# Labrador Iron Mines Holdings Limited

**LABRADOR IRON MINES HOLDINGS LIMITED**

**Condensed Interim Consolidated Financial Statements**

**For the Three and Nine Months Ended December 31, 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 and nine months ended December 31 2016 and 2015.

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

| | December 31, 2016 | March 31, 2016 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 607,393 | $ 3,409,529 |
| Accounts receivable and prepaid expenses (Notes 5 and 25) | 366,189 | 289,829 |
| **Total current assets** | 973,582 | 3,699,358 |
| **Non-current assets** | | |
| Restricted cash (Note 6) | 2,879,016 | 2,888,053 |
| Mineral property interests (Note 7) | 20,000,000 | 1 |
| Property, plant and equipment (Note 8) | 645,698 | 2,170,855 |
| **Total non-current assets** | 23,542,714 | 5,058,909 |
| **Total assets** | $ 24,498,296 | $ 8,758,267 |
| **LIABILITIES** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued liabilities (Notes 9, 15 and 25) | $ 390,480 | $ 406,306 |
| Finance lease obligation (Note 11) | - | 518,769 |
| Rehabilitation provision (Note 13) | 18,000 | 18,000 |
| Other liabilities (Note 14) | 21,548 | 21,548 |
| **Current liabilities, before the undernoted** | 430,028 | 964,623 |
| Liabilities subject to compromise (Notes 9, 10, 11,15, 20 and 21) | - | 66,474,551 |
| **Total current liabilities** | 430,028 | 67,439,174 |
| **Non-current liabilities** | | |
| Rehabilitation provision (Note 13) | 2,773,925 | 2,754,421 |
| **Total liabilities** | 3,203,953 | 70,193,595 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (Note 17) | 395,687,172 | 393,524,694 |
| Reserves (Note 18) | 4,402,779 | 6,031,379 |
| Deficit | (388,595,608) | (460,991,401) |
| Non-controlling interest (Note 16) | 9,800,000 | - |
| **Total shareholders' equity** | 21,294,343 | (61,435,328) |
| **Total liabilities and shareholders' equity** | $ 24,498,296 | $ 8,758,267 |

Going concern (Note 1)
Commitments and contingencies (Note 21)

The financial statements were approved by the Board of Directors on February 21, 2017, and signed on its behalf by:

| | |
|---|---|
| Signed *"John F. Kearney"* | Signed *"D.W. Hooley"* |
| Director | 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 Income (Loss)

(Unaudited, expressed in Canadian dollars)

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | **December 31, 2016 $** | **December 31, 2015 $** | **December 31, 2016 $** | **December 31, 2015 $** |
| **Operating expenses** | | | | |
| Site activities | (333,437) | (210,677) | (1,099,974) | (407,654) |
| Depletion and depreciation | (8,386) | (8,827) | (25,157) | (26,481) |
| **(Loss) before the undernoted** | (341,823) | (219,504) | (1,125,131) | (434,135) |
| Corporate and administrative costs | (429,088) | (418,567) | (1,195,333) | (1,410,604) |
| Finance lease (Note 11) | - | (24,616) | - | (87,298) |
| Accretion (Note 13) | (6,523) | (4,914) | (19,504) | (19,094) |
| Unrealized foreign exchange (loss) | - | (1,285,157) | - | (3,467,623) |
| Gain on sale of equipment (Note 22) | 266,617 | - | 376,555 | 590,000 |
| Rail construction advance settlement | - | - | - | 5,000,000 |
| Impairments, net (Notes 7, 8 and 23) | 25,499,999 | - | 25,499,999 | (5,000,000) |
| Interest earned | 9,021 | 13,981 | 28,300 | 39,929 |
| | 25,340,026 | (1,719,273) | 24,690,017 | (4,354,690) |
| **Net income (loss) before the undernoted** | 24,998,203 | (1,938,777) | 23,564,886 | (4,788,825) |
| Restructuring recovery (expense) (Note 24) | 47,068,758 | (105,419) | 47,202,307 | (336,919) |
| **Net comprehensive income (loss) for the period** | 72,066,961 | (2,044,196) | 70,767,193 | (5,125,744) |
| **Earnings (loss) per share** | | | | |
| Basic and diluted | 0.55 | (0.02) | 0.55 | (0.04) |
| **Weighted average number of shares outstanding** | | | | |
| Basic and diluted | 131,415,916 | 126,323,123 | 128,026,894 | 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 | | Nine months ended | |
|---|---|---|---|---|
| | **December 31, 2016 $** | **December 31 2015 $** | **December 31, 2016 $** | **December 31, 2015 $** |
| **Cash (used in) operating activities** | | | | |
| Net income (loss) for the period | 72,066,961 | (2,044,196) | 70,767,193 | (5,125,744) |
| Items not involving cash: | | | | |
| Depletion and depreciation | 8,386 | 8,827 | 25,157 | 26,481 |
| Accretion on rehabilitation provision | 6,523 | 4,914 | 19,504 | 19,094 |
| Interest on finance lease obligation | - | 24,616 | - | 87,298 |
| Interest receivable | (6,198) | (7,079) | 9,037 | 23,843 |
| Unrealized foreign exchange loss | - | 1,285,157 | - | 3,467,623 |
| Gain on sale of equipment (Note 22) | (266,617) | - | (376,555) | (590,000) |
| Rail construction advance settlement | - | - | - | (5,000,000) |
| Impairments, net (Notes 7, 8 and 23) | (25,499,999) | - | (25,499,999) | 5,000,000 |
| Restructuring recovery (Note 24) | (47,440,358) | - | (48,123,891) | |
| Changes in working capital | (249,922) | (26,078) | 863 | (750,811) |
| **Cash (used in) operating activities** | (1,381,224) | (753,839) | (3,178,691) | (2,842,216) |
| **Cash provided by investing activities** | | | | |
| Proceeds from sale of equipment (Note 22) | 266,617 | - | 376,555 | 590,000 |
| **Cash provided by investing activities** | 266,617 | - | 376,555 | 590,000 |
| **Cash (used in) financing activities** | | | | |
| Repayment of finance lease obligation | - | (46,758) | - | (527,306) |
| **Cash (used in) financing activities** | - | (46,758) | - | (527,306) |
| **Changes in cash and cash equivalents** | (1,114,607) | (800,597) | (2,802,136) | (2,779,522) |
| Cash and cash equivalents, beginning of period | 1,722,000 | 4,442,668 | 3,409,529 | 6,421,593 |
| Cash and cash equivalents, end of period | 607,393 | 3,642,071 | 607,393 | 3,642,071 |
| Cash and cash equivalents consist of: | | | | |
| Cash | 228,307 | 3,017,027 | 228,307 | 3,017,027 |
| Cash equivalents | 379,086 | 625,044 | 379,086 | 625,044 |
| | 607,393 | 3,642,071 | 607,393 | 3,642,071 |

*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: Warrants | | Reserves: Stock Options | | Deficit | Non-Controlling Interest | Shareholders' Equity |
|---|---|---|---|---|---|---|---|---|---|
| | Number | Amount | Number | Amount | Number | Amount | 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 | - | - | - | - | (342,500) | (1,491,975) | 1,491,975 | - | - |
| Loss for the period | - | - | - | - | - | - | (3,081,548) | - | (3,081,548) |
| Balance, September 30, 2015 | 126,323,123 | $ 393,524,694 | 13,800,000 | $ 4,623,000 | 687,500 | $ 6,031,379 | $ (465,945,174) | $ - | $ (61,766,101) |
| Expiry of warrants | - | - | (13,800,000) | (4,623,000) | - | - | 4,623,000 | - | - |
| Net income for the period | - | - | - | - | - | - | 330,773 | - | 330,773 |
| Balance, March 31, 2016 | 126,323,123 | $ 393,524,694 | - | $ - | 687,500 | $ 6,031,379 | $ (460,991,401) | $ - | $ (61,435,328) |
| Expiry of vested options | - | - | - | - | (340,000) | (1,628,600) | 1,628,600 | - | - |
| Issuance of common shares of LIMH under the Plan (Note 20) | 36,041,304 | 2,162,478 | - | - | - | - | - | - | 2,162,478 |
| Distribution of subsidiary LIM shares under the Plan (Note 20) | - | - | - | - | - | - | - | 9,800,000 | 9,800,000 |
| Net income for the period | - | - | - | - | - | - | 70,767,193 | - | 70,767,193 |
| Balance, December 31, 2016 | 162,364,427 | $ 395,687,172 | - | $ - | 347,500 | $ 4,402,779 | $ (388,595,608) | $ 9,800,000 | $ 21,294,343 |

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

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

***Principles of Consolidation***

The accompanying consolidated financial statements include the accounts of parent company Labrador Iron Mines Holdings Limited ("LIMH") and its majority owned subsidiaries Labrador Iron Mines Limited ("LIM"), Schefferville Mines Inc. ("SMI"), Centre Ferro Ltd. and Labrail Inc.

LIMH owns 100% of the common shares of each of its subsidiaries other than LIM and SMI. LIMH owned 100% of the common shares of LIM until December 19, 2016, at which date a 49% equity interest in LIM was distributed to creditors under the Plan of Arrangement and Compromise (the "Plan") (as described below). Thereafter, LIMH owns 51% of the common shares of LIM and LIM owns 100% of the shares of SMI. Refer to Note 20.

Non-controlling interest represents the 49% equity interest in LIM not owned by LIMH. Refer to Note 16.

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

***Nature of Operations***

Labrador Iron Mines Holdings Limited (on a consolidated basis, the "Company") is a mineral resource company engaged in the business of exploration, development and mining of iron ore projects in Canada. The Company's 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 and nine months ended December 31, 2016, primarily due to the prevailing low price of iron ore.

In December 2016, the Company completed a financial restructuring and is currently focused on maintaining its properties and securing development financing to resume mining operations when market conditions improve. Should the Company be successful in securing working capital and development financing, 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.

***Financial Restructuring and Plan of Arrangement***

On April 2, 2015, the Company instituted proceedings in the Ontario Superior Court of Justice (the "Court") for a financial restructuring under the Companies' Creditors Arrangement Act ("CCAA").

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.

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

***Financial Restructuring and Plan of Arrangement (continued)***

On November 10, 2016 the Company filed the Plan with the Court and following creditor approval and Court sanction, the Plan was implemented and the Company exited CCAA proceedings on December 19, 2016.

The principal purposes of the Plan were to convert the debts of parent company LIMH into equity of LIMH and the debts of subsidiaries LIM and SMI into equity of LIM and equity of Houston Iron Royalties Limited ("RoyaltyCo"). RoyaltyCo is a newly-formed corporation that has been granted the right to receive a royalty equal to 2% of the sales proceeds (FOB Port of Sept-Iles) received by LIM and SMI from sales of iron ore from the Company's Houston and Malcolm properties.

As a result of implementation of the Plan, creditors with claims against LIMH (other than those with Convenience Claims) acquired, as a group, a 22% equity interest in LIMH and creditors with claims against LIM or SMI (other than those with Convenience Claims) acquired, as a group, a 49% equity interest in LIM. In addition, creditors of LIM or SMI also acquired a 100% equity interest in RoyaltyCo.

The period of time during which the Company operated under the provisions of CCAA, being the period from April 2, 2015 until December 19, 2016, is hereinafter referred to as the "CCAA Period."

Refer to Notes 20 and 24.

***Going Concern***

As at March 31, 2015 the Company had a significant working capital deficit. 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. In December, 2016, the Company's Plan was approved and implemented and the Company's liabilities subject to compromise were extinguished.

As at December 31, 2016, subsequent to implementation of the Plan, the Company had positive working capital of $543,554. The Company believes it has sufficient cash resources and other surplus assets potentially for sale to continue its operations over the next 12 months, based on the Company's expectation that it will generate sufficient proceeds from the sale of surplus assets to fund its corporate and site standby activities. Accordingly, the condensed interim consolidated financial statements for the three and nine months ended December 31, 2016 have been prepared on a going concern basis, using the historical cost convention.

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

Furthermore, the Company's ability to develop the Houston Project is dependent on completing additional development financing. Even if the Company is successful in funding its immediate working capital requirements, 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.

## 2. Basis of Preparation

These condensed interim consolidated financial statements of the Company were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. 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.

These condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

There were 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.

During the CCAA Period, the Company classified certain amounts within its financial statements to distinguish transactions and liabilities that were directly associated with the restructuring process from the ongoing operations of the business. Furthermore, liabilities that were affected by the restructuring plan were presented as liabilities subject to compromise under the CCAA claims process. Refer to Notes 1, 9, 10, 11, 15, 20, 21 and 24.

## 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. Refer to Notes 7, 8 and 23.

*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. In connection with implementation of the Plan in December 2016, the Company completed an assessment of the value of its mineral property interests and new royalty based on comparative valuation and discounted cash flow methodologies. Refer to Notes 7 and 23.

*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.

*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.

*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.

*Going concern*

Refer to Note 1.

*Contingencies*

Refer to Note 21.

(Unaudited, expressed in Canadian dollars)

## 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.

## 5. Accounts Receivable and Prepaid Expenses

| | December 31, 2016 | March 31, 2016 |
|---|---|---|
| Accounts receivable | $ 102,414 | $ 84,760 |
| Refundable taxes | 49,084 | 42,226 |
| Prepaid expenses | 214,691 | 162,843 |
| | $ 366,189 | $ 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.

| | December 31, 2016 | March 31, 2016 |
|---|---|---|
| Security for letters of credit | $ 2,879,016 | $ 2,888,053 |

(Unaudited, expressed in Canadian dollars)

## 7. Mineral Property Interests

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

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.

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.

Effective December 19, 2016, as part of the Plan, a royalty was created equal to 2% of the sales proceeds (FOB Port of Sept-Iles) received from sales of iron ore from the Company's Houston and Malcolm properties. The value of the royalty has been estimated at $7,000,000, using a discounted cash flow methodology. Refer to Note 12.

During the year ended March 31, 2015, the carrying value of the Company's mineral property interests was impaired based on an assessment using then-prevailing economic conditions. In December, 2016 the Company partially reversed the impairment of its mineral property interests resulting in a revised net carrying value of $20,000,000, based on management's assessment of the value of the Company's projects using a comparative valuation approach, after taking into consideration the effect of the newly granted royalty.

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<br>$ | Mineral property interests<br>$ | Reclamation balance<br>$ | Total<br>$ |
|---|---|---|---|---|
| March 31, 2015 and 2016 | 25,137,063 | 1 | - | 25,137,064 |
| Reversal of impairment (Note 23) | - | 26,999,999 | - | 26,999,999 |
| Grant of royalty (Note 12) | | (7,000,000) | | (7,000,000) |
| December 31, 2016 | 25,137,063 | 20,000,000 | - | 45,137,063 |
| **Accumulated depletion and depreciation:** | | | | |
| March 31, 2015 and 2016 and December 31, 2016 | (25,137,063) | - | - | (25,137,063) |
| **Net book value at:** | | | | |
| March 31, 2015 and 2016 | - | 1 | - | 1 |
| December 31, 2016 | - | 20,000,000 | - | 20,000,000 |

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.

(Unaudited, expressed in Canadian dollars)

### 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 | 977,101 | 1 | 4,571,243 | 1 | 5,548,346 |
| Impairment | - | - | (1,500,000) | - | (1,500,000) |
| December 31, 2016 | 977,101 | 1 | 3,071,243 | 1 | 4,048,346 |
| | | | | | |
| **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 | (25,157) | - | - | - | (25,157) |
| December 31, 2016 | (331,405) | - | (3,071,243) | - | (3,402,648) |
| | | | | | |
| **Net Book Value at:** | | | | | |
| March 31, 2016 | 670,853 | 1 | 1,500,000 | 1 | 2,170,855 |
| December 31, 2016 | 645,696 | 1 | - | 1 | 645,698 |

Transportation infrastructure and equipment includes the Company's rail track and fleet of railcars.

During the nine months ended December 31, 2016 the Company recorded an impairment charge of $1,500,000 against the full value of its fleet of railcars, as the Company agreed as part of the settlement of a claim made under the CCAA process to dispose of the railcars with the net proceeds to be remitted to a secured creditor in final satisfaction of a security interest in the railcars.

(Unaudited, expressed in Canadian dollars)

## 9. Accounts Payable and Accrued Liabilities

| | December 31, 2016 | March 31, 2016 |
|---|---|---|
| Trade payables and accruals | $ 349,877 | $ 34,968,863 |
| Sales taxes and statutory liabilities | 40,603 | 8,814 |
| | 390,480 | 34,977,677 |
| Less amount included in liabilities subject to compromise | - | (34,571,371) |
| | $ 390,480 | $ 406,306 |

Refer to Notes 1, 2, 15, 20, and 24.

## 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 balance was included in liabilities subject to compromise and was extinguished under the Plan on December 19, 2016.

| | December 31, 2016 | March 31, 2016 |
|---|---|---|
| Repayable advance | $ - | $ 31,526,588 |
| Less amount included in liabilities subject to compromise | - | (31,526,588) |
| | $ - | $ - |

Refer to Notes 1, 2, 15, 20 and 24.

## 11. Finance Lease Obligation

In 2012 the Company entered into a lease agreement for a mine camp expansion.

Effective June 1, 2016, the Company and the lessor amended the lease agreement suspending remaining lease payments and providing the Company with a two year option to reactivate the lease, resulting in a restructuring recovery of $518,769 and payments due on the lease as at May 31, 2016 were transferred to liabilities subject to compromise and were extinguished under the Plan on December 19, 2016.

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

| | December 31, 2016 | March 31, 2016 |
|---|---|---|
| Finance lease obligation | $ - | $ 895,361 |
| Less amount included in liabilities subject to compromise | - | (376,592) |
| | $ - | $ 518,769 |

Refer to Notes 1, 2, 15, 20, and 24.

(Unaudited, expressed in Canadian dollars)

## 12. Royalty

In connection with the Plan, RoyaltyCo was established by LIM. LIM and SMI granted RoyaltyCo the right to receive a royalty equal to 2% of the sales proceeds (FOB Port of Sept-Iles) received from sales of iron ore from the Houston and Malcolm properties in exchange for 35,000,000 common shares of RoyaltyCo. The value of the royalty upon date of grant (using a discounted cash flow valuation approach) and the value of the RoyaltyCo common shares received as consideration have been estimated at $7,000,000.

Upon implementation of the Plan, LIM distributed all of the shares of RoyaltyCo to creditors of LIM and SMI, other than Convenience Creditors, on a pro rata basis in partial satisfaction of their claims against LIM and SMI.

Refer to Note 20.

## 13. 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 December 31, 2016, the total undiscounted amount of the Company's rehabilitation provision is $2,808,432 and is expected to be incurred between calendar 2017 and 2031. The rehabilitation provision is recognized as $2,791,925 at December 31, 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:

| | Nine months ended December 31, 2016 | Year ended March 31, 2016 |
|---|---|---|
| Balance, beginning of period | $ 2,772,421 | $ 3,193,025 |
| Adjustment to provision | - | (439,919) |
| Accretion expense | 19,504 | 19,315 |
| Balance, end of period | 2,791,925 | 2,772,421 |
| Less: current portion, end of period | (18,000) | (18,000) |
| Non-current portion, end of period | $ 2,773,925 | $ 2,754,421 |

(Unaudited, expressed in Canadian dollars)

## 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.

As at December 31, 2016, there were 1,077,362 DSUs outstanding with an attributed value of $21,548. Granting of additional DSUs was suspended effective March 31, 2014.

## 15. Liabilities Subject to Compromise

Liabilities subject to compromise are liabilities which were claims under the CCAA proceedings. The full balance of liabilities subject to compromise was extinguished under the Plan on December 19, 2016. Refer to Notes 1, 2, 9, 10, 11, 20, 21 and 24.

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

## 16. Non-Controlling Interest

Non-controlling interest represents the 49% equity share of LIMH's subsidiary LIM that was distributed to creditors of LIM and SMI, other than Convenience Creditors, under the Plan on December 19, 2016. Refer to Note 20.

| | December 31, 2016 | March 31, 2015 |
|---|---|---|
| Non-controlling interest | $ 9,800,000 | $ - |

## 17. Share Capital

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

| **Issued** | Shares # | Amount $ |
|---|---|---|
| Balance March 31, 2015 and 2016 | 126,323,123 | 393,524,694 |
| Common shares issued under the Plan (Note 20) | 36,041,304 | 2,162,478 |
| Balance December 31, 2016 | 162,364,427 | 395,687,172 |

(Unaudited, expressed in Canadian dollars)

## 18. 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.

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

| | Nine months ended December 31, 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 | (340,000) | 6.54 | (342,500) | 5.10 |
| Outstanding, end of period | 347,500 | $ 3.00 | 687,500 | $ 4.75 |

There were no options granted during the nine months ended December 31, 2016 (2015 – Nil). As at December 31, 2016, the Company had 347,500 fully vested stock options outstanding, all with an exercise price of $3.00 and an expiry date of July 2, 2017. The grant date fair value of the options was $713,525.

### (b) Reserves

A summary of the reserves account is presented below:

| | |
|---|---|
| **Balance,** March 31, 2015 | $ 12,146,354 |
| Expiry of vested options | (1,491,975) |
| Expiry of warrants | (4,623,000) |
| **Balance,** March 31, 2016 | $ 6,031,379 |
| Expiry of vested options | (1,628,600) |
| **Balance,** December 31, 2016 | $ 4,402,779 |

## 19. Capital Management

The capital of the Company consists of share capital, reserves and a finance lease. There were no changes to the Company's approach to capital management during the nine months ended December 31, 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.

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

(Unaudited, expressed in Canadian dollars)

## 20. Plan of Arrangement

On November 10, 2016 the Company filed the Plan with the Court under the Company's CCAA proceedings.

The principal purposes of the Plan were to convert the debts of parent company LIMH into equity of LIMH and the debts of subsidiaries LIM and SMI into equity of LIM and equity of RoyaltyCo. RoyaltyCo is a newly-formed corporation that has been granted the right to receive a royalty equal to 2% of the sales proceeds (FOB Port of Sept-Iles) received by LIM and SMI from sales of iron ore from the Company's Houston and Malcolm properties.

Under the Plan, creditors with claims of $5,000 or less, or creditors with larger claims who elected to reduce their claims to $5,000 (collectively "Convenience Claims") were paid in cash.

The Plan created a framework that will permit the Company to sustain itself pending the recovery of iron ore prices, and provided creditors an opportunity to recover their debts through their equity participation in the future profits of the Company's business. The Plan was proposed by the Company in the expectation that creditors, stakeholders and other persons with an economic interest in the Company would derive a greater benefit from the implementation of the Plan than would result from a bankruptcy or immediate liquidation.

On December 6, 2016 the Plan was approved unanimously by creditors of LIMH and by approximately 95% in value of creditors of LIM and SMI, with only one contested and on December 19, 2016, the Plan was implemented, marking the final legal milestone in the Company's restructuring process.

As a result of implementation of the Plan, creditors with claims against LIMH (other than those with Convenience Claims), as a group, were issued with a 22% equity interest in LIMH and creditors with claims against LIM or SMI (other than those with Convenience Claims), as a group, were issued a 49% equity interest in LIM. In addition, creditors of LIM or SMI also acquired a 100% equity interest in RoyaltyCo.

The following table sets out the effects of implementation of the Plan on December 19, 2016.

| | Shares Issued (#) | Share Issue Price ($) | Value ($) |
|---|---|---|---|
| ***Pre Plan Implementation:*** | | | |
| Compromised liabilities, prior to Plan Implementation | | | 74,939,985 |
| ***Plan Implementation:*** | | | |
| Convenience Claim cash payments | | | (135,566) |
| Distribution of LIMH common shares | 36,041,304 | 0.06 | (2,162,478) |
| Distribution of LIM common shares | 49,000,000 | 0.20 | (9,800,000) |
| Distribution of RoyaltyCo common shares | 35,000,000 | 0.20 | (7,000,000) |
| Write-off of compromised liabilities | | | (55,841,941) |
| ***Post Plan Implementation:*** | | | |
| Compromised liabilities, after Plan Implementation | | | - |

(Unaudited, expressed in Canadian dollars)

## 21. 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) Upon implementation of the Plan, all liabilities subject to compromise were extinguished on December 19, 2016 with the exception of one unresolved claim in the amount of approximately $3.0 million which has been rejected and remains in dispute. The Company has not recognized the unresolved claim as a liability and the full amount of the unresolved claim is treated as a contingent liability.

## 22. Sale of Equipment

The Company has disposed of various surplus equipment for cash proceeds. The carrying value of such disposed equipment had previously been fully impaired.

| | **Three months ended** | | **Nine months ended** | |
|---|---|---|---|---|
| | **December 31, 2016** | **December 31, 2015** | **December 31, 2016** | **December 31, 2015** |
| | **$** | **$** | **$** | **$** |
| Proceeds of sale | 266,617 | - | 376,555 | 590,000 |
| Carrying value | - | - | - | - |
| Gain on sale | 266,617 | - | 376,555 | 590,000 |

## 23. Impairments, Net

| | **Three months ended** | | **Nine months ended** | |
|---|---|---|---|---|
| | **December 31, 2016** | **December 31, 2015** | **December 31, 2016** | **December 31, 2015** |
| | **$** | **$** | **$** | **$** |
| Mineral property interests | 26,999,999 | - | 26,999,999 | - |
| Property, plant and equipment | (1,500,000) | - | (1,500,000) | (5,000,000) |
| | 25,499,999 | - | 25,499,999 | (5,000,000) |

The Company carried out an impairment assessment in the nine months ended December 31, 2016 in accordance with the Company's accounting policies and as required by IAS 36.

Based on a management assessment of the value of the Company's projects using a comparative valuation approach, the Company partially reversed the previous impairment of the mineral property interests resulting in a revised carrying value of $20,000,000 for such mineral property interests, after taking into consideration the effect of the newly granted royalty valued at $7,000,000 (based on a discounted cash flow approach). Refer to Notes 7 and 12.

During the nine months ended December 31, 2016 the Company recorded an impairment charge of $1,500,000 against the full value of its fleet of railcars, as the Company agreed to dispose of the railcars with the net proceeds to be remitted to a secured creditor in settlement of a claim under the CCAA process and in final satisfaction of a security interest in the railcars. Refer to Note 8.

(Unaudited, expressed in Canadian dollars)

## 24. Restructuring Recovery

Restructuring recovery represents the net impact of expenses, transactions, provisions and write-offs directly associated with the restructuring of the Company during the CCAA Period.

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | December 31, 2016 | December 31, 2015 | December 31, 2016 | December 31, 2015 |
| | $ | $ | $ | $ |
| Disclaimed contracts (a) | (60,000) | - | (65,000) | - |
| Claims adjustments (b) | (8,401,583) | - | (7,718,050) | - |
| Professional fees (c) | (311,600) | (105,419) | (856,584) | (336,919) |
| Write-off of compromised liabilities (d) | 55,841,941 | - | 55,841,941 | - |
| Restructuring recovery (expense) | 47,068,758 | (105,419) | 47,202,307 | (336,919) |

(a) Disclaimed contracts represents the value of claims arising from disclaimed contracts.

(b) Claims adjustments represents the net impact on liabilities subject to compromise resulting from settlements (other than disclaimed contracts) under 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.

(d) Write-off of compromised liabilities represents the value of compromised liabilities extinguished in excess of the attributed value of consideration issued to settle such compromised liabilities upon implementation of the Plan. Refer to Note 20.

## 25. Related Party Transactions

During the nine months ended December 31, 2016 the Company paid $77,500 (December 31, 2015 – $90,000) in office rent to a corporation with common directors and/or officers. At December 31, 2016, $7,200 (March 31, 2016 - $14,400) remained receivable from a related company in respect of office rent relating to a previous year.

During the nine months ended December 31, 2016, the Company incurred management compensation costs payable to companies with common directors and/or officers in the amount of $150,000 (December 31, 2015 - $150,000). At December 31, 2016, $33,333 (March 31, 2016 - $670,776) in management compensation remained payable to these related companies. Management compensation of $639,771 payable to these related parties was compromised under the Plan. The remaining amounts payable are unsecured and non-interest bearing.

During the nine months ended December 31, 2016, the Company incurred legal fees in respect of services provided by a professional corporation controlled by an officer in the amount of $202,042 (December 31, 2015 - $85,480). At December 31, 2016, $28,686 (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.

(Unaudited, expressed in Canadian dollars)

## 26. Compensation of Key Management Personnel

The remuneration of directors and other key management personnel during the nine months ended December 31, 2016 and 2015 was as follows:

| | Nine months ended December 31, 2016 | Nine months ended December 31, 2015 |
|---|---|---|
| Short-term compensation (i) | $ 528,269 | $ 706,283 |

(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.

## 27. 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 December 31, 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 and liabilities subject to compromise 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 nine months ended December 31, 2015 and 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 December 31, 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.

## 27. Financial Instruments (continued)

*ii) Liquidity risk*

Liquidity risk encompasses the risk that the Company cannot meet its financial obligations as they come due. As at December 31, 2016, the Company had working capital of $543,554. The Company believes it will be able to settle its current obligations based on the Company's expectation that it will generate sufficient proceeds from the sale of surplus assets. Refer to Note 1.

*iii) Foreign currency risk*

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

Revenue from 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 income for the nine months ended December 31, 2016 is interest earned on the Company's cash and cash equivalents. If interest rates throughout the nine months ended December 31, 2016 had been 100 basis points lower (higher) then net income would have been approximately $16,000 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. The Company had no sales of iron ore during the nine months ended December 31, 2016 and 2015.