



Labrador Iron Mines Limited

LABRADOR IRON MINES LIMITED

Consolidated Financial Statements

For the Years Ended March 31, 2023 and 2022

(Expressed in Canadian dollars)

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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, 2023 and 2022, and the consolidated statements of operations and comprehensive (loss) income, consolidated statements of changes in cash flows and consolidated statements of changes in shareholders' 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, 2023 and 2022 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

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 incurred a net loss during the year ended March 31, 2023 and, as of that date, the Company's current liabilities exceeded its current assets. 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.

- 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.

The engagement partner of the audit resulting in this independent auditor's report is Glen McFarland.

McGovern Hurley LLP



**Chartered Professional Accountants
Licensed Public Accountants**

Toronto, Ontario
June 27, 2023

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

	<u>March 31, 2023</u>	<u>March 31, 2022</u>
ASSETS		
Current assets		
Cash	\$ 3,044	\$ 295,824
Accounts receivable (Note 5)	374	358
Due from Labrador Iron Mines Holdings Limited (Note 14)	<u>235,894</u>	<u>41,653</u>
Total current assets	<u>239,312</u>	<u>337,835</u>
Non-current assets		
Restricted cash (Note 6)	17,831	17,688
Prepaid exploration expenses	136,272	95,208
Exploration and evaluation assets (Note 7)	26,566,035	26,497,972
Property, plant and equipment (Note 8)	<u>1</u>	<u>1</u>
Total non-current assets	<u>26,720,139</u>	<u>26,610,869</u>
Total assets	<u>\$ 26,959,451</u>	<u>\$ 26,948,704</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Notes 9, 14 and 15)	\$ 720,748	\$ 440,338
Non-current liabilities		
Accrued liabilities (Notes 9 and 15)	<u>231,250</u>	<u>231,250</u>
Total liabilities	<u>\$ 951,998</u>	<u>\$ 671,588</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 11)	32,691,192	32,691,192
Deficit	<u>(6,683,739)</u>	<u>(6,414,076)</u>
Total shareholders' equity	<u>26,007,453</u>	<u>26,277,116</u>
Total liabilities and shareholders' equity	<u>\$ 26,959,451</u>	<u>\$ 26,948,704</u>

Going concern (Note 1)
Commitments and contingencies (Note 13)

The financial statements were approved by the Board of Directors on June 27, 2023 and signed on its behalf by:

Signed "John F. Kearney"

Director

Signed "Richard Pinkerton"

Director

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

LABRADOR IRON MINES LIMITED**Consolidated Statements of Operations and Comprehensive (Loss) Income**

(Expressed in Canadian dollars)

	Year ended March 31, 2023	Year ended March 31, 2022
Operating expenses		
Site operations	\$ (99,659)	\$ (320,149)
(Loss) before the undernoted	(99,659)	(320,149)
Corporate and administrative costs	(171,074)	(267,458)
Accretion (Note 10)	-	(1,223)
Interest earned	1,070	2,449
Rehabilitation provision recovery (Note 10)	-	1,032,567
	(170,004)	766,335
Net (loss) income before income taxes	(269,663)	446,186
Deferred income tax (Note 17 (a))	-	-
Net (loss) income and comprehensive (loss) income	\$ (269,663)	\$ 446,186
(Loss) earnings per share		
Basic and diluted	\$ (0.00)	\$ 0.00
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, 2023	Year ended March 31, 2022
Cash (used in) operating activities		
Net (loss) income for the year	\$ (269,663)	\$ 446,186
Items not involving cash		
Accretion (Note 10)	-	1,223
Accrued interest	(143)	(1,518)
Rehabilitation provision recovery (Note 10)	-	(1,032,567)
Changes in working capital, excluding related parties	239,330	(147,927)
Cash (used in) operating activities	<u>(30,476)</u>	<u>(734,603)</u>
Cash (used in) provided by investing activities		
Proceeds from the assignment of rights	-	250,000
Investment in exploration and evaluation assets (Note 7)	(68,063)	(97,655)
Performance of site rehabilitation	-	(113,723)
Release of restricted cash (Note 6)	-	1,002,249
Advances (to) Labrador Iron Mines Holdings Limited (Note 14)	(194,241)	(334,643)
Cash (used in) provided by investing activities	<u>(262,304)</u>	<u>706,228</u>
Change in cash	(292,780)	(28,375)
Cash, beginning of year	295,824	324,199
Cash, end of year	<u>\$ 3,044</u>	<u>\$ 295,824</u>

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

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

	Share Capital		Deficit	Shareholders' Equity
	Number	Amount	Amount	Amount
Balance, March 31, 2021	99,794,925	\$ 32,691,192	\$ (6,860,262)	\$ 25,830,930
Net income for the year	-	-	446,186	446,186
Balance, March 31, 2022	99,794,925	32,691,192	(6,414,076)	26,277,116
Net (loss) for the year	-	-	(269,663)	(269,663)
Balance, March 31, 2023	99,794,925	\$ 32,691,192	\$ (6,683,739)	\$ 26,007,453

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

LABRADOR IRON MINES LIMITED
Notes to the Consolidated Financial Statements
March 31, 2023 and 2022
(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” or, on consolidated basis, the “Company”) and LIM’s wholly-owned subsidiary Schefferville Mines Inc. (“SMI”).

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

Refer to Note 18.

Nature of Operations

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, M5J 2H7, Canada.

The Company did not conduct mining operations during the years ended March 31, 2022 and 2023. The Company is currently focused on advancement of its Houston Project and maintaining its other mineral claims and mining concessions. Subject to securing construction financing, the Company plans to commence construction of its Houston Project. There can be no assurance that construction will be commenced or completed.

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, 2023, the Company had a working capital deficit of \$481,436, compared to a working capital deficit of \$102,503 at March 31, 2022. Notwithstanding its working capital deficit, the Company believes it will be able to continue its operations over the next 12 months, subject to generating sufficient proceeds from an equity financing or other alternative financing, although there can be no assurance the Company will be able to complete a financing on acceptable terms or at all. Accordingly, the consolidated financial statements for the year ended March 31, 2023 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 an equity financing or other alternative financing 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 cast 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
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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 reasonable or acceptable terms, then the Company will be unable to pursue development of its Houston Project. Development of the Houston Project may not result in profitable commercial production.

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 Judgements, Estimates and Assumptions

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make judgements, 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 judgements, 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 judgements 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 operations.

LABRADOR IRON MINES LIMITED
Notes to the Consolidated Financial Statements
March 31, 2023 and 2022
(Expressed in Canadian dollars)

3. Significant Accounting Judgements, 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.

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.

Estimation of rehabilitation provision

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

Income, value added, withholding and other taxes

The Company is subject to income, value added, withholding and other taxes. Significant judgement 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, 2023 and 2022
(Expressed in Canadian dollars)

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

Expected credit losses

Determining an allowance for expected credit losses requires management to make estimates and assumptions about credit losses expected to occur in the future, which is based on the probability of default, loss given default, and expected cash shortfall relating to the underlying loan receivable. The expected credit loss is determined by evaluating a range of possible outcomes incorporating the time value of money and reasonable and supportable information about past events, current conditions, and future economic forecasts.

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, 2022 and 2023, all of the Company's properties are categorized as exploration and evaluation assets.

LABRADOR IRON MINES LIMITED
Notes to the Consolidated Financial Statements
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4. Significant Accounting Policies (continued)

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.

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.

LABRADOR IRON MINES LIMITED
Notes to the Consolidated Financial Statements
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(Expressed in Canadian dollars)

4. Significant Accounting Policies (continued)

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.

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.

LABRADOR IRON MINES LIMITED
Notes to the Consolidated Financial Statements
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(Expressed in Canadian dollars)

4. Significant Accounting Policies (continued)

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.

For financial assets measured at amortized cost, the Company recognizes lifetime expected credit losses ("ECLs") when there has been a significant increase in credit risk since initial recognition. If the credit risk on such financial instruments has not increased significantly since initial recognition, the Company measures the loss allowance on those financial instruments at an amount equal to 12-month ECL.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial asset. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial asset that are possible within 12 months after the reporting date. In assessing whether the credit risk on a financial asset has increased significantly since initial recognition, the Company compares the risk of default on the financial asset at the reporting date with the risk of default occurring at the initial recognition. The Company considers both quantitative and qualitative factors that are supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Irrespective of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise. The Company presumes that the credit risk on a financial asset has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

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.

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 comprises cash on deposit at a major Canadian bank.

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4. Significant Accounting Policies (continued)

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.

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.

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.

(Loss) earnings per share

(Loss) earnings per share is based on the weighted average number of common shares of the Company outstanding during the period. The diluted (loss) earnings 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 (loss) earnings per share calculation excludes the conversion of options and warrants that would decrease (loss) per share or increase earnings per share. The Company did not have any stock options or warrants outstanding during the years ended March 31, 2022 and 2023.

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4. Significant Accounting Policies (continued)

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

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 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.

IAS 12 – In May 2021, the IASB issued ‘Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction’ that clarifies how entities account for deferred tax on transactions such as leases and decommissioning obligations. The amendments are effective for year ends beginning on or after January 1, 2023.

IAS 1 – Presentation of Financial Statements (“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. The amendments are effective for annual periods beginning on January 1, 2023.

IAS 1 – In February 2021, the IASB issued ‘Disclosure of Accounting Policies’ with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments are effective for year ends beginning on or after January 1, 2023.

5. Accounts Receivable

	<u>March 31, 2023</u>	<u>March 31, 2022</u>
Refundable taxes	<u>\$ 374</u>	<u>\$ 358</u>

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6. Restricted Cash

At March 31, 2023 and 2022, restricted cash consisted of an interest-bearing term deposit assigned by the Company to its bank as security for its credit card accounts.

	<u>March 31, 2023</u>	<u>March 31, 2022</u>
Non-current restricted cash	\$ 17,831	\$ 17,688

During the year ended March 31, 2022, \$1,002,249 of restricted cash assigned by the Company as security for performance of rehabilitation and closure relating to its previous mining operations was released following completion of such rehabilitation and closure.

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 including certain resource estimates and projections for other inputs including commodity prices, exchange rates and expenses.

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.

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

	Exploration and Evaluation Assets
Cost at:	
March 31, 2021	\$ 26,400,317
Additions	<u>97,655</u>
March 31, 2022	26,497,972
Additions	<u>68,063</u>
March 31, 2023	<u>\$ 26,566,035</u>
Accumulated depletion at:	
March 31, 2021, 2022 and 2023	<u>-</u>
Net book value at:	
March 31, 2021	<u>\$ 26,400,317</u>
March 31, 2022	<u>\$ 26,497,972</u>
March 31, 2023	<u>\$ 26,566,035</u>

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

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8. Property, Plant and Equipment

	Total
Cost at:	<u>\$</u>
March 31, 2021, 2022 and 2023	<u>1</u>
Accumulated depreciation at:	<u></u>
March 31, 2021, 2022 and 2023	<u>-</u>
Net book value at:	<u></u>
March 31, 2021, 2022 and 2023	<u><u>1</u></u>

All of the Company's previous property, plant and equipment was disposed of prior to March 31, 2021.

9. Accounts Payable and Accrued Liabilities

	<u>March 31, 2023</u>	<u>March 31, 2022</u>
Current		
Trade payables and accruals	\$ 713,571	\$ 433,426
Sales taxes and statutory liabilities	<u>7,177</u>	<u>6,912</u>
	720,748	440,338
Non-current		
Accrued liabilities	<u>231,250</u>	<u>231,250</u>
	<u>\$ 951,998</u>	<u>\$ 671,588</u>

Refer to Note 15.

10. Rehabilitation Provision

Rehabilitation provision represents the financial obligation associated with rehabilitation and closure of the Company's previous mining operations.

The Company satisfied or transferred to a third party all remaining rehabilitation and closure obligations during the year ended March 31, 2022, which fully extinguished the related rehabilitation provision during that year.

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

	<u>Year ended March 31, 2023</u>	<u>Year ended March 31, 2022</u>
Balance, beginning of year	\$ -	\$ 1,145,067
Accretion	-	1,223
Recovery	-	(1,032,567)
Reduction	<u>-</u>	<u>(113,723)</u>
Balance, end of year	<u>\$ -</u>	<u>\$ -</u>

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11. Share Capital

Authorized

Unlimited common shares, no par value

Issued

Balance March 31, 2021, 2022 and 2023

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

12. Capital Management

The capital of the Company consists of share capital. There were no significant changes to the Company's approach to capital management during the years ended March 31, 2022 and 2023. 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.

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. Related Party Transactions

Labrador Iron Mines Holdings Limited ("LIMH") holds a 52% equity interest in the Company. During the year ended March 31, 2023, LIMH provided management services at cost in the amount of \$186,647 (2022 - \$409,621) to the Company.

During the year ended March 31, 2023, the Company advanced \$194,241 to LIMH (2022 - \$334,643 advanced to LIMH).

As at March 31, 2023, \$235,894 was receivable (2022 - \$41,653 was receivable) on a net basis by the Company from LIMH and its wholly-owned subsidiary Centre Ferro Limited ("CF"). The amounts are unsecured, non-interest bearing and due on demand.

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15. Compensation of Key Management Personnel

The remuneration of directors and other key management personnel during the years ended March 31, 2023 and 2022 was as follows:

	Year ended March 31, 2023	Year ended March 31, 2022
Short-term compensation (i)	\$ 159,285	\$ 239,402

(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, 2023, \$346,512 (2022 - \$276,214) 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, 2023 and 2022 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, 2024. All such accrued compensation is included in accrued liabilities.

16. 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, 2022 and 2023, 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 judgement 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, 2022 and 2023.

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16. Financial Instruments (continued)

Financial risk management (continued)

i) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's credit risk is primarily attributable to cash, 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, 2022 and 2023, the Company's cash and restricted cash were held in deposits at a major Canadian bank.

At March 31, 2023, \$235,894 was receivable (2022 - \$41,653 was receivable) on a net basis by the Company from 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, 2023, the Company had a working capital deficit of \$481,436 (2022 - working capital deficit of \$102,503). Notwithstanding its working capital deficit, the Company believes it will be able to settle its current obligations from the proceeds of an equity financing or alternative form of financing. Refer to Note 1.

iii) Foreign currency risk

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

Revenue from 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 (loss) for the year ended March 31, 2023 is interest earned on the Company's cash. If interest rates throughout the year had been 100 basis points higher (lower) then net (loss) would have been approximately \$1,500 lower (higher). The Company does not have any variable rate debt obligations which expose it to interest rate risk.

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16. Financial Instruments (continued)

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, 2022 and 2023.

17. 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% (2022 - 27%) were as follows:

a) Provision for Income Taxes

	Year ended March 31, 2023	Year ended March 31, 2022
	\$	\$
Net (loss) income before income taxes	(269,663)	446,186
Expected income tax expense based on statutory rate	(73,000)	121,000
Adjustment to expected income tax expense due to:		
Change in benefit of tax assets not recognized	73,000	(121,000)
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, 2023	March 31, 2022
	\$	\$
Non-capital loss carry-forwards	250,555,000	250,990,000
Capital losses	659,000	659,000
Property, plant and equipment	8,553,000	8,553,000
Exploration and evaluation assets	9,792,000	9,792,000

The non-capital loss carry-forwards of approximately \$250,555,000 expire from 2034 to 2043. 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.

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18. Acquisition of Minority Interest of LIM by Labrador Iron Mines Holdings Limited

At a Special Meeting of Shareholders of LIM held on March 30, 2023, a requisite two-thirds majority of votes cast by LIM shareholders at the meeting approved a special resolution authorizing the amalgamation of LIM with a wholly owned subsidiary of Labrador Iron Mines Holdings Limited ("LIMH"), which owns 52% of the shares of LIM, involving the issue of shares of LIMH to LIM shareholders, such that LIM will, once again, become a wholly owned subsidiary of LIMH (the "Transaction").

The Transaction is to be effected by way of a statutory amalgamation of LIM with a wholly owned subsidiary of LIMH, under Section 174 of the Business Corporations Act (Ontario).

The number of shares of LIMH to be issued in exchange for LIM shares was calculated to equate to the relative percentage interest of each company in the underlying assets. That is, the shareholders of LIM, other than LIMH, will continue to hold, indirectly, the same percentage interest in the assets of LIM upon completion of the amalgamation as they hold, directly, before the amalgamation.

Under the amalgamation all LIM shares, other than LIM shares held by LIMH, will be exchanged for shares of LIMH on the basis of 3.1136546 shares of LIMH for each LIM share held, resulting in the issuance of an aggregate of approximately 148,362,500 shares of LIMH to LIM shareholders.

LIM is authorized to complete the Transaction, but has not yet done so.

There can be no guarantee the Transaction will be completed as above or at all.