# Labrador Iron Mines Holdings Limited

**LABRADOR IRON MINES HOLDINGS LIMITED**

**Condensed Interim Consolidated Financial Statements**

**For the Three Months Ended June 30, 2016 and 2015**

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

The Company's auditors have not reviewed the unaudited condensed interim consolidated financial statements for the three months ended June 30, 2016 and 2015.

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

| | June 30, 2016 | March 31, 2016 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 2,661,123 | $ 3,409,529 |
| Accounts receivable and prepaid expenses (Notes 5 and 25) | 355,829 | 289,829 |
| **Total current assets** | 3,016,952 | 3,699,358 |
| **Non-current assets** | | |
| Restricted cash (Note 6) | 2,870,940 | 2,888,053 |
| Mineral property interests (Note 7) | 1 | 1 |
| Property, plant and equipment (Note 8) | 2,162,469 | 2,170,855 |
| **Total non-current assets** | 5,033,410 | 5,058,909 |
| **Total assets** | $ 8,050,362 | $ 8,758,267 |
| **LIABILITIES** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued liabilities (Notes 9, 15, 19 and 21) | $ 498,310 | $ 406,306 |
| Finance lease obligation (Note 11) | 518,769 | 518,769 |
| Rehabilitation provision (Note 12) | 18,000 | 18,000 |
| Other liabilities (Note 14) | 21,548 | 21,548 |
| **Current liabilities, before the undernoted** | 1,056,627 | 964,623 |
| Liabilities subject to compromise (Notes 15 and 19) | 66,474,551 | 66,474,551 |
| **Total current liabilities** | 67,531,178 | 67,439,174 |
| **Non-current liabilities** | | |
| Rehabilitation provision (Note 12) | 2,760,901 | 2,754,421 |
| **Total non-current liabilities** | 2,760,901 | 2,754,421 |
| **Total liabilities** | 70,292,079 | 70,193,595 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (Note 16) | 393,524,694 | 393,524,694 |
| Reserves (Note 17) | 6,031,379 | 6,031,379 |
| Deficit | (461,797,790) | (460,991,401) |
| **Total shareholders' equity** | (62,241,717) | (61,435,328) |
| **Total liabilities and shareholders' equity** | $ 8,050,362 | $ 8,758,267 |

Going concern (Note 1)
Commitments and contingencies (Notes 11, 12 and 19)

The financial statements were approved by the Board of Directors on August 19, 2016, and signed on its behalf by:

Signed *"John F. Kearney"*
Director

Signed *"D.W. Hooley"*
Director

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

**LABRADOR IRON MINES HOLDINGS LIMITED**
**Condensed Interim Consolidated Statements of Operations and Comprehensive Loss**
(Unaudited, expressed in Canadian dollars)

| | Three months ended June 30, 2016 | Three months ended June 30, 2015 |
|---|---|---|
| **Operating expenses** | | |
| Site and camp operations | $ (195,854) | $ (101,011) |
| Depletion and depreciation | (8,386) | (8,827) |
| **Loss before the undernoted** | (204,240) | (109,838) |
| | | |
| Corporate and administrative costs | $ (350,429) | $ (543,593) |
| Finance lease (Note 11) | - | (33,929) |
| Accretion (Note 12) | (6,480) | (8,184) |
| Unrealized foreign exchange gain | - | 470,281 |
| Interest earned | 9,125 | 11,723 |
| Settlement of rail construction advance (Note 13) | - | 5,000,000 |
| Write-down (Note 8) | - | (5,000,000) |
| | (347,784) | (103,702) |
| **Net loss before the undernoted** | (552,024) | (213,540) |
| Restructuring items (Note 20) | (254,365) | (130,107) |
| **Net loss and comprehensive loss for the period** | $ (806,389) | $ (343,647) |
| | | |
| **Net loss per share** | | |
| Basic and diluted | $ (0.00) | $ (0.00) |
| | | |
| **Weighted average number of shares outstanding** | | |
| Basic and diluted | 126,323,123 | 126,323,123 |

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

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

| | Three months ended June 30, 2016 | Three months ended June 30, 2015 |
|---|---|---|
| **Cash provided by (used in) operating activities** | | |
| Net (loss) for the period | $ (806,389) | $ (343,647) |
| Items not involving cash | | |
| Depletion and depreciation | 8,386 | 8,827 |
| Accretion on rehabilitation provision | 6,480 | 8,184 |
| Interest on finance lease obligation | - | 33,929 |
| Accrued interest | 17,114 | 30,243 |
| Unrealized foreign exchange (gain) | - | (470,281) |
| Settlement of rail construction advance | - | (5,000,000) |
| Write-down | - | 5,000,000 |
| Changes in working capital | 26,003 | (589,745) |
| Cash (used in) operating activities | (748,406) | (1,322,490) |
| **Cash (used in) financing activities** | | |
| Repayment of finance lease obligation (Note 11) | - | (340,274) |
| Cash provided by (used in) financing activities | - | (340,274) |
| **Change in cash and cash equivalents** | (748,406) | (1,662,764) |
| Cash and cash equivalents, beginning of period | 3,409,529 | 6,421,593 |
| Cash and cash equivalents, end of period | $ 2,661,123 | $ 4,758,829 |
| Cash and cash equivalents consist of: | | |
| Cash | $ 2,034,050 | $ 4,135,856 |
| Cash equivalents | 627,073 | 622,973 |
| | $ 2,661,123 | $ 4,758,829 |
| **Supplemental disclosure of cash flow information** | | |
| Depreciation included in corporate and administrative costs | $ - | $ - |

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

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

| | Share Capital | | Reserves | | | | Deficit | Shareholders' Equity |
|---|---|---|---|---|---|---|---|---|
| | | | Warrants | | Stock Options | | | |
| | Number | Amount | Number | Amount | Number | Amount | Amount | Total |
| Balance, March 31, 2015 | 126,323,123 | $ 393,524,694 | 13,800,000 | $ 4,623,000 | 1,030,000 | $ 7,523,354 | $ (464,355,601) | $ (58,684,553) |
| Expiry of vested options | - | - | - | - | (142,500) | (237,975) | 237,975 | - |
| Loss for the period | - | - | - | - | - | - | (343,647) | (343,647) |
| Balance, June 30, 2015 | 126,323,123 | $ 393,524,694 | 13,800,000 | $ 4,623,000 | 887,500 | $ 7,285,379 | $ (464,461,273) | $ (59,028,200) |
| Expiry of warrants | - | - | (13,800,000) | (4,623,000) | - | - | 4,623,000 | - |
| Expiry of vested options | - | - | - | - | (200,000) | (1,254,000) | 1,254,000 | - |
| Loss for the period | - | - | - | - | - | - | (2,407,128) | (2,407,128) |
| Balance, March 31, 2016 | 126,323,123 | $ 393,524,694 | - | $ - | 687,500 | $ 6,031,379 | $ (460,991,401) | $ (61,435,328) |
| Loss for the period | - | - | - | - | - | - | (806,389) | (806,389) |
| Balance, June 30, 2016 | 126,323,123 | $ 393,524,694 | - | $ - | 687,500 | $ 6,031,379 | $ (461,797,790) | $ (62,241,717) |

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

## 1. Nature of Operations, Financial Restructuring and Going Concern

Labrador Iron Mines Holdings Limited (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 primary mineral property interests are iron ore projects in western Labrador and northeastern Quebec, near the town of Schefferville, Quebec (collectively, the "Schefferville Projects").

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

The Company did not conduct mining operations, other than site maintenance and standby activities, during the year ended March 31, 2016 and the three months ended June 30, 2016, due to a combination of the prevailing low price of iron ore and an assessment of the economics of the remaining resources of its James Mine and other Stage 1 deposits. In view of the prevailing iron ore price outlook, and based on the Company's experience over its three previous operating seasons, the Company has made a strategic shift in corporate focus toward establishing a lower cost operating framework, while concurrently seeking additional capital investment and working capital.

The Company is currently focused on restructuring its liabilities and major contracts and securing additional development financing, prior to resuming mining operations when market conditions improve. Should the Company be successful in completing its restructuring and financing efforts, the Company intends to commence development 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 recoverability of the carrying value of assets and the Company's continued existence are 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 non-core 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 title to its mineral property interests, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal land claims and non-compliance with regulatory and environmental requirements.

### Financial Restructuring

On April 2, 2015, the Company instituted proceedings in the Ontario Superior Court of Justice (the "Court") for a financial restructuring by means of a plan of compromise or arrangement under the *Companies' Creditors Arrangement Act* ("CCAA"). The Company's subsidiaries Centre Ferro Ltd. and Labrail Inc. have not been not included in the CCAA proceedings.

The Company instituted proceedings under the CCAA to provide an opportunity for the orderly restructuring of the Company's business and financial affairs, so as to enable the Company to emerge with a viable business in the most favourable position to secure additional development financing to proceed with the development of the Houston Project.

The Court order, as amended and extended, provides creditor protection continuing until September 30, 2016, subject to further amendment and extension, and grants a stay which generally precludes enforcement or collection action being taken against the Company with respect to pre-CCAA liabilities or contracts. The Order is designed to stabilize operations and business relationships with contractors, suppliers and creditors and to provide an opportunity for the Company to negotiate a settlement of liabilities and a restructuring of major contracts. Should such negotiations be successful, a proposed plan of arrangement to settle liabilities will be presented to the Company's creditors. The plan of arrangement must be approved by the Company's creditors and the Court prior to it being given effect. Such proposed plan of arrangement has not yet been presented to creditors.

## 1. Nature of Operations, Financial Restructuring and Going Concern (continued)

### Financial Restructuring (continued)

The Court order in the CCAA proceedings grants the Company the authority to carry on business in a manner consistent with the preservation of its business and property. Among other things, the Company is authorized and empowered to continue corporate and site standby activities and to continue to retain and employ the employees, consultants, agents, experts, accountants, counsel and such other persons considered necessary by the Company in the ordinary course of business.

Refer to Notes 2, 4, 15, 19(d) and 24.

### Going Concern

As at March 1, 2015 and June 30, 2016, the Company had a very significant working capital deficit and had not met certain financial obligations. As a result of the Company's continuing losses, negative operating cash flows and significant working capital deficit, the Company instituted proceedings for a financial restructuring by means of a plan of compromise or arrangement under the CCAA on April 2, 2015.

Notwithstanding the negative financial results and working capital deficit for the year ended March 31, 2016 and the three months ended June 30, 2016, the Company believes it has sufficient cash resources to complete the CCAA process and continue its corporate and site standby activities over the next 12 months. This belief is based on the Company's expectation that it will successfully complete a settlement of the Company's liabilities subject to compromise and satisfactorily restructure its major contracts by means of a plan of compromise or arrangement. Accordingly, the condensed interim consolidated financial statements for the three months ended June 30, 2016 have been prepared on a going concern basis, using the historical cost convention.

The Company needs to complete a financial restructuring and secure additional financing in order to continue as a going concern. Both a financial restructuring and refinancing are required to manage the Company's working capital deficit and to fund continuing operations, planned development programs and corporate administration.

A successful financial restructuring within the CCAA process will favourably position the Company to secure additional development financing for the Houston Project. The Company's ability to secure such additional development financing will depend on several factors, including, among other things, a successful settlement of the Company's liabilities, a satisfactory restructuring of the Company's major contracts and an improvement in iron ore market conditions.

While the Company does not believe its ability to continue its corporate and site standby activities over the next 12 months is dependent on securing additional financing, the Company's ability to develop the Houston Project is dependent on completing such additional development financing. Even if the Company is successful in completing its required settlement of liabilities subject to compromise and restructuring of major contracts, if the Company is unable to obtain additional development financing on a timely basis or on reasonable or acceptable terms, then the Company will be unable to pursue development of its Houston Project.

There are no assurances that the Company will be successful in completing its required settlement of liabilities subject to compromise under the CCAA process or otherwise. If the Company is unable to successfully complete its required settlement of liabilities subject to compromise and restructuring of major contracts, 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 condensed interim consolidated financial statements. Such adjustments could be material.

## 2. Basis of Preparation

These condensed interim consolidated financial statements of the Company and its subsidiaries were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The accounting policies set out below were consistently applied to all the periods presented unless otherwise noted.

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 – *Interim Financial Reporting* ("IAS 34") on a basis consistent with the accounting policies disclosed in the consolidated financial statements of the Company for the year ended March 31, 2016.

Notwithstanding that the Company instituted proceedings for a financial restructuring under CCAA on April 2, 2015, these condensed interim consolidated financial statements were prepared on a going concern basis, under the historical cost convention. Refer to Notes 1 and 4. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

There have been no changes to the accounting policies or basis of preparation of the condensed interim consolidated financial statements of the Company as a result of the filing under CCAA, except as below.

Since filing under CCAA on April 2, 2015, the Company has reclassified certain amounts within its financial statements to distinguish transactions and liabilities that are directly associated with the restructuring process from the ongoing operations of the business. Furthermore, liabilities that may be affected by the restructuring plan are presented as liabilities subject to compromise under the CCAA claims process. Refer to Notes 1, 4, 15, 19(d) and 20.

## 3. Significant Accounting Judgments, Estimates and Assumptions

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

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

*Mineral resource estimates*
The figures for mineral resources are determined in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects", issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as metal prices and market conditions could have a material effect in the future on the Company's financial position and results of operation.

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

*Impairment of mineral property interests*
While assessing whether any indications of impairment exist for mineral property interests, consideration is given to both external and internal sources of information. External sources of information include technical reports and arm's length mineral property transaction values. External sources of information also include changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of mineral property interests. Internal sources of information include the manner in which mineral property interests are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future 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 a write-down of the carrying amounts of the Company's mineral property interests.

*Cash generating units*
Cash generating units ("CGUs") represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets of the Company. This generally results in the Company evaluating its non-financial assets on a geographical and operational basis. The Company generally considers its Schefferville Projects to represent one CGU, as the Schefferville Projects are in close geographical proximity to each other and all share common management, rail, port, processing and mine support infrastructure. During the years ended March 31, 2014 and March 31, 2015 the Company completed impairment assessments of its mineral property interests based on a combination of factors including net present value and arms-length transaction value methodologies. Refer to Notes 7 and 23.

*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 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.

*Share-Based Payments*
Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviours and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

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

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

*Going concern*
Refer to Note 1.

*Contingencies*
Refer to Note 19.

## 4. Significant Accounting Policies

The condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements of the Company for the year ended March 31, 2016, which have been prepared in accordance with IFRS as issued by the IASB. The Company's significant accounting policies are consistent with those set out in Note 4 to the consolidated financial statements for the year ended March 31, 2016, including as noted below.

*Accounting policies under CCAA restructuring*

In general, the Company's CCAA filing on April 2, 2015 does not change the manner in which the Company's financial statements are prepared. However, for presentation purposes, financial statements for periods subsequent to the CCAA filing will distinguish liabilities and expenses that are directly associated with the restructuring from the ongoing liabilities and operations of the business.

The condensed interim consolidated statement of financial position distinguishes pre-filing liabilities subject to compromise under CCAA from both those pre-filing liabilities that are not subject to compromise and from post-filing liabilities. Liabilities subject to compromise are reported at the amounts recorded in the Company's books and represent the Company's best estimate of known and potential compromised claims and are subject to future adjustment as a result of negotiations, actions of the Court, proof of claim and other events. Resulting adjustments may be material and will be recorded as a restructuring adjustment in a future reporting period. Refer to Note 15.

Expenses and provisions that can be directly associated with the CCAA restructuring are reported separately in the condensed interim consolidated statement of operations and comprehensive loss as restructuring items. Refer to Note 20.

These accounting policies under CCAA restructuring have been applied effective beginning April 2, 2015 and for subsequent reporting periods while the Company restructures under CCAA.

## 5. Accounts Receivable and Prepaid Expenses

| | June 30, 2016 | March 31, 2016 |
|---|---|---|
| Accounts receivable | $ 73,949 | $ 84,760 |
| Refundable taxes | 59,880 | 42,226 |
| Prepaid expenses | 222,000 | 162,843 |
| | $ 355,829 | $ 289,829 |

## 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.

| | June 30, 2016 | March 31, 2016 |
|---|---|---|
| Security for letters of credit | $ 2,870,940 | $ 2,888,053 |

## 7. Mineral Property Interests

The Company holds a 100% interest in the Schefferville Projects. The Schefferville Projects comprise a series of iron ore deposits located in the Menihek area of western Labrador in the Province of Newfoundland and Labrador and in north-eastern Quebec, near the town of Schefferville, Quebec.

In September 2013, the Company entered into an agreement with Tata Steel Minerals Canada Ltd. ("TSMC") for the exploration and development of the Company's Stage 3 Howse Property (the "September 2013 Howse Property Transaction"). Under the terms of the agreement, Howse Minerals Limited ("HML"), a wholly owned subsidiary of TSMC, acquired an initial 51% participating interest in the Howse Property for a total cash consideration of $30,000,000. On March 31, 2015, the Company completed the sale of its remaining minority interest of the Howse Property to TSMC for total cash consideration of $5,000,000 (the "March 2015 Howse Property Transaction").

All of the iron ore properties located in Labrador are held subject to a royalty in the amount of 3% of the selling price (Free On Board ("FOB") Port) of iron ore shipped and sold from such properties, subject to such royalty being no greater than USD$1.50 per tonne, with such royalty being payable quarterly in arrears.

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

The Company, through its wholly-owned subsidiary Schefferville Mines Inc. ("SMI"), holds certain mining claims in Quebec subject to the payment of a royalty of $2.00 per tonne of iron ore shipped from the properties. The Company has agreed to assume certain existing liabilities related to the properties. The properties are subject to pre-existing litigation by a third party against the previous holder of the properties claiming breach of contract and seeking performance of an alleged agreement concerning the properties and unspecified damages. The Company considers such litigation to be without merit.

During the year ended March 31, 2015, the carrying value of the Company's mineral property interests was impaired based on an assessment using prevailing economic conditions and existing commercial contract terms.

The reclamation balance included within mineral property interests represents amounts initially recorded to correspond with the rehabilitation provisions. This asset amount, net of impairment, is amortized over the estimated useful life of the asset to which it relates.

The Company's mineral property assets are as follows:

| **Cost at:** | Producing mine | Mineral property interests | Reclamation balance | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| March 31, 2015 and 2016 and June 30, 2016 | 25,137,063 | 1 | - | 25,137,064 |
| **Accumulated depletion and depreciation** | | | | |
| March 31, 2015 and 2016 and June 30, 2016 | (25,137,063) | - | - | (25,137,063) |
| **Net book value at:** | | | | |
| March 31, 2015 and 2016 and June 30, 2016 | - | 1 | - | 1 |

All of the Company's properties are currently categorized as mineral property interests. Stage 1 of the Shefferville Projects, consisting primarily of the James Mine, was previously classified as a producing mine.

## 8. Property, Plant and Equipment

| Cost at: | Buildings and mine camp $ | Office equipment $ | Transportation infrastructure and equipment $ | Beneficiation plant and equipment $ | Total $ |
|---|---|---|---|---|---|
| March 31, 2015 | 977,101 | 1 | 10,571,243 | 1 | 11,548,346 |
| Impairments | - | - | (6,000,000) | - | (6,000,000) |
| March 31, 2016 and June 30, 2016 | 977,101 | 1 | 4,571,243 | 1 | 5,548,346 |
| **Accumulated Depreciation at:** | | | | | |
| March 31, 2015 | (270,940) | - | (3,071,243) | - | (3,342,183) |
| Depreciation | (35,308) | - | - | - | (35,308) |
| March 31, 2016 | (306,248) | - | (3,071,243) | - | (3,377,491) |
| Depreciation | (8,386) | - | - | - | (8,386) |
| June 30, 2016 | (314,634) | - | (3,071,243) | - | (3,385,877) |
| **Net Book Value at:** | | | | | |
| March 31, 2016 | 670,853 | 1 | 1,500,000 | 1 | 2,170,855 |
| June 30, 2016 | 662,467 | 1 | 1,500,000 | 1 | 2,162,469 |

During the year ended March 31, 2016 the Company recorded an impairment charge of $1,000,000 (2015 - $2,500,000) against the carrying value of the Company's fleet of railcars, reflecting a decline in resale and recycle market conditions for used industrial railcars. The ending carrying value of the fleet of railcars as at June 30, 2016 was $1,500,000 (March 31, 2016 - $1,500,000) and is not being depreciated as the fleet is carried at recoverable value. The Port of Sept-Iles holds a security interest in the fleet of railcars. Refer to Note 23.

Following the sale of the Company's remaining interest in the Howse Deposit to TSMC in March 2015, the Company recorded an impairment charge of $5,000,000 against the full carrying value of the rail track as the asset is not in use. Refer to Notes 21 and 23.

## 9. Accounts Payable and Accrued Liabilities

| | June 30, 2016 | March 31, 2016 |
|---|---|---|
| Trade payables and accruals | $ 35,060,246 | $ 34,968,863 |
| Sales taxes and statutory liabilities | 9,435 | 8,814 |
| | 35,069,681 | 34,977,677 |
| Transfer to liabilities subject to compromise | (34,571,371) | (34,571,371) |
| | $ 498,310 | $ 406,306 |

## 10. Repayable Advance

In May 2013, the Company entered into an arrangement with RBRG Trading (UK) Limited (formerly RB Metalloyd Limited) ("RBRG"), pursuant to which RBRG provided a repayable advance of $37,520,522 (US$35,000,000) against the sale of future iron ore production by the Company. The repayable advance was intended to be credited against future sales in equal installments coinciding with the timing of seventeen shipments scheduled from August 2013 until December 2014. As at March 31, 2015 and 2016, $15,121,456 (US$14,406,000) of the repayable advance had been credited against seven shipments completed in 2013, leaving a remaining balance of $22,129,066 (US$20,594,000), prior to giving effect to subsequent foreign exchange adjustments and any amounts claimed for default. A financing fee of $4,952,137 (US$4,456,924) was claimed in the year ended March 31, 2015 as a result of the Company's failure to comply with minimum delivery obligations. Additional claims have also been made for discounts as a result of delayed deliveries and interest, which have been treated as a contingent liability. Refer to Note 19(d).

The repayable advance balance is included in liabilities subject to compromise. Refer to Note 15.

| | Three months ended June 30, 2016 | Year ended March 31, 2016 |
|---|---|---|
| Balance, beginning of period | $ 31,526,588 | $ 31,772,086 |
| Unrealized foreign exchange (gain) | - | (245,498) |
| | 31,526,588 | 31,526,588 |
| Transfer to liabilities subject to compromise | (31,526,588) | (31,526,588) |
| Balance, end of period | $ - | $ - |

## 11. Finance Lease Obligation

The Company entered into a five year lease agreement for an original single floor 71 unit mine camp in 2010. In 2012, a second floor 73 unit expansion was added to the mine camp and the Company entered into a separate five year lease agreement for the second floor expansion. Together, the original mine camp along with the second floor expansion represent a 144 unit two floor mine camp.

The Company uses an incremental borrowing rate of 11% in determining the value of the finance lease obligation.

| | Three months ended June 30, 2016 | Year ended March 31, 2016 |
|---|---|---|
| Balance, beginning of period | $ 895,361 | $ 1,351,429 |
| Less: payments made during the period | - | (543,366) |
| Add: Interest accretion | - | 87,298 |
| | $ 895,361 | $ 895,361 |
| Transfer to liabilities subject to compromise | (376,592) | (376,592) |
| Balance, end of period | $ 518,769 | $ 518,769 |

The term of the lease on the original 71 unit first floor mine camp expired in May 2015, at which point the Company exercised its option to purchase the original first floor camp. The separate lease for the 73 unit second floor mine camp expansion has a five year term expiring in May 2017 and has a purchase option exercisable at expiry for $100,000. As at June 30, 2016, future actual minimum lease payments under the lease on the 73 unit second floor mine camp are $561,096.

A portion of the finance lease obligation balance is included in labilities subject to compromise. Refer to Note 15.

## 12. Rehabilitation Provision

Rehabilitation provision represents the legal and contractual obligations associated with the eventual closure of the Company's mining operations either progressively or at the end of the mine life. These obligations consist of costs associated with reclamation and monitoring activities and the removal of tangible assets from the Company's mining sites. During the year ended March 31, 2016 the estimate of the cost associated with the eventual closure of the Company's mining operations and removal of tangible assets from the Company's mine sites was reduced, based on updated rehabilitation and closure plans and consultation with applicable regulatory authorities.

At June 30, 2016, the total undiscounted amount of the Company's rehabilitation provision is $2,808,432 and is expected to be incurred between calendar 2016 and 2031. The rehabilitation provision is recognized as $2,778,901 at June 30, 2016 using a discount rate of 1.7% and a long-term inflation rate of 1.5%.

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

| | Three months ended June 30, 2016 | Year ended March 31, 2016 |
|---|---|---|
| Balance, beginning of period | $ 2,772,421 | $ 3,193,025 |
| Adjustment to provision | - | (439,919) |
| Accretion expense | 6,480 | 19,315 |
| Balance, end of period | 2,778,901 | 2,772,421 |
| Less: current portion, end of period | (18,000) | (18,000) |
| Non-current portion, end of period | $ 2,760,901 | $ 2,754,421 |

## 13. Rail Construction Advance

As part of a strategic co-operation agreement with TSMC, TSMC advanced $5,000,000 to the Company for the purpose of upgrading and modifying the existing rail infrastructure at the Company's Silver Yards site to enable construction of a new extended rail line to connect with TSMC's Timmins area plant near the Howse mine site. During the year ended March 31, 2016, repayment of the advance was satisfied by the payment to TSMC by KeRail Inc. ("KeRail") (a wholly owned subsidiary of Genesee & Wyoming Canada Inc. ("G&W")) of an access fee for operating rights on the rail line in Labrador which connects TSMC's Timmins Area plant, through the Company's Silver Yards site, to the TSH main line, as approved by the Minister of Transportation of the Government of Newfoundland and Labrador, pursuant to agreements between TSMC, KeRail and the Company entered into in 2013, as amended in 2014. The Silver Yards to Timmins rail line is operated by Knob Lake & Timmins Railway Company Inc., a subsidiary of G&W and a sister company of KeRail and Western Labrador Rail Services Inc.

## 14. Other Liabilities

On April 1, 2012 the Company adopted a Deferred Share Unit ("DSU") Plan under which DSUs may be granted by the Board at the end of each quarter to certain directors and key senior employees. The performance period of each DSU commences on the grant date and expires on the termination date of the participant. The termination date is when the participant ceases to be a director or key senior employee of the Company. On redemption each unit entitles the participant to receive, at the Company's option, (i) a cash payment; or (ii) shares from treasury equal to the market value of the Company's shares on the date of redemption; or (iii) a cash payment by the Company used to purchase shares on the open market on behalf of the participant.

A summary of deferred share units issued is presented below:

| | Number | Fair value |
|---|---|---|
| Balance, March 31, 2015 and 2016 and June 30, 2016 | 1,077,362 | $ 21,548 |

Granting of additional DSUs was suspended effective March 31, 2014.

## 15. Liabilities Subject to Compromise

Liabilities subject to compromise represent liabilities which will be dealt with as claims under the CCAA proceedings. The amounts set out below represent the Company's best estimate of claims to be compromised and are subject to future adjustment as a result of negotiations, actions of the Court, arbitration, mediation and other events. Any resulting adjustments may be material and will be recorded as a restructuring adjustment in a future reporting period. Refer to Note 19.

| | June 30, 2016 | March 31, 2015 |
|---|---|---|
| Accounts payable and accrued liabilities | $ 34,571,371 | $ 34,571,371 |
| Repayable advance | 31,526,588 | 31,526,588 |
| Finance lease obligation | 376,592 | 376,592 |
| | $ 66,474,551 | $ 66,474,551 |

## 16. Share Capital

**Authorized**
Unlimited common shares, no par value

| **Issued** | Shares # | Amount $ |
|---|---|---|
| Balance March 31, 2015 and 2016 and June 30, 2016 | 126,323,123 | 393,524,694 |

The Company voluntarily delisted its common shares from the Toronto Stock Exchange effective February 23, 2015.

## 17. Reserves

### (a) Stock options

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

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

A summary of the Company's options at June 30, 2016 and March 31, 2016 and the changes for the periods then ended is presented below:

| | Three months ended June 30, 2016 | | Year ended March 31, 2016 | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Outstanding, beginning of period | 687,500 | $ 4.75 | 1,030,000 | $ 4.86 |
| Expiry of vested options | - | - | (342,500) | 5.10 |
| Outstanding, end of period | 687,500 | $ 4.75 | 687,500 | $ 4.75 |

The following table sets out details of the stock options outstanding at June 30, 2016:

| Options Outstanding and Exercisable | | | |
|---|---|---|---|
| Number | Weighted Average Exercise Price | Expiry Date | Grant Date Fair Value |
| 100,000 | $ 6.80 | 09/22/2016 | $ 509,000 |
| 40,000 | 6.81 | 11/10/2016 | 195,600 |
| 200,000 | 6.35 | 11/30/2016 | 924,000 |
| 347,500 | 3.00 | 07/02/2017 | 713,525 |
| 687,500 | $ 4.75 | | $ 2,342,125 |

There were no options granted during the three months ended June 30, 2016 (2015 – Nil).

As at June 30, 2016, all stock options outstanding are fully vested and exercisable.

The weighted average contractual life remaining for outstanding and exercisable options at June 30, 2016 is 0.7 years (March 31, 2016 – 0.9 years).

## 17. Reserves (continued)

### (b) Warrants

All of the Company's outstanding share purchase warrants expired during the year ended March 31, 2016, resulting in a transfer of $4,623,000 from reserves into retained earnings (deficit).

### (c) Reserves

A summary of the reserves account is presented below:

| | |
|---|---|
| **Balance,** March 31, 2014 | $ 13,426,543 |
| Expiry of vested options | (523,364) |
| Expiry of warrants | (756,825) |
| **Balance,** March 31, 2015 | $ 12,146,354 |
| Expiry of vested options | (1,491,975) |
| Expiry of warrants | (4,623,000) |
| **Balance,** March 31, 2016 and June 30, 2016 | $ 6,031,379 |

## 18. Capital Management

The capital of the Company consists of common shares, stock options, share purchase warrants and finance leases. There were no changes to the Company's approach to capital management during the three months ended June 30, 2016. 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.

The Company will continue to assess new properties and seek to acquire an interest in additional properties if it believes there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

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

## 19. Commitments and Contingencies

(a) The Company's mining and exploration activities are subject to various Canadian federal and provincial laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

(b) Refer to Note 11 for finance lease obligation.

(c) The Company has indemnified the subscribers of flow-through shares issued prior to March 31, 2012 against any tax related amounts that may become payable as a result of the Company not making eligible expenditures.

(d) The Company has been served with various legal actions or demand notices with respect to amounts claimed as being due under certain of the Company's contracts. Furthermore, under the Company's CCAA proceedings various creditor claims have been submitted with respect to amounts claimed as being due under certain of the Company's contracts. The Company has recognized in liabilities subject to compromise its best estimate of the probable amount due with respect to such actions, demands and claims. To the extent the Company believes amounts demanded or claimed are without merit, the Company has not recognized such portions as a liability. Such unrecognized amounts have been treated as contingent liabilities. As at June 30, 2016, the aggregate amount of contingent liabilities with respect to various actions, demands and claims is approximately $24.3 million.

(e) As part of the Company's CCAA process the Company has suspended or teminated certain of its major commercial contracts and agreements, in some cases contingent on the completion of the CCAA process, and negotiations for the suspension or termination of certain other contracts are continuing with various counterparties. It is possible that some counterparties may have a different interpretation of whether such contracts are in fact suspended or terminated, the enforceability and effective timing of such suspension or termiantion, or whether such suspension or termination triggers any claim for damages. The Company's estimate of the probable amount due, if any, under such suspended and terminated contracts is based on the Company's legal interpretation of the timing, enforceability and financial consequences of such suspended or terminated contracts.

The estimated probable amount due, if any, with respect to the Company's major contracts involves significant judgment and is based on the Company's legal interpretation of its contracts, including an assessment of the enforceability of contract terms. It is possible that counterparties to some of the Company's major contracts may, in the future, seek claims for damages or other related relief in excess of the amount accrued by the Company.

In the event that a counterparty seeks a claim for damages or other related relief in the future in excess of the amount accrued, and that such action is successful either through litigation or a negotiated settlement, an additional possible liability would need to be accrued by the Company in a future reporting period. In each case the existence and amount of any additional possible liability will be confirmed only by the occurrence of one or more uncertain future events not wholly within the control of the Company.

The Company is not able to estimate a range of possible liability in excess of the amount accrued as there are significant factual and legal issues to be resolved. It is possible that future changes to estimates of accrued liabilities could be material.

## 20. Restructuring Items

Restructuring items represent expenses, transactions, gains and losses and provisions that are directly associated with the restructuring of the Company since the CCAA filing date of April 2, 2015.

| | Three months ended June 30, 2016 | Three months ended June 30, 2015 |
|---|---|---|
| Disclaimed leases (a) | $ - | $ - |
| Claims adjustments (b) | (18,333) | - |
| Professional fees (c) | (236,032) | (130,107) |
| | $ (254,365) | $ (130,107) |

(a) The cost of disclaimed leases represents the estimated allowable claim resulting from disclaimed leases of office premises and office equipment.
(b) Claims adjustments represents the estimated net impact on liabilities subject to compromise (other than disclaimed leases) from preliminary results of the claims assessment process.
(c) Professional fees represent the cost of legal and financial professional advisors and court filing costs associated with the Company's CCAA proceedings.

## 21. Related Party Transactions and Compensation of Key Management Personnel

During the three months ended June 30, 2016 the Company paid $30,000 (2015 - $30,000) of office rent to a corporation with common directors and/or officers. At June 30, 2016, $14,400 (March 31, 2016 - $14,400) remained receivable from a related company in respect of office rent relating to the previous year.

During the three months ended June 30, 2016, the Company incurred management compensation costs payable to companies with common directors and/or officers in the amount of $50,000 (2015 - $50,000). At June 30, 2016, $687,443 (March 31, 2016 - $670,776) in management compensation remained payable to these related companies. These amounts payable are unsecured and non-interest bearing with no fixed terms of repayment.

During the three months ended June 30, 2016, the Company incurred legal fees in respect of services provided by a professional corporation controlled by an officer in the amount of $34,084 (2015 - $20,520). At June 30, 2016, $14,844 (March 31, 2016 - $10,332) remained payable to this related party for legal fees. This amount payable is non-interest bearing with no fixed terms of repayment.

Compensation of key management personnel of the Company

The remuneration of directors and other key management personnel during the three months ended June 30, 2016 and 2015 was as follows:

| | Three months ended June 30, 2016 | Three months ended June 30, 2015 |
|---|---|---|
| Short-term compensation (i) | $ 227,447 | $ 236,599 |

(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.

## 22. Financial Instruments

*Fair Value Hierarchy*

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

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

At March 31, 2016 and June 30, 2016, the Company's financial instruments that are carried at fair value, consisting of cash equivalents, have been classified as Level 1 within the fair value hierarchy.

*Fair value*

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

*Financial risk management*

This section provides disclosures relating to the nature and extent of the Company's exposure to risks arising from financial instruments, including credit risk, liquidity risk, foreign currency risk, interest rate risk and commodity price risk and how the Company manages those risks. The Company's objectives and management of risks have not changed significantly during the periods ended March 31, 2015 and June 30, 2016.

*i) Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's credit risk is primarily attributable to cash and equivalents 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 and cash equivalents with reputable financial institutions. At June 30, 2016, the Company's cash and cash equivalents were held in deposits and in an investment grade short term money market fund at a major Canadian bank. The carrying amount of financial assets represents the Company's maximum credit exposure.

*ii) Liquidity risk*

Liquidity risk encompasses the risk that the Company cannot meet its financial obligations as they come due. As at June 30, 2016, the Company had a working capital deficit of $64,514,226, including liabilities subject to compromise in the amount of $66,492,884. Notwithstanding the ending working capital deficit, the Company believes it will be able to settle its current obligations based on the Company's expectation that it will successfully complete a settlement of liabilities subject to compromise under the CCAA process commenced on April 2, 2015. Refer to Note 1.

## 22. Financial Instruments (continued)

*iii) Foreign currency risk*

The majority of the Company's cash flows and financial assets and liabilities, other than the repayable advance, 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. The repayable advance is denominated in U.S. dollars. Refer to Note 10.

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

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

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

*iv) Interest rate risk*

Included in net loss for the three months ended June 30, 2016 is interest earned on the Company's cash and cash equivalents. If interest rates throughout the three months ended June 30, 2016 had been 100 basis points higher (lower) then the loss would have been approximately $8,000 lower (higher). The Company does not have any variable rate debt obligations which expose it to interest rate risk.

*v) Commodity price risk*

The future profitability of the Company is directly related to the market price of iron ore. Fluctuations in the iron ore price could create volatility in the Company's future cash flows and the future reported amounts for sales in its 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. If the iron ore price throughout the three months ended June 30, 2016 had been $10 higher (lower) then revenue would have been $Nil higher (lower) (2015 - $Nil). The Company had no sales of iron ore during the three months ended June 30, 2016 and 2015.

## 23. Comparative Amounts

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year. These reclassifications have no material effect on the condensed interim consolidated financial statements.