



Labrador Iron Mines Limited

LABRADOR IRON MINES LIMITED

Consolidated Financial Statements

For the Years Ended March 31, 2021 and 2020

(Expressed in Canadian dollars)

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McGovern Hurley

Audit. Tax. Advisory.

Independent Auditor's Report

To the Shareholders of Labrador Iron Mines Limited

Opinion

We have audited the consolidated financial statements of Labrador Iron Mines Limited and its subsidiary (the "Company"), which comprise the consolidated statements of financial position as at March 31, 2021 and 2020, and the consolidated statements of operations and comprehensive income (loss), consolidated statements of cash flows and consolidated statements of shareholders' (deficiency) equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at March 31, 2021 and 2020 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company requires additional funding on order to fund its ongoing working capital requirements and that it had a working capital deficit as at March 31, 2021. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that material uncertainties exist that cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

McGovern Hurley LLP

McGovern Hurley LLP

**Chartered Professional Accountants
Licensed Public Accountants**

Toronto, Ontario
June 25, 2021

LABRADOR IRON MINES LIMITED
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	March 31, 2021	March 31, 2020
ASSETS		
Current assets		
Cash	\$ 324,199	\$ 133,437
Restricted cash (Note 6)	80,258	111,015
Accounts receivable (Note 5)	284,363	1,352
Due from Labrador Iron Mines Holdings Limited (Note 17)	-	6,442
Total current assets	<u>688,820</u>	<u>252,246</u>
Non-current assets		
Restricted cash (Note 6)	938,161	1,278,210
Prepaid exploration expenses	20,683	20,683
Exploration and evaluation assets (Notes 7 and 16)	26,400,317	1
Property, plant and equipment (Notes 8, 14 and 16)	1	1
Total non-current assets	<u>27,359,162</u>	<u>1,298,895</u>
Total assets	<u>\$ 28,047,982</u>	<u>\$ 1,551,141</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Notes 9, 17 and 18)	\$ 547,745	\$ 325,854
Due to Labrador Iron Mines Holdings Limited (Note 17)	292,990	-
Rehabilitation provision (Note 10)	-	111,015
Total current liabilities	<u>840,735</u>	<u>436,869</u>
Non-current liabilities		
Accrued liabilities (Notes 9 and 18)	231,250	231,250
Rehabilitation provision (Note 10)	1,145,067	1,482,554
Total non-current liabilities	<u>1,376,317</u>	<u>1,713,804</u>
Total liabilities	<u>2,217,052</u>	<u>2,150,673</u>
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Share capital (Note 11)	32,691,192	32,691,192
Deficit	(6,860,262)	(33,290,724)
Total shareholders' equity (deficiency)	<u>25,830,930</u>	<u>(599,532)</u>
Total liabilities and shareholders' equity (deficiency)	<u>\$ 28,047,982</u>	<u>\$ 1,551,141</u>
Going concern (Note 1)		
Commitments and contingencies (Note 13)		

The financial statements were approved by the Board of Directors on June 25, 2021 and signed on its behalf by:

Signed "John F. Kearney" <hr/> Director	Signed "Richard Pinkerton" <hr/> Director
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The accompanying notes form an integral part of these consolidated financial statements.

LABRADOR IRON MINES LIMITED
Consolidated Statements of Operations and Comprehensive Income (Loss)
(Expressed in Canadian dollars)

	Year ended March 31, 2021	Year ended March 31, 2020
Operating expenses		
Site operations	\$ (367,951)	\$ (1,013,799)
Loss before the undernoted	<u>(367,951)</u>	<u>(1,013,799)</u>
Corporate and administrative costs	(217,802)	(324,760)
Accretion (Note 10)	(7,137)	(15,475)
Impairment reversal (Note 16)	25,963,413	11,404
Interest earned	4,890	25,868
Rehabilitation provision recovery (Note 10)	305,049	43,930
Assignment of rights (Note 15)	750,000	-
	<u>26,798,413</u>	<u>(259,033)</u>
Net loss before income taxes	<u>26,430,462</u>	<u>(1,272,832)</u>
Deferred income tax (Note 20 (a))	-	-
Net loss and comprehensive loss for the year	<u>\$ 26,430,462</u>	<u>\$ (1,272,832)</u>
Loss per share		
Basic and diluted	\$ 0.26	\$ (0.01)
Weighted average number of shares outstanding		
Basic and diluted (Note 11)	99,794,925	99,794,925

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

LABRADOR IRON MINES LIMITED
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Year ended March 31, 2021	Year ended March 31, 2020
Cash (used in) operating activities		
Net income (loss) for the year	\$ 26,430,462	\$ (1,272,832)
Items not involving cash		
Accretion (Note 10)	7,137	15,475
Accrued interest	1,959	(11,591)
Impairment reversal (Note 16)	(25,963,413)	(11,404)
Rehabilitation provision recovery (Note 10)	(305,049)	(43,930)
Changes in working capital, excluding related parties	<u>(546,521)</u>	<u>221,688</u>
Cash (used in) operating activities	<u>(375,425)</u>	<u>(1,102,594)</u>
Cash provided by investing activities		
Proceeds from sale of property and equipment (Note 14)	-	50,000
Proceeds from the assignment of rights (Note 15)	500,000	-
Investment in exploration and evaluation assets (Note 7)	(436,903)	-
Performance of site rehabilitation	(150,590)	(511,987)
Release of restricted cash	354,248	511,987
Net advances from Labrador Iron Mines Holdings Limited (Note 17)	<u>299,432</u>	<u>1,131,523</u>
Cash provided by investing activities	<u>566,187</u>	<u>1,181,523</u>
Cash provided by financing activities		
Advance from director (Note 17)	-	400,000
Repayment of advance from director (Note 17)	-	(400,000)
Cash provided by financing activities	<u>-</u>	<u>-</u>
Change in cash		
Cash, beginning of year	190,762	78,929
Cash, end of year	<u>\$ 324,199</u>	<u>\$ 133,437</u>

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

LABRADOR IRON MINES LIMITED
Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
(Expressed in Canadian dollars)

	Share Capital		Deficit Amount	Shareholders' Equity (Deficiency) Amount
	Number	Amount		
Balance, March 31, 2019	99,794,925	\$ 32,691,192	\$ (32,017,892)	\$ 673,300
Loss for the year	-	-	(1,272,832)	(1,272,832)
Balance, March 31, 2020	99,794,925	32,691,192	(33,290,724)	(599,532)
Net income for the year	-	-	26,430,462	26,430,462
Balance, March 31, 2021	99,794,925	\$ 32,691,192	\$ (6,860,262)	\$ 25,830,930

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

LABRADOR IRON MINES LIMITED
Notes to the Consolidated Financial Statements
March 31, 2021 and 2020
(Expressed in Canadian dollars)

1. Nature of Operations and Going Concern

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Labrador Iron Mines Limited ("LIM") and LIM's wholly-owned subsidiary Schefferville Mines Inc. ("SMI").

All significant intercompany accounts and transactions have been eliminated upon consolidation.

Nature of Operations

Labrador Iron Mines Limited (on a consolidated basis, the "Company") is a mineral resource company engaged in the business of exploration, development and mining of iron ore projects in Canada.

The Company's mineral licences located in the Province of Newfoundland and Labrador are held within LIM and the Company's mineral claims located in the Province of Quebec are held within SMI. The Company's primary exploration and evaluation assets are iron ore projects in western Labrador and northeastern Quebec, near the town of Schefferville, Quebec (collectively, the "Schefferville Projects"). Among the Schefferville Projects, the Houston Project, consisting of the Houston and Malcolm properties, and the Elizabeth Taconite Property, are the Company's principal projects.

The Company's head office is located at 55 University Avenue, Suite 1805, Toronto, Ontario, Canada M5J 2H7.

The Company did not conduct mining operations, other than reclamation and standby activities, during the years ended March 31, 2020 and 2021. The Company is currently focused on development of its Houston Project, completing reclamation of its previous mined properties and maintaining its other mineral claims and mining concessions. Subject to securing construction financing, the Company plans to commence construction of its Houston Project.

The business of exploration, development and mining of minerals involves a high degree of risk and there can be no assurance that exploration, development and mining will result in profitable mining operations. The Company's continued existence is dependent upon the preservation of the Company's interests in its 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 impairment of the carrying values of the Company's assets.

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, social licensing requirements, unregistered prior agreements, unregistered claims, aboriginal land claims and non-compliance with regulatory and environmental requirements.

Going Concern

At March 31, 2021, the Company had a working capital deficit of \$151,915, compared to a working capital deficit of \$184,623 at March 31, 2020. Notwithstanding its working capital deficit, the Company believes it has sufficient resources to continue its operations over the next 12 months, based on the Company's expectation that it will generate sufficient proceeds from the sale of surplus assets and the release of restricted cash to fund its corporate and site standby activities. Accordingly, the consolidated financial statements for the year ended March 31, 2021 have been prepared on a going concern basis, using the historical cost convention.

There are no assurances that the Company will be successful in generating sufficient proceeds from the sale of surplus assets, the assignment of rights and the release of restricted cash to fund its ongoing working capital requirements. If the Company is unable to generate sufficient proceeds, the Company could be required to curtail its operations and discontinue as a going concern. These material uncertainties cause significant doubt about the Company's ability to continue as a going concern. If the going concern assumption were not appropriate, adjustments would be necessary to the carrying values of the assets and liabilities, reported revenues and expenses, and statement of financial position classifications in these consolidated financial statements. Such adjustments could be material.

LABRADOR IRON MINES LIMITED
Notes to the Consolidated Financial Statements
March 31, 2021 and 2020
(Expressed in Canadian dollars)

1. Nature of Operations and Going Concern (continued)

Going Concern (continued)

Furthermore, the Company's ability to develop the Houston Project is dependent on completing additional construction financing. Even if the Company is successful in funding its immediate working capital requirements, if the Company is unable to obtain additional construction financing on a timely basis or on reasonable or acceptable terms, then the Company will be unable to pursue development of its Houston Project.

The Company's operations and financial condition could be adversely affected by the effects of the Covid-19 pandemic. The Company has followed the instructions and advice of Federal and Provincial health authorities by working remotely and limiting field activities to help control the spread of the virus. The Company cannot accurately predict the impact the pandemic will have on its operations, schedules and timelines for planned development or exploration programs. In addition, the pandemic has disrupted the economies and financial markets of many countries, which could adversely affect the market for the Company's products and/or the Company's ability to secure financing.

2. Basis of Preparation

These 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 accounting policies set out below were consistently applied to all the periods presented unless otherwise noted.

These consolidated financial statements were prepared on a going concern basis, under the historical cost convention and using the accrual basis of accounting, except for cash flow information. Refer to Notes 1 and 4.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates and these differences could be material. The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

Assets' carrying values and impairment charges

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

Mineral resource estimates

The figures for mineral resources are reported 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.

LABRADOR IRON MINES LIMITED
Notes to the Consolidated Financial Statements
March 31, 2021 and 2020
(Expressed in Canadian dollars)

3. Significant Accounting Judgments, Estimates and Assumptions (continued)

Impairment of exploration and evaluation assets and property, plant and equipment

While assessing whether any indications of impairment exist for exploration and evaluation assets, consideration is given to both external and internal sources of information. External sources of information include technical reports and arm's length exploration and evaluation asset transaction values. External sources of information also include changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of exploration and evaluation assets. Internal sources of information include the manner in which exploration and evaluation assets 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 pre-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 an impairment of the carrying amounts of the Company's exploration and evaluation assets.

While assessing whether any indications of impairment exist for property, plant and equipment, management looks at the higher of recoverable amount or fair value less costs of disposal.

Where an impairment is subsequently reversed, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount and the carrying amount that would have been recorded had no impairment been previously recognized.

These determinations and their individual assumptions require that management make decisions based on the best available information at each reporting period. Refer to Notes 7, 8 and 16.

Cash generating units

Cash generating units ("CGUs") represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets of the Company. This generally results in the Company evaluating its non-financial assets on a geographical and operational basis. The Company generally considers its Schefferville Projects to represent one CGU, as the Schefferville Projects are in close geographical proximity to each other and all share common management, rail, port, processing and mine support infrastructure. During the years ended March 31, 2020 and 2021 the Company completed impairment assessments of its exploration and evaluation assets based on a discounted cash flow analysis. Refer to Notes 7 and 16.

Estimation of rehabilitation provision

The rehabilitation cost estimates are updated annually during the life of a mine to reflect known developments (e.g. revisions to cost estimates and to the estimated lives of operations) and are subject to review at regular intervals. Rehabilitation costs, including decommissioning, restoration and similar liabilities, are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities. Refer to Note 10.

Income, value added, withholding and other taxes

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

Asset lives and depletion and depreciation rates for property, plant and equipment and exploration and evaluation assets

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

LABRADOR IRON MINES LIMITED
Notes to the Consolidated Financial Statements
March 31, 2021 and 2020
(Expressed in Canadian dollars)

3. Significant Accounting Judgments, Estimates and Assumptions (continued)

Going concern

Refer to Note 1.

Contingencies

Refer to Note 13.

4. Significant Accounting Policies

Basis of consolidation

The financial statements consolidate the accounts of LIM and, since December 19, 2016, SMI. All significant intercompany transactions and balances have been eliminated. Refer to Note 1.

Subsidiaries

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are de-consolidated from the date control ceases. The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating intercompany balances and transactions. Refer to Note 1.

Presentation and functional currency

The Company's presentation and functional currency is the Canadian dollar.

Foreign currency translation

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of such transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Exchange differences are recognized in operations in the period in which they arise.

Interest earned

Interest earned is recognized when it is probable that the economic benefits will flow to the Company and the amount of interest can be measured reliably. Interest is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Exploration and evaluation assets

Mineral exploration and evaluation costs, including the cost of acquiring licenses, are capitalized as exploration and evaluation assets on a project-by-project basis pending determination of the technical feasibility and the commercial viability of the project. Capitalized costs include costs directly related to exploration and evaluation activities in the area of interest. General and administrative costs are only allocated to the asset to the extent that those costs can be directly related to operational activities in the relevant area of interest. When a license is relinquished or a project is abandoned, the related costs are recognized in operations immediately. Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) fact and circumstances suggest that the carrying amount exceeds the recoverable amount.

Exploration and evaluation assets are stated at cost, less accumulated impairment.

At March 31, 2020 and 2021, all of the Company's properties are categorized as exploration and evaluation assets.

LABRADOR IRON MINES LIMITED
Notes to the Consolidated Financial Statements
March 31, 2021 and 2020
(Expressed in Canadian dollars)

4. Significant Accounting Policies (continued)

Mineral property interests

The commercial viability of extracting a mineral resource is considered to be determinable when resources are determined to exist, the rights of tenure are current and it is considered probable that the costs will be recouped through successful development and exploitation of the area, or alternatively by sale of the property. Upon determination of resources, exploration and evaluation assets attributable to those resources are first tested for impairment and then reclassified from exploration and evaluation assets to mineral property interests. Expenditures deemed to be unsuccessful are recognized in operations immediately.

Upon reclassification into mineral property interests, all subsequent development expenditures on the project are capitalized within mineral property interests.

Mineral property interests are stated at cost, less accumulated impairment.

Producing mines

After commercial production of a part of mineral property interests commences, all assets included in that part of mineral property interests are reclassified into producing mines.

When a mine project moves into the producing mine stage, the capitalization of certain mine construction costs ceases and costs are either regarded as inventory or expensed, except for costs which qualify for capitalization relating to mining asset additions or improvements or mineable resource development.

Producing mines are stated at cost, less accumulated depreciation and accumulated impairment.

Property, plant and equipment

Items of property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalized value of a finance lease is also included within property, plant and equipment.

Depletion/depreciation/amortization

Accumulated mine development costs are depleted/depreciated/amortized on a unit-of-production basis over the economically recoverable resources of the mine concerned, except in the case of assets whose useful life is shorter than the life of the mine, in which case the straight-line method is applied.

Processing equipment, pumping facilities, silver yard track, port improvements, settling ponds, capitalized stripping costs, dewatering costs and roads are amortized using the units-of-production basis.

Buildings and mine camp	5% declining balance / straight line
Beneficiation plant and equipment	Units of production basis / 30% declining balance
Office equipment	30% declining balance
Transportation infrastructure and equipment	Units of production basis / straight line / 30% declining balance

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of operations and comprehensive loss when the asset is derecognized.

Residual values, useful lives and methods of depletion/depreciation/amortization of assets are reviewed at each reporting period, and adjusted prospectively if appropriate.

LABRADOR IRON MINES LIMITED
Notes to the Consolidated Financial Statements
March 31, 2021 and 2020
(Expressed in Canadian dollars)

4. Significant Accounting Policies (continued)

Impairment of non-financial assets

The carrying values of capitalized exploration and evaluation expenditures, mineral property interests, producing mines and property, plant and equipment are assessed for impairment when indicators of such impairment exist. If any indication of impairment exists an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset's value in use.

Impairment is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets of the Company. If this is the case, the individual assets of the Company are grouped together into CGUs for impairment purposes. Such CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets of the Company. This generally results in the Company evaluating its non-financial assets on a geographical and operational basis.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the consolidated statement of operations and comprehensive loss so as to reduce the carrying amount to its recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation/amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of operations and comprehensive loss.

Financial assets and financial liabilities

Financial assets

Initial recognition and measurement

Non-derivative financial assets within the scope of IFRS 9 are classified and measured as "financial assets at fair value", as either fair value through profit or loss ("FVPL") or fair value through other comprehensive income ("FVOCI"), and "financial assets at amortized costs", as appropriate. The Company determines the classification of financial assets at the time of initial recognition based on the Company's business model and the contractual terms of the cash flows.

All financial assets are recognized initially at fair value plus, in the case of financial assets not at FVPL, directly attributable transaction costs on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Financial assets with embedded derivatives are considered in their entirety when determining their classification at FVPL or at amortized cost. Other accounts receivable held for collection of contractual cash flows are measured at amortized cost.

LABRADOR IRON MINES LIMITED
Notes to the Consolidated Financial Statements
March 31, 2021 and 2020
(Expressed in Canadian dollars)

4. Significant Accounting Policies (continued)

Financial assets (continued)

Subsequent measurement – financial assets at amortized cost

After initial recognition, financial assets measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate ("EIR") method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in accretion in the consolidated statements of operations. The Company measures cash, accounts receivable, due from Labrador Iron Mines Holdings Limited and restricted cash at amortized cost.

Subsequent measurement – financial assets at FVPL

Financial assets measured at FVPL include financial assets management intends to sell in the short term and any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial assets measured at FVPL are carried at fair value in the consolidated statements of financial position with changes in fair value recognized in other income or expense in the consolidated statements of operations. The Company measures cash equivalents at FVPL.

Subsequent measurement – financial assets at FVOCI

Financial assets measured at FVOCI are non-derivative financial assets that are not held for trading and the Company has made an irrevocable election at the time of initial recognition to measure the assets at FVOCI. The Company does not measure any financial assets at FVOCI.

After initial measurement, investments measured at FVOCI are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income or loss in the consolidated statements of comprehensive loss. When the investment is sold, the cumulative gain or loss remains in accumulated other comprehensive income or loss and is not reclassified to profit or loss.

Dividends from such investments are recognized in other income in the consolidated statements of operations when the right to receive payments is established.

Derecognition

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the Company no longer retains substantially all the risks and rewards of ownership.

Impairment of financial assets

The Company's only financial assets subject to impairment are other accounts receivable and amounts due from Labrador Iron Mines Holdings Limited, which are measured at amortized cost. The Company has elected to apply the simplified approach to impairment as permitted by IFRS 9, which requires the expected lifetime loss to be recognized at the time of initial recognition of the receivable. To measure estimated credit losses, accounts receivable have been grouped based on shared credit risk characteristics, including the number of days past due. An impairment loss is reversed in subsequent periods if the amount of the expected loss decreases and the decrease can be objectively related to an event occurring after the initial impairment was recognized.

Financial liabilities

Initial recognition and measurement

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVPL as is the case for held for trading or derivative instruments, or the Company has opted to measure the financial liability at FVPL. The Company's financial liabilities include accounts payable and accrued liabilities and due to Labrador Iron Mines Holdings Limited, which are measured at amortized cost. All financial liabilities are recognized initially at fair value and in the case of long-term debt, net of directly attributable transaction costs.

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4. Significant Accounting Policies (continued)

Financial assets (continued)

Subsequent measurement – financial liabilities at amortized cost

After initial recognition, financial liabilities measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in accretion in the consolidated statements of operations.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires with any associated gain or loss recognized in other income or expense in the consolidated statements of operations.

Cash

Cash in the statement of financial position and statement of cash flows comprises cash on deposit at a major Canadian bank.

Provisions

General

Provisions are recognized when (a) the Company has a present obligation (legal or constructive) as a result of a past event, and (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of operations and comprehensive loss, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Rehabilitation provisions

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and waste sites, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed or the ground/environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining asset to the extent that it was incurred prior to the production of related ore. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in the consolidated statement of operations and comprehensive loss as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur. For closed sites, changes to estimated costs are recognized immediately in the consolidated statement of operations and comprehensive loss.

Onerous contracts

Onerous contracts are present obligations arising under onerous contracts that are recognized and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

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4. Significant Accounting Policies (continued)

Revenue Recognition

The Company recognizes revenue when all of the following steps have been met: (i) a contract with a customer has been identified; (ii) the performance obligations (being promises to transfer a product, such as iron ore, to a customer) have been identified; (iii) the transaction price has been determined; (iv) the transaction price has been allocated to each performance obligation in the contract; and (v) the performance obligation has been satisfied by the product having been transferred to the customer.

Earnings (loss) per share

Earnings (loss) per share is based on the weighted average number of common shares of the Company outstanding during the period. The diluted earnings (loss) per share reflects the potential dilution of common share equivalents, such as outstanding share options and warrants, in the weighted average number of common shares outstanding during the period, if dilutive. The diluted earnings (loss) per share calculation excludes the conversion of options and warrants that would increase earnings per share or decrease (loss) per share. The Company did not have any stock options or warrants outstanding during the years ended March 31, 2020 and 2021.

Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in the statement of operations and comprehensive loss except to the extent they relate to items recognized directly in equity or in other comprehensive income, in which case the related taxes are recognized in equity or other comprehensive income.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, which may differ from earnings reported in the statement of operations and comprehensive loss due to items of income or expenses that are not currently taxable or deductible for tax purposes, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Deferred tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred income tax assets also result from unused loss carry forwards, resource related pools and other deductions. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Government assistance

Upon qualification for government mineral exploration assistance programs, recoverable amounts are offset against costs incurred when the Company has complied with the terms and conditions of the program and the recovery is reasonably assured.

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received. The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognized as a reduction of the non-current assets in the consolidated balance sheet, and transferred to the consolidated statement of operations on a systematic and rational basis over the useful lives of the related assets. Other government grants are recognized as a reduction of the related expenses over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized in the consolidated statement of operations in the period in which they become receivable.

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4. Significant Accounting Policies (continued)

Recent accounting pronouncements

Effective April 1, 2020, the Company adopted IAS 1 – Presentation of Financial Statements (“IAS 1”) and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”). In accordance with the transitional provisions in both standards, the Company adopted these standards retrospectively without restating comparatives, with the cumulative impact adjusted in the opening balances as at April 1, 2019. There were no effects on opening balances at April 1, 2019 with respect to the adoption of these policies.

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after April 1, 2021. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IAS 1 was amended in January 2020 to provide a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments clarify that the classification of liabilities as current or noncurrent is based solely on a company's right to defer settlement at the reporting date. The right needs to be unconditional and must have substance. The amendments also clarify that the transfer of a company's own equity instruments is regarded as settlement of a liability, unless it results from the exercise of a conversion option meeting the definition of an equity instrument. There was no material impact on the consolidated financial statements upon adoption of this standard.

IAS 37 – Provisions, Contingent Liabilities, and Contingent Assets (“IAS 37”) was amended. The amendments clarify that when assessing if a contract is onerous, the cost of fulfilling the contract includes all costs that relate directly to the contract – i.e. a full-cost approach. Such costs include both the incremental costs of the contract (i.e. costs a company would avoid if it did not have the contract) and an allocation of other direct costs incurred on activities required to fulfill the contract – e.g. contract management and supervision, or depreciation of equipment used in fulfilling the contract. The amendments are effective for annual periods beginning on January 1, 2022.

IAS 16 – Property, Plant and Equipment (“IAS 16”) was amended. The amendments introduce new guidance, such that the proceeds from selling items before the related property, plant and equipment is available for its intended use can no longer be deducted from the cost. Instead, such proceeds are to be recognized in profit or loss, together with the costs of producing those items. The amendments are effective for annual periods beginning on January 1, 2022.

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5. Accounts Receivable

	March 31, 2021	March 31, 2020
Accounts receivable (i) (ii)	\$ 250,000	\$ -
Refundable taxes	<u>34,363</u>	<u>1,352</u>
	<u><u>\$ 284,363</u></u>	<u><u>\$ 1,352</u></u>

- (i) The accounts receivable balance at March 31, 2021 is the final installment of \$250,000 due on the assignment of certain rights to a rail siding. The full amount of the final installment was received in June 2021. Refer to Note 15.
- (ii) At March 31, 2020, the Company recognized an impairment of \$38,596 with respect to accounts receivable that were not considered collectible. Refer to Note 16.

6. Restricted Cash

Restricted cash consists of term deposits assigned by the Company to its bank, mainly as security for letters of credit issued to government regulatory authorities for rehabilitation and closure obligations.

	March 31, 2021	March 31, 2020
Current	\$ 80,258	\$ 111,015
Non-current	<u>938,161</u>	<u>1,278,210</u>
Restricted cash	<u><u>\$ 1,018,419</u></u>	<u><u>\$ 1,389,225</u></u>

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7. Exploration and Evaluation Assets

LIM and SMI collectively hold a 100% interest in the Schefferville Projects. The Schefferville Projects comprise a series of iron ore deposits located in the Menihek area of western Labrador in the Province of Newfoundland and Labrador and in north-eastern Quebec, near the town of Schefferville, Quebec. Among the Schefferville Projects, the Houston Project, consisting of the Houston and Malcolm properties, and the Elizabeth Taconite Property, are the Company's principal projects.

In December 2016, a royalty was created equal to 2% of the sales proceeds (FOB Port of Sept-Iles) received from sales of iron ore from the Houston Project, with such royalty being payable quarterly in arrears. The value of the royalty was estimated at \$7,000,000 on the grant date, based on management's estimate of the fair value of the royalty, principally based on a discounted cash flow methodology.

All of the iron ore properties located in Labrador held by LIM are held subject to an underlying royalty in the amount of 3% of the selling price (FOB Port of Sept-Iles) of iron ore shipped and sold from such properties, subject to such royalty being no greater than USD\$1.50 per tonne.

Six mining claims in Quebec held by SMI are held subject to a royalty of 3% of the selling price FOB port of iron ore shipped and sold from the properties, subject to such royalty being no greater than US\$1.50 per tonne.

SMI holds certain other mining claims in Quebec subject to the payment of a royalty of \$2.00 per tonne of iron ore shipped from the properties.

Certain historical stockpiles are subject to a 50% net profit interest and the Elizabeth Taconite Property is subject to a deferred payment of \$500,000 upon commencement of commercial production.

During the years ended March 31, 2015 and 2017, the carrying value of the Company's exploration and evaluation assets was impaired based on an assessment using then-prevailing economic conditions. Despite an improvement in the spot price of iron ore to above US\$100 per tonne (62% Fe Sinter Fines CFR China basis) during the March 31, 2020 year end assessment period, the full impairment of the Company's exploration and evaluation assets was maintained as at March 31, 2020, pending additional evidence of a sustainable improvement in market conditions.

During the year ended March 31, 2021, the iron ore market continued to improve and the Company commissioned a Technical Report on the Preliminary Economic Assessment ("PEA") of the Houston Project. The PEA dated February 26, 2021 reported a base case net present value ("NPV"), using a discounted cash flow methodology, of \$109,139,582, which the Company has used as an estimate of the Houston Project's value-in-use. Base case assumptions included a long term iron ore price of US\$90/tonne; production of 2 million tonnes of iron ore per year; a 12 year mine life; a discount rate of 8%; and a USD/CAD foreign exchange rate of 1.33. Based on the results of the PEA, the Company recognized an impairment reversal of \$25,963,413 of the Houston Project, representing the full pre-impairment net book value of the Houston Project. Refer to Note 16.

The Company's exploration and evaluation assets are as follows:

	Exploration and Evaluation Assets
Cost at:	
March 31, 2019 and 2020	\$ 1
Impairment reversal (Note 16)	25,963,413
Additions	<u>436,903</u>
March 31, 2021	<u>26,400,317</u>

Accumulated depletion and depreciation:	_____
March 31, 2019, 2020 and 2021	_____ -

Net book value at:	_____
March 31, 2019 and 2020	\$ 1
March 31, 2021	<u>\$ 26,400,317</u>

All of the Company's properties are currently categorized as exploration and evaluation assets.

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8. Property, Plant and Equipment

	Buildings and mine camp \$	Beneficiation plant and equipment \$	Total \$
Cost at:			
March 31, 2019	-	1	1
Impairment reversal	50,000	-	50,000
Disposal (Note 14)	(50,000)	-	(50,000)
March 31, 2020 and 2021	-	1	1
Accumulated Depreciation at:			
March 31, 2019, 2020 and 2021	-	-	-
Net Book Value at:			
March 31, 2019, 2020 and 2021	-	1	1

During the year ended March 31, 2020, the Company recognized an impairment reversal of the carrying value of certain mine camp equipment, which was subsequently sold for cash proceeds in October 2019.

Refer to Note 16.

9. Accounts Payable and Accrued Liabilities

	March 31, 2021	March 31, 2020
Current		
Trade payables and accruals	\$ 541,061	\$ 300,789
Sales taxes and statutory liabilities	6,684	25,065
	<hr/> 547,745	<hr/> 325,854
Non-current		
Accrued liabilities	231,250	231,250
	<hr/> \$ 778,995	<hr/> \$ 557,104

Refer to Note 18.

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10. Rehabilitation Provision

Rehabilitation provision represents the regulatory obligation associated with the 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 the removal of tangible assets from the Company's mining sites.

At March 31, 2021, the total undiscounted amount of the Company's rehabilitation provision is \$907,919 and is expected to be incurred between calendar 2021 and 2022. The rehabilitation provision is recognized as \$1,145,067 at March 31, 2021 using a discount rate of 1.46% and an inflation rate of 2.0%.

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

	Year ended March 31, 2021	Year ended March 31, 2020
Balance, beginning of year	\$ 1,593,569	\$ 2,134,011
Accretion	7,137	15,475
Change in estimate	(21,134)	(43,930)
Reduction	<u>(434,505)</u>	<u>(511,987)</u>
Balance, end of year	\$ 1,145,067	\$ 1,593,569
Less: Current portion	-	(111,015)
Non-current portion	<u>\$ 1,145,067</u>	<u>\$ 1,482,554</u>

11. Share Capital

Authorized

Unlimited common shares, no par value

Issued

Balance March 31, 2019, 2020 and 2021

	Shares #	Amount \$
	99,794,925	32,691,192

12. Capital Management

The capital of the Company consists of share capital. There were no changes to the Company's approach to capital management during the years ended March 31, 2020 and 2021. The Company is not subject to externally imposed capital requirements.

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

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

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13. Commitments and Contingencies

- (a) The Company's mining and exploration activities are subject to various 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.
- (b) The Company is party to one unresolved claim from 2016 in the amount of approximately \$3.0 million which has been rejected and remains in dispute. The Company has not recognized the unresolved claim as a liability as the outcome of the claim is not determinable at this time and the full amount of the unresolved claim is treated as a contingent liability.

14. Sale of Property and Equipment

There were no sales of Property, plant and equipment during the year ended March 31, 2021. During the year ended March 31, 2020 the Company sold certain mine camp equipment for cash proceeds.

	Year ended March 31, 2021	Year ended March 31, 2020
Proceeds of sale	\$ -	\$ 50,000
Carrying value of property and equipment sold	- \$ -	(50,000) \$ -
Gain on sale	\$ -	\$ -

15. Assignment of Rights

The Company assigned certain rights in a rail siding to a third party and received cash consideration of \$500,000 during the year ended March 31, 2021 (2020 - \$Nil). A final additional installment of \$250,000 is recorded in accounts receivable at March 31, 2021 and was received in full in June 2021.

	Year ended March 31, 2021	Year ended March 31, 2020
Assignment of rights	\$ 750,000	\$ -

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16. Impairment Reversal

	Year ended March 31, 2021	Year ended March 31, 2020
Property, plant and equipment		
Impairment reversal	\$ -	\$ 50,000
Accounts receivable and prepaid expenses		
(Impairment)	-	(38,596)
Exploration and evaluation assets		
Impairment reversal	25,963,413	-
Impairment reversal	<u>\$ 25,963,413</u>	<u>\$ 11,404</u>

The Company carried out impairment assessments in the years ended March 31, 2020 and 2021 in accordance with the Company's accounting policies and as required by IFRS and IAS 36.

During the year ended March 31, 2020, the Company reversed a previous impairment charge related to its mine camp equipment in the amount of \$50,000, prior to the sale of such equipment which was completed in October 2019 for net proceeds of \$50,000. During the year ended March 31, 2020, the Company also recognized an impairment of \$38,596 with respect to accounts receivable that were not considered collectible.

During the years ended March 31, 2015 and 2017, the carrying value of the Company's exploration and evaluation assets was impaired based on an assessment using then-prevailing economic conditions. The full impairment of the Company's exploration and evaluation assets was maintained through March 31, 2020, pending additional evidence of a sustainable improvement in market conditions.

During the year ended March 31, 2021, the iron ore market continued to improve and the Company commissioned an independent PEA of the Houston Project. The PEA dated February 26, 2021 reported a base case net present value ("NPV") of the Houston Project of \$109,139,582, using a discounted cash flow methodology. Base case assumptions included a long term iron ore price of US\$90/tonne; production of 2 million tonnes of iron ore per year; a 12 year mine life; a discount rate of 8%; and a USD/CAD foreign exchange rate of 1.33. Based on the results of the PEA, the Company recognized an impairment reversal of \$25,963,413 of the Houston Project, representing the full pre-impairment carrying value of the Houston Project. Refer to Note 7.

As outlined in its accounting policies the Company generally uses the fair value less cost of disposal to determine recoverable amount as it believes that this will generally result in a value greater than or equal to the value in use. When there is no binding sales agreement, fair value less costs of disposal is estimated by various valuation methods including the discounted future cash flows expected to be derived from a project, less an amount for costs to sell, estimated based on similar past transactions. In the case of the Houston Project, the Company has used the value-in-use approach to estimate the recoverable amount of the asset, based on a discounted cash flow methodology.

Estimated cash flows based on expected future production, operating costs and capital costs estimates, and forecasts of commodity prices and exchange rate assumptions are included in the estimation of fair value. The inputs used in the fair value measurement constitute Level 3 inputs under the fair value hierarchy. Key estimates and judgments used in the fair value less cost of disposal calculation are estimates of production levels, operating costs and capital expenditures reflected in the project's life of mine plans, a discount rate, as well as economic factors beyond the Company's control, particularly iron ore prices and foreign exchange rates.

Significant judgments and assumptions are required in making estimates of fair value in accordance with IFRS. It should be noted that the valuations are subject to variability in key assumptions including, but not limited to, forecasts of iron ore prices, currency exchange rates, discount rates, production, operating and capital costs. A change in one or more of the assumptions used to estimate fair value could result in a change in fair value.

Any fair value estimate may not be representative of actual net realizable value in an actual transaction.

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17. Related Party Transactions

During the year ended March 31, 2021, LIMH provided management services at cost in the amount of \$398,933 (2020 - \$546,304) to the Company. During the year ended March 31, 2020 the Company was charged \$390,000 (2021 - \$Nil) in accrued rent for the use by LIM (since January 1, 2017) of a railcar repair facility owned by LIMH.

During the year ended March 31, 2021, the Company received net working capital advances of \$299,432 from LIMH. During the year ended March 31, 2020, the Company received a net amount of \$1,131,523 from LIMH with respect to amounts owed to the Company by LIMH.

As at March 31, 2021, \$292,990 was payable (2020 - \$6,442 was receivable) on a net basis by the Company to LIMH and its wholly-owned subsidiary Centre Ferro Limited ("CF"). Effective December 19, 2016, LIMH and CF agreed to offset any amounts owing to the Company. The amounts are unsecured, non-interest bearing and due on demand.

During the year ended March 31, 2020, the Company received an interest-free advance of \$400,000 (2021 - \$Nil) from a director of the Company. The full amount of this advance was repaid by the Company in March 2020.

18. Compensation of Key Management Personnel

The remuneration of directors and other key management personnel during the years ended March 31, 2020 and 2021 was as follows:

	Year ended March 31, 2021	Year ended March 31, 2020
Short-term compensation (i)	\$ 253,320	\$ 231,755

- (i) In accordance with IAS 24, short-term compensation includes salaries, bonuses and allowances, employment benefits and directors' fees. No bonuses, allowances or directors' fees were paid in either year. 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.

As at March 31, 2021, \$259,375 (2020 - \$231,250) of short-term compensation remained payable to key management personnel. A balance of \$231,250 of such short-term compensation outstanding as at March 31, 2021 and 2020 is deferred executive compensation with respect to the years ended March 31, 2016 and 2017, which is unsecured, non-interest bearing and due on or after April 1, 2022. All such accrued compensation is included in accrued liabilities.

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19. Financial Instruments

Fair Value Hierarchy

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

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

At March 31, 2020 and 2021, the Company's financial instruments that are carried at fair value, consisting of cash equivalents, have been classified as Level 2 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, restricted cash, accounts receivable, accounts payable and accrued liabilities and due to Labrador Iron Mines Holdings Limited on the consolidated 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 years ended March 31, 2020 and 2021.

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, restricted cash and accounts 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 with reputable financial institutions. At March 31, 2020 and 2021, the Company's cash and restricted cash were held in deposits at a major Canadian bank.

At March 31, 2021, \$292,990 was payable (2020 - \$6,442 was receivable) on a net basis by the Company to LIMH and its wholly-owned subsidiary CF. Effective December 19, 2016, LIMH and CF agreed to offset any amounts owing to the Company. The amounts are unsecured and non-interest bearing. 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. At March 31, 2021, the Company had a working capital deficit of \$151,915 (2020 - working capital deficit of \$184,623). Notwithstanding its working capital deficit, the Company believes it will be able to settle its current obligations from the proceeds of sale of surplus assets, the assignment of rights and the release of restricted cash. Refer to Note 1.

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19. Financial Instruments (continued)

Financial risk management (continued)

iii) Foreign currency risk

The majority of the Company's cash flows and financial assets and liabilities are denominated in Canadian dollars, which is the Company's functional and reporting currency. Foreign currency risk is limited to the portion of the Company's business transactions denominated in currencies other than the Canadian dollar.

Revenue from any future sales 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 revenue in its consolidated statement of operations and comprehensive loss, both on a period-to-period basis and compared with operating budgets and forecasts.

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

The Company's objective in managing its foreign currency risk is to minimize its net exposures to foreign currency cash flows by holding cash 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 income for the year ended March 31, 2021 is interest earned on the Company's cash. If interest rates throughout the year had been 100 basis points higher (lower) then net income would have been approximately \$2,000 (2020 - \$1,000) higher (lower). The Company does not have any variable rate debt obligations which expose it to interest rate risk.

v) Commodity price risk

The future profitability of the Company is directly related to the market price of iron ore. Fluctuations in the iron ore price could create volatility in the Company's future cash flows and the future reported amounts for sales in its consolidated statement of operations and comprehensive loss, both on a period-to-period basis and compared with operating budgets and forecasts. In addition, a drop in actual iron ore prices or expected long-term iron ore prices could impact the Company's ability to raise additional financing, if required, to complete the development of its properties, and development could also be halted if iron ore prices fall below expected operating costs. The Company had no sales of iron ore during the years ended March 31, 2020 and 2021.

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20. Income Taxes

Major items causing the Company's effective income tax rates to differ from the approximate combined Canadian federal and provincial statutory rate of 27% (2020 - 27%) were as follows:

a) Provision for Income Taxes

	Year ended March 31, 2021	Year ended March 31, 2020
	\$	\$
Net income (loss) before income taxes	26,430,462	(1,272,832)
Expected income tax expense (recovery) based on statutory rate	7,197,000	(347,000)
Adjustment to expected income tax (recovery) benefit due to:		
Change in benefit of tax assets not recognized	(7,197,000)	347,000
Deferred income tax provision	-	-

b) Deferred Income Tax Balances

Unrecognized Deferred Tax Assets

Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:

	March 31, 2021	March 31, 2020
	\$	\$
Non-capital loss carry-forwards	249,201,000	246,318,000
Capital losses	659,000	659,000
Property, plant and equipment	11,337,000	15,045,000
Exploration and evaluation assets	9,792,000	35,755,000
Reclamation	1,145,000	1,594,000

The non-capital loss carry-forwards of approximately \$249,201,000 expire from 2033 to 2041. The other temporary differences do not expire under current legislation. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can use the benefits.