Labrador Iron Mines Holdings Limited

LABRADOR IRON MINES HOLDINGS LIMITED

Condensed Interim Consolidated Financial Statements

For the Three Months ended June 30, 2020 and 2019

(Expressed in Canadian dollars)

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

	June 30, 2020	March 31, 2020
ASSETS		
Current assets		
Cash and cash equivalents	$ 105,584	$ 253,712
Restricted cash (Note 7)	111,015	111,015
Accounts receivable and prepaid expenses (Note 5)	230,484	222,754
Total current assets	447,083	587,481
Non-current assets		
Restricted cash (Note 7)	1,269,829	1,289,256
Prepaid exploration expenses	20,683	20,683
Mineral property interests (Note 8)	1	1
Property, plant and equipment (Note 9)	1	1
Total non-current assets	1,290,514	1,309,941
Total assets	$ 1,737,597	$ 1,897,422
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Notes 10, 18 and 19)	$ 511,129	$ 595,362
Rehabilitation provision (Note 11)	111,015	111,015
Other liabilities (Note 12)	21,548	21,548
Total current liabilities	643,692	727,925
Non-current liabilities		
Accrued liabilities (Notes 10 and 19)	231,250	231,250
Rehabilitation provision (Note 11)	1,484,411	1,482,554
CEBA loan (Note 13)	40,000	-
Total non-current liabilities	1,755,661	1,713,804
Total liabilities	2,399,353	2,441,729
SHAREHOLDERS' (DEFICIENCY)		
Share capital (Note 15)	395,687,172	395,687,172
Deficit	(395,739,314)	(395,623,844)
Non-controlling interest (Note 14)	(609,614)	(607,635)
Total shareholders' (deficiency)	(661,756)	(544,307)
Total liabilities and shareholders' (deficiency)	$ 1,737,597	$ 1,897,422

Going concern (Note 1)
Commitments and contingencies (Note 17)

The financial statements were approved by the Board of Directors on August 27, 2020 and signed on its behalf by:

Signed *"John F. Kearney"*
Director

Signed *"D.W. Hooley"*
Director

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

LABRADOR IRON MINES HOLDINGS LIMITED

Condensed Interim Consolidated Statements of Operations and Comprehensive Loss

(Expressed in Canadian dollars)

	Three months ended June 30, 2020	Three months ended June 30, 2019
Operating expenses		
Site management	$ (19,503)	$ (108,635)
Loss before the undernoted	(19,503)	(108,635)
Corporate and administrative costs	(96,609)	(154,968)
Accretion (Note 11)	(1,857)	(9,563)
Interest earned	520	7,804
	(97,946)	(156,727)
Comprehensive loss for the period	(117,449)	(265,362)
Net comprehensive loss attributable to:		
Shareholders of Labrador Iron Mines Holdings Limited	(115,470)	(245,751)
Non-controlling interest (Note 14)	(1,979)	(19,611)
	$ (117,449)	$ (265,362)
Loss per share		
Basic and diluted	$ (0.00)	$ (0.00)
Weighted average number of shares outstanding		
Basic and diluted	162,364,427	162,364,427

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
(Expressed in Canadian dollars)

	Three months ended June 30, 2020	Three months ended June 30, 2019
Cash used in operating activities		
Net loss for the period	$ (117,449)	$ (265,362)
Items not involving cash		
Accretion (Note 11)	1,857	9,563
Accrued interest	19,427	5,088
Changes in working capital	(91,963)	193,042
Cash used in operating activities	(188,128)	(57,669)
Cash provided by financing activities		
Proceeds of CEBA loan (Note 13)	40,000	-
Cash provided by financing activities	40,000	-
Change in cash and cash equivalents	(148,128)	(57,669)
Cash and cash equivalents, beginning of period	253,712	76,216
Cash and cash equivalents, end of period	105,584	$ 18,547
Cash and cash equivalents consist of:		
Cash	$ 105,382	$ 17,720
Cash equivalents	202	827
	$ 105,584	$ 18,547

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 Shareholders' (Deficiency)
(Expressed in Canadian dollars)

	Share Capital		Deficit	Non-Controlling Interest	Shareholders' (Deficiency)
	Number	Amount	Amount	Amount	Total
Balance, March 31, 2019	162,364,427	$ 395,687,172	$ (395,790,967)	$ 707	$ (103,088)
Net (loss) for the period	-	-	(245,751)	(19,611)	(265,362)
Balance, June 30, 2019	162,364,427	395,687,172	(396,036,718)	(18,904)	(368,450)
Net income (loss) for the period	-	-	412,874	(588,731)	(175,857)
Balance, March 31, 2020	162,364,427	395,687,172	(395,623,844)	(607,635)	(544,307)
Net (loss) for the period	-	-	(115,470)	(1,979)	(117,449)
Balance, June 30, 2020	162,364,427	$ 395,687,172	$ (395,739,314)	$ (609,614)	$ (661,756)

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

1. Nature of Operations and Going Concern

Principles of Consolidation

The accompanying condensed interim 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 52% of the common shares of LIM and LIM owns 100% of the shares of SMI.

LIMH owns 100% of the common shares of Centre Ferro Ltd. and Labrail Inc.

Non-controlling interest represents the 48% equity interest in LIM not owned by LIMH. Refer to Note 14.

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"). Among the Schefferville Projects, the Houston Project, consisting of the Houston and Malcolm properties, and the Elizabeth Taconite Property, are the Company's principal projects.

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

The Company did not conduct mining operations, other than reclamation and standby activities, during the three months ended June 30, 2019 and 2020. The Company is currently focused on maintaining its properties, completing reclamation and evaluating the potential resumption of mining operations. Subject to securing development financing, the Company plans 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 interests on an advantageous basis. Changes in future conditions could require material impairment of the carrying values of the Company's assets.

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

Going Concern

As at June 30, 2020, the Company had a working capital deficit of $196,609 (March 31, 2020 - working capital deficit of $140,444). Notwithstanding its working capital deficit, the Company believes it has sufficient resources to continue its operations over the next 12 months, based on the Company's expectation that it will generate sufficient proceeds from the sale of surplus assets and the release of restricted cash to fund its corporate and site standby activities. Accordingly, the condensed interim consolidated financial statements for the three months ended June 30, 2020 have been prepared on a going concern basis, using the historical cost convention.

1. Nature of Operations and Going Concern (continued)

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

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

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 – *Interim Financial Reporting* ("IAS 34") on a basis consistent with the accounting policies disclosed in the consolidated financial statements of the Company for the year ended March 31, 2020.

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

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of 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 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 are consistent with those set out in Note 3 to the Company's consolidated financial statements for the year ended March 31, 2020 and 2019.

Going concern
Refer to Note 1.

Contingencies
Refer to Note 17.

4. Significant Accounting Policies

The condensed interim consolidated financial statements for the three months ended June 30, 2020 and 2019 should be read in conjunction with the annual consolidated financial statements of the Company for the year ended March 31, 2020 and 2019, 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 years ended March 31, 2020 and 2019.

(Expressed in Canadian dollars)

5. Accounts Receivable and Prepaid Expenses

	June 30, 2020	March 31, 2020
Accounts receivable (i)	$ 211,582	$ 200,083
Refundable taxes	18,902	19,853
Prepaid expenses	-	2,818
	$ 230,484	$ 222,754

(i) The accounts receivable balance at June 30, 2020 and March 31, 2020 includes a hold-back of $200,000 on the sale of property and equipment.

6. Assets held for sale

Non-current assets are reclassified as current assets held for sale if their carrying amount will be recovered principally through a sale transaction expected to be completed within one year, rather than through continuing use. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

	Three months ended June 30, 2020	Year ended March 31, 2020
Opening balance	$ -	$ 502,010
Additions:		
Building	-	-
Mine camp equipment	-	50,000
Disposals:		
Building	-	(502,010)
Mine camp equipment	-	(50,000)
Plant and equipment	-	-
Ending balance	$ -	$ -

Refer to Note 9.

7. 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. Refer to Note 11.

	June 30, 2020	March 31, 2020
Current	$ 111,015	$ 111,015
Non-current	1,269,829	1,289,256
Restricted cash	$ 1,380,844	$ 1,400,271

Current restricted cash is expected to be released within one year of the reporting date.

(Expressed in Canadian dollars)

8. Mineral Property Interests

The Company's mineral property assets, which are all categorized as mineral property interests, are as follows:

	Mineral Property Interests
Cost at:	
March 31, 2019, 2020 and June 30, 2020	$ 1
Accumulated depletion and depreciation:	
March 31, 2019, 2020 and June 30, 2020	-
Net book value at:	
March 31, 2019, 2020 and June 30, 2020	$ 1

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

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

All of the iron ore properties located in Labrador held by LIM are held subject to an underlying royalty in the amount of 3% of the selling price (FOB Port) of 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 held by SMI are held subject to a royalty of 3% of the selling price FOB port of iron ore shipped and sold from the properties, subject to such royalty being no greater than US$1.50 per tonne and certain other mining claims in Quebec held by SMI are subject to the payment of a royalty of $2.00 per tonne of iron ore shipped from the properties.

RBRG Trading (UK) Limited holds a 50% net profit interest in certain historical DSO stockpiles and the Elizabeth Taconite Property is subject to a deferred payment of $500,000 upon commencement of commercial production.

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 recorded an impairment reversal of mineral property interests in the amount of $26,999,999, prior to taking into consideration the effect of the newly granted royalty valued at $7,000,000, based on management's estimate of the fair value of the Company's projects using various valuation approaches, including comparative market transactions and a discounted cash flow analysis, resulting in an adjusted net carrying value of $20,000,000 for such mineral property interests as at December 31, 2016.

In assessing the fair value of the Company's mineral property interests in December 2016, the Company's discounted cash flow model assumed annual production from the Houston Project of approximately 2.0 million tonnes of saleable product per year for ten years at an assumed average long term iron ore price of US$90 per tonne (62% Fe CFR China basis) using a risk adjusted discount rate of 15% and a CAD/US exchange rate of 0.75. This assessment was made in the context of market conditions and trends then prevailing.

The carrying value of the Company's mineral property interests was assessed for impairment at March 31, 2017. The year end impairment assessment took into consideration economic conditions prevailing during the assessment period subsequent to year end, during which the iron ore price had declined to an average of approximately US$65 per tonne. Accordingly, based on the market conditions prevailing during the assessment period, an impairment of $19,999,999 on mineral property interests was recorded effective March 31, 2017.

(Expressed in Canadian dollars)

8. Mineral Property Interests (continued)

The carrying value of the Company's mineral property interests was assessed again at June 30, 2020, as the spot price of iron ore exceeded USD$100 per tonne, however an impairment reversal of the Company's mineral property interests was not recorded, pending confirmation of the sustainability of the improved iron ore market conditions. In the event the iron ore price continues to be strong, the Company will consider recognizing an impairment reversal of its mineral property interests.

9. Property, Plant and Equipment

	Buildings and mine camp	Transportation infrastructure and equipment	Beneficiation plant and equipment	Total
Cost at:	$	$	$	$
March 31, 2019	-	3,071,243	1	3,071,244
Impairment reversal	50,000	-	-	50,000
Transfer to assets held for sale (Note 6)	(50,000)	-	-	(50,000)
March 31, 2020 and June 30, 2020	-	3,071,243	1	3,071,244
Accumulated Depreciation at:				
March 31, 2019 and 2020 and June 30, 2020	-	(3,071,243)	-	(3,071,243)
Net Book Value at:				
March 31, 2019 and 2020 and June 30, 2020	-	-	1	1

In October 2019, the Company recognized an impairment reversal of the carrying value of certain mine camp equipment, which was subsequently reclassified as held for sale prior to being sold for cash proceeds.

In March 2020, the Company sold an industrial building which had previously been transferred to assets held for sale.

Refer to Note 6.

(Expressed in Canadian dollars)

10. Accounts Payable and Accrued Liabilities

	June 30, 2020	March 31, 2020
Current		
Trade payables and accruals	$ 363,414	$ 443,995
Sales taxes and statutory liabilities	147,715	151,367
	511,129	595,362
Non-current		
Accrued liabilities	231,250	231,250
	$ 742,379	$ 826,612

The full balance of the non-current accrued liabilities is deferred executive compensation accrued during the years ended March 31, 2016 and 2017. Refer to Note 19.

11. 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 the removal of tangible assets from the Company's mining sites.

At June 30, 2020, the total undiscounted amount of the Company's rehabilitation provision is $1,342,425 and is expected to be incurred between calendar 2020 and 2022. The rehabilitation provision is recognized under IFRS as $1,595,426 at June 30, 2020 using a discount rate of 1.46% and an inflation rate of 2.0%.

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

	Three months ended June 30, 2020	Year ended March 31, 2020
Balance, beginning of period	$ 1,593,569	$ 2,134,011
Accretion	1,857	15,475
Change in estimate	-	(43,930)
Reduction	-	(511,987)
Balance, end of period	$ 1,595,426	$ 1,593,569
Less: Current portion	(111,015)	(111,015)
Non-current portion	$ 1,484,411	$ 1,482,554

12. Other Liabilities

As at June 30, 2020, there were 1,077,362 (2019 - 1,077,362) Deferred Share Units (each, a "DSU") outstanding with an attributed value of $21,548 (2019 - $21,548). Granting of additional DSUs was suspended effective March 31, 2014.

On redemption each DSU entitles the holder 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.

13. CEBA Loan

On April 30, 2020, the Company received a loan in the principal amount of $40,000 under the Canada Emergency Business Account ("CEBA") program launched by the Government of Canada as a COVID-19 relief measure. The CEBA loan is unsecured and non-interest bearing during an initial term ending December 31, 2021. Thereafter, the CEBA loan will continue to be unsecured but will bear interest of 5% during an extended term ending December 31, 2025.

	June 30, 2020	March 31, 2020
CEBA loan	$ 40,000	$ -

(Expressed in Canadian dollars)

14. Non-Controlling Interest

Non-controlling interest represents the 48% equity share of LIMH's subsidiary LIM not owned by LIMH. Refer to Note 1.

	Three months ended June 30, 2020	Year ended March 31, 2020
Beginning balance	$ (607,635)	$ 707
Net loss of LIM attributable to non-controlling interest	(1,979)	(608,342)
Ending balance	$ (609,614)	$ (607,635)

15. Share Capital

Authorized
Unlimited common shares, no par value

Issued	Shares #	Amount $
Balance, March 31, 2019 and 2020 and June 30, 2020	162,364,427	395,687,172

16. Capital Management

The capital of the Company consists of share capital. There were no changes to the Company's approach to capital management during the three months ended June 30, 2019 and 2020. 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.

17. Commitments and Contingencies

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

(b) LIM is party to one unresolved claim from 2016 in the amount of approximately $3.0 million which has been rejected and remains in dispute. The Company has not recognized the unresolved claim as a liability as the outcome of the claim is not determinable at this time and the full amount of the unresolved claim is treated as a contingent liability.

(Expressed in Canadian dollars)

18. Related Party Transactions

During the three months ended June 30, 2020, the Company incurred office rent of $9,000 (2019 - $9,000) payable to a corporation with common directors and/or officers. As at June 30, 2020, $27,000 (2019 - $15,000) remained payable to this related party with respect to office rent.

During the three months ended June 30, 2020, the Company incurred administrative services costs payable to a company controlled by an officer in the amount of $7,500 (2019 - $7,500). As at June 30, 2020, $42,500 (2019 - $12,500) remained payable to this related party with respect to administrative services.

All related party payable balances are included in accounts payable and accrued liabilities. The balances are unsecured, non-interest bearing and have no fixed terms of repayment.

19. Compensation of Key Management Personnel

The remuneration of directors and other key management personnel during the three months ended June 30, 2020 and 2019 was as follows:

	Three months ended June 30, 2020	Three months ended June 30, 2019
Short-term compensation (i)	$ 74,374	$ 79,692

(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 period. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

As at June 30, 2020, $231,250 (2019 - $348,317) of accrued short-term compensation remained payable to key management personnel. Of this balance payable at June 30, 2020, $231,250 (2019 - $231,250) is deferred executive compensation accrued during the years ended March 31, 2016 and 2017. All such accrued compensation is included in accrued liabilities.

20. 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.

As at June 30, 2020 and 2019, the Company's financial instruments that are carried at fair value, consisting of cash equivalents, have been classified as Level 2 within the fair value hierarchy.

20. Financial Instruments (continued)

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 and accounts payable and accrued liabilities on the consolidated statement of financial position approximate fair value because of the limited term of the instruments.

Financial risk management

This section provides disclosures relating to the nature and extent of the Company's exposure to risks arising from financial instruments, including credit risk, liquidity risk, foreign currency risk, interest rate risk and commodity price risk and how the Company manages those risks. The Company's objectives and management of risks have not changed significantly during the three months ended June 30, 2020 and 2019.

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 cash equivalents, restricted cash and accounts receivable. The Company does not currently hold derivative type instruments that would require a counterparty to fulfill a contractual obligation. The Company has never held any asset backed paper instruments. The Company seeks to place its cash and cash equivalents with reputable financial institutions. At June 30, 2020, the Company's cash and cash equivalents and restricted cash were held in deposits and in an investment grade short term money market fund at a major Canadian bank. The carrying amount of financial assets represents the Company's maximum credit exposure.

ii) Liquidity risk

Liquidity risk encompasses the risk that the Company cannot meet its financial obligations as they come due. As at June 30, 2020, the Company had a working capital deficit of $196,609. The Company believes it will be able to settle its current obligations from the proceeds of sale of surplus assets and the release of restricted cash. Refer to Note 1.

iii) Foreign currency risk

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

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

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

The Company's objective in managing its foreign currency risk is to minimize its net exposures to foreign currency cash flows by holding cash 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.

20. Financial Instruments (continued)

Financial risk management (continued)

iv) Interest rate risk

Included in the loss for the three months ended June 30, 2020 is interest earned on the Company's cash and cash equivalents. If interest rates throughout the three months ended June 30, 2020 had been 100 basis points higher (lower) then the loss would have been approximately $500 lower (higher). The Company does not have any variable rate debt obligations which expose it to interest rate risk.