LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

Consolidated Financial Statements

For the years ended March 31, 2011 and March 31, 2010

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McGovern, Hurley, Cunningham, LLP
Chartered Accountants

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Labrador Iron Mines Holdings Limited

We have audited the accompanying consolidated financial statements of Labrador Iron Mines Holdings Limited and its subsidiaries, which comprise the consolidated balance sheets as at March 31, 2011 and 2010, and the consolidated statements of operations and comprehensive (loss) income and deficit and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles 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.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Labrador Iron Mines Holdings Limited and its subsidiaries as at March 31, 2011 and 2010, and their financial performance and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
June 24, 2011

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LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

Consolidated Balance Sheets

	As at March 31, 2011 $	As at March 31, 2010 $
ASSETS		
Current assets		
Cash and cash equivalents (Note 17)	7,563,670	48,299,095
Tax credits receivable (Note 5)	869,000	-
Accounts receivable and prepaid expenses (Note 8)	1,321,553	676,750
	9,754,223	48,975,845
Non current assets		
Restricted cash (Note 3)	3,040,568	-
Inventories (Note 4)	210,315	-
Long-term prepaid expenses and advances (Note 15)	11,700,000	2,255,000
Mineral property interests (Note 5)	163,773,350	150,883,030
Property, plant and equipment (Note 6)	36,676,720	7,919,845
	215,400,953	161,057,875
	225,155,176	210,033,720
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	14,928,986	2,118,827
Capital lease obligation (Note 13)	392,694	-
	15,321,680	2,118,827
Non current liabilities		
Long-term payables (Note 5)	-	1,000,000
Capital lease obligation (Note 13)	1,668,321	-
Asset retirement obligations (Note 14)	1,892,943	-
Future income taxes (Note 12(b))	31,836,022	31,305,364
	50,718,966	34,424,191
SHAREHOLDERS' EQUITY		
Share capital (Note 7(a))	165,021,464	160,837,192
Warrants (Note 7(b))	450,492	1,146,876
Contributed surplus (Note 7(d))	13,405,660	14,095,216
Deficit	(4,441,406)	(469,755)
	174,436,210	175,609,529
	225,155,176	210,033,720

Commitments and contingencies (Notes 3, 5, 11, 13 and 14)

APPROVED ON BEHALF OF THE BOARD:

Signed "Richard Lister"
Director

Signed "John Kearney"
Director

See accompanying notes to the consolidated financial statements.

LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

Consolidated Statements of Operations, Comprehensive (Loss) Income and Deficit

	For the year ended March 31, 2011 $	For the year ended March 31, 2010 $
Expenses		
Administration (Note 8)	1,625,162	849,382
Corporate expenses (Note 8)	1,231,862	836,159
Management costs	513,700	758,071
Professional fees (Note 8)	343,347	146,102
Directors' fees	123,000	50,500
Depreciation	166,535	112,088
Stock-based compensation (Note 7(c))	1,106,764	85,973
Loss before the undernoted	5,110,370	2,838,275
Interest earned	306,312	90,400
Loss before income taxes	(4,804,058)	(2,747,875)
Future income tax recovery (Note 12(a))	832,407	3,912,647
Net (loss) income for the year	(3,971,651)	1,164,772
Other comprehensive income	-	-
Comprehensive (loss) income for the year	(3,971,651)	1,164,772
Deficit, beginning of year	(469,755)	(1,634,527)
Deficit, end of year	(4,441,406)	(469,755)
Net (loss) income per share		
Basic	(0.09)	0.03
Diluted	(0.09)	0.03
Weighted average number of shares outstanding		
Basic	43,683,583	37,396,943
Diluted	43,683,583	37,352,333

See accompanying notes to the consolidated financial statements.

LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

Consolidated Statements of Cash Flows

	For the year ended March 31, 2011 $	For the year ended March 31, 2010 $
Cash provided by (used in) operating activities		
Net income (loss) for the year	(3,971,651)	1,164,772
Items not involving cash		
Stock-based compensation	1,106,764	85,973
Depreciation	166,535	112,088
Future income taxes	(832,407)	(3,912,647)
Changes in working capital	83,272	(582,050)
Cash provided by (used in) operating activities	(3,447,487)	(3,131,864)
Cash provided by (used in) investing activities		
(Increase) in mineral property interests	(12,192,150)	(7,403,537)
(Increase) in long-term prepaid expenses	(9,245,000)	(2,100,000)
Property, plant, and equipment purchases	(14,869,430)	(7,037,601)
(Increase) in restricted cash	(3,040,568)	-
Cash used in investing activities	(39,347,148)	(16,541,138)
Cash provided by (used in) financing activities		
Exercise of stock options	1,259,988	111,000
Exercise of warrants	1,428,710	-
Shares issued	-	35,057,300
Share issue costs	(129,488)	(2,398,192)
Repayment of capital lease obligation	(500,000)	-
Cash provided by financing activities	2,059,210	32,770,108
Changes in cash and cash equivalents	(40,735,425)	13,097,106
Cash and cash equivalents, beginning of the year	48,299,095	35,201,989
Cash and cash equivalents, end of the year	7,563,670	48,299,095
Cash and cash equivalents consist of:		
Cash	404,625	31,951,519
Cash equivalents	7,159,045	16,347,576
	7,563,670	48,299,095
Supplemental disclosure of cash flow information		
Interest paid	-	-
Income taxes paid	-	-
Stock-based compensation recorded to mineral property Interests	365,934	66,868
Change in accrued inventories	210,315	-
Change in accrued mineral property interests	(691,707)	2,404,248
Change in accrued property, plant and equipment	11,492,965	-
Property, plant and equipment acquired under capital lease	2,378,569	-
Property, plant and equipment interest under capital lease	182,446	-
Flow-through renunciation income tax effect	1,363,064	-
Change in accrued tax credits for mineral property interests	(869,000)	-
Change in long-term payables	(1,000,000)	-
Change in accrued share issue costs	-	129,488
Future income tax asset related to share issue costs	-	687,869
Asset retirement obligation charged to mineral property interests	1,757,511	-
Accretion of asset retirement obligation charged to mineral property interests	135,432	-

See accompanying notes to the consolidated financial statements.

1. NATURE OF OPERATIONS

Labrador Iron Mines Holdings Limited (the "Company") is a mineral resource company engaged in the exploration and development of iron ore projects in Canada. As at March 31, 2011 the Company is in the development stage, as defined by the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 11. 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 will no longer be considered a development stage company when the Schefferville Projects enter commercial production.

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

Notwithstanding the above risks, and after taking into consideration the $121,250,500 equity financing completed by the Company subsequent to March 31, 2011, as described in Note 17, the Company believes it has sufficient working capital to complete the commissioning of the first phase of its iron ore mining projects and to commence shipments of iron ore to begin generating operating cash flows. Accordingly, the Company does not believe significant doubt exists about its ability to continue as a going concern for the ensuing twelve months.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

Financial Instruments

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The fair value hierarchy has the following levels:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
(b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and
(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

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

Mineral property interests and deferred exploration expenditures
Where properties are acquired in exchange for the Company's shares, the properties are valued at the fair market value of the shares at the date of issue. The cost of mineral property interests and related exploration and development costs are deferred. Once the properties are brought into production, they will be depleted on a units-of-production method. Mineral property interests will be written off if the properties are sold, allowed to lapse, or the property shows no promise from prior exploration and development results, or management determines that there is a permanent and significant impairment in value. As at March 31, 2011, all of the Company's properties are considered to be in the exploration or development stage and none have achieved commercial production. The Company does not accrue future costs to keep the properties in good standing. Administrative expenditures, not directly related to property maintenance, are charged to operations as incurred.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of long-lived assets

Long-lived assets are reviewed for impairment periodically or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss must be recognized if the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. In that event, the asset must be written down to its fair value and an impairment loss is recorded in operations. Net estimated future cash flows from each long-lived asset are calculated based on anticipated future production, estimated iron ore prices, operating costs, capital expenditures and site restoration expenses. Management's estimate of future cash flows is subject to risk and uncertainties and it is reasonably possible that changes could occur with evolving economic conditions, which may affect the recoverability of the Company's long-lived assets and may have a material effect on the Company's results of operations and financial position.

Asset retirement obligations

The Company is required to record a liability for the estimated future costs associated with legal obligations relating to the reclamation and closure of its mineral property interests and certain property, plant and equipment. This amount is initially recorded in the period in which it is identified at its discounted present value with subsequent annual recognition of an accretion amount on the discounted liability. An equivalent amount is recorded as an increase to mineral property interests and is amortized over the useful life of the property. The liability is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation with a corresponding increase in the carrying value of the related long-lived asset.

Income taxes

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

Earnings (loss) per share

Basic earnings (loss) per share is calculated using the weighted average number of shares outstanding. Diluted earnings (loss) per share is calculated using the treasury stock method. In order to determine diluted earnings (loss) per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted earnings (loss) per share calculation. The diluted earnings (loss) per share calculation excludes any potential conversion of options and warrants that would decrease earnings (loss) per share. As a result, all outstanding convertible securities with the exception of 677,625 stock options at March 31, 2010 have been excluded from diluted earnings (loss) per share an all outstanding securities at March 31, 2011 have been excluded from diluted loss per share.

Foreign exchange

The functional and reporting currency of the Company is the Canadian dollar. Transactions in foreign currencies are translated into the currency of measurement at the exchange rates in effect on the transaction date. Monetary balance sheet items expressed in foreign currencies are translated into Canadian dollars at the exchange rates in effect at the balance sheet date. The resulting exchange gains and losses are recognized in operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Flow-through financing

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

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

Use of estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the period. Actual results could differ from estimates. During the fiscal period presented, management has made a number of significant estimates and valuation assumptions, including the recoverability of mineral property interests, the future costs associated with environmental remediation and site restoration matters, fair value of financial instruments and valuation of tax accounts and stock-based compensation. Discounted cash flows are estimated based on the Company's life-of-mine plans and include the following estimates and assumptions: estimated future recoverable mine production based on measured, indicated and inferred resources, ore grades and processing and recovery rates; commodity prices, foreign exchange, inflation, tax rates and operating and abandonment costs, and required capital expenditures. These estimates and valuation assumptions are based on present conditions and management's planned course of action, as well as an assumption about future business and economic conditions. Should the underlying valuation assumptions and estimates change, the recorded amounts could change by a material amount.

Stock-based compensation

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

Comprehensive (loss) income

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

Leases

Leases are classified as capital or operating depending on their terms and conditions. Payments under operating leases are expensed in the period in which they are incurred. The value of assets under capital leases are amortized over their useful lives. A liability is established to reflect the future obligation under capital leases and is reduced by principal payments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

New accounting policies:

Capitalized stripping costs
Mining costs associated with stripping activities that represent a betterment to the mineral property are capitalized. Otherwise such stripping costs are expensed. Capitalized stripping costs are amortized over the reserves that directly benefit from the stripping activity on a units-of-production basis.

Inventories
Inventories of iron ore are valued at the lower of average production cost and net realizable value. The production cost of inventories is determined on a weighted-average basis and includes direct materials, direct labour, and mine-site overhead expenses.

Future accounting changes:

International Financial Reporting Standards ("IFRS")
In February 2008, the CICA Accounting Standards Board confirmed that the use of IFRS will be required for publicly accountable enterprises, effective for the interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will adopt IFRS for its fiscal year beginning April 1, 2011. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's financial statements. The Company is in the final stages of assessing the impact of adopting IFRS.

3. RESTRICTED CASH

The Company has established letters of credit for $2,940,068 (2010 - $nil) as financial assurance related to the rehabilitation of its mining operations. The Company has assigned guaranteed investment certificates included in its restricted cash to its bank in the aggregate principal amount of its letters of credit as security for the letters of credit.

4. INVENTORIES

	Year ended March 31, 2011	Year ended March 31, 2010
	$	$
Stockpiles	210,315	-
Balance, end of year	210,315	-

5. MINERAL PROPERTY INTERESTS

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

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

In December 2009, the Company, through a wholly-owned subsidiary, Schefferville Mines Inc. ("SMI"), acquired interests in additional mineral properties located in Quebec for total consideration of $2,900,000, of which $1,000,000 remains payable as at March 31, 2011 and is included in accounts payable and accrued liabilities. The Company also acquired additional manganese properties in Labrador for consideration of $100,000 in December 2009.

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

5. MINERAL PROPERTY INTERESTS (Continued)

In December, 2009, the Company, through SMI, acquired, subject to all regulatory and government consents and approvals, an exclusive operating license in certain properties held under a 1953 Quebec Mining Lease (the "1953 Lease"). The current term of the 1953 Lease runs until 2013 and, subject to its provisions and the provisions of its governing Act, is renewable for a further term of 20 years to 2033. Pursuant to its operating license, SMI has the option, subject to approval of the Government of Quebec, to sublease the properties. The operating license is held subject to the payment of a royalty of $2.00 per tonne of iron ore shipped from the area of the 1953 Lease. The Company has agreed to assume certain existing liabilities and liens related to the 1953 Lease properties. Any amounts paid in respect of such liabilities and liens in excess of $1,500,000 will be deemed to be an advance royalty payment. Amounts totaling $800,000 had been paid at March 31, 2011 and included in mineral property interests as property acquisitions costs.

Certain of the properties acquired during 2009 are subject to pre-existing litigation by third parties against the previous holders of the properties including claims for breach of contract and claiming rights to or ownership of such properties. The Company considers such litigation to be without merit.

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

Increases in mineral property interests for the years ended March 31, 2011 and March 31, 2010 are as follows:

	March 31, 2011 $	March 31, 2010 $
Balance, beginning of year	150,883,030	140,797,497
Additions:		
Property development	5,891,442	1,026,889
Engineering	632,169	731,658
Environment and permits	842,007	1,068,802
Exploration	3,375,422	3,758,076
Transport services	171,562	213,357
Travel and accommodation	587,841	219,883
Stock-based compensation	365,934	66,868
Property acquisitions	-	3,000,000
Tax credits receivable	(869,000)	-
Asset retirement obligation	1,892,943	-
	12,890,320	10,085,533
Balance, end of year	163,773,350	150,883,030

The Company has accrued $869,000 in tax credits receivable related to eligible expenditures in the province of Quebec for the year ended March 31, 2011 (2010 - $Nil). The assistance has been applied to the properties to which it pertains. The Company expects to receive this assistance in the form of refundable tax credits from the Province of Quebec and mining duties returns from the Quebec Ministry of Natural Resources. Such assistance is subject to governmental audit.

6. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2011		
	Cost $	Accumulated Depreciation $	Net book value $
Service buildings	938,023	115,400	822,623
Computer equipment	180,052	55,477	124,575
Field equipment	763,258	38,769	724,489
Leasehold improvements	92,609	11,338	81,271
Processing equipment	18,250,770	-	18,250,770
Pumping facilities	2,239,707	-	2,239,707
Office equipment	22,046	15,352	6,694
Silver yard track	5,973,542	-	5,973,542
Vehicles	249,954	90,926	159,028
Port improvements	106,552	-	106,552
Settling ponds	532,482	-	532,482
Capitalized Stripping Costs	3,523,309	-	3,523,309
Roads	184,173	-	184,173
Mine Camp	3,947,505	-	3,947,505
	37,003,982	327,262	36,676,720

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

Property, plant and equipment with a total cost of $34,758,040 (2010 - $6,896,365) has not been amortized pending the commencement of commercial production.

Included in mine camp is an asset under capital lease with a carrying value at March 31, 2011 of $2,561,015 (2010 - $Nil). The mine camp has not been amortized pending the commencement of commercial production.

7. SHARE CAPITAL

(a) Common shares

Authorized
Unlimited common shares

Issued	Shares #	Amount $
Balance, March 31, 2009	37,148,451	128,545,307
Exercise of options	55,500	111,000
Exercise of options - valuation allocation	-	70,254
Common shares issued at $5.55 per share	5,406,000	30,003,300
Flow-through shares issued at $6.65 per share	760,000	5,054,000
Share issue costs	-	(1,799,793)
Broker warrants	-	(1,146,876)
Balance, March 31, 2010	43,369,951	160,837,192
Exercise of options	595,300	1,259,988
Exercise of options - valuation allocation	-	2,162,254
Exercise of broker warrants	224,640	1,428,710
Exercise of broker warrants - valuation allocation	-	696,384
Tax effect of flow-through shares	-	(1,363,064)
Balance, March 31, 2011	44,189,891	165,021,464

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

Subsequent to March 31, 2011, the Company issued an aggregate of 8,900,000 common shares at an issue price of $12.50 per share and 666,700 flow-through shares at an issue price of $15.00 per flow-through share pursuant to a short form prospectus for gross proceeds of $121,250,500. See Note 17 (a).

(b) Share purchase warrants

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

During the year ended March 31, 2011, 224,640 broker warrants were exercised at an exercise price of $6.36 per share, for gross proceeds of $1,428,710 leaving 145,320 broker warrants outstanding.

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

7. SHARE CAPITAL (Continued)

(c) Stock options

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

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

The following are the option transactions during the years ended March 31, 2010 and March 31, 2011:

	Options #	Weighted average exercise price $
Balance, March 31, 2009	3,350,000	4.10
Cancelled	(3,350,000)	4.10
Granted	1,955,000	2.00
Exercised	(55,500)	2.00
Balance, March 31, 2010	1,899,500	2.00
Granted	435,000	7.94
Exercised	(595,300)	2.12
Balance, March 31, 2011	1,739,200	3.45

The following table sets out details of the stock options outstanding as at March 31, 2011:

Number of options outstanding	Number of vested options outstanding	Exercise price	Expiry date
1,320,450	1,282,325	$2.00	August 31, 2012
273,750	56,250	$6.27	September 14, 2015
12,500	3,125	$7.30	November 9, 2015
132,500	16,563	$11.65	February 9, 2016
1,739,200	1,358,263		

The stock-based compensation expense during the year ended March 31, 2011 related to the vesting of options granted has been recorded as to $365,934 (2010 - $66,868) as a mineral property interest capitalized cost and as to $1,106,764 (2010 - $85,973) as an operating expense.

The weighted average grant date fair value of the stock options issued during the year ended March 31, 2011 is $6.06 (2010 - $0.83). The exercise price of stock options granted during the year was equal to the fair market value of the common shares on the date of grant. The fair value of options granted during the year ended March 31, 2011 has been estimated on the date of issue using the Black-Scholes pricing model with the following assumptions: expected dividend yield of 0% (2010 – 0%), expected volatility of 103.06% (2010 – 97.38%), risk-free interest rate of 2.38% (2010 – 1.90%) and expected life of 5 years (2010 – 2.96 years).

7. SHARE CAPITAL (Continued)

(c) Stock options (continued)

Stock options granted during the years ended March 31, 2011 and 2010 vest as to one-eighth quarterly over a period of two years. The first vesting period is the first day of the first quarter following the date of grant.

The total number of common shares that are issuable pursuant to stock options that are exercisable as at March 31, 2011 is 1,358,263. The weighted average exercise price of stock options that are exercisable as at March 31, 2011 is $2.11.

The weighted average contractual life remaining for outstanding and exercisable options at March 31, 2011 was 2.19 years and 1.60 years, respectively.

(d) Contributed surplus

Contributed surplus transactions for the years ended March 31, 2011 and March 31, 2010 were as follows:

Balance, March 31, 2009	$ 7,684,848
Stock-based compensation on vesting of options to employees	152,841
Reallocated to share capital upon option exercise	(70,254)
Expiry of share purchase warrants	6,327,781
Balance, March 31, 2010	14,095,216
Stock-based compensation on vesting of options to employees	1,472,698
Reallocated to share capital upon option exercise	(2,162,254)
Balance, March 31, 2011	$ 13,405,660

8. RELATED PARTY TRANSACTIONS

During the year ended March 31, 2011, the Company recovered $120,060 (2010 - $176,633) in respect of office rent (administration expense) from corporations with common directors and/or officers. There was no amount receivable from these companies at March 31, 2011 (2010 - $Nil).

The Company also made payments to companies with common directors and/or officers, in respect of management compensation (management costs) provided in the amount of $513,700 (2010 - $489,737). At March 31, 2011, $305,758 (2010 - $160,000) in management compensation remained payable to these companies. These amounts are unsecured and non-interest bearing and have no fixed repayment terms.

The Company incurred legal fees (professional fees) in respect of services provided by an officer in the amount of $69,422 (2010 - $162,800). At March 31, 2011, $18,920 (2010 - $104,000) in legal fees remained payable to this related party. This balance is unsecured and non-interest bearing and has no fixed repayment terms.

An amount of $40,018 was receivable at March 31, 31, 2010 from Anglesey Mining plc with respect to a portion of the issue costs of the short form prospectus financing in March 2010. There was no amount receivable from Anglesey Mining plc at March 31, 2011.

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

9. FINANCIAL INSTRUMENTS

Fair Value Hierarchy and Liquidity Risk Disclosure
At March 31, 2011, 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 balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates. The carrying amounts for cash and cash equivalents, tax credits receivable, accounts receivable, accounts payable and accrued liabilities and long-term payables on the balance sheet approximate fair value because of the limited term of the instruments.

Financial risk management
This section provides disclosures relating to the nature and extent of the Company's exposure to risks arising from financial instruments, including credit risk, liquidity risk, foreign currency risk, interest rate risk and commodity price risk and how the Company manages those risks. The Company's objectives and management of risks have not changed significantly during the year ended March 31, 2011.

i) Credit risk
The Company considers that financial assets are exposed to credit risk. Cash and cash equivalents are valued at $7,563,670 at March 31, 2011. Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company does not currently generate any revenue from sales to customers nor does it hold derivative type instruments that would require a counterparty to fulfill a contractual obligation. The Company has never held any asset backed paper instruments. The Company seeks to place its cash and cash equivalents with reputable financial institutions. Accordingly, the Company believes that it is exposed to minimal credit risks at the current time. At March 31, 2011, the Company's cash and cash equivalents were held at a major Canadian bank. Accounts receivable and tax credits receivable consist primarily of commodity taxes recoverable from the Government of Canada and tax credits due from the Province of Quebec. The carrying amount of financial assets represents the Company's maximum credit exposure.

ii) Liquidity risk
Liquidity risk encompasses the risk that the Company cannot meet its financial obligations as they come due. As at March 31, 2011, the Company had a working capital deficit of $5,567,457. Subsequent to March 31, 2011, the Company completed an equity financing for gross proceeds of $121,250,500 (See Note 17). Accordingly, the Company is able to meet its current obligations as they fall due and has minimal liquidity risk.

iii) Foreign currency risk
The majority of the Company's cash flows and financial assets and liabilities are denominated in Canadian dollars, which is the Company's functional and reporting currency. Foreign currency risk is limited to the portion of the Company's business transactions denominated in currencies other than the Canadian dollar. For the year ended March 31, 2011, the Company had no sales and no significant expenses denominated in a currency other than the Canadian dollar, but incurred certain development costs related to its mineral property interests and certain acquisition of property, plant, and equipment in currencies other than the Canadian dollar.

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

9. FINANCIAL INSTRUMENTS (Continued)

iii) Foreign currency risk (continued)

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

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 year is interest earned on the Company's cash and cash equivalents. If interest rates throughout the year had been 100 basis points higher (lower) then the loss would have been approximately $320,000 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. As the Company was not yet in mining operations, there were no sales during the year ended March 31, 2011. However, fluctuations in the iron ore price could create volatility in the Company's future cash flows and the future reported amounts for sales in its consolidated statement of operations and comprehensive (loss) income, both on a period-to-period basis and compared with operating budgets and forecasts. In addition, a drop in actual iron ore prices or expected long-term iron ore prices could impact the Company's ability to raise additional financing, if required, to complete the development of its properties and development could also be halted if iron ore prices fall below expected operating costs.

10. CAPITAL MANAGEMENT

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

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

11. COMMITMENTS AND CONTINGENCIES

(a) During December 2009, the Company acquired interests in certain mineral properties located in Quebec. See Note 5.

(b) The Company has certain capital lease obligations. See Note 13.

(c) The Company has undertaken a program of community consultation with the Aboriginal First Nations communities living in or adjacent to, or having an interest in or claims to, historic land or treaty rights in the Schefferville Projects area or who may be impacted by the Schefferville Projects. As at March 31, 2011 the Company had entered into an impact benefit agreement ("IBA") with each of the Innu Nation of Labrador and the Naskapi Nation of Kawawachikamach.

Each IBA is a life of mine agreement that establishes the processes and sharing of benefits which will ensure an ongoing positive relationship between the Company and the respective Aboriginal First Nation community. The Aboriginal First Nations Communities and their members will benefit through training, employment, business opportunities and financial participation in the Schefferville Projects.

(d) 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.

(e) The Company entered into flow-through share subscription agreements on March 25, 2010 whereby it is committed to incur, on or before December 31, 2011, a total of $5,054,000 of qualifying Canadian Exploration Expenses as described in the Income Tax Act. As at March 31, 2011, $3,905,223 had been incurred, leaving a balance of $1,148,777 to be incurred on or before December 31, 2011. The Company has indemnified the subscribers for any tax related amounts that may become payable by the subscribers as a result of the Company not meeting its expenditure commitments.

(f) The Company is committed to a minimum amount of rental payments under a long-term lease for its head office premises, which expires on August 31, 2019. Minimum rental commitments remaining under this lease approximate $2,808,000 as follows:

2012	$	334,000
2013		334,000
2014		334,000
2015		334,000
2016 and beyond		1,472,000
	$	2,808,000

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

(g) The Company is commited to future payments under certain long term equipment supply and transportation contracts. Minimum commitments remaining under these contracts are approximately $98,000,000 as follows:

2012	$	20,500,000
2013		36,000,000
2014		25,500,000
2015		2,300,000
2016 and beyond		13,700,000
	$	98,000,000

12. INCOME TAXES

(a) Provision for income taxes

The major items causing the Company's income tax expense to differ from the Canadian combined federal and provincial statutory rate of 30.5% (2010 - 32.6%) were:

	2011	2010
Loss before income taxes	$ 4,804,058	$ 2,747,875
Expected income tax recovery at statutory rates	1,465,000	896,000
Adjustments resulting from:		
Change in tax rates	158,000	2,648,000
Stock-based compensation	(337,000)	(28,000)
Other	(453,593)	396,647
Future income tax recovery	$ 832,407	$ 3,912,647

(b) Future income tax balances

The future income tax liability initially arose due to the difference between the purchase price and the underlying income tax values of the mineral property interests acquired (Note 5).

The tax effect of temporary differences that give rise to future income tax assets and liabilities in Canada at March 31, 2011 and March 31, 2010 are as follows:

	March 31 2011 $	March 31 2010 $
Future income tax assets (liabilities)		
Non-capital losses	3,124,000	1,975,000
Mineral property interests	(35,725,000)	(34,583,000)
Capital losses	133,000	134,000
Share issue costs	680,000	1,129,000
Other	84,978	173,636
Valuation allowance	(133,000)	(134,000)
Future income tax liability (net)	(31,836,022)	(31,305,364)

(c) The Company has an undeducted share issue cost balance of approximately $2,425,000 at March 31, 2011.

The Company has approximately $10,910,000 of non-capital losses in Canada and approximately $28,200,000 of development and exploration expenditures as at March 31, 2011 which under certain circumstances can be used to reduce the taxable income of future years. The non-capital losses expire as follows:

2027	$ 39,000
2028	886,000
2029	707,000
2030	4,035,000
2031	5,243,000
	$ 10,910,000

13. CAPITAL LEASE OBLIGATION

The Company entered into a capital lease agreement for a mine camp during the year ended March 31, 2011. The Company used an incremental borrowing rate of 11% in determining the value of the capital lease.

	March 31, 2011 $	March 31,2010 $
Balance, beginning of year	-	-
Present value of capital lease on inception	2,378,569	-
Less: payments made during the year	(500,000)	-
Add: Interest accretion	182,446	-
Balance, end of year	2,061,015	-
Less: current portion, end of year	(392,694)	-
Long-term portion, end of year	1,668,321	-

Future minimum lease payments under the capital lease by year are as follows:

2012	600,000
2013	600,000
2014	600,000
2015	600,000
2016	200,000
	$ 2,600,000

14. ASSET RETIREMENT OBLIGATIONS

The Company has recorded a liability for asset retirement obligations related to a portion of its mining operations at March 31, 2011. The asset retirement obligations represent the legal and contractual obligations associated with the eventual closure of the Company's mining operations 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.

The total undiscounted amount required to settle the Company's anticipated reclamation and remediation obligations was estimated as at March 31, 2011 to be $2,940,068 (March 31, 2010 – $Nil). The present value of the asset retirement obligation has been estimated at $1,892,943 as at March 31, 2011.

In determining the present value of the asset retirement obligations, the Company has assumed a long-term inflation rate of 2%, a credit-adjusted risk-free discount rate of 11% and a weighted average useful life, varying with the specific asset of up to twenty years. Elements of uncertainty in estimating this amount include changes in the projected period of usage of the mining asset, reclamation expenditures incurred during ongoing operations and reclamation and remediation requirements and alternatives.

A summary of the Company's provision for the asset retirement obligation is presented below:

	March 31, 2011 $	March 31, 2010 $
Balance, beginning of year	-	-
Asset retirement obligation incurred	1,757,511	-
Accretion expense	135,432	-
Balance, end of year	1,892,943	-

15. LONG-TERM PREPAID EXPENSES AND ADVANCES

As at March 31, 2011 the Company had made advances under certain transportation contracts and had made certain advance royalty payments.

16. 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 financial statements.

17. SUBSEQUENT EVENTS

(a) Subsequent to March 31, 2011, the Company issued an aggregate of 8,900,000 common shares at an issue price of $12.50 per share and 666,700 flow-through shares at an issue price of $15.00 per flow-through share pursuant to a short form prospectus for gross proceeds of $121,250,500.

(b) Subsequent to March 31, 2011, the Company issued 478,335 broker warrants as partial compensation to the underwriters of the short form prospectus offering. The broker warrants are exercisable into common shares of the Company at an exercise price of $12.50 per share and expire on October 26, 2012.

(c) Subsequent to March 31, 2011, 94,200 stock options were exercised at an exercise price of $2.00 per share and 5,000 stock options were exercised at an exercise price of $6.27 per share, resulting in the issuance of 99,200 common shares for total proceeds of $219,750.

(d) Subsequent to March 31, 2011, the Company entered into an IBA with the Innu of Matimekush-Lac John. The IBA is a life of mine agreement that establishes the processes and sharing of benefits in the Schefferville Projects with the Innu of Matimekush-Lac John, including benefits relating to training, employment, business opportunities and financial participation.