Labrador Iron Mines Holdings Limited

LABRADOR IRON MINES HOLDINGS LIMITED

Condensed Interim Consolidated Financial Statements

For the Three Months Ended June 30, 2014 and 2013

(Unaudited, expressed in Canadian dollars)

The Company's auditors have not reviewed the unaudited condensed interim consolidated financial statements for the three months ended June 30, 2014 and 2013.

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

	June 30, 2014	March 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	$ 5,013,378	$ 7,477,622
Restricted cash (Note 5)	1,822,446	2,847,958
Accounts receivable and prepaid expenses (Notes 11,17 and 24)	3,175,203	4,077,383
Inventories (Note 6)	2,039,158	2,109,158
Total current assets	12,050,185	16,512,121
Non current assets		
Restricted cash (Note 5)	4,172,591	4,199,517
Long-term prepaid expenses, advances and deferred expenses (Note 16)	20,364,125	20,576,625
Mineral property interests (Note 7)	83,322,444	82,738,091
Property, plant and equipment (Note 8)	99,534,444	100,541,203
Total non-current assets	207,393,604	208,055,436
Total assets	$ 219,443,789	$ 224,567,557
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities (Notes 11 and 18)	$ 20,186,313	$ 21,354,199
Finance lease obligation (Note 14)	1,031,101	954,608
Rehabilitation provision (Note 15)	736,422	736,422
Rail construction advance (Note 21(b))	3,000,000	2,000,000
Other liabilities (Note 19)	129,283	129,283
Total current liabilities	25,083,119	25,174,512
Non current liabilities		
Long-term payables (Note 24)	14,727,240	14,727,240
Finance lease obligation (Note 14)	1,045,992	1,351,429
Rehabilitation provision (Note 15)	3,214,860	3,199,104
Deferred revenue (Note 21(a))	21,362,266	22,129,066
Total liabilities	65,433,477	66,581,351
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	393,524,694	393,524,694
Reserves (Note 10)	13,161,993	13,426,543
Deficit	(252,676,375)	(248,965,031)
Total shareholders' equity	154,010,312	157,986,206
Total liabilities and shareholders' equity	$ 219,443,789	$ 224,567,557

Going concern (Note 1)
Commitments and contingencies (Notes 7, 13, 14, and 15)

The financial statements were approved by the Board of Directors on July 30, 2014, 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 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 June 30, 2014	Three months ended June 30, 2013
Revenue, net (Note 20)	$ -	$ 17,890,969
Operating expenses		
Mining	-	(5,076,451)
Processing	-	(10,229,420)
Rail and transportation	-	(16,092,692)
Site and camp operations	(2,210,360)	(4,214,585)
Royalties, social development and training	-	(437,567)
Depletion and depreciation	(1,266,427)	(5,603,085)
Loss before the undernoted	(3,476,787)	(23,762,831)
Corporate and administrative costs	$ (1,195,862)	$ (2,092,010)
Finance lease costs (Note 14)	(61,330)	(85,076)
Accretion (Note 15)	(15,756)	(10,703)
Foreign exchange gain (loss)	742,486	(891,634)
Put option contracts (Note 21(b))	-	(1,473,263)
Share-based payments (Note 10)	-	(238,131)
Interest earned	31,355	46,632
Net loss and comprehensive loss for the period	$(3,975,894)	$ (28,507,016)
Net loss per share		
Basic	$ (0.03)	$ (0.23)
Diluted	$ (0.03)	$ (0.23)
Weighted average number of shares outstanding		
Basic	126,323,123	126,200,807
Diluted	126,323,123	126,200,807

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

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

	Three months ended June 30, 2014	Three months ended June 30, 2013
Cash provided by (used in) operating activities		
Net (loss) for the period	$ (3,975,894)	$ (28,507,016)
Items not involving cash		
Share-based payments	-	238,131
Depletion and depreciation	1,307,377	5,674,738
Accretion on rehabilitation provision	15,756	10,703
Interest on finance lease obligation	61,330	85,076
Accrued interest	(13,751)	(24,307)
Unrealized foreign exchange (gain)	(766,799)	-
Loss on put option contracts	-	1,473,263
Changes in working capital	(547,951)	11,684,431
Cash (used in) operating activities	(3,919,932)	(9,364,981)
Cash provided by (used in) investing activities		
Transfer from restricted cash (Notes 5 and 22)	1,025,512	-
Increase in mineral property interests	(973,373)	(5,917,287)
Increase in property, plant and equipment	439,184	(4,363,391)
Decrease in restricted cash	40,677	(889,707)
Cash provided by (used in) investing activities	532,000	(11,170,385)
Cash provided by (used in) financing activities		
Advance payment proceeds (Note 21(a))	-	35,824,286
Proceeds from rail construction advance	1,000,000	-
Purchase of put options contracts (Note 21(b))	-	(3,569,804)
Repayment of finance lease obligation	(76,312)	(677,306)
Cash provided by (used in) financing activities	923,688	31,577,176
Change in cash and cash equivalents	(2,464,244)	11.041,810
Cash and cash equivalents, beginning of period	7,477,622	16,226,574
Cash and cash equivalents, end of period	$ 5,013,378	$ 27,268,384
Cash and cash equivalents consist of:		
Cash	$ 34,274	$ 10,613,644
Cash equivalents	4,979,104	16,654,740
	$ 5,013,378	$ 27,268,384
Supplemental disclosure of cash flow information		
Change in accrued non-current assets	$ 138,282	$ 3,993,083
Rehabilitation provision charged to mineral property interests	-	1,021,269
Property, plant and equipment additions under finance lease	-	-
Depreciation included in corporate and administrative costs	40,950	71,653

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

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

	Share Capital		Reserves: Warrants		Reserves: Stock Options		Deficit	Shareholders' Equity
	Number	Amount	Number	Amount	Number	Amount	Amount	Total
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
Share-based payments	-	-	-	-	-	221,738		221,738
Loss for the period	-	-	-	-	-	-	(28,507,016)	(28,507,016)
Balance June 30, 2013	126,200,807	$ 393,500,526	16,505,000	$ 6,552,450	1,716,875	$ 9,920,940	$ (175,466,499)	$ 234,507,417
Exercise of deferred share units	122,316	24,168	-	-	-	-	-	24,168
Expiry of warrants	-	-	(662,500)	(1,172,625)	-	-	1,172,625	-
Expiry of vested options	-	-	-	-	(441,172)	(2,038,869)	2,038,869	-
Forfeiture of unvested options	-	-	-	-	(46,328)	(35,024)	-	(35,024)
Share-based payments	-	-	-	-	-	199,671	-	199,671
Loss for the period	-	-	-	-	-	-	(76,710,026)	(76,710,026)
Balance, March 31, 2014	126,323,123	$ 393,524,694	15,842,500	$ 5,379,825	1,229,375	$ 8,046,718	$ (248,965,031)	$ 157,986,206
Expiry of warrants	-	-	(662,500)	(218,625)	-	-	218,625	-
Expiry of options	-	-	-	-	(27,500)	(45,925)	45,925	-
Loss for the period	-	-	-	-	-	-	(3,975,894)	(3,975,894)
Balance, June 30, 2014	126,323,123	$ 393,524,694	15,180,000	$ 5,161,200	1,201,875	$ 8,000,793	$ (252,676,375)	$ 154,010,312

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

1. Nature of Operations and Going Concern

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 typically 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. For the fiscal year beginning April 1, 2014, the Company intends to focus on the development of its Houston Project instead of recommencing mining operations at its Stage 1 properties.

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 year ended March 31, 2014, the Company had a net loss of $105,217,042, negative cash flows from operations of $37,078,888 and ending working capital deficit of $8,662,391. Furthermore, during the three months ended June 30, 2014, the Company had a net loss of $3,975,894 negative cash flows from operations of $3,919,932 and an ending working capital deficit of $13,032,934.

Notwithstanding the above risks, financial results, and ending working capital deficit for the periods ended March 31, 2014 and June 30, 2014, subject to the Company completing certain financings currently under negotiation and successfully renegotiating the commercial terms of certain major contracts, the Company believes it will have sufficient working capital to operate over the next 12 months. The Company believes that the required financing can be raised and in conjunction with major stakeholders is therefore currently considering various financing opportunities and is engaged in discussions and negotiations of draft term sheets with certain commodity traders, financial institutions and others regarding proposals available for financing. While these negotiations are ongoing, it cannot be guaranteed that such financing will be available on a timely basis or on acceptable terms at all. The Company has reasonable expectations that these financing negotiations will be successful and accordingly, the consolidated financial statements for the period ended June 30, 2014 have been prepared on a going concern basis, using the historical cost convention.

The Company has a significant need to secure additional financial arrangements in order to fund its current working capital deficit, its continuing operations, 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. The Company will also need to negotiate amendments in the commercial terms of certain of its major contracts to suspend or defer commitments that would otherwise come due in 2014. There are no assurances that the Company will be successful in negotiating such commercial terms, or in obtaining such suspension or deferral on a timely basis or on reasonable or acceptable terms or at all. If the Company is unable to obtain adequate additional financing or adequate commercial relief on certain major contracts, the Company would be required to curtail its operations and its development activities.

The ability to obtain adequate financing in the short term for working capital, continuing operations and corporate administration costs, and in the longer term for planned development programs, in particular the development of the Houston project, creates a material uncertainty about the Company's ability to continue as a going concern. If the going concern assumption were not appropriate for these consolidated financial statements, adjustments would be necessary to the carrying values of the assets and liabilities, reported revenues and expenses, and statement of financial position classifications. Such adjustments could be material.

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 consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

3. Significant accounting judgments, estimates and assumptions

The preparation of 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:

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. At the Company's fiscal year end, the Company completed an impairment assessment of its mineral property interests based on a combination of factors including net present value and arms-length transaction value methodology.

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

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.

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 and depletion and depreciation rates for property, plant and equipment and mineral property interests

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

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,

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

Commencement of commercial production (continued)

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 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.

Going concern
Refer to Note 1.

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, 2014, 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, 2014, 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 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 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 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 consolidated financial statements upon adoption of this standard on April 1, 2013.

4. Significant accounting policies (continued)

New standards and interpretations adopted (continued)

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 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 $14,180,563 (March 31, 2013 - $14,276,105) of stripping costs in the year ended March 31, 2014 which have been expensed under the Company's previous accounting policy. As at March 31, 2014, $14,180,563 (March 31, 2013 - $14,276,105) of these capitalized stripping costs were depleted from mineral property interests and included in mining costs in the statement of operations and comprehensive loss. There was no historical adjustment required as a result of the adoption of IFRIC 20.

Recent accounting pronouncements

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after January 1, 2014 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 9 – Financial Instruments ("IFRS 9") was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

IAS 32 – Financial Instruments: Presentation ("IAS 32") was amended by the IASB in December 2011 to clarify certain aspects of the requirements on offsetting. The amendments focus on the criterion that an entity currently has a legally enforceable right to set off the recognized amounts and the criterion that an entity intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014. Earlier adoption is permitted.

IAS 36 – Impairments of Assets ("IAS 36") was amended by the IASB in May 2013 to clarify the requirements to disclose the recoverable amounts of impaired assets and require additional disclosures about the measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014. Earlier adoption is permitted.

IAS 39 – Financial Instruments: Recognition and Measurement ("IAS 39") was amended by the IASB in June 2013 to clarify that novation of a hedging derivative to a clearing counterparty as a consequence of laws or regulations or the introduction of laws or regulations does not terminate hedge accounting. The amendments to IAS 39 are effective for annual periods beginning on or after January 1, 2014. Earlier adoption is permitted.

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 property, $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.

	June 30, 2014	March 31, 2014
	$	$
Restricted cash from Howse Property transaction	1,822,446	2,847,958
Total – current	1,822,446	2,847,958
Security for letters of credit for rehabilitation obligations	4,172,591	4,199,517
Total – non-current	4,172,591	4,199,517

6. Inventories

	June 30, 2014	March 31, 2014
	$	$
Ore at site	1,859,158	1,859,158
Consumables	180,000	250,000
Total	2,039,158	2,109,158

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. Consumables consists of fuel for various activities at site.

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 an additional $23.5 million and thereby increase its participating interest in the Howse Deposit to 70%, with LIM holding 30%. As at June 30, 2014, $3,177,554 has been expended as part of the exploration program.

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:

Cost at:	Producing mine	Mineral property interests	Reclamation balance	Total
March 31, 2013	$ 30,774,932	$ 92,756,004	$ 2,832,299	$ 126,363,235
Additions	2,852,537	6,243,626	911,336	10,007,499
Transfers from mineral properties	(3,319,501)	3,319,501	-	-
Disposal of interest in Howse Property	-	(20,408,896)	-	(20,408,896)
Write-downs	(5,170,905)	-	(293,300)	(5,464,205)
March 31, 2014	25,137,063	81,910,235	3,450,335	110,497,633
Additions	-	621,953	-	621,953
June 30, 2014	25,137,063	82,532,188	3,450,335	111,119,586
Accumulated depletion and depreciation				
March 31, 2013	$(19,736,693)	$ -	$ (729,150)	$ (20,465,843)
Depletion	(5,400,370)	-	-	(5,400,370)
Depreciation	-	-	(1,893,329)	(1,893,329)
March 31, 2014	(25,137,063)	-	(2,622,479)	(27,759,542)
Depletion	-	-	-	-
Depreciation	-	-	(37,600)	(37,600)
June 30, 2014	(25,137,063)	-	(2,660,079)	(27,797,142)
Net book value at:				
March 31, 2013	$11,038,239	$ 92,756,004	$ 2,103,149	$ 105,897,392
March 31, 2014	$ -	$ 81,910,235	$ 827,856	$ 82,738,091
June 30, 2014	$ -	$ 82,532,188	$ 790,256	$ 83,322,444

Stage 1 of the Schefferville Projects, primarily consisting of the Company's James Mine, is classified as a producing mine. All of the Company's properties other than those in Stage 1 are categorized as mineral property interests.

8. Property, Plant and Equipment

Cost at:	Buildings and mine camp	Office equipment	Transportation infrastructure and equipment	Beneficiation plant and equipment	Total
March 31, 2013	$ 10,374,160	$ 1,162,760	$ 32,536,366	$ 74,083,295	$ 118,156,581
Additions	645,840	22,114	3,227,792	12,507,575	16,403,321
March 31, 2014	11,020,000	1,184,874	35,764,158	86,590,870	134,559,902
Additions	-	-	33,275	31,571	64,846
June 30, 2014	11,020,000	1,184,874	35,797,433	86,622,441	134,624,748
Accumulated Depreciation at:					
March 31, 2013	2,761,917	434,187	4,989,063	1,088,047	9,273,214
Depreciation for the period	1,844,277	223,300	3,784,602	18,893,306	24,745,485
March 31, 2014	4,606,194	657,487	8,773,665	19,981,353	34,018,699
Depreciation for the period	465,665	39,559	514,686	51,695	1,071,605
June 30, 2014	5,071,859	697,046	9,288,351	20,033,048	35,090,304
Net Book Value at:					
March 31, 2014	6,413,806	527,387	26,990,493	66,609,517	100,541,203
June 30, 2014	$ 5,948,141	$ 487,828	$ 26,509,082	$ 66,589,393	$ 99,534,444

Property, plant and equipment at June 30, 2014 includes a balance with a total cost of $9,763,583 consisting primarily of railcars and development work on mineral properties which have not been depreciated pending the assets and mineral properties being ready for use (March 31, 2014 - $9,665,622).

Buildings and mine camp at June 30, 2014 include an asset under finance lease with a carrying value of $2,280,013 (March 31, 2014 - $2,280,013).

9. Share Capital

Authorized
Unlimited common shares, no par value

Issued	Shares #	Amount $
Balance March 31, 2013	126,200,807	393,500,526
Exercise of deferred share units	122,316	24,168
Balance March 31, 2014 and June 30, 2014	126,323,123	393,524,694

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 June 30, 2014 and March 31, 2014 and the changes for the periods then ended is presented below:

	Three months ended June 30, 2014			Year ended March 31, 2014		
	Number of Options		Weighted Average Exercise Price	Number of Options		Weighted Average Exercise Price
Outstanding, beginning	1,229,375	$	4.83	1,716,875	$	5.17
Expired	(27,500)		3.00	(441,172)		6.41
Forfeited	-		-	(46,328)		3.69
Outstanding, end	1,201,875	$	4.82	1,229,375	$	4.83

The following table sets out details of the stock options outstanding at June 30, 2014:

Options Outstanding				Options Exercisable			
Number		Weighted Average Exercise Price	Expiry Date	Number		Weighted Average Exercise Price	Grant Date Fair Value
200,000	$	6.27	14/09/2015	200,000	$	6.27	$ 966,000
20,000		11.65	09/02/2016	20,000		11.65	175,800
12,500		10.18	23/06/2016	12,500		10.18	96,750
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
20,000		6.20	09/02/2017	20,000		6.20	91,400
609,375		3.00	02/07/2017	609,375		3.00	1,115,156
1,201,875	$	4.82		1,201,875	$	4.82	$ 4,073,706

There were no options granted during the three months ended June 30, 2014. (June 30, 2013 – Nil).

The stock-based compensation expense during the three months ended June 30, 2014 related to the vesting of options granted has been recorded as $Nil (June 30, 2013 - $221,738) on the consolidated statement of operations of comprehensive loss.

10. Reserves (continued)

(a) Stock options (continued)

The weighted average contractual life remaining for outstanding and exercisable options at June 30, 2014 is 2.48 years. (June 30, 2013 – 3.47 years and 0.85 years, respectively).

The total number of common shares that are issuable pursuant to stock options that are exercisable as at June 30, 2014 is 1,201,875 (March 31, 2014 – 1,149,675).

(b) Warrants

A summary of the Company's share purchase warrants at June 30, 2014 and March 31, 2014 and the changes for the periods then ended is presented below:

	Three months ended June 30, 2014		Year ended March 31, 2014	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning	15,842,500	$ 1.31	16,505,000	$ 1.49
Expired	(662,500)	1.00	(662,500)	5.30
Outstanding, end	15,180,000	$ 1.32	15,842,500	$ 1.31

As at June 30, 2014, the Company had 15,180,000 outstanding exercisable warrants, with a weighted average remaining contractual life of 1.48 years, as follows:

Warrants Outstanding and Exercisable			
Number	Exercise Price	Expiry Date	Grant Date Fair Value
1,380,000	$ 1.05	13/08/2014	538,200
13,800,000	$ 1.35	12/02/2016	4,623,000
15,180,000			$ 5,161,200

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:

Balance, March 31, 2013	$ 16,251,652
Stock options expired	(2,038,869)
Stock options forfeited	(35,024)
Broker warrants expired	(1,172,625)
Stock options vested	421,409
Balance, March 31, 2014	13,426,543
Stock options expired	(45,925)
Broker warrants expired	(218,625)
Balance, June 30, 2014	$ 13,161,993

11. Related Party Transactions and Compensation of Key Management Personnel

During the three months ended June 30, 2014, the Company recovered $31,624 (June 30, 2013 - $29,181) in respect of office rent from corporations with common directors and/or officers. At June 30, 2014, $48,788 (March 31, 2014 - $48,791) remained receivable.

During the three months ended June 30, 2014, the Company made payments to companies with common directors and/or officers, in respect of management compensation (management costs) provided in the amount of $137,000 (June 30, 2013 - $150,000). All of the management compensation in the three months ended June 30, 2014 was expensed. At June 30, 2014, $676,754 (March 31, 2014 - $620,587) in management compensation remained payable to these related companies.

During the three months ended June 30, 2014, 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 $31,080 (June 30, 2013 - $66,920). At June 30, 2014, $31,080 (March 31, 2014 - $36,960) 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 three months was as follows:

	Three months ended June 30, 2014	Three months ended June 30, 2013
Short-term compensation (i)	$ 239,755	$ 358,431
Share-based payments (ii)	-	103,896
	$ 239,755	$ 462,327

(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.

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 year. 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 June 30, 2014, minimum rental commitments remaining under this lease are as follows:

Not later than 1 year	$ 576,000
Later than 1 year, not later than 5 years	2,304,000
Later than 5 years	96,000
	$ 2,976,000

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 June 30, 2014, minimum commitments relating to rail, port, exploration and First Nations agreements, net of credits of $30,968,625 against future tariffs and fees, are as follows:

Not later than 1 year	$ 42,143,000
Later than 1 year, not later than 5 years	95,461,000
Later than 5 years	22,994,000
	$ 160,598,000

The Company is currently negotiating amendments in the commercial terms of certain of its major contracts to suspend or defer commitments that would otherwise come due in 2014. There are no assurances that the Company will be successful in negotiating such commercial terms, or in obtaining such suspension or deferral on a timely basis or on reasonable or acceptable terms, or at all.

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.

(e) The Company has indemnified the subscribers of flow-through shares against any tax related amounts that may become payable as a result of the Company not making eligible expenditures.

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.

	Three months ended June 30, 2014	Year ended March 31, 2014
Balance, beginning of period	$ 2,306,037	$ 3,161,636
Less: payments made during the period	(290,274)	(1,161,097)
Add: Interest accretion	61,330	305,498
Balance, end of period	2,077,903	2,306,037
Less: current portion, end of period	(1,031,101)	(954,608)
Long-term portion, end of period	$ 1,045,992	$ 1,351,429

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

Not later than 1 year	$ 1,111,000
Later than 1 year, not later than 5 years	1,075,000
Later than 5 years	-
	$ 2,186,000

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.

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 June 30, 2014, the total undiscounted amount of the Company's rehabilitation provision is $4,132,368 and is expected to be incurred between 2014 and 2031. The present value of the rehabilitation provision has been estimated at $3,951,282 at June 30, 2014 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:

	Three months ended June 30, 2014	Year ended March 31, 2014
Balance, beginning of period	$ 3,935,526	$ 2,971,469
Present value of obligation on inception	-	911,337
Accretion expense	15,756	52,720
Balance, end of period	$ 3,951,282	$ 3,935,526

	Three months ended June 30, 2014	Year ended March 31, 2014
Current	$ 736,422	$ 736,422
Non-current	3,214,860	3,199,104
Balance, end of period	$ 3,951,282	$ 3,935,526

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 $20,364,125 at June 30, 2014 (March 31, 2014 - $20,576,625).

17. Accounts Receivable and Prepaid Expenses

	June 30, 2014	March 31, 2014
Accounts receivable	$ 191,819	$ 650,646
Refundable taxes	1,202,049	1,603,337
Prepaid expenses	1,781,335	1,823,400
	$ 3,175,203	$ 4,077,383

18. Accounts Payable and Accrued Liabilities

	June 30, 2014	March 31, 2014
Trade payables and accruals	$ 18,540,879	$ 19,487,384
Sales taxes and statutory liabilities	1,645,434	1,866,815
	$ 20,186,313	$ 21,354,199

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 and June 30, 2014	1,077,362	$129,283

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 less 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 has a contract to sell 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 RB Metalloyd Limited (now RBRG Trading (UK) Limited) 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 June 30, 2014, $15,121,456 of the advanced payment has been recognized as revenue with respect to seven shipments, leaving a remaining balance of $21,362,266. The Company is currently negotiating the refinancing of these arrangements with RBR and expects to refinance and roll over this obligation with RBR for at least twelve months.

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

	June 30, 2014
Advance payment received	$ 35,858,738
Cumulative foreign exchange adjustment	624,984
Recognized as revenue	(15,121,456)
Deferred revenue	$ 21,362,266

21. Deferred Revenue and Other Financial Assets and Liabilities (continued)

(b) 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. TSMC has also agreed to advance a further $3,000,000 to enable further modification and upgrade work to be carried out during fiscal 2015. The Company has agreed to transfer ownership of a portion of its rail line to a rail operating company for a consideration of $5,000,000 which will be used by the Company to repay the loan advance.

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.

(a) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
(b) 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).
(c) 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, 2014 and March 31, 2014, 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 three months ended June 30, 2014.

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, 2014, 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 consist of amounts owing from the sale of iron ore and sales tax recoverable from the Government of Canada. The carrying amount of financial assets represents the Company's maximum credit exposure.

23. Financial Instruments (continued)

Financial risk management (continued)

ii) Liquidity risk

Liquidity risk encompasses the risk that the Company cannot meet its financial obligations as they come due. As at June 30, 2014, the Company had a working capital deficit of $13,032,934. Management believes the Company is able to meet its current obligations subject to the Company completing certain financings currently under negotiation. See Note 1.

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 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 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, 2014 is interest earned on the Company's cash and cash equivalents. If interest rates throughout the three months ended June 30, 2014 had been 100 basis points higher (lower) then the loss would have been approximately $15,000 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. 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, 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.

24. Long-term Payables

Long-term payables consist of payables which have payment terms extending beyond one year, subject to acceleration in the event of default, which in aggregate total $14,727,240 at March 31, 2014 and June 30, 2014. As of June 30, 2014, no events of default have taken place.

25. Subsequent Event

Subsequent to June 30, 2014, the Company received an additional rail construction advance of $2,000,000.