# Labrador Iron Mines Holdings Limited

**LABRADOR IRON MINES HOLDINGS LIMITED**

**Condensed Interim Consolidated Financial Statements**

**For the Three and Six Months Ended September 30, 2012**

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

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

The Company's auditors have not reviewed the unaudited condensed interim consolidated financial statements for the three and six months ended September 30, 2012.

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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)

| | September 30, 2012 | March 31, 2012 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 915,025 | $ 71,064,119 |
| Tax credits receivable (Note 8) | 1,331,000 | 1,331,000 |
| Accounts receivable and prepaid expenses (Note 18) | 34,535,435 | 15,528,041 |
| Inventories (Note 7) | 21,454,976 | 15,551,290 |
| **Total current assets** | 58,236,436 | 103,474,450 |
| **Non current assets** | | |
| Restricted cash (Note 6) | 7,603,443 | 8,948,220 |
| Long-term prepaid expenses, infrastructure advances and deferred expenses (Note 17) | 30,997,217 | 10,930,116 |
| Mineral property interests (Note 8) | 161,110,091 | 173,935,743 |
| Property, plant and equipment (Note 9) | 101,434,262 | 82,465,618 |
| **Total non-current assets** | 301,145,013 | 276,279,697 |
| **Total Assets** | $ 359,381,449 | $ 379,754,147 |
| **LIABILITIES** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued liabilities (Notes 12 and 19) | $ 58,140,106 | $ 40,520,547 |
| Flow-through share premium | 1,400,000 | 1,400,000 |
| Finance lease obligation (Note 15) | 810,014 | 438,137 |
| Rehabilitation provision (Note 16) | 514,853 | 519,889 |
| **Total current liabilities** | 60,864,973 | 42,878,573 |
| **Non-current liabilities** | | |
| Finance lease obligation (Note 15) | 2,745,544 | 1,230,185 |
| Rehabilitation provision (Note 16) | 2,487,545 | 2,554,931 |
| **Total liabilities** | 66,098,062 | 46,663,689 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (Note 10) | 342,923,655 | 341,511,257 |
| Reserves (Note 11) | 12,609,608 | 12,177,239 |
| Deficit | (62,249,876) | (20,598,038) |
| **Total shareholders' equity** | 293,283,387 | 333,090,458 |
| **Total liabilities and shareholders' equity** | $ 359,381,449 | $ 379,754,147 |

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

The financial statements were approved by the Board of Directors on November 12, 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 | | Six months ended | |
|---|---|---|---|---|
| | September 30, 2012 | September 30, 2011 | September 30, 2012 | September 30, 2011 |
| **Revenue** (Note 20) | $ 33,033,722 | $ - | $ 71,053,629 | $ - |
| **Operating expenses** | | | | |
| Mining | (10,978,265) | - | (18,652,935) | - |
| Processing | (9,155,094) | - | (11,179,434) | - |
| Rail and transportation | (20,338,026) | - | (41,273,782) | - |
| Site administration | (4,884,249) | - | (9,163,726) | - |
| Royalties | (955,630) | - | (1,696,335) | - |
| Depletion and depreciation | (14,366,761) | - | (24,124,057) | - |
| **Operating loss** | (27,644,303) | - | (35,036,640) | - |
| Corporate and administrative costs (Note 21) | $ (2,482,022) | $ (1,256,374) | $ (5,217,982) | $ (2,357,360) |
| Start-up costs (Note 5) | - | (5,646,390) | - | (9,099,255) |
| Finance lease costs (Note 15) | (101,254) | (59,696) | (146,175) | (115,523) |
| Accretion (Note 16) | (9,501) | (16,251) | (22,336) | (35,053) |
| Foreign exchange (loss) | (520,983) | - | (453,399) | - |
| Share-based payments (Note 11) | (1,037,438) | (231,911) | (1,642,105) | (464,488) |
| **Loss before the undernoted** | (31,795,501) | (7,210,892) | (42,518,637) | (12,071,679) |
| Interest earned | 83,632 | 217,611 | 222,448 | 408,621 |
| **Net loss and comprehensive loss for the period** | $(31,711,869) | $ (6,993,281) | $(42,296,189) | $(11,663,058) |
| | | | | |
| **Net loss per share** | | | | |
| Basic | $ (0.47) | $ (0.13) | $ (0.63) | $ (0.22) |
| Diluted | $ (0.47) | $ (0.13) | $ (0.63) | $ (0.22) |
| | | | | |
| **Weighted average number of shares outstanding** | | | | |
| Basic | 67,673,633 | 54,019,555 | 67,521,558 | 52,415,278 |
| Diluted | 67,673,633 | 54,019,555 | 67,521,558 | 52,415,278 |

*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 September 30, 2012 | Three months ended September 30, 2011 | Six months ended September 30, 2012 | Six months ended September 30, 2011 |
|---|---|---|---|---|
| **Cash provided by (used in) operating activities** | | | | |
| Net (loss) for the period | $ (31,711,869) | $ (6,993,281) | $ (42,296,189) | $ (11,663,058) |
| Items not involving cash | | | | |
| Share-based compensation | 1,037,438 | 231,911 | 1,642,105 | 464,488 |
| Depreciation | 14,454,609 | 705,380 | 24,265,460 | 1,079,453 |
| Accretion on rehabilitation provision | 9,501 | 16,251 | 22,336 | 35,053 |
| Interest on finance lease obligation | 101,254 | 53,206 | 146,175 | 109,026 |
| Interest | (25,079) | (24,771) | (50,265) | (30,319) |
| Foreign exchange | 35,400 | (74,600) | 15,400 | (64,080) |
| Changes in working capital | 15,978,239 | (14,418,528) | (9,298,068) | (10,048,001) |
| Cash (used in) operating activities | (120,507) | (20,504,162) | (25,553,046) | (20,117,438) |
| **Cash provided by (used in) investing activities** | | | | |
| Long-term infrastructure advances | (15,395,500) | - | (18,645,500) | (5,474,820) |
| Mineral property interests | (305,810) | (4,104,780) | (3,048,395) | (8,253,863) |
| Property, plant and equipment | (5,829,410) | (25,700,103) | (24,861,908) | (46,876,595) |
| Restricted cash | | - | 1,393,271 | (4,449,500) |
| Cash (used in) investing activities | (21,530,720) | (29,804,883) | (45,162,532) | (65,054,778) |
| **Cash provided by (used in) financing activities** | | | | |
| Exercise of stock options | 750,000 | 193,473 | 860,000 | 413,223 |
| Exercise of warrants | - | 665,917 | - | 665,917 |
| Shares issued for cash | - | - | - | 121,250,500 |
| Share issue costs | - | (9,253) | - | (6,538,232) |
| Repayment of capital lease obligation | (193,516) | (200,000) | (293,516) | (300,000) |
| Cash provided by (used in) financing activities | 556,484 | 650,137 | 566,484 | 115,491,408 |
| **Change in cash and cash equivalents** | $ (21,094,743) | $ (49,658,908) | $ (70,149,094) | $ 30,319,192 |
| Cash and cash equivalents, beginning of period | 22,009,768 | 87,541,770 | 71,064,119 | 7,563,670 |
| Cash and cash equivalents, end of period | $ 915,025 | $ 37,882,862 | $ 915,025 | $ 37,882,862 |
| Cash and cash equivalents consist of: | | | | |
| Cash | - | - | - | - |
| Cash equivalents | 915,025 | 37,882,862 | 915,025 | 37,882,862 |
| | $ 915,025 | $ 37,882,862 | $ 915,025 | $ 37,882,862 |
| **Supplemental disclosure of cash flow information** | | | | |
| Stock-based compensation recorded to mineral property interests | $ 73,051 | $ 587,066 | $ 73,051 | $ 866,010 |
| Change in accrued non-current assets | 7,269,815 | (14,798,680) | (1,490,318) | (4,512,769) |
| Change in accrued current assets | - | 12,238,692 | - | 12,501,835 |
| Change in accrued tax credits for mineral property interests | - | 550,000 | - | 820,000 |
| Asset retirement obligation charged to mineral property interests | (41,567) | (147,620) | (94,759) | 213,149 |
| Property, plant and equipment interest under capital lease | - | - | 2,228,093 | - |
| Depreciation included in corporate and administrative costs | (87,848) | (384,463) | (141,403) | (758,536) |

*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 | 185,262 | 413,223 | - | - | (185,262) | - | - | 413,223 |
| Exercise of options – valuation allocation | - | 657,152 | - | - | - | (657,152) | - | - |
| Exercise of warants | 104,704 | 665,917 | (104,704) | - | - | - | - | 665,917 |
| Exercise of warrants – valuation allocation | - | 324,582 | - | (324,582) | - | - | - | - |
| Public offerings, net of transaction costs | 9,566,700 | 112,457,843 | 478,335 | 2,254,425 | - | - | - | 114,712,268 |
| Options granted | - | - | - | - | 277,500 | - | - | - |
| Flow-through share premium allocation | - | (1,666,750) | - | - | - | - | - | (1,666,750) |
| Expiry of warrants | - | - | (40,616) | (125,910) | - | - | 125,910 | - |
| Forfeiture of options | - | - | - | - | (6,250) | (26,500) | 26,500 | - |
| Stock based compensation | - | - | - | - | - | 1,330,498 | - | 1,330,498 |
| Loss for the period | - | - | - | - | - | - | (11,663,058) | (11,663,058) |
| Balance, September 30, 2011 | 54,046,557 | $ 276,239,421 | 478,335 | $ 2,254,425 | 1,825,188 | $ 7,613,877 | $ (17,756,323) | $ 268,351,400 |
| Exercise of options | 36,750 | 94,850 | - | - | (36,750) | - | - | 94,850 |
| Exercise of options – valuation allocation | - | 119,990 | - | - | - | (119,990) | - | - |
| Public offerings, net of transaction costs | 13,250,000 | 66,456,996 | 662,500 | 1,172,625 | - | - | - | 67,629,621 |
| Flow-through share premium allocation | - | (1,400,000) | - | - | - | - | - | (1,400,000) |
| Options granted | - | - | - | - | 445,000 | - | - | - |
| Expiry of unvested options | - | - | - | - | (25,000) | (167,000) | 167,000 | - |
| Forfeiture of vested options | - | - | - | - | (90,000) | (390,895) | - | (390,895) |
| Stock based compensation | - | - | - | - | - | 1,814,197 | - | (1,814,197) |
| Loss for the period | - | - | - | - | - | - | (3,008,715) | (3,008,715) |
| Balance, March 31, 2012 | 67,333,307 | $ 341,511,257 | 1,140,835 | $ 3,427,050 | 2,118,438 | $ 8,750,189 | $ (20,598,038) | $ 333,090,458 |
| Exercise of options | 430,000 | 860,000 | - | - | (430,000) | - | - | 860,000 |
| Exercise of options – valuation allocation | - | 552,398 | - | - | - | (552,398) | - | - |
| Options granted | - | - | - | - | 878,125 | - | - | - |
| Expiry of vested options | - | - | - | - | (727,813) | (644,351) | 644,351 | - |
| Forfeiture of unvested options | - | - | - | - | (14,375) | (86,036) | - | (86,036) |
| Stock based compensation | - | - | - | - | - | 1,715,154 | - | 1,715,154 |
| Loss for the period | - | - | - | - | - | - | (42,296,189) | (42,296,189) |
| Balance, September 30, 2012 | 67,763,307 | $ 342,923,655 | 1,140,835 | $ 3,427,050 | 1,824,375 | $ 9,182,558 | $ (62,249,876) | $ 293,283,387 |

*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.

Notwithstanding the above risks, and after taking into consideration the $30,000,000 equity financing completed by the Company subsequent to September 30, 2012, as described in Note 23, the Company does not believe significant doubt exists about its ability to continue as a going concern.

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.

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 quarterly 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.

Asset lives, depletion/depreciation/amortization 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/amortization 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.

| | September 30, 2012 | March 31, 2012 |
|---|---|---|
| | $ | $ |
| Security for letters of credit for rehabilitation provision | $ 2,976,341 | $ 2,958,190 |
| Security for letters of credit for commercial contracts | 4,627,102 | 5,990,030 |
| Total | $ 7,603,443 | $ 8,948,220 |

## 7. Inventories

| | September 30, 2012 | March 31, 2012 |
|---|---|---|
| | $ | $ |
| Ore at site | $ 5,914,869 | $ 3,832,781 |
| Saleable product | 15,540,107 | 11,718,509 |
| Total | $ 21,454,976 | $ 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.

Six of the mining rights in Quebec are held subject to a royalty of 3% of the selling price FOB port of iron ore shipped from the properties, subject to such royalty being no greater than US$1.50 per tonne. Thirty-nine mining rights and parcels 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 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 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 September 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 provision. 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:

| | September 30, 2012 | March 31, 2012 |
|---|---|---|
| | $ | $ |
| Mineral property interests | $ 147,481,848 | $ 141,831,253 |
| Reclamation balance | 2,879,120 | 2,973,879 |
| Capitalized stripping and dewatering | 30,960,175 | 29,130,611 |
| Accumulated depletion and depreciation | (20,211,052) | - |
| | $ 161,110,091 | $ 173,935,743 |

Included in accumulated depletion and depreciation is accumulated depreciation of $7,565,655 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 | 3,639,216 | 515,302 | 2,092,581 | 16,333,470 | 22,580,569 |
| September 30, 2012 | 9,572,039 | 1,070,268 | 31,033,737 | 67,041,375 | 108,717,419 |
| **Accumulated Depreciation at:** | | | | | |
| March 31, 2012 | 1,206,536 | 177,670 | 1,929,433 | 357,593 | 3,671,232 |
| Depreciation for the peroid | 1,108,047 | 108,321 | 1,771,066 | 624,491 | 3,611,925 |
| September 30, 2012 | 2,314,583 | 285,991 | 3,700,499 | 982,084 | 7,283,157 |
| **Net Book Value at:** | | | | | |
| March 31, 2012 | 4,726,287 | 377,296 | 27,011,723 | 50,350,312 | 82,465,618 |
| September 30, 2012 | 7,257,456 | 784,277 | 27,333,238 | 66,059,291 | 101,434,262 |

Property, plant and equipment with a cost of $31,781,356 (March 31, 2012 - $49,915,588) has not been amortized, pending the asset being ready for use.

Included in buildings and mine camp is an asset under finance lease with a net book value of $5,688,780 (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 | 430,000 | 860,000 |
| Exercise of options - valuation allocation | - | 552,398 |
| Balance September 30, 2012 | 67,763,307 | $ 342,923,655 |

(Unaudited, expressed in Canadian dollars)

## 10. Share capital (continued)

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.

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 together with shares issuable under any other stock based compensation arrangements 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 September 30, 2012 and March 31, 2012 and the changes for the periods then ended is presented below:

| | Six months ended September 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 | 878,125 | | 3.00 | 722,500 | | | 7.34 |
| Exercised | (430,000) | | 2.00 | (222,012) | | | 2.29 |
| Expired | (727,813) | | 2.33 | (25,000) | | | 10.18 |
| Forfeited | (14,375) | | 7.93 | (96,250) | | | 9.04 |
| Outstanding, end of period | 1,824,375 | $ | 5.28 | 2,118,438 | $ | $ | 4.56 |

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

| Options Outstanding | | | | Options Exercisable | | |
|---|---|---|---|---|---|---|
| Number | | Weighted Average Exercise Price | Expiry Date | Number | | Weighted Average Exercise Price |
| 243,750 | $ | 6.27 | 14/09/2015 | 243,750 | $ | 6.27 |
| 12,500 | | 7.30 | 09/11/2015 | 10,938 | | 7.30 |
| 132,500 | | 11.65 | 09/02/2016 | 99,375 | | 11.65 |
| 65,000 | | 10.18 | 23/06/2016 | 48,437 | | 10.18 |
| 100,000 | | 6.80 | 22/09/2016 | 50,000 | | 6.80 |
| 40,000 | | 6.81 | 10/11/2016 | 15,000 | | 6.81 |
| 200,000 | | 6.35 | 30/11/2016 | 75,000 | | 6.35 |
| 152,500 | | 6.20 | 09/02/2017 | 38,125 | | 6.20 |
| 878,125 | | 3.00 | 02/07/2017 | 109,765 | | 3.00 |
| 1,824,375 | $ | 5.28 | | 690,390 | $ | 6.05 |

(Unaudited, expressed in Canadian dollars)

## 11. Reserves (continued)

The stock-based compensation expense during the period ended September 30, 2012 related to the vesting of options granted has been recorded as to $73,051 (September 30, 2011- $866,010 recorded to mineral property interest) as a mineral property interest capitalized cost and as to $1,642,105 (September 30, 2011 - $464,488) as a non-operating expense.

There were 878,125 options granted during the six months ended September 30, 2012.

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

The weighted average contractual life remaining for outstanding and exercisable options at September 30, 2012 is 4.21 years and 1.9 years, respectively.

The total number of common shares that are issuable pursuant to stock options that are exercisable as at September 30, 2012 is 690,390. The weighted average exercise price of stock options that are exercisable at September 30, 2012 is $6.05.

### b) Warrants

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

| | Six months ended September 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 September 30, 2012, the Company has outstanding exercisable warrants, with a weighted average remaining contractual life of 0.59 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) Deferred Share Units

A summary of deferred share units issued is presented below:

| | |
|---|---|
| **Balance**, March 31, 2011 | - |
| Deferred share units issued | - |
| **Balance**, March 31, 2012 | - |
| Deferred share units issued | 85,092 |
| **Balance**, September 30, 2012 | 85,092 |

### d) 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 | | 1,715,154 |
| Stock options exercised | | (552,398) |
| Stock options expired | | (644,351) |
| Stock options forfeited | | (86,036) |
| **Balance,** September 30, 2012 | $ | 12,609,608 |

(Unaudited, expressed in Canadian dollars)

## 12. Related party transactions and Compensation of key management personnel

During the six months ended September 30, 2012, the Company recovered $60,030 (September 30, 2011 - $58,474) in respect of office rent from corporations with common directors and/or officers. At September 30, 2012, $7,626 (March 31, 2012 - $10,910) remained receivable.

During the six months ended September 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 $358,208 (September 30, 2011 - $333,047). All of the management compensation in the period ended September 30, 2012 was expensed. At September 30, 2012, $57,267 (March 31, 2012 - $175,000) in management compensation remained payable to these related companies.

During the six months ended September 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 $118,190 (September 30, 2011 - $180,896). At September 30, 2012, $40,906 (March 31, 2012 - $105,961) remained payable to this related party for legal fees.

<u>Compensation of key management personnel of the Company</u>

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

| | Six months ended | |
|---|---|---|
| | September 30, 2012 | September 30, 2011 |
| Short-term compensation (i) | $ 742,708 | $ 411,345 |
| Other long-term benefits | - | - |
| Share-based payments (ii) | 449,330 | 251,398 |
| | $ 1,192,038 | $ 662,743 |

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 September 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 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, develop and mine 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 September 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 September 30, 2012, minimum rental commitments remaining under this lease are as follows:

| | | |
|---|---|---|
| During first year | $ | 502,000 |
| During second year | | 502,000 |
| During third year | | 502,000 |
| During fourth year | | 502,000 |
| During fifth year | | 502,000 |
| Beyond fifth year | | 1,004,000 |
| | $ | 3,514,000 |

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.

(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 and port 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 and tariffs. The port contract includes a provision for a future buy-in payment, which will be credited against future shipping fees. The port contract also includes provisions for minimum future shipping volumes and fees. As at September 30, 2012, minimum commitments remaining under these contracts, net of credits against future tariffs and fees, are as follows:

| | | |
|---|---|---|
| During first year | $ | 52,005,918 |
| During second year | | 56,771,113 |
| During third year | | 30,964,713 |
| During fourth year | | 3,500,000 |
| During fifth year | | 125,000 |
| Beyond fifth year | | 24,350,000 |
| | $ | 167,716,744 |

(d) The Company entered into flow-through share subscription agreements on April 26, 2011 whereby it is committed to incur, by December 31, 2012, a total of $10,000,500 of qualifying Canadian Exploration Expenses, as described in the Income Tax Act. As at September 30, 2012, a balance of $600,971 remained to be incurred by 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, by December 31, 2013, a total of $10,675,000 of qualifying Canadian Exploration Expenses, as described in the Income Tax Act. As at September 30, 2012, a balance of $10,675,000 remained to be to be incurred by 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.

(f) Refer to Note 15 for finance lease obligation.

## 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 September 30, 2012 respectively. The Company used an incremental borrowing rate of 11% in determining the value of the finance lease obligation.

| | Six months ended September 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 | (487,032) | (600,000) |
| Add: Interest accretion | 146,175 | 207,307 |
| Balance, end of period | 3,555,558 | 1,668,322 |
| Less: current portion, end of period | (810,014) | (438,137) |
| Long-term portion, end of period | $ 2,745,544 | $ 1,230,185 |

(Unaudited, expressed in Canadian dollars)

## 15. Finance lease obligation (continued)

At September 30, 2012, future minimum lease payments under the finance lease agreement are as follows:

| | | |
|---|---|---|
| During first year | $ | 1,104,000 |
| During second year | | 1,104,000 |
| During third year | | 754,000 |
| During fourth year | | 504,000 |
| During fifth year | | 228,000 |
| Beyond fifth year | | - |
| | $ | 3,694,000 |

## 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 September 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 $3,002,398 at September 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:

| | Six months ended September 30, 2012 | Year ended March 31, 2012 |
|---|---|---|
| Balance, beginning of period | $ 3,074,820 | $ 2,730,299 |
| Accretion expense | 22,336 | 56,821 |
| Change in estimates | (94,758) | 287,700 |
| Balance, end of period | $ 3,002,398 | $ 3,074,820 |
| | | |
| Current | $ 514,853 | $ 519,889 |
| Non-current | 2,487,545 | 2,554,931 |
| Balance, end of period | $ 3,002,398 | $ 3,074,820 |

## 17. Long term prepaid expenses, infrastructure advances and deferred expenses

Long term prepaid expenses, infrastructure advances and deferred expenses consist of various prepaid royalties and prepaid tariffs and infrastructure advances, which in aggregate total $30,997,217 at September 30, 2012 (March 31, 2012 - $10,930,116).

(Unaudited, expressed in Canadian dollars)

## 18. Accounts receivable and prepaid expenses

| | September 30, 2012 | March 31, 2012 |
|---|---|---|
| Accounts receivable | $ 15,563,814 | $ 214,173 |
| Refundable taxes | 8,649,920 | 4,223,886 |
| Prepaid expenses | 10,321,701 | 11,089,982 |
| | $ 34,535,435 | $ 15,528,041 |

## 19. Accounts payable and accrued liabilities

| | September 30, 2012 | March 31, 2012 |
|---|---|---|
| Trade payables and accruals | $ 55,636,022 | $ 39,257,491 |
| Payroll and other statutory liabilities | 2,504,084 | 1,263,056 |
| | $ 58,140,106 | $ 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 September 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 September 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 September 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 rebates 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 September 30, 2012, the Company had a working capital deficit of $2,628,537. Subsequent to September 30, 2012, the Company completed an equity financing with gross proceeds of $30,000,000, as described in Note 22. Accordingly, management believes the Company is able to meet its current obligations as they fall due.

*iii) Foreign currency risk*

The majority of the Company's costs 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 may 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 September 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 $25,000 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 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 September 30, 2012, the Company issued an aggregate of 30,000,000 common shares at an issue price of $1.00 per share pursuant to a short form prospectus for gross proceeds of $30,000,000.

(b) Subsequent to September 30, 2012, the Company issued 1,500,000 share purchase warrants as partial compensation to the underwriter of the short form prospectus offering. The warrants are exercisable into common shares of the Company at an exercise price of $1.00 per share and expire on May 6, 2014.

(c) Subsequent to September 30, 2012, 478,335 share purchase warrants exercisable at $12.50 per share expired.

## 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.