

LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

Consolidated Financial Statements

For the years ended March 31, 2010 and March 31, 2009

(Expressed in Canadian dollars)

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INDEX	PAGES
Auditors' Report	1
Consolidated Balance Sheets	2
Consolidated Statements of Operations, Comprehensive Income (Loss) and Deficit	3
Consolidated Statements of Cash Flows	4
Notes to the Consolidated Financial Statements	5 – 20



AUDITORS' REPORT

To the Shareholders of
Labrador Iron Mines Holdings Limited
(A Development Stage Company)

We have audited the consolidated balance sheets of Labrador Iron Mines Holdings Limited (A Development Stage Company) as at March 31, 2010 and 2009 and the consolidated statements of operations and comprehensive income (loss) and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

As described in Note 3, the consolidated financial statements of the Company as at March 31, 2009 and for the year then ended have been restated. We therefore withdraw our previous report dated May 20, 2009, except for Note 11, which was at June 3, 2009, on those consolidated financial statements.

McGOVERN, HURLEY, CUNNINGHAM, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
June 15, 2010

LABRADOR IRON MINES HOLDINGS LIMITED*(A Development Stage Company)***Consolidated Balance Sheets**

	As at March 31, 2010	As at March 31, 2009 <i>(As restated, Note 3)</i>
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	48,299,095	35,201,989
Accounts receivable and prepaid expenses (Note 7)	676,750	537,015
	<u>48,975,845</u>	<u>35,739,004</u>
Non current assets		
Mineral property interests (Note 4)	150,883,030	140,797,497
Long term prepaid expenses (Note 11)	2,255,000	155,000
Property, plant and equipment (Note 5)	7,919,845	994,332
	<u>210,033,720</u>	<u>177,685,833</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Notes 4 and 7)	2,118,827	1,067,424
Long term payables (Note 4)	1,000,000	-
Future income tax liabilities (Note 12(b))	31,305,364	35,695,000
	<u>34,424,191</u>	<u>36,762,424</u>
SHAREHOLDERS' EQUITY		
Share capital (Notes 3 and 6(a))	160,837,192	128,545,307
Warrants (Notes 3 and 6(b)(c))	1,146,876	6,327,781
Contributed surplus (Notes 3 and 6(d))	14,095,216	7,684,848
Accumulated other comprehensive income	-	-
Deficit (Note 3)	(469,755)	(1,634,527)
	<u>175,609,529</u>	<u>140,923,409</u>
	<u>210,033,720</u>	<u>177,685,833</u>

Commitments and contingencies (Notes 4 and 10)

APPROVED ON BEHALF OF THE BOARD:

Signed "John F. Kearney"
DirectorSigned "Richard Lister"
Director

See accompanying notes to the consolidated financial statements.

LABRADOR IRON MINES HOLDINGS LIMITED*(A Development Stage Company)***Consolidated Statements of Operations, Comprehensive Income (Loss) and Deficit**

	For the year ended March 31, 2010 \$	For the year ended March 31, 2009 \$
Expenses		
Administration	849,382	882,116
Management costs	758,071	248,950
Corporate expenses	836,159	343,401
Professional fees	146,102	70,491
Directors' fees	50,500	41,000
Depreciation	112,088	48,210
Stock-based compensation	85,973	654,613
Loss before the undernoted	2,838,275	2,288,781
Interest earned	90,400	1,152,293
Loss before income taxes	(2,747,875)	(1,136,488)
Future income tax recovery (Note 12(a))	3,912,647	784,000
Net income (loss) for the year	1,164,772	(352,488)
Other comprehensive income	-	-
Comprehensive income (loss) for the year	1,164,772	(352,488)
Deficit, beginning of year (As restated, Note 3)	(1,634,527)	(1,282,039)
Deficit, end of year (As restated, Note 3)	(469,755)	(1,634,527)
Net income (loss) per share		
- basic	0.03	(0.01)
- diluted	0.03	(0.01)
Weighted average number of shares outstanding		
- basic	37,396,943	37,193,951
- diluted	37,352,333	37,193,951

See accompanying notes to the consolidated financial statements.

LABRADOR IRON MINES HOLDINGS LIMITED*(A Development Stage Company)***Consolidated Statements of Cash Flows**

	For the year ended March 31, 2010 \$	For the year ended March 31, 2009 \$
Cash flows from (used in) operating activities		
Net income (loss) for the year	1,164,772	(352,488)
Items not involving cash		
Stock-based compensation	85,973	654,613
Depreciation	112,088	48,210
Future income tax recovery	(3,912,647)	(784,000)
	(2,549,814)	(433,665)
Changes in non-cash working capital	(582,050)	(390,244)
Cash flows used in operating activities	(3,131,864)	(823,909)
Cash used in investing activities		
(Increase) in mineral property interests	(7,403,537)	(10,414,365)
(Increase) decrease in long-term prepaid expenses	(2,100,000)	30,413
Property, plant and equipment purchases	(7,037,601)	(1,030,325)
Cash used in investing activities	(16,541,138)	(11,414,277)
Cash flows from financing activities		
Exercise of stock options	111,000	-
Shares issued, net of issue costs	32,659,108	-
Repurchase of common shares	-	(43,026)
Cash flows from financing activities	32,770,108	(43,026)
Change in cash and cash equivalents	13,097,106	(12,281,212)
Cash and cash equivalents, beginning of year	35,201,989	47,483,201
Cash and cash equivalents, end of the year	48,299,095	35,201,989
Cash and cash equivalents consist of:		
Cash	31,951,519	149,727
Cash equivalents	16,347,576	35,052,262
	48,299,095	35,201,989
Supplemental disclosure of cash flow information		
Interest paid	-	8,021
Income taxes paid	-	-
Stock-based compensation recorded to mineral property interests	66,868	1,198,000
Future income tax liability related to stock-based compensation in mineral property interests	21,000	500,000
Change in accrued mineral property interests	2,404,248	-
Change in accrued share issue costs	129,488	-
Future income tax asset related to share issue costs	687,869	-

See accompanying notes to the consolidated financial statements.

LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

Notes to the Consolidated Financial Statements

March 31, 2010 and 2009

1. NATURE OF OPERATIONS

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

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

Although the Company has taken steps to verify its title to the properties on which it is conducting its exploration and development activities, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal land claims and non-compliance with regulatory and environmental requirements.

At March 31, 2010, the Company believes it has sufficient working capital to complete the commissioning of the first phase of its iron ore mining projects, to complete the construction of the rail and port infrastructures and to commence shipments of iron ore to begin generating operating cash flows. Accordingly, the Company does not believe significant doubt exists about its ability to continue as a going concern for the ensuing twelve months.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

Financial Instruments

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

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

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

LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

Notes to the Consolidated Financial Statements

March 31, 2010 and 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

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

Cash and cash equivalents

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

Comprehensive income

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

Mineral property interests and deferred exploration expenditures

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

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

Asset retirement obligations

Management is not currently aware of any significant asset retirement obligation of the Company. The Company will be required to record a liability for the estimated future costs associated with legal obligations relating to the reclamation and closure of its mineral property interests. This amount will be initially recorded in the period in which it is identified at its discounted present value with subsequent annual recognition of an accretion amount on the discounted liability. An equivalent amount will be recorded as an increase to mineral property interests and will be amortized over the useful life of the property.

LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

Notes to the Consolidated Financial Statements

March 31, 2010 and 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes

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

Net income (loss) per share

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

Foreign currency translation

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

Flow-through financing

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

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

Use of estimates

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

LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

Notes to the Consolidated Financial Statements

March 31, 2010 and 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-based compensation

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

Property, plant and equipment

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

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

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

New accounting pronouncements:

Section 3064, Goodwill and Intangible Assets

In February 2008, the CICA issued the new Section 3064 to replace Section 3062, "Goodwill and Other Intangible Assets" and establish standards for the recognition, measurement and disclosure of goodwill and intangible assets. In addition, the CICA issued amendments to Section 1000 "Financial Statement Concepts" and Accounting Guideline 11, "Enterprises in the Development Stage" and withdrew Section 3450, "Research and Development Costs." The Company adopted Section 3064 effective April 1, 2009. The adoption of this section did not have a significant impact on the Company's consolidated financial statements.

Fair Value Hierarchy and Liquidity Risk Disclosure

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

Future accounting changes:

International Financial Reporting Standards ("IFRS")

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

LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

Notes to the Consolidated Financial Statements

March 31, 2010 and 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Section 1582, Business Combinations

In January 2009, the CICA issued Section 1582 to replace Section 1581, "Business Combinations". Section 1582 will apply to a transaction in which the acquirer obtains control of one or more businesses (as defined in the Section). Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. A bargain purchase will result in the recognition of a gain. Acquisition costs will be expensed. Any non-controlling interest will be recognized as a separate component of shareholders' equity and net income will be allocated between the controlling and non-controlling interests. These new standards will apply to fiscal years beginning on or after January 1, 2011. The Company does not believe that these new Sections will have an impact on its consolidated financial statements and expects to adopt these standards on April 1, 2011.

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

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

3. RESTATEMENT

Stock-based compensation expense amounting to \$3,275,000, relating to certain stock options granted as part of the IPO of the Company in 2007, was originally classified as an issuance cost related to the IPO and recorded to share capital and warrants in the year ended March 31, 2008. The Company has subsequently determined that this expense would have been more appropriately classified as an operating expense for the year ended March 31, 2008. This change in accounting treatment has resulted in an increase in share capital of \$2,915,000 and an increase in warrants of \$360,000 at March 31, 2008 and March 31, 2009; and an increase in deficit of \$3,275,000 at March 31, 2008 and March 31, 2009. This change in accounting treatment also resulted in additional stock-based compensation expense of \$3,275,000 for the year ended March 31, 2008, resulting in a restated loss of \$1,282,039 compared to net income of \$1,992,961 previously reported. Total shareholders' equity and cash flows remain unchanged as a result of this restatement.

4. 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 Québec, near the town of Schefferville, Québec.

All of the iron ore properties located in Labrador are held subject to a royalty in the amount of 3% of the selling price (FOB Port) of iron ore produced and shipped from such properties, such royalty being payable quarterly in arrears.

LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

Notes to the Consolidated Financial Statements

March 31, 2010 and 2009

4. MINERAL PROPERTY INTERESTS (Continued)

During December 2009, the Company, through a new wholly owned subsidiary, Schefferville Mines Inc. ("SMI"), acquired interests in additional mineral properties located in Québec for total consideration of \$2,900,000, of which \$1,150,000 was paid on signing and \$1,750,000 remains payable in interest-free installment amounts to December 31, 2011 (\$750,000 which is included in accounts payable and accrued liabilities is due in the next 12 months and \$1,000,000 which is reflected in long term payables is due in two installments of \$500,000 each on June 30, 2011 and December 31, 2011). The Company also acquired additional manganese properties in Labrador for consideration of \$100,000.

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

On December 15, 2009, the Company, through SMI, acquired, subject to all regulatory and government consents and approvals, an exclusive operating license in certain properties held under a 1953 Québec 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 Québec, to sublease the properties. The operating license is held subject to the payment of a royalty of \$2.00 per tonne of iron ore shipped from the area of the 1953 Lease. The Company has agreed to assume certain existing liabilities and liens related to the 1953 Lease properties. Any amounts paid in respect of such liabilities and liens in excess of \$1,500,000 will be deemed to be an advance royalty payment. Amounts totaling \$800,000 had been paid at March 31, 2010.

Certain of the properties acquired in 2009 are subject to pre-existing litigation by third parties against the previous holders of the properties claiming rights to or ownership of such properties.

Increases in mineral property interests for the year ended March 31, 2010 and for the year ended March 31, 2009 are as follows:

	Year ended March 31, 2010	Year ended March 31, 2009
	\$	\$
Balance, beginning of year	140,797,497	127,934,282
Additions:		
Community	229,484	334,808
Engineering	981,658	1,979,839
Environment and permits	1,068,802	1,597,170
Exploration	4,150,488	4,938,893
Feasibility	-	1,323,626
Transport services	368,350	728,403
Travel and accommodations	219,883	262,476
Stock-based compensation	66,868	1,698,000
Property acquisitions	3,000,000	-
	<u>10,085,533</u>	<u>12,863,215</u>
Balance, end of year	<u>150,883,030</u>	<u>140,797,497</u>

LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

Notes to the Consolidated Financial Statements

March 31, 2010 and 2009

5. PROPERTY, PLANT AND EQUIPMENT

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

	March 31, 2009		
	Cost \$	Accumulated Depreciation \$	Net Book Value \$
Service buildings	905,396	24,131	881,265
Computer equipment	52,715	11,418	41,297
Field equipment	13,258	3,315	9,943
Leasehold improvements	26,484	2,048	24,436
Office equipment	19,390	2,458	16,932
Vehicles	25,727	5,268	20,459
	<u>1,042,970</u>	<u>48,638</u>	<u>994,332</u>

Property, plant and equipment with a net book value of \$6,896,365 (\$2009 - \$Nil) has not been amortized as the items are not currently in use.

6. SHARE CAPITAL

(a) Common shares

Authorized

Unlimited common shares

	Shares #	Amount \$
Issued		
Balance, March 31, 2008 (Note 3)	37,193,951	128,699,181
Repurchases - normal course issuer bid	(45,500)	(43,026)
Excess of book value of shares over repurchase price	-	(110,848)
Balance, March 31, 2009	37,148,451	128,545,307
Exercise of options	55,500	111,000
Exercise of options - valuation allocation	-	70,254
Common shares issued at \$5.55 per share	5,406,000	30,003,300
Flow-through shares issued at \$6.65 per share	760,000	5,054,000
Share issue costs	-	(1,799,793)
Broker warrants	-	(1,146,876)
Balance, March 31, 2010	<u>43,369,951</u>	<u>160,837,192</u>

LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

Notes to the Consolidated Financial Statements

March 31, 2010 and 2009

6. SHARE CAPITAL (Continued)

(a) Common shares (continued)

Issued

During the year ended March 31, 2010, employees of the Company exercised 55,500 options at an exercise price of \$2.00 per share, for gross proceeds of \$111,000.

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

During the year ended March 31, 2009, the Company conducted a normal course issuer bid and as of March 31, 2009, the Company had repurchased 45,500 shares at a cost of \$43,026. The excess of the average book value over the cost to repurchase these shares amounting to \$110,848 has been credited to contributed surplus. All of the Company's share repurchases under the normal course issuer bid took place during the year ended March 31, 2009. The normal course issuer bid expired on October 2, 2009.

(b) Share purchase warrants

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

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

LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

Notes to the Consolidated Financial Statements

March 31, 2010 and 2009

6. SHARE CAPITAL (Continued)

(c) Stock options

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

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

On September 15, 2009, at the Annual General Meeting of the Company, shareholders approved the cancellation of all 3,350,000 outstanding stock options, exercisable at \$4.00 and \$4.85 per share, to be replaced with 1,675,000 stock options with an exercise price of \$2.00 per share, an expiry date of August 31, 2012, and vesting as to one-eighth thereof quarterly over a period of two years. As the estimated fair value of the replacement options was less than the fair value of the cancelled options at the grant date of the replacement options, no incremental cost related to the replacement options was recorded.

On September 15, 2009, the Board of Directors also approved the grant of an additional 280,000 options to employees at an exercise price of \$2.00 per share, with an expiry date of August 31, 2012, and vesting as to one-eighth thereof quarterly over a period of two years. These options have a grant date estimated fair value of \$232,400 calculated using the Black-Scholes option pricing model based on the following assumptions: risk-free interest rate of 1.90%, expected life of 3 years, expected dividend rate of 0%, and expected volatility of 97%.

The stock-based compensation expense related to the vesting during the year ended March 31, 2010 of three-eighths of the new issue of 280,000 options, has been recorded as to \$66,868 as a mineral property interest capitalized cost and as to \$85,973 as an operating expense.

LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

Notes to the Consolidated Financial Statements

March 31, 2010 and 2009

6. SHARE CAPITAL (Continued)

(c) Stock options (continued)

The following are the option transactions during the year ended March 31, 2010:

	Options #	Weighted average exercise price \$
Balance, March 31, 2009 and 2008	3,350,000	4.10
Cancelled	(3,350,000)	4.10
Issued	1,955,000	2.00
Exercised	(55,500)	2.00
Balance, March 31, 2010	<u>1,899,500</u>	2.00

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

Number of options outstanding	Number of options exercisable	Exercise price	Expiry date
1,899,500	677,625	\$2.00	August 31, 2012

(d) Contributed surplus

Contributed surplus transactions for the period ended March 31, 2010 were as follows:

Balance, March 31, 2008	\$ 5,721,387
Stock-based compensation on grant of options to employees	1,852,613
Issuer bid share buyback excess of book value over purchase price (Note 6(a))	<u>110,848</u>
Balance, March 31, 2009	7,684,848
Stock-based compensation on grant of options to employees	152,841
Reallocated to share capital upon option exercise	(70,254)
Expiry of broker warrants issued in IPO	919,781
Expiry of share purchase warrants issued in IPO	<u>5,408,000</u>
Balance, March 31, 2010	<u>\$ 14,095,216</u>

7. RELATED PARTY TRANSACTIONS

During the year ended March 31, 2010, the Company recovered \$176,633 (2009 - \$61,625) in respect of office rent (administration expense) from corporations with common directors and/or officers, of which \$9,655 (2009 - \$Nil) remained outstanding at March 31, 2010.

The Company also made payments to companies with common directors and/or officers, in respect of management compensation (management costs) provided in the amount of \$489,737 (2009 - \$200,000).

The Company incurred legal fees in respect of services provided by an officer in the amount of \$162,800 (2009 - \$27,351). At March 31, 2010, \$104,000 (2009 - \$4,445) in legal fees remained payable to this related party.

An amount of \$40,018 (2009 - \$Nil) was receivable at March 31, 2010 from Anglesey Mining plc with respect to a portion of the issue costs of the short form prospectus financing in March 2010.

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

LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

Notes to the Consolidated Financial Statements

March 31, 2010 and 2009

8. FINANCIAL INSTRUMENTS

Fair value

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

Fair Value Hierarchy and Liquidity Risk Disclosure

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

Financial risk management

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

i) Credit risk

The Company considers that financial assets are exposed to credit risk. Cash and cash equivalents are valued at \$48,299,095 as at March 31, 2010. Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company does not currently generate any revenue from sales to customers nor does it hold derivative type instruments that would require a counterparty to fulfill a contractual obligation. The Company has never held any asset backed paper instruments. The Company seeks to place its cash and cash equivalents with reputable financial institutions. Accordingly, the Company believes that it is exposed to minimal credit risks at the current time, although concerns surrounding financial institutions globally have increased the risk of a credit default by a major bank impacting the Company. At March 31, 2010, the Company's cash and cash equivalents were held at a major Canadian bank. Accounts receivable consists primarily of commodity taxes recoverable from the Government of Canada. 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 March 31, 2010, the Company had working capital of \$46,857,018. Accordingly, the Company is able to meet its current obligations and has minimal liquidity risk.

iii) Foreign currency risk

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

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

LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

Notes to the Consolidated Financial Statements

March 31, 2010 and 2009

8. FINANCIAL INSTRUMENTS (Continued)

iii) Foreign currency risk (continued)

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

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

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

iv) Interest rate risk

Included in net income for the year in these consolidated financial statements is interest earned on the Company's cash and cash equivalents. If interest rates throughout the year had been 100 basis points higher (lower) then net income would have been approximately \$280,000 higher (lower). The Company does not have any debt obligations which expose it to interest rate risk.

v) Commodity price risk

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

9. CAPITAL MANAGEMENT

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

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

LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

Notes to the Consolidated Financial Statements

March 31, 2010 and 2009

9. CAPITAL MANAGEMENT (Continued)

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.

10. COMMITMENTS AND CONTINGENCIES

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

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

The Company has signed Memoranda of Understanding with the Innu Nation of Matimekush-Lac John (Schefferville) and with the Naskapi Nation (KawawachikaMarch) reflecting the agreement of the parties with respect to community support for the development of the Schefferville Projects and the parties commitment to negotiate more detailed co-operation agreements.

- (c) During December 2009, the Company acquired interests in certain mineral properties located in Québec. See Note 4.
- (d) As at March 31, 2010, the Company is committed to a minimum amount of rental payments under a long-term lease for its office premises, which expires on August 31, 2019. Minimum rental commitments remaining under this lease approximate \$3,142,000, as follows:

2011	\$	334,000
2012		334,000
2013		334,000
2014		334,000
2015 and beyond		<u>1,806,000</u>
	\$	<u>3,142,000</u>

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

LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

Notes to the Consolidated Financial Statements

March 31, 2010 and 2009

10. COMMITMENTS AND CONTINGENCIES (Continued)

- (e) The Company's mining and exploration activities are subject to various Canadian federal and provincial laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.
- (f) The Company entered into flow-through share subscription agreements on March 25, 2010 whereby it is committed to incur, on or before December 31, 2011, a total of \$5,054,000 of qualifying Canadian Exploration Expenses as described in the Income Tax Act. As at March 31, 2010, no such expenditure had been incurred, leaving a balance of \$5,054,000 to be incurred on or before December 31, 2011. The Company has indemnified the subscribers for any tax related amounts that may become payable by the subscribers as a result of the Company not meeting its expenditure commitments.

11. LONG TERM PREPAID EXPENSES

Long term prepaid expenses at March 31, 2010 consist of the following amounts:

Prepaid royalties (Note 4)	\$ 2,100,000
Rent deposit	<u>155,000</u>
	<u>\$ 2,255,000</u>

LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

Notes to the Consolidated Financial Statements

March 31, 2010 and 2009

12. PROVISION FOR INCOME TAXES

- (a) The major items causing the Company's income tax expense to differ from the Canadian combined federal and provincial statutory rate of 32.6% (2009 - 33.5%) are as follows:

	2010	2009
	\$	\$
Loss before income taxes	2,747,875	1,136,488
Expected income tax recovery at statutory rates	896,000	381,000
Adjustments resulting from:		
Change in tax rates	2,648,000	637,000
Other	396,647	(15,000)
Stock-based compensation	(28,000)	(219,000)
Future income tax recovery	3,912,647	784,000

In 2008 and 2009, lower Canadian federal income tax rates became substantively enacted. As a result, the future income tax liabilities and other future income tax assets and liabilities of the Company were reassessed at the new substantively enacted tax rates expected to be in effect at the time the temporary differences are expected to reverse. This reassessment arising from the change in tax rates, along with accumulated operating losses, resulted in a future income tax recovery.

(b) Future income tax balances

The future income tax liabilities initially arose due to the difference between the purchase price and the underlying income tax values of the mineral property interests acquired.

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

	2010	2009
	\$	\$
Future income tax assets (liabilities)		
Non-capital losses	1,975,000	724,000
Mineral property interests	(34,583,000)	(37,271,000)
Capital losses	134,000	143,000
Share issue costs	1,129,000	852,000
Other	173,636	-
Valuation allowance	(134,000)	(143,000)
Future income tax liabilities	(31,305,364)	(35,695,000)

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

LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

Notes to the Consolidated Financial Statements

March 31, 2010 and 2009

13. SUBSEQUENT EVENTS

Subsequent to March 31, 2010, 111,555 employee stock options were exercised by employees of the Company at an exercise price of \$2.00 per share, resulting in the issuance of 111,555 common shares for total proceeds of \$223,110.

Subsequent to March 31, 2010, 9,249 broker warrants were exercised at an exercise price of \$6.36 per share, resulting in the issuance of 9,249 common shares for total proceeds of \$58,824.

The Company has entered into a lease agreement for a mine camp. The Company is committed to a minimum amount of lease payments under a long-term lease which expires in fiscal 2015. Minimum lease commitments remaining under this agreement approximate \$3,000,000, including \$600,000 due within one year. The Company has the option to purchase the mine camp for \$1,030,000 at the end of three years or \$100,000 at the end of five years.