company is unable to obtain adequate additional financing, the Company may be required to curtail its operations and its development activities.

Although the Company has taken steps to verify its title to the properties on which it is conducting its exploration, development and mining 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.

**2. Basis of preparation**

These condensed interim consolidated financial statements of the Company and its subsidiaries were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The policies set out below were consistently applied to all the periods presented unless otherwise noted.

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

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, on a basis consistent with the accounting policies disclosed in the consolidated financial statements of the Company for the year ended March 31, 2013.

**LABRADOR IRON MINES HOLDINGS LIMITED**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**December 31, 2013 and 2012**  
(Unaudited, expressed in Canadian dollars)

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**3. Significant accounting judgments, estimates and assumptions**

The preparation of condensed interim consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the condensed interim consolidated 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

In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

Mineral resource estimates

The figures for mineral resources are determined in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects", issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as metal prices and market conditions could have a material effect in the future on the Company's financial position and results of operation.

Impairment of mineral property interests

While assessing whether any indications of impairment exist for mineral property interests, consideration is given to both external and internal sources of information. External sources of information include technical reports and arm's length mineral property transaction values. External sources of information also include changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of mineral property interests. Internal sources of information include the manner in which mineral property interests are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's mining properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's mineral property interests.

Cash generating units

Cash generating units ("CGUs") represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets of the Company. This generally results in the Company evaluating its non-financial assets on a geographical and operational basis. The Company generally considers its Schefferville Projects to represent one CGU, as the Schefferville Projects are in close geographical proximity to each other and all share common management, rail, port, processing and mine support infrastructure.

Estimation of rehabilitation provision

The rehabilitation cost estimates are updated annually during the life of a mine to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Rehabilitation costs, including decommissioning, restoration and similar liabilities, are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

**LABRADOR IRON MINES HOLDINGS LIMITED**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**December 31, 2013 and 2012**  
(Unaudited, expressed in Canadian dollars)

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**3. Significant accounting judgments, estimates and assumptions (continued)**

Income taxes and recoverability of potential deferred tax assets

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

Share-Based Payments

Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

Deferral of stripping and dewatering costs

In determining whether stripping and dewatering costs incurred during the production phase of a mining property relate to mineral resources that will be mined in a future period and therefore should be capitalized, the Company determines whether it is probable that future economic benefit associated with the stripping activity will flow to the Company.

Asset lives, depletion/depreciation rates for property, plant and equipment and mineral interests

Depreciation/depletion expenses are allocated based on assumed asset lives and depletion/ depreciation rates. Should the asset life or depletion/depreciation rate differ from the initial estimate, an adjustment would be made in the statement of operations.

Inventory valuation

Saleable product and ore at site are valued at the lower of the average production costs or net realizable value. The assumptions used in the valuation of inventories include estimates of the ore, estimates of the iron contained in the ore, assumptions of the amount of iron ore that is expected to be saleable and assumption of the iron price expected to be realized when the inventories are sold. If these estimates or assumptions prove to be inaccurate, the Company could be required to writedown the recorded value of its inventories.

Commencement of commercial production

During the determination of whether a mine has reached an operating level that is consistent with the use intended by management, costs incurred are capitalized as property, plant and equipment and any consideration from commissioning sales are offset against costs capitalized. The Company defines commencement of commercial production as the date that a mine has achieved a sustainable level of production that provides a basis for a reasonable expectation of profitability along with various qualitative factors including but not limited to the achievement of mechanical completion, whether production levels are sufficient to be at least capable of generating sustainable positive cash flow, the working effectiveness of the site processing plant, whether marketing arrangements for the product are in place, whether the product is of sufficient quantity to be sold, whether there is a sustainable level of production input available including power, water, diesel, etc. and whether the necessary permits are in place to allow continuous operations. The condensed interim consolidated financial statements of the Company are prepared on the basis that the Company's producing mine entered commercial production for accounting purposes effective April 1, 2012.

Contingencies

Refer to Note 13.



**LABRADOR IRON MINES HOLDINGS LIMITED**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**December 31, 2013 and 2012**  
(Unaudited, expressed in Canadian dollars)

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**4. Significant accounting policies**

The condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements of the Company for the year ended March 31, 2013, which have been prepared in accordance with IFRS as issued by IASB. The Company's significant accounting policies are consistent with those set out in Note 4 to the consolidated financial statements for the year ended March 31, 2013, except as noted below.

*New standards and interpretations adopted*

IFRS 10 *Consolidated Financial Statements* ("IFRS 10") provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC 12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 *Consolidated and Separate Financial Statements*. There was no impact on the Company's condensed interim consolidated financial statements upon adoption of this standard on April 1, 2013.

IFRS 11 *Joint Arrangements* ("IFRS 11") replaces the guidance in IAS 31 *Interests in Joint Ventures*. Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method.

Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 *Investments in Associates* and IAS 36 *Impairment of Assets*. Any impairment losses are recognized as an adjustment to opening deficit at the beginning of the earliest period presented. There was no impact on the Company's condensed interim consolidated financial statements upon adoption of this standard on April 1, 2013.

IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12") requires extensive disclosures relating to a company's interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities. This IFRS enables users of the financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its financial position and performance. There was no impact on the Company's interim consolidated financial statements upon adoption of this standard on April 1, 2013.

IFRS 13 *Fair Value Measurement* converges IFRS and US GAAP on how to measure fair value and the related fair value disclosures. The new standard creates a single source of guidance for fair value measurements, where fair value is required or permitted under IFRS, by not changing how fair value is used but how it is measured. The focus will be on an exit price. There was no impact on the Company's condensed interim consolidated financial statements upon adoption of this standard on April 1, 2013.

IAS 1 *Presentation of Financial Statements* ("IAS 1") was amended in June 2011. The amendments are effective for annual periods beginning on or after July 1, 2012. The amendments to IAS 1 require companies preparing financial statements in accordance with IFRS to group together items within other comprehensive income ("OCI") that may be reclassified to the profit or loss section of the consolidated statement of operations and comprehensive loss. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. There was no impact on the Company's interim consolidated financial statements upon implementation of this standard on April 1, 2013.

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* ("IFRIC 20") was issued in October 2011 and is effective for annual periods beginning on or after January 1, 2013. IFRIC 20 was issued to address the accounting for costs associated with waste removal in surface mining ("stripping costs"). The interpretation clarifies when production stripping should lead to the recognition of an asset and how the asset should be measured, both initially and in subsequent periods. The adoption of IFRIC 20 resulted in the capitalization of \$5,245,468 of stripping costs in the three months ended June 30, 2013 which would have been expensed as mining costs under the Company's previous accounting policy. As at December 31, 2013, \$5,245,468 of these capitalized stripping costs were depleted from mineral property interests.

No amounts relating to stripping were capitalized in the quarter ended December 31, 2013.

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**5. Restricted Cash**

Current restricted cash consists of cash held in a third party escrow account. Non-current restricted cash consists of guaranteed investment certificates and term deposits assigned by the Company to its bank as security for letters of credit issued for rehabilitation obligations and certain commercial contracts.

As part of the closing of the sale of a majority interest in the Howse Deposit, \$5,000,000 was contributed to the operator for the exploration of the Howse property and \$1,500,000 was earmarked for Phase 1 modification and upgrading to the Silver Yards rail siding.

	December 31, 2013	March 31, 2013
	\$	\$
Restricted cash from Howse deposit transaction	4,749,645	-
Total - current	4,749,645	-
Security for letters of credit for rehabilitation obligations	4,940,194	2,996,267
Security for letters of credit for commercial contracts	-	4,658,067
Total – non-current	4,940,194	7,654,334

**6. Inventories**

	December 31, 2013	March 31, 2013
	\$	\$
Ore at site	1,859,158	3,628,136
Saleable product	2,366,028	7,412,512
Spare parts	519,401	-
Total	4,744,587	11,040,648

Ore at site consists of (i) run of mine ore at site, carried at cost and (ii) treated ore at site (or in transit to port), carried at cost. Saleable product consists of iron ore at port, carried at cost. Spare parts consists mainly of parts for the beneficiation plant.

**7. 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 the Menihek area of western Labrador in the Province of Newfoundland and Labrador and in north-eastern Quebec, near the town of Schefferville, Quebec.

In September 2013 the Company entered into an agreement with Tata Steel Minerals Canada Ltd. (“TSMC”) for the exploration and development of LIM’s Stage 3 Howse Deposit. Under the terms of the agreement, Howse Minerals Limited (“HML”), a wholly owned subsidiary of TSMC, acquired an initial 51% participating interest in the Howse Property for a total cash consideration of \$30 million. As part of the agreement, LIM has agreed to conduct a \$5 million exploration program on the Howse Property. Following completion of LIM’s \$5 million exploration program and the calculation of a new NI 43-101 resource, HML shall contribute the next \$23.5 million and thereby increase its participating interest in the Howse Deposit to 70%, with LIM holding 30%.

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**7. Mineral Property Interests (continued)**

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

Six mining claims in Quebec are held subject to a royalty of 3% of the selling price FOB port of iron ore shipped and sold from the properties, subject to such royalty being no greater than US\$1.50 per tonne. Seventeen mining claims in Quebec are subject to a royalty of \$2.00 per tonne. An advance royalty payment of \$2.0 million was paid which will be credited against future royalties payable on seventeen of the mining rights in Quebec.

The Company, through its wholly-owned subsidiary Schefferville Mines Inc. ("SMI"), holds an exclusive operating license in certain mining claims in Quebec subject to the payment of a royalty of \$2.00 per tonne of iron ore shipped from the licensed properties. The Company has agreed to assume certain existing liabilities related to the licensed properties. The licensed properties are subject to pre-existing litigation by a third party against the licensor of the properties claiming breach of contract and seeking performance of an alleged agreement concerning the licensed properties and unspecified damages. The Company considers such litigation to be without merit.

The reclamation balance included within mineral property interests represents amounts initially recorded to correspond with the rehabilitation provisions. This asset amount is being amortized over the estimated useful life of the asset to which it relates.

The Company's mineral property assets are as follows:

<b>Cost at:</b>	Producing mine	Mineral property interests	Reclamation balance	Total
March 31, 2013	\$ 28,726,384	\$ 94,804,551	\$ 2,832,299	\$ 126,363,235
Additions	262,737	6,380,104	1,021,268	7,664,108
Capitalized waste stripping	5,245,468	-	-	5,245,468
Disposal of interest in Howse	-	(20,408,896)	-	(20,408,896)
December 31, 2013	\$ 34,234,589	\$ 80,775,759	\$ 3,853,567	\$ 118,863,915
<b>Accumulated depletion and depreciation:</b>				
March 31, 2013	\$ (19,736,693)	\$ -	\$ (729,150)	\$ (20,465,843)
Depletion	(10,645,838)	-	-	(10,645,838)
Depreciation	-	-	(2,004,836)	(2,004,836)
December 31, 2013	(30,382,531)	\$ -	(2,733,986)	(33,116,517)
<b>Net book value at:</b>				
March 31, 2013	\$ 8,989,691	\$ 94,804,551	\$ 2,103,149	\$ 105,897,392
December 31, 2013	\$ 3,852,058	\$ 80,775,759	\$ 1,119,581	\$ 85,747,398

At December 31, 2013, the Company's James Mine and Redmond Mine are collectively classified as a producing mine and all of the Company's properties other than the James Mine and Redmond Mine are classified as mineral property interests.

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**8. Property, Plant and Equipment**

<b>Cost at:</b>	Buildings and mine camp	Office equipment	Transportation infrastructure and equipment	Beneficiation plant and equipment	Total
March 31, 2012	\$ 5,932,823	\$ 554,966	\$ 28,941,156	\$ 50,707,905	\$ 86,136,850
Additions	4,441,337	607,794	3,433,515	23,537,085	32,019,731
March 31, 2013	10,374,160	1,162,760	32,374,671	74,244,990	118,156,581
Additions	645,840	21,340	3,430,982	12,149,654	16,247,816
December 31, 2013	11,020,000	1,184,100	35,805,653	86,394,644	134,404,397

**Accumulated Depreciation at:**

March 31, 2012	1,206,536	177,670	1,929,433	357,593	3,671,232
Depreciation for the year	1,555,381	256,517	3,000,921	789,163	5,601,982
March 31, 2013	2,761,917	434,187	4,930,354	1,146,756	9,273,214
Depreciation for the period	1,374,511	166,999	3,267,473	18,762,306	23,571,289
December 31, 2013	4,136,428	601,186	8,197,827	19,909,062	32,844,503

**Net Book Value at:**

March 31, 2013	7,612,243	728,573	27,444,317	73,098,234	108,883,367
December 31, 2013	\$ 6,883,572	\$ 582,914	\$ 27,607,826	\$ 66,485,582	\$ 101,559,894

Property, plant and equipment at March 31, 2013 included a balance of \$38,870,750 consisting primarily of Phase 3 of the Company's processing plant which had not been amortized pending the assets being ready for use.

Property, plant and equipment at December 31, 2013 includes a balance with a total cost of \$9,415,682 consisting primarily of railcars and development work on mineral properties which have not been amortized pending the assets and mineral properties being ready for use.

Buildings and mine camp at December 31, 2013 include an asset under finance lease with a carrying value of \$2,510,346 (March 31, 2013 - \$3,190,167).

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**9. Share Capital**

**Authorized**

Unlimited common shares, no par value

<b>Issued</b>	<b>Shares #</b>	<b>Amount \$</b>
Balance March 31, 2012	67,333,307	341,511,257
Exercise of options	430,000	860,000
Exercise of options - valuation allocation	-	356,898
Exercise of broker warrants	837,500	837,500
Exercise of broker warrants – valuation allocation	-	276,375
Common shares issued at \$1.00 per share	30,000,000	30,000,000
Common shares issued at \$1.05 per unit	27,600,000	28,980,000
Share purchase warrants	-	(4,623,000)
Share issue costs	-	(3,665,304)
Broker warrants – valuation allocation	-	(1,033,200)
Balance March 31, 2013 and December 31, 2013	<u>126,200,807</u>	<u>393,500,526</u>

**10. Reserves**

**(a) 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.

A summary of the Company's options at December 31, 2013 and March 31, 2013 and the changes for the periods then ended is presented below:

	Nine months ended December 31, 2013		Year ended March 31, 2013	
	Number of Options:	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	1,716,875	\$ 5.17	2,118,438	\$ 4.56
Granted	-	-	878,125	3.00
Exercised	-	-	(430,000)	2.00
Expired	(132,500)	7.11	(751,251)	2.70
Forfeited	(30,625)	4.04	(98,437)	5.40
Outstanding, end of period	<u>1,553,750</u>	<u>\$ 5.02</u>	<u>1,716,875</u>	<u>\$ 5.17</u>

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**10. Reserves (continued)**

**(a) Stock options (continued)**

The following table sets out details of the stock options outstanding at December 31, 2013:

Options Outstanding			Options Exercisable			Grant Date Fair Value
Number	Weighted Average Exercise Price	Expiry Date	Number	Weighted Average Exercise Price		
243,750	\$ 6.27	14/09/2015	243,750	\$ 6.27		\$ 1,177,313
70,000	11.65	09/02/2016	70,000	11.65		1,164,675
25,000	10.18	23/06/2016	25,000	10.18		503,100
100,000	6.80	22/09/2016	100,000	6.80		509,000
40,000	6.81	10/11/2016	40,000	6.81		195,600
200,000	6.35	30/11/2016	200,000	6.35		924,000
112,500	6.20	09/02/2017	98,438	6.20		696,925
762,500	3.00	02/07/2017	571,875	3.00		1,466,469
1,553,750	\$ 5.02		1,349,063	\$ 5.30		\$ 6,637,082

There were no options granted during the nine months ended December 31, 2013.

The stock-based compensation expense during the period ended December 31, 2013 related to the vesting of options granted has been recorded as to \$Nil (December 31, 2012 - \$73,051) recorded to mineral property interest capitalized cost and \$402,417 (December 31, 2012 - \$2,150,726) as a non-operating expense.

Stock options vest as to one-eighth quarterly. The first vesting date is the first day of the first quarter following the date of grant.

The weighted average contractual life remaining for outstanding and exercisable options at December 31, 2013 is 2.97 years and 0.87 years, respectively.

The total number of common shares that are issuable pursuant to stock options that are exercisable as at December 31, 2013 is 1,349,063.

**(b) Warrants**

A summary of the Company's share purchase warrants at December 31, 2013 and March 31, 2013 and the changes for the periods then ended is presented below:

	Nine months ended December 31, 2013		Year ended March 31, 2013	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of period	16,505,000	\$ 1.49	1,140,835	\$ 8.32
Issued	-	-	16,680,000	1.29
Exercised	-	-	(837,500)	1.00
Expired	(662,500)	5.30	(478,335)	12.50
Outstanding, end of period	15,842,500	\$ 1.54	16,505,000	\$ 1.49

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**10. Reserves (continued)**

**(b) Warrants (continued)**

As at December 31, 2013, the Company had 15,842,500 outstanding exercisable warrants, with a weighted average remaining contractual life of 1.91 years, as follows:

Warrants Outstanding and Exercisable				
Number	Exercise Price	Expiry Date	Grant Date	Fair Value
662,500	\$ 1.00	06/05/2014		\$ 218,625
1,380,000	\$ 1.05	13/08/2014		538,200
13,800,000	\$ 1.35	12/02/2016		4,623,000
15,842,500				\$ 5,379,825

The 1,380,000 broker warrants expiring on August 13, 2014, have an exercise price of \$1.05 per unit (each, a "Unit"). Each Unit consists of one common share and one half of a common share purchase warrant. Each common share purchase warrant is exercisable into one common share at an exercise price of \$1.35 until February 13, 2016.

**(c) Reserves**

A summary of the reserves account is presented below:

<b>Balance, March 31, 2012</b>	<u>\$ 12,177,239</u>
Stock options issued	2,416,786
Stock options exercised	(356,898)
Stock options expired	(1,059,192)
Stock options forfeited	(51,683)
Share purchase warrants	4,623,000
Broker warrants issued	1,033,200
Broker warrants exercised	(276,375)
Broker warrants expired	<u>(2,254,425)</u>
<b>Balance, March 31, 2013</b>	<u>16,251,652</u>
Stock options expired	(688,950)
Stock options forfeited	(38,721)
Broker warrants expired	(1,172,625)
Stock options vested	<u>402,417</u>
<b>Balance, December 31, 2013</b>	<u>\$ 14,753,773</u>

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**11. Related Party Transactions and Compensation of Key Management Personnel**

During the nine months ended December 31, 2013, the Company recovered \$90,045 (December 31, 2012 - \$90,045) in respect of office rent from corporations with common directors and/or officers. At December 31, 2013, \$28,829 (March 31, 2013 - \$34,366) remained receivable.

During the nine months ended December 31, 2013, the Company made payments to companies with common directors and/or officers, in respect of management compensation (management costs) provided in the amount of \$436,500 (December 31, 2012 - \$502,817). All of the management compensation in the nine months ended December 31, 2013 was expensed. At December 31, 2013, \$18,834 (March 31, 2013 - \$76,833) in management compensation remained payable to these related companies.

During the nine months ended December 31, 2013, the Company incurred legal fees (professional fees and share issue costs) in respect of services provided by a professional corporation controlled by an officer in the amount of \$93,560 (December 31, 2012 - \$276,640). At December 31, 2013, \$Nil (March 31, 2013 - \$30,800) remained payable to this related party for legal fees.

Compensation of key management personnel of the Company

The remuneration of directors and other key management personnel during the nine months was as follows:

	Nine months ended December 31, 2013	Nine months ended December 31, 2012
Short-term compensation (i)	\$ 920,931	\$ 1,010,817
Other long-term benefits	-	-
Share-based payments (ii)	245,496	592,871
	<u>\$ 1,166,427</u>	<u>\$ 1,603,688</u>

(i) Short-term compensation includes salaries, bonuses and allowances, employment benefits and directors' fees.

(ii) Share-based payments represent the amount recorded by the Company for vested stock options and DSUs issued during the period to directors and other key management personnel.

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company. The remuneration of directors and key management is determined by the compensation committee, having regard to the performance of individuals and market trends.



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**12. Capital Management**

The capital of the Company consists of common shares, stock options, share purchase warrants and finance leases. 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.

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. 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, develop and produce from its Schefferville Projects for the benefit of its stakeholders. The Company uses stock options primarily to retain and provide incentives to employees and consultants. 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.

**13. Commitments and Contingencies**

- (a) The Company is committed to a minimum amount of rental payments under a long-term operating lease for its head office premises, which expires on August 31, 2019. As at December 31, 2013, minimum rental commitments remaining under this lease are as follows:

Not later than 1 year	\$ 502,000
Later than 1 year, not later than 5 years	2,008,000
Later than 5 years	<u>334,000</u>
	<u>\$ 2,844,000</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 head office premises.

- (b) The Company is committed to future payments under contracts for the supply of locomotives and the use of third party rail and port infrastructure. The rail contracts include provisions for capital contributions by the Company, which will be credited against future tariffs. The rail contracts also include provisions for minimum future haulage volumes and tariffs. The port contract includes a provision for a buy-in payment, which will be credited against future shipping fees. The port contract also includes provisions for minimum future shipping volumes and fees. The Company has also agreed to certain community development and training contributions to various First Nations communities. As at December 31, 2013, minimum commitments relating to rail, port and First Nations agreements, net of credits of \$33,468,625 against future tariffs and fees, are as follows:

Not later than 1 year	\$ 39,675,000
Later than 1 year, not later than 5 years	99,951,000
Later than 5 years	<u>28,568,000</u>
	<u>\$ 168,194,000</u>

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**13. Commitments and Contingencies (continued)**

- (c) 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.
- (d) Refer to Note 14 for finance lease obligation.

**14. Finance Lease Obligation**

The Company entered into finance lease agreements for a mine camp and a mine camp expansion during the years ended March 31, 2012 and March 31, 2013 respectively. The Company used an incremental borrowing rate of 11% in determining the value of the finance lease obligation.

	Nine months ended December 31, 2013	Year ended March 31, 2013
Balance, beginning of period	\$ 3,161,636	\$ 1,668,322
Present value of finance lease on inception	-	2,228,093
Less: payments made during the period	(870,823)	(1,067,580)
Add: Interest accretion	237,985	332,801
Balance, end of period	2,528,798	3,161,636
Less: current portion, end of period	(928,830)	(855,599)
Long-term portion, end of period	<u>\$ 1,599,968</u>	<u>\$ 2,306,037</u>

Future minimum lease payments under the finance lease agreement by fiscal year are as follows:

2014	\$ 290,000
2015	1,161,000
2016	661,000
2017	561,000
2018	93,000
	<u>\$ 2,766,000</u>

The finance lease has a purchase option for the mine camp exercisable in June 2015 for \$100,000 and has a purchase option for the mine camp extension exercisable in June 2017 for \$100,000.

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**15. Rehabilitation provision**

Rehabilitation provision represents the legal and contractual obligations associated with the eventual closure of the Company's mining operations either progressively or 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.

At December 31, 2013, the total undiscounted amount of the Company's rehabilitation provision is \$3,975,067 and is expected to be incurred between 2013 and 2031. The present value of the rehabilitation provision has been estimated at \$4,024,993 at December 31, 2013 using a discount rate ranging from 1.07% to 2.5% and a long-term inflation rate of approximately 1.4%.

A summary of the Company's rehabilitation provision is presented below:

	Nine months ended December 31, 2013	Year ended March 31, 2013
Balance, beginning of period	\$ 2,971,469	\$ 3,074,820
Present value of obligation on inception	1,021,269	-
Accretion expense	32,255	38,229
Change in estimates	-	(141,580)
	<u>\$ 4,024,993</u>	<u>\$ 2,971,469</u>
	Nine months ended December 31, 2013	Year ended March 31, 2013
Current	\$ 1,294,853	\$ 514,853
Non-current	2,730,140	2,456,616
Balance, end of period	<u>\$ 4,024,993</u>	<u>\$ 2,971,469</u>

**16. Long-term prepaid expenses, advances and deferred expenses**

Long term prepaid expenses, advances and deferred expenses consist of various prepaid royalties, prepaid tariffs and infrastructure access advances, which in aggregate total \$17,595,500 at December 31, 2013 (March 31, 2013 - \$32,699,891).

**17. Accounts receivable and prepaid expenses**

	December 31, 2013	March 31, 2013
Accounts receivable	\$ 10,397,778	\$ 2,224,005
Refundable taxes	2,615,993	2,390,862
Prepaid expenses	7,908,125	8,011,294
	<u>\$ 20,921,896</u>	<u>\$ 12,626,161</u>

**18. Accounts payable and accrued liabilities**

	December 31, 2013	March 31, 2013
Trade payables and accruals	\$ 35,874,785	\$ 21,382,559
Sales taxes and statutory liabilities	4,787,540	5,885,079
	<u>\$ 40,662,325</u>	<u>\$ 27,267,638</u>

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**19. Other Liabilities**

**Deferred Share Units**

On April 1, 2012 the Company adopted a Deferred Share Unit ("DSU") Plan under which DSUs may be granted by the Board at the end of each quarter to certain directors and key senior employees. The performance period of each DSU commences on the grant date and expires on the termination date of the participant. The termination date is when the participant ceases to be a director or key senior employee of the company. On redemption each unit entitles the participant to receive, at the Company's option, (i) a cash payment; or (ii) shares from treasury equal to the market value of the Company's shares on the date of redemption; or (iii) a cash payment by the Company used to purchase shares on the open market on behalf of the participant.

A summary of deferred share units issued is presented below:

	Number	Fair value
Balance, March 31, 2013	259,264	\$ 165,929
Deferred share units issued	540,046	200,870
Revaluation		(119,013)
Balance, December 31, 2013	799,310	\$ 247,786

Revaluation represents a mark-to-market adjustment based on the closing value of the Company's shares.

**20. Revenue, net**

Revenue from mining operations recognized by the Company is calculated based on the actual realized price (i.e. CFR China price plus or minus value-in-use adjustments and minus sales discounts) of a shipment of iron ore resold in China, less shipping costs and the Iron Ore Company of Canada's ("IOC") participation, which includes product handling, ship loading and sales costs. The Company currently sells all of its iron ore product to IOC at Sept-Iles, which product is resold in China by way of an off-take arrangement with RBRG Trading (UK) Ltd. ("RBR").

**21. Deferred revenue and other financial assets and liabilities**

(a) Advance payment

The Company entered into an arrangement with RBR, pursuant to which RBR provided an advance payment of US\$35,000,000 against the sale of future iron ore production by the Company. The advance payment is being credited against future sales in equal installments coinciding with the timing of seventeen shipments beginning in August 2013 and ending in December 2014. As at December 31, 2013, \$14,555,606 of the advance payment has been recognized as revenue with respect to seven shipments, leaving a remaining balance of \$21,268,680 as deferred revenue.

The advance payment is recognized as deferred revenue on the statement of financial position.

	December 31, 2013	March 31, 2013
Advance payment received	\$ 35,824,286	-
Recognized as revenue	(14,555,606)	-
Current portion of deferred revenue	\$ 21,268,680	\$ -

(b) Put option contracts

The Company entered into a limited price protection plan in which the Company purchased put options on a total of 825,000 tonnes of iron ore over the period August to October 2013, exercisable at a CFR China exercise price of US\$105 per tonne. The Company also sold matching put options at a CFR China exercise price of US\$90 per tonne on a total of 825,000 tonnes of iron ore over the same period.

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**21. Deferred revenue and other financial assets and liabilities (continued)**

The mark-to-market valuation of the iron ore put option contracts at December 31, 2013 resulted in a decline in value of \$3,569,803, which was recognized in the condensed interim consolidated statements of operations.

Cost of put options	\$	3,569,803
Mark-to-market decline		<u>(3,569,803)</u>
Balance, December 31, 2013	\$	<u><u>-</u></u>

(c) Rail construction advance

As part of a strategic co-operation agreement with TSMC, TSMC advanced \$2,000,000 to the Company in the form of a non-interest bearing loan for the purpose of upgrading and modifying the current rail infrastructure at the Company's Silver Yards site to enable construction of the new extended rail line to connect with TSMC's Timmins area plant near the Howse mine site.

**22. Sale of mineral property interest**

In September 2013, the Company completed the sale of a majority interest in the Howse iron ore deposit to TSMC. See Note 7.

	Nine months December 31, 2013	Nine months December 31, 2012
Proceeds of sale	\$ 30,000,000	\$ -
Carrying value of mineral interest sold	<u>(20,408,896)</u>	<u>-</u>
Gain on sale	<u>\$ 9,591,104</u>	<u>\$ -</u>

**23. Financial Instruments**

Fair Value Hierarchy

The Company discloses information related to its financial instruments that are measured at fair value subsequent to initial recognition, based on levels 1 to 3 based on the degree to which the fair value is observable.

- (d) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- (e) Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- (f) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). The Company does not have any Level 3 financial instruments.

At December 31, 2013 and March 31, 2013, the Company's financial instruments that are carried at fair value, consisting of cash equivalents, have been classified as Level 1 within the fair value hierarchy.

Fair value

Fair value estimates are made at the financial position 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, tax credits receivable, accounts receivable, accounts payable and accrued liabilities and long-term payables on the statement of financial position approximate fair value because of the limited term of the instruments.

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**23. Financial Instruments (continued)**

*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 period ended December 31, 2013.

*i) Credit risk*

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's credit risk is primarily attributable to cash and equivalents, accounts receivable and tax credits receivable. The Company does not currently 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. At December 31, 2013, the Company's cash and cash equivalents were held in deposits and in an investment grade short term money market fund at a major Canadian bank. Accounts receivable and tax credits receivable consist of amounts owing from the sale of iron ore, commodity taxes recoverable from the Government of Canada and tax credits receivable from the Province of Quebec. The carrying amount of financial assets represents the Company's maximum credit exposure.

*ii) Liquidity risk*

Liquidity risk encompasses the risk that the Company cannot meet its financial obligations as they come due. As at December 31, 2013, the Company had working capital deficit of \$27,095,327. Management believes the Company is able to meet its current obligations subject to the Company completing certain financings currently under negotiation.

*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.

Revenue from the sale of iron ore is 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 revenue in its condensed interim consolidated statement of operations, 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 financial position date, the impact of which is reported as a foreign exchange gain or loss in the condensed interim consolidated statement of operations and comprehensive income (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.

*iv) Interest rate risk*

Included in net loss for the three months ended December 31, 2013 is interest earned on the Company's cash and cash equivalents. If interest rates throughout nine months ended December 31, 2013 had been 100 basis points higher (lower) then the loss would have been approximately \$140,000 lower (higher). The Company does not have any variable rate debt obligations which expose it to interest rate risk.

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**23. Financial Instruments (continued)**

*Financial risk management (continued)*

v) *Commodity price risk*

The future profitability of the Company is directly related to the market price of iron ore. 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 condensed interim consolidated statement of operations and comprehensive (loss) 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. If the iron ore price throughout the nine month period ended December 31, 2013 had been \$10 higher (lower) then the revenue would have been approximately \$16,000,000 higher (lower).

**24. Comparative Amounts**

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