Labrador Iron Mines Holdings Limited

LABRADOR IRON MINES HOLDINGS LIMITED

Condensed Interim Consolidated Financial Statements

For the Quarter Ended June 30, 2012

Prepared in accordance with International Financial Reporting Standards ("IFRS")

(Unaudited, expressed in Canadian dollars)

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

	June 30, 2012	March 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	$ 22,009,768	$ 71,064,119
Tax credits receivable (Note 8)	1,331,000	1,331,000
Accounts receivable and prepaid expenses (Note 18)	49,148,263	15,528,041
Inventories (Note 7)	16,542,290	15,551,290
Total current assets	89,031,321	103,474,450
Non current assets		
Restricted cash (Note 6)	7,577,719	8,948,220
Long-term prepaid expenses, advances and deferred expenses (Note 17)	15,725,301	10,930,116
Mineral property interests (Note 8)	167,529,472	173,935,743
Property, plant and equipment (Note 9)	94,988,040	82,465,618
Total non-current assets	285,820,532	276,279,697
Total Assets	$ 374,851,853	$ 379,754,147
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities (Notes 12 and 19)	$ 43,523,233	$ 40,520,547
Flow-through share premium	1,400,000	1,400,000
Finance lease obligation (Note 15)	788,141	438,137
Rehabilitation provision (Note 16)	521,451	519,889
Total current liabilities	46,232,825	42,878,573
Non current liabilities		
Finance lease obligation (Note 15)	2,956,437	1,230,185
Rehabilitation provision (Note 16)	2,513,013	2,554,931
Total liabilities	51,702,275	46,663,689
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	341,862,405	341,511,257
Reserves (Note 11)	12,408,219	12,177,239
Deficit	(31,121,046)	(20,598,038)
Total shareholders' equity	323,149,578	333,090,458
Total liabilities and shareholders' equity	$ 374,851,853	$ 379,754,147

Commitments and contingencies (Notes 6, 8, 14, 15 and 16)

The financial statements were approved by the Board of Directors on August 8, 2012, and signed on its behalf by:

Signed *"John F. Kearney"*
Director

Signed *"Richard Lister"*
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
Prepared in accordance with IFRS
(Unaudited, expressed in Canadian dollars)

	Three months ended June 30, 2012	Three months ended June 30, 2011
Revenue (Note 20)	$ 38,019,907	$ -
Operating expenses		
Mining	(7,709,588)	-
Processing	(2,038,695)	-
Rail and transportation	(20,968,993)	-
Site administration	(4,380,386)	-
Royalties	(740,705)	-
Depletion and depreciation	(9,757,296)	-
Operating loss	(7,575,756)	-
Corporate and administrative costs (Note 21)	$ 2,735,055	$ 1,100,986
Start-up costs (Note 5)	-	3,452,865
Finance costs (Note 15)	45,826	55,827
Accretion (Note 16)	12,835	18,532
Foreign exchange (gain)	(67,584)	-
Share-based payments (Note 11)	421,248	232,577
Loss before the undernoted	10,723,136	4,860,787
Interest earned	(138,815)	(191,010)
Net loss and comprehensive loss for the period	$ 10,584,321	$ 4,669,777
Net loss per share		
Basic	$ 0.16	$ 0.09
Diluted	$ 0.16	$ 0.09
Weighted average number of shares outstanding		
Basic	67,367,812	50,793,371
Diluted	67,367,812	50,793,371

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
Prepared in accordance with IFRS
(Unaudited, expressed in Canadian dollars)

	Three months ended June 30, 2012	Three months ended June 30, 2011
Cash provided by (used in) operating activities		
Net (loss) for the year	$ (10,584,321)	$ (4,669,777)
Items not involving cash		
Share-based payments	604,665	232,577
Depreciation	9,810,851	374,073
Accretion on rehabilitation provision	12,835	18,532
Interest on finance lease obligation	44,921	55,820
Interest	(25,186)	(5,548)
Foreign exchange	(20,000)	10,520
Changes in working capital	(25,276,304)	(201,193)
Cash provided by (used in) operating activities	(25,432,539)	(4,184,996)
Cash provided by (used in) investing activities		
Long-term advances	(3,250,000)	(974,820)
Mineral property interests	(2,742,585)	(4,071,766)
Property, plant and equipment	(19,032,498)	(21,182,089)
Restricted cash	1,393,271	(4,449,500)
Cash (used in) investing activities	(23,631,812)	(30,678,175)
Cash provided by (used in) financing activities		
Exercise of stock options	110,000	219,750
Shares issued for cash	-	121,250,500
Share issue costs	-	(6,528,979)
Repayment of finance lease obligation	(100,000)	(100,000)
Cash provided by (used in) financing activities	10,000	114,841,271
Change in cash and cash equivalents	(49,054,351)	79,978,100
Cash and cash equivalents, beginning of period	71,064,119	7,563,670
Cash and cash equivalents, end of period	$ 22,009,768	$ 87,541,770
Cash and cash equivalents consist of:		
Cash	$ 609,218	$ -
Cash Equivalents	21,400,550	87,541,770
	$ 22,009,768	$ 87,541,770
Supplemental disclosure of cash flow information		
Share-based payments recorded to mineral property interests	$ -	$ 278,944
Change in accrued non-current assets	(8,760,133)	10,423,006
Change in accrued current assets	-	197,859
Change in accrued tax credits for mineral property interests	-	270,000
Rehabilitation provision charged to mineral property interests	(53,192)	65,529
Property, plant and equipment acquired under finance lease	2,228,093	-
Depreciation included in corporate and administrative costs	53,555	374,073

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
Prepared in accordance with IFRS
(Unaudited, expressed in Canadian dollars)

	Share Capital		Reserves: Warrants		Reserves: Stock Options		Deficit	
	Number	Amount	Number	Amount	Number	Amount	Amount	Total
Balance, March 31, 2011	44,189,891	163,387,454	145,320	450,492	1,739,200	6,967,031	(6,245,675)	164,559,302
Exercise of options	99,200	219,750	-	-	-	-	-	219,750
Exercise of options – valuation allocation	-	362,358	-	-	(99,200)	(362,358)	-	-
Public offerings, net of transaction costs	9,566,700	112,467,096	478,335	2,254,425	-	-	-	114,721,521
Options granted	-	-	-	-	177,500	-	-	-
Flow-through share premium allocation	-	(1,666,750)	-	-	-	-	-	(1,666,750)
Expiry of vested options	-	-	-	-	(6,250)	(26,500)	26,500	-
Stock based compensation	-	-	-	-	-	511,521	-	511,521
Loss for the period	-	-	-	-	-	-	(4,669,777)	(4,669,777)
Balance, June 30, 2011	53,855,791	274,769,908	623,655	2,704,917	1,811,250	7,089,694	(10,888,952)	273,675,567
Exercise of options	122,812	288,323	-	-	-	-	-	288,323
Exercise of options – valuation allocation	-	414,784	-	-	(122,812)	(414,784)	-	-
Exercise of warrants	104,704	665,917	-	-	-	-	-	665,917
Exercise of warrants – valuation allocation	-	324,582	(104,704)	(324,582)	-	-	-	-
Public offerings, net of transaction costs	13,250,000	66,447,743	662,520	1,172,625	-	-	-	67,620,368
Flow-through share premium allocation	-	(1,400,000)	-	-	-	-	-	(1,400,000)
Options granted	-	-	-	-	545,000	-	-	-
Expiry of warrants	-	-	(40,616)	(125,910)	-	-	125,910	-
Expiry of vested options	-	-	-	-	(25,000)	(167,000)	167,000	-
Forfeiture of unvested options	-	-	-	-	(90,000)	(390,895)	-	(390,895)
Stock based compensation	-	-	-	-	-	2,633,174	-	2,633,174
Loss for the period	-	-	-	-	-	-	(10,001,996)	(10,001,996)
Balance, March 31, 2012	67,333,307	341,511,257	1,140,855	3,427,050	2,118,438	8,750,189	(20,598,038)	333,090,458
Exercise of options	55,000	110,000	-	-	-	-	-	110,000
Exercise of options – valuation allocation	-	241,148	-	-	(55,000)	(241,148)	-	-
Expiry of vested options	-	-	-	-	(41,250)	(61,313)	61,313	-
Forfeiture of unvested options	-	-	-	-	(11,250)	(71,225)	-	(71,225)
Stock based compensation	-	-	-	-	-	604,666	-	604,666
Loss for the period	-	-	-	-	-	-	(10,584,321)	(10,584,321)
Balance, June 30, 2012	67,388,307	341,862,405	1,140,855	3,427,050	2,010,938	8,981,169	(31,121,046)	323,149,578

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

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 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.

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.

The condensed interim consolidated financial statements of the Company are prepared on the basis that the Company's James mine entered commercial production for accounting purposes effective April 1, 2012.

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 below.

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, 2012.

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 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:

<u>Assets' carrying values and impairment charges</u>

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.

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

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. Information the Company considers includes 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.

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.

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.

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

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.

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 James mine entered commercial production for accounting purposes effective April 1, 2012.

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. As at June 30, 2012, a cumulative total of $29,268,231 (March 31, 2012 - $29,130,611) of stripping and dewatering costs have been capitalized.

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

Depreciation, depletion and amortization expenses are allocated based on assumed asset lives and depletion/ depreciation/ amortization 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 assumptions 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.

Contingencies

Refer to Note 14.

(Unaudited, expressed in Canadian dollars)

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, 2012, which have been prepared in accordance with IFRS as issued by the 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, 2012.

5. Start-up costs

Start-up costs consist of non-refundable transportation related expenses incurred prior to establishing full scale transportation of iron ore from mine site to port.

6. Restricted cash

Restricted cash consists of guaranteed investment certificates and term deposits assigned by the Company to its bank as security for letters of credit.

	June 30, 2012	March 31, 2012
	$	$
Security for letters of credit for rehabilitation provisions	$ 2,966,270	$ 2,958,190
Security for letters of credit for commercial contracts	4,611,449	5,990,030
Total	$ 7,577,719	$ 8,948,220

7. Inventories

	June 30, 2012	March 31, 2012
	$	$
Ore at site	$ 5,134,100	$ 3,832,781
Saleable product	11,408,190	11,718,509
Total	$ 16,542,290	$ 15,551,290

Ore at site consists of (i) plant feed ore at site, carried at cost, (ii) treated ore at site (or in transit to port), carried at cost and (iii) direct railable ore at site (or in transit to port), carried at cost.

Saleable product consists of iron ore at port, carried at cost.

(Unaudited, expressed in Canadian dollars)

8. 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 (Free On Board ("FOB") Port) of iron ore produced and shipped from such properties, subject to such royalty being no greater than US $1.50 per tonne, with such royalty being payable quarterly in arrears.

The properties in Quebec are held subject to a royalty of US$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 which will be credited against future royalties payable on certain of these Quebec properties.

The Company, through its wholly-owned subsidiary Schefferville Mines Inc. ("SMI"), holds an exclusive operating license in certain properties held by the licensor 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 from the licensor/lessee. 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 totalling $800,000 had been paid up to June 30, 2012 and are included in mineral property interests as property acquisitions costs.

Certain properties held under license are subject to pre-existing litigation by a third party against the licensor/lessee holder of the properties claiming breach of contract and seeking performance of an alleged agreement concerning the Hollinger 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 will be amortized over the useful life of the asset to which it relates.

The Company's mineral property assets are as follows:

	June 30, 2012	March 31, 2012
	$	$
Mineral property interests	143,200,299	141,831,253
Reclamation balance	2,920,687	2,973,879
Capitalized stripping and dewatering	29,268,231	29,130,611
Accumulated depletion and depreciation	(7,859,745)	-
	167,529,472	173,935,743

Included in accumulated depletion and depreciation is accumulated depreciation of $2,843,380 in respect of capitalized stripping and dewatering (March 31, 2012 - $Nil).

The Company has accrued $1,331,000 (March 31, 2011 - $1,331,000) in tax credits receivable related to eligible expenditures in the province of Quebec. The assistance has been applied to the properties to which it pertains. The Company expects to receive this assistance in the form of refundable tax credits from the Province of Quebec and mining duties returns from the Quebec Ministry of Natural Resources. Such assistance is subject to governmental audit.

(Unaudited, expressed in Canadian dollars)

9. Property, plant and equipment

Cost at:	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	2,585,016	356,274	1,184,478	10,173,844	14,299,612
June 30, 2012	8,517,839	911,240	30,125,634	60,881,749	100,436,462
Accumulated Depreciation at:					
March 31, 2012	1,206,536	177,670	1,929,433	357,593	3,671,232
Depreciation for the peroid	477,718	37,575	936,606	325,291	1,777,190
June 30, 2012	1,684,254	215,245	2,866,039	682,884	5,448,422
Net Book Value at:					
March 31, 2012	4,726,287	377,296	27,011,723	50,350,312	82,465,618
June 30, 2012	6,833,585	695,995	27,259,595	60,198,865	94,988,040

Property, plant and equipment with a cost of $25,569,748 (March 31, 2012 - $49,915,588) has not been amortized.

Included in buildings and mine camp is an asset under finance lease with a net book value of $5,333,892 (March 31, 2012 - $3,209,209).

10. Share capital

Authorized
Unlimited common shares, no par value

Issued	Shares #	Amount $
Balance, March 31, 2011	44,189,891	163,387,454
Exercise of options	222,012	508,073
Exercise of options - valuation allocation	-	777,142
Exercise of broker warrants	104,704	665,917
Exercise of broker warrants – valuation allocation	-	324,582
Common shares issued at $12.50 per share	8,900,000	111,250,000
Flow-through shares issued at $15.00 per share	666,700	10,000,500
Common shares issued at $5.30 per share	11,500,000	60,950,000
Flow-through shares issued at $6.10 per share	1,750,000	10,675,000
Share issue costs	-	(10,533,611)
Broker warrants – valuation allocation	-	(3,427,050)
Flow-through share premium liability allocation	-	(3,066,750)
Balance March 31, 2012	67,333,307	341,511,257
Exercise of options	55,000	110,000
Exercise of options - valuation allocation	-	241,148
Balance June 30, 2012	67,388,307	341,862,405

On April 26, 2011 and May 26, 2011, the Company issued an aggregate 8,900,000 common shares at an issue price of $12.50 per share and 666,700 flow-through shares at an issue price of $15.00 per flow-through share pursuant to a short form prospectus for gross proceeds of $121,250,500.

(Unaudited, expressed in Canadian dollars)

10. Share capital (continued)

On March 20, 2012 the Company issued 11,500,000 common shares at an issue price of $5.30 per share and 1,750,000 flow-through shares at an issue price of $6.10 per flow-through share pursuant to a short form prospectus for gross proceeds of $71,625,000.

11. 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 June 30, 2012 and March 31, 2012 and the changes for the periods then ended is presented below:

	Three months ended June 30, 2012			Year ended March 31, 2012		
	Number of Options		Weighted Average Exercise Price	Number of Options		Weighted Average Exercise Price
Outstanding, beginning of period	2,118,438	$	4.56	1,739,200	$	3.45
Granted	-		-	722,500		7.34
Exercised	(55,000)		2.00	(222,012)		2.29
Expired	(41,250)		6.80	(25,000)		10.18
Forfeited	(11,250)		8.41	(96,250)		9.04
Outstanding, end of period	2,010,938	$	4.56	2,118,438	$	4.56

The following table sets out details of the stock options outstanding at June 30, 2012:

Options Outstanding				Options Exercisable		
Number		Weighted Average Exercise Price	Expiry Date	Number		Weighted Average Exercise Price
1,052,188	$	2.00	31/08/2012	1,052,188	$	2.00
243,750		6.27	14/09/2015	213,281		6.27
12,500		7.30	09/11/2015	9,375		7.30
132,500		11.65	09/02/2016	82,813		11.65
65,000		10.18	23/06/2016	32,500		10.18
100,000		6.80	22/09/2016	37,500		6.80
40,000		6.81	10/11/2016	10,000		6.81
200,000		6.35	30/11/2016	50,000		6.35
165,000		6.20	09/02/2017	20,625		6.20
2,010,938	$	4.56		1,508,282	$	3.70

(Unaudited, expressed in Canadian dollars)

11. Reserves (continued)

The stock-based compensation expense during the period ended June 30, 2012 related to the vesting of options granted has been recorded as to $183,417 (June 30, 2011- $278,944 recorded to mineral property interest) as an operating expense and as to $421,248 (June 30, 2011 - $232,577) as a non-operating expense.

No options were granted during the period ended June 30, 2012.

Stock options granted during the periods ended June 30, 2012 and 2011 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 June 30, 2012 is 1.98 years and 0.88 years, respectively.

The total number of common shares that are issuable pursuant to stock options that are exercisable as at June 30, 2012 is 1,508,282. The weighted average exercise price of stock options that are exercisable at June 30, 2012 is $3.61.

(b) Warrants

A summary of the Company's share purchase warrants at June 30, 2012 and March 31, 2012 and the changes for the periods then ended is presented below:

	Three months ended June 30, 2012			Year ended March 31, 2012		
	Number of Warrants		Weighted Average Exercise Price	Number of Warrants		Weighted Average Exercise Price
Outstanding, beginning of period	1,140,835	$	8.32	145,320	$	6.36
Issued	-		-	1,140,835		8.32
Exercised	-		-	(104,704)		6.36
Expired	-		-	(40,616)		6.36
Outstanding, end of period	1,140,835	$	8.32	1,140,835	$	8.32

As at June 30, 2012, the Company has outstanding exercisable warrants, with a weighted average remaining contractual life of 0.85 years, to purchase an aggregate 1,140,835 common shares as follows:

Warrants Outstanding and Exercisable				
Number	Exercise Price		Expiry Date	Grant Date Fair Value
478,335	$	12.50	October 26, 2012	$2,254,425
662,500	$	5.30	September 20,2013	1,172,625
1,140,835				$3,427,050

(Unaudited, expressed in Canadian dollars)

11. Reserves (continued)

(c) Reserves

A summary of the reserves account is presented below:

Balance, March 31, 2011	$	7,417,523
Stock options issued		3,144,695
Stock options exercised		(777,142)
Stock options expired		(193,500)
Stock options forfeited		(390,895)
Broker warrants issued		3,427,050
Broker warrants exercised		(324,582)
Broker warrants expired		(125,910)
Balance, March 31, 2012	$	12,177,239
Stock options issued		604,665
Stock options exercised		(241,148)
Stock options expired		(61,312)
Stock options forfeited		(71,225)
Balance, June 30, 2012	$	12,408,219

(Unaudited, expressed in Canadian dollars)

12. Related party transactions and Compensation of key management personnel

During the three months ended June 30, 2012, the Company recovered $30,015 (June 30, 2011 - $30,015) in respect office rent from corporations with common directors and/or officers. At June 30, 2012, $10,026 (March 31, 2012 - $10,910) remained receivable.

During the three months ended June 30, 2012, the Company made payments to companies with common directors and/or officers, in respect of management compensation (management costs) provided in the amount of $133,400 (June 30, 2011 - $103,525). All of the management compensation in the period ended June 30, 2012 was expensed. At June 30, 2012, $56,117 (March 31, 2012 - $175,000) in management compensation remained payable to these related companies.

During the three months ended June 30, 2012, 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 $56,884 (June 30, 2011 - $138,658). At June 30, 2012, $56,884 (March 31, 2012 - $105,961) 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 period was as follows:

	June 30, 2012	June 30, 2011
Short-term compensation (i)	$ 424,900	$ 196,450
Other long-term benefits	-	-
Share-based payments (ii)	276,325	51,097
	$ 701,225	$ 247,547

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

(ii) Share-based payments represents the amount recorded by the Company for stock vested options issued during the year 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 executives is determined by the compensation committee, having regard to the performance of individuals and market trends.

(Unaudited, expressed in Canadian dollars)

13. 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 ended June 30, 2012. 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 principal source of funds for the Company's operations is revenue generated from the sale of iron ore, and until recently, from 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 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.

14. Commitments and contingencies

(a) The Company has undertaken a program of community consultation with 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. As at June 30, 2012, the Company had entered into an impact benefit agreement ("IBA") with each of the Innu Nation of Labrador, the Naskapi Nation of Kawawachikamach, the Nation Innu of Matimekush-Lac John and Innu Takuaikan Uashat Mak Mani-Utenam.

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 respective Aboriginal First Nation community. The Aboriginal First Nations communities and their members will benefit through training, employment, business opportunities and financial participation in the Schefferville Projects.

(b) 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 June 30, 2012, minimum rental commitments remaining under this lease are as follows (by fiscal year):

2013	$	376,500
2014		502,000
2015		502,000
2016		502,000
2017 and beyond		1,710,000
	$	3,592,500

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.

(Unaudited, expressed in Canadian dollars)

14. Commitments and contingencies (continued)

(c) The Company is committed to future payments under contracts for the supply of locomotives and the use of third party rail infrastructure. The rail contracts include provisions for future capital contributions by the Company, which will be credited against future tariffs. The rail contracts also include provisions for minimum future haulage volumes. As at June 30, 2012, minimum commitments remaining under these contracts, net of credits against future tariffs, are as follows (by fiscal year):

2013	$	39,123,000
2014		46,554,000
2015		46,744,000
2016		20,787,000
2017 and beyond		50,520,000
	$	203,728,000

(d) The Company entered into flow-through share subscription agreements on April 26, 2011 whereby it is committed to incur, on or before December 31, 2012, a total of $10,000,500 of qualifying Canadian Exploration Expenses, as described in the Income Tax Act. As at June 30, 2012, $5,581,861 had been incurred, leaving a balance of $4,418,639 to be incurred on or before December 31, 2012. 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.

The Company entered into flow-through share subscription agreements on March 20, 2012 whereby it is committed to incur, on or before December 31, 2013, a total of $10,675,000 of qualifying Canadian Exploration Expenses, as described in the Income Tax Act. As at June 30, 2012, $Nil had been incurred, leaving a balance of $10,675,000 to be incurred on or before December 31, 2013. 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.

(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.

15. Finance lease obligation

The Company entered into finance lease agreements for a mine camp and a mine camp expansion during the period ended March 31, 2011 and June 30, 2012 respectively. The Company used an incremental borrowing rate of 11% in determining the value of the finance lease obligation.

	Three months ended June 30, 2012	Year ended March 31, 2012
Balance, beginning of period	$ 1,668,322	$ 2,061,015
Present value of financial lease on inception	2,228,093	—
Less: payments made during the period	(196,758)	(600,000)
Add: Interest accretion	44,921	207,307
Balance, end of period	3,744,578	1,668,322
Less: current portion, end of period	(788,141)	(438,137)
Long-term portion, end of period	$ 2,956,437	$ 1,230,185

(Unaudited, expressed in Canadian dollars)

15. Finance lease obligation (continued)

At June 30, 2012, future minimum lease payments under the finance lease agreement by fiscal year are as follows:

2013	$	870,000
2014		1,161,000
2015		1,161,000
2016		761,000
2017 and beyond		745,000
	$	4,698,000

16. 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 June 30, 2012, the total undiscounted amount of the Company's rehabilitation provision is $2,940,067 and is expected to be incurred between 2013 and 2031. The present value of the rehabilitation provision has been estimated at $3,034,464 at June 30, 2012 using a discount rate of approximately 1.4% and a long-term inflation rate of approximately 2%.

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

	Three months ended June 30, 2012	Year ended March 31, 2012
Balance, beginning of period	$ 3,074,820	$ 2,730,299
Accretion expense	12,835	56,821
Change in estimates	(53,191)	287,700
Balance, end of period	$ 3,034,464	$ 3,074,820
Current	$ 521,451	$ 519,889
Non-current	2,513,013	2,554,931
Balance, end of period	$ 3,034,464	$ 3,074,820

17. Long term prepaid expenses, advances and deferred expenses

Long term prepaid expenses, advances and deferred expenses consist of various prepaid royalties and prepaid tariffs, which in aggregate total $15,725,301 at June 30, 2012 (March 31, 2012 - $10,930,116).

(Unaudited, expressed in Canadian dollars)

18. Accounts receivable and prepaid expenses

	June 30, 2012	March 31, 2012
Accounts receivable	$ 28,836,633	$ 214,173
Refundable taxes	5,452,052	4,223,886
Prepaid expenses	14,859,578	11,089,982
	$ 49,148,263	$ 15,528,041

19. Accounts payable and accrued liabilities

	June 30, 2012	March 31, 2012
Trade payables and accruals	$ 41,659,450	$ 39,257,491
Payroll and other statutory liabilities	1,863,783	1,263,056
	$ 43,523,233	$ 40,520,547

20. Revenue

Revenue consists of the net proceeds from sales of the Company's iron ore delivered to its customer. The Company's iron ore is delivered to its customer when it is unloaded at the customer's property at the Port of Sept-Iles.

21. Corporate and administrative costs

Corporate and administrative costs consist of head office costs, management compensation, professional fees, director fees and social development expenditures.

22. 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.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- 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).
- 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 June 30, 2012 and March 31, 2012, 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.

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 June 30, 2012.

22. Financial Instruments (continued)

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 June 30, 2012, 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, 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 June 30, 2012, the Company had working capital of $42,798,496. Accordingly, management believes the Company is able to meet its current obligations as they fall due 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.

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 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 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 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 June 30, 2012 is interest earned on the Company's cash and cash equivalents. If interest rates throughout the period had been 100 basis points higher (lower) then the loss would have been approximately $115,000 lower (higher). The Company does not have any variable rate 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. 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 (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 continue the development of its properties, and development could also be halted if iron ore prices fall below expected operating costs.

23. Subsequent events

(a) Subsequent to June 30, 2012, the Company granted 878,125 employee stocks options at an exercise price of $3.00 which expire on July 2, 2017.

(b) Subsequent to June 30, 2012, 375,000 stock options were exercised at an exercise price of $2.00 per share resulting in the issuance of 375,000 common shares for total proceeds of $750,000.

(c) Subsequent to June 30, 2012, the Company entered into a long term customer contract with the Sept-Iles Port Authority, securing ship loading capacity of 5 million tonnes per year once the multi-user facility is operational, with the right to secure additional residual capacity. Under this contract, the Company paid a preliminary installment of $6,395,500 towards its buy-in payment and guaranteed a final buy-in payment installment of $6,395,500 due on July 1, 2013. These buy-in payments will be credited as discounts against future port wharfage and shipping fees until such time as the cumulative discounts amount to the Company's buy-in payments. The Company also entered into long-term commitments with the Port in terms of annual volume of ship loading at the multi-user facility.

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.