



## **Labrador Iron Mines Holdings Limited**

### **LABRADOR IRON MINES HOLDINGS LIMITED**

#### **Condensed Interim Consolidated Financial Statements**

**For the three and six months ended September 30, 2021 and 2020**

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

The Company's auditors have not reviewed the unaudited condensed interim consolidated financial statements for the three and six months ended September 30, 2021 and 2020.

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

	<u>September 30, 2021</u>	<u>March 31, 2021</u>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 81,183	\$ 328,056
Restricted cash (Note 6)	1,001,221	80,258
Accounts receivable and prepaid expenses (Note 5)	15,699	302,447
<b>Total current assets</b>	<u>1,098,103</u>	<u>710,761</u>
<b>Non-current assets</b>		
Restricted cash (Note 6)	28,695	949,175
Prepaid exploration expenses	67,637	20,683
Exploration and evaluation assets (Note 7)	26,409,912	26,400,317
Property, plant and equipment (Note 8)	1	1
<b>Total non-current assets</b>	<u>26,506,245</u>	<u>27,370,176</u>
<b>Total assets</b>	<u>\$ 27,604,348</u>	<u>\$ 28,080,937</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Notes 9, 19 and 20)	\$ 864,254	\$ 842,848
<b>Total current liabilities</b>	<u>864,254</u>	<u>842,848</u>
<b>Non-current liabilities</b>		
Accrued liabilities (Notes 9 and 19)	231,250	231,250
Rehabilitation provision (Note 10)	-	1,145,067
CEBA loan (Note 11)	40,000	40,000
<b>Total non-current liabilities</b>	<u>271,250</u>	<u>1,416,317</u>
<b>Total liabilities</b>	<u>1,135,504</u>	<u>2,259,165</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 13)	395,687,172	395,687,172
Reserves (Note 14(c))	814,066	699,491
Deficit	(382,522,286)	(382,609,000)
Non-controlling interest (Note 12)	12,489,892	12,044,109
<b>Total shareholders' equity</b>	<u>26,468,844</u>	<u>25,821,772</u>
<b>Total liabilities and shareholders' equity</b>	<u>\$ 27,604,348</u>	<u>\$ 28,080,937</u>

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

The financial statements were approved by the Board of Directors on November 11, 2021 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 Income**  
(Unaudited, expressed in Canadian dollars)

	Three months ended		Six months ended	
	September 30, 2021 \$	September 30, 2020 \$	September 30, 2021 \$	September 30, 2020 \$
<b>Operating expenses</b>				
Site costs	(108,016)	(76,645)	(167,659)	(96,148)
<b>(Loss) before the undernoted</b>	(108,016)	(76,645)	(167,659)	(96,148)
Corporate and administrative costs (Note 11)	(73,722)	(96,518)	(218,080)	(193,127)
Share based compensation (Note 15)	(62,288)	-	(114,575)	-
Accretion (Note 10)	(611)	(1,860)	(1,223)	(3,717)
Interest earned	1,020	1,670	1,467	2,190
Rehabilitation provision recovery (Note 10)	1,032,567	172,900	1,032,567	172,900
	896,966	76,192	700,156	(21,754)
<b>Comprehensive income (loss) for the period before the undernoted</b>	788,950	(453)	532,497	(117,902)
Assignment of rights (Note 18)	-	250,000	-	250,000
<b>Comprehensive income for the period</b>	788,950	249,547	532,497	132,098
<b>Comprehensive income for the period</b>				
Shareholders of Labrador Iron Mines Holdings Limited	315,171	64,618	86,714	(50,852)
Non-controlling interest (Note 12)	473,779	184,929	445,783	182,950
	788,950	249,547	532,497	132,098
<b>Net income per share</b>				
Basic and diluted	0.00	0.00	0.00	0.00
<b>Weighted average number of shares outstanding</b>				
Basic	162,364,427	162,364,427	162,364,427	162,364,427
Diluted	165,017,463	162,364,427	164,967,126	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**  
(Unaudited, expressed in Canadian dollars)

	Three months ended		Six months ended	
	September 30, 2021 \$	September 30, 2020 \$	September 30, 2021 \$	September 30, 2020 \$
<b>Cash (used in) operating activities</b>				
Net income for the period	788,950	249,547	532,497	132,098
Items not involving cash:				
Share based compensation (Note 15)	62,288	-	114,575	-
Accretion (Note 10)	611	1,860	1,223	3,717
Interest receivable	(836)	(1,624)	(483)	17,803
Rehabilitation provision recovery (Note 10)	(1,032,567)	(172,900)	(1,032,567)	(172,900)
Changes in working capital	21,060	(227,399)	261,200	(319,362)
<b>Cash (used in) operating activities</b>	<u>(160,494)</u>	<u>(150,516)</u>	<u>(123,555)</u>	<u>(338,644)</u>
<b>Cash (used in) provided by investing activities</b>				
Proceeds from the sale of property (Note 5)	-	200,000	-	200,000
Proceeds from the assignment of rights (Note 18)	-	250,000	-	250,000
Investment in exploration and evaluation assets (Note 7)	(2,020)	-	(9,595)	-
Performance of site rehabilitation (Note 10)	(113,723)	(150,590)	(113,723)	(150,590)
<b>Cash (used in) provided by investing activities</b>	<u>(115,743)</u>	<u>299,410</u>	<u>(123,318)</u>	<u>299,410</u>
<b>Cash provided by financing activities</b>				
Advance of CEBA loan (Note 11)	-	-	-	40,000
<b>Cash provided by financing activities</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,000</u>
<b>Changes in cash and cash equivalents</b>	(276,237)	148,894	(246,873)	766
Cash and cash equivalents, beginning	<u>357,420</u>	<u>105,584</u>	<u>328,056</u>	<u>253,712</u>
Cash and cash equivalents, end	<u>81,183</u>	<u>254,478</u>	<u>81,183</u>	<u>254,478</u>
Cash and cash equivalents consist of:				
Cash	80,981	254,276	80,981	254,276
Cash equivalents	202	202	202	202
	<u>81,183</u>	<u>254,478</u>	<u>81,183</u>	<u>254,478</u>

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

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	Share Capital		Reserves	Deficit	Non-Controlling Interest	Shareholders' (Deficiency) Equity
	Number	Amount	Amount	Amount	Amount	Total
Balance, March 31, 2020	162,364,427	\$ 395,687,172	\$ -	\$ (395,623,844)	\$ (607,635)	\$ (544,307)
Net (loss) for the period	-	-	-	(50,852)	182,950	132,098
Balance, September 30, 2020	162,364,427	395,687,172	-	(395,674,696)	(424,685)	(412,209)
Transfer of DSUs (Note 14(a))	-	-	383,541	-	-	383,541
Vesting of RSUs (Note 15)	-	-	315,950	-	-	315,950
Income for the period	-	-	-	13,065,696	12,468,794	25,534,490
Balance, March 31, 2021	162,364,427	395,687,172	699,491	(382,609,000)	12,044,109	25,821,772
Net income for the period	-	-	-	86,714	445,783	532,497
Vesting of RSUs (Note 15)	-	-	114,575	-	-	114,575
Balance, September 30, 2021	<u>162,364,427</u>	<u>\$ 395,687,172</u>	<u>\$ 814,066</u>	<u>\$ (382,522,286)</u>	<u>\$ 12,489,892</u>	<u>\$ 26,468,844</u>

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

**LABRADOR IRON MINES HOLDINGS LIMITED**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**September 30, 2021 and 2020**  
(Unaudited, expressed in Canadian dollars)

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**1. Nature of Operations 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 52% (2020 - 52%) of the common shares of LIM and LIM owns 100% of the common 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 12.

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 exploration and evaluation assets are iron ore projects in western Labrador and northeastern Quebec, near the town of Schefferville, Quebec (collectively, the "Schefferville Projects"). Among the Schefferville Projects, the Houston Project, consisting of the Houston and Malcolm properties, and the Elizabeth Taconite Property, are the Company's principal projects.

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

The Company did not conduct mining operations, other than reclamation and standby activities, during the three and six months ended September 30, 2021 or 2020. The Company is currently focused on planning the development of its Houston Project and maintaining its other mineral claims and mining concessions. The Company completed reclamation of its previously mined properties during the three months ended September 30, 2021. Subject to securing construction financing, the Company plans to commence construction 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***

At September 30, 2021, the Company had working capital of \$233,849 (March 31, 2021 - working capital deficit of \$132,087). 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 and six months ended September 30, 2021 have been prepared on a going concern basis, using the historical cost convention.

**LABRADOR IRON MINES HOLDINGS LIMITED**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**September 30, 2021 and 2020**  
(Unaudited, expressed in Canadian dollars)

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**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 construction financing. Even if the Company is successful in funding its immediate working capital requirements, if the Company is unable to obtain additional construction financing on a timely basis or on reasonable or acceptable terms, the Company will be unable to pursue development of its Houston Project.

The Company's operations and financial condition could be adversely affected by the effects of the Covid-19 pandemic. The Company cannot accurately predict the impact the pandemic will have on its operations, schedules and timelines for planned development or exploration programs. In addition, the pandemic has disrupted the economies and financial markets of many countries, which could adversely affect the market for the Company's products and/or the Company's ability to secure financing.

**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, 2021.

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 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 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.

**LABRADOR IRON MINES HOLDINGS LIMITED**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**September 30, 2021 and 2020**  
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**3. Significant Accounting Judgments, Estimates and Assumptions (continued)**

Mineral resource estimates

The figures for mineral resources are reported in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects", issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and 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.

Impairment of exploration and evaluation assets and property, plant and equipment

While assessing whether any indications of impairment exist for exploration and evaluation assets, consideration is given to both external and internal sources of information. External sources of information include technical reports and arm's length 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 exploration and evaluation assets. Internal sources of information include the manner in which exploration and evaluation assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future pre-tax cash flows expected to be derived from the Company's mining properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in an impairment of the carrying amounts of the Company's exploration and evaluation assets.

While assessing whether any indications of impairment exist for property, plant and equipment, management looks at the higher of recoverable amount or fair value less costs of disposal.

Where an impairment is subsequently reversed, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount and the carrying amount that would have been recorded had no impairment been previously recognized.

These determinations and their individual assumptions require that management make decisions based on the best available information at each reporting period. Refer to Notes 7 and 8.

Estimation of rehabilitation provision

The rehabilitation cost estimates are updated annually 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. Refer to Note 10.

Share-based payments

Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviours and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates. Refer to Notes 14 and 15.

Going concern

Refer to Note 1.

Contingencies

Refer to Note 17.



**LABRADOR IRON MINES HOLDINGS LIMITED**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**September 30, 2021 and 2020**  
(Unaudited, expressed in Canadian dollars)

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**4. Significant Accounting Policies**

Basis of consolidation

The financial statements consolidate the financial statements of Labrador Iron Mines Holdings Limited and its subsidiaries, Labrador Iron Mines Limited, Schefferville Mines Inc., Labrail Inc. and Centre Ferro Ltd. All significant intercompany transactions and balances have been eliminated. Refer to Note 1.

Subsidiaries

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are de-consolidated from the date control ceases. The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions. Refer to Note 1.

Presentation and functional currency

The Company's presentation and functional currency is the Canadian dollar.

Foreign currency translation

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recognized at the rates of exchange prevailing at the dates of such transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Exchange differences are recognized in operations in the period in which they arise.

Interest earned

Interest earned is recognized when it is probable that the economic benefits will flow to the Company and the amount of interest can be measured reliably. Interest is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Deferred share units

Directors and key senior employees of the Company may receive as partial compensation deferred share units ("DSUs") under the terms of the Company's deferred share unit plan. The fair value of DSUs at the time of award or redemption, as applicable, is determined with reference to the weighted average trading price of the Company's common shares over the five trading days immediately preceding the date of award or redemption, as applicable.

When recognized as a liability account balance, the fair value of DSUs is recognized as a share-based payment expense with a corresponding increase in liabilities, over the period from the date of award to settlement date. The fair value of the DSUs is marked to the quoted market price of the Company's common shares at each reporting date with a corresponding change in the consolidated statement of operations and comprehensive income.

When recognized as a reserve account balance, the fair value of DSUs is recognized as a share-based payment expense with a corresponding charge to reserves on the date of award and is not revalued at subsequent reporting dates. Refer to Notes 14(a) and 15.

Restricted share units

Directors and key senior employees of the Company may receive as partial compensation restricted share units ("RSUs") under the terms of the Company's restricted share unit plan. The fair value of RSUs at the time of vesting is determined with reference to the weighted average trading price of the Company's common shares over the five trading days immediately preceding the vesting date.

RSUs are recognized as a reserve account balance when vested. The fair value of RSUs is recognized as a share-based payment expense with a corresponding charge to reserves on the vesting date. Refer to Notes 14(b) and 15.

**LABRADOR IRON MINES HOLDINGS LIMITED**  
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**4. Significant Accounting Policies (continued)**

Exploration and evaluation assets

Mineral exploration and evaluation costs, including the cost of acquiring licenses, are capitalized as exploration and evaluation assets on a project-by-project basis pending determination of the technical feasibility and the commercial viability of the project. Capitalized costs include costs directly related to exploration and evaluation activities in the area of interest. General and administrative costs are only allocated to the asset to the extent that those costs can be directly related to operational activities in the relevant area of interest. When a license is relinquished or a project is abandoned, the related costs are recognized in operations immediately. Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) fact and circumstances suggest that the carrying amount exceeds the recoverable amount.

Exploration and evaluation assets are stated at cost, less accumulated impairment.

All of the Company's properties are categorized as exploration and evaluation assets at September 30, 2021.

Property, plant and equipment

Items of property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalized value of a finance lease is also included within property, plant and equipment.

Depletion/depreciation/amortization

Accumulated mine development costs are depleted/depreciated/amortized on a unit-of-production basis over the economically recoverable resources of the mine concerned, except in the case of assets whose useful life is shorter than the life of the mine, in which case the straight-line method is applied.

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

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of operations and comprehensive loss when the asset is derecognized.

Residual values, useful lives and methods of depletion/depreciation/amortization of assets are reviewed at each reporting period and adjusted prospectively if appropriate.

Provisions

*General*

Provisions are recognized when (a) the Company has a present obligation (legal or constructive) as a result of a past event, and (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of operations and comprehensive loss, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

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

*Rehabilitation provisions*

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and waste sites, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed or the ground/environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining asset to the extent that it was incurred prior to the production of related ore. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in the consolidated statement of operations and comprehensive loss as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur. For closed sites, changes to estimated costs are recognized immediately in the consolidated statement of operations and comprehensive loss.

*Onerous contracts*

Onerous contracts are present obligations arising under onerous contracts that are recognized and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

*Earnings (loss) per share*

Earnings (loss) per share is based on the weighted average number of common shares of the Company outstanding during the period. The diluted earnings (loss) per share reflects the potential dilution of common share equivalents, such as outstanding share options, warrants, DSUs and RSUs in the weighted average number of common shares outstanding during the period, if dilutive. The diluted earnings (loss) per share calculation excludes the conversion of common share equivalents that would increase earnings per share or decrease (loss) per share.

**5. Accounts Receivable and Prepaid Expenses**

	<u>September 30, 2021</u>	<u>March 31, 2021</u>
Trade accounts receivable (i)	\$ -	\$ 250,000
Refundable taxes	<u>15,699</u>	<u>52,447</u>
	<u>\$ 15,699</u>	<u>\$ 302,447</u>

- (i) The trade accounts receivable balance at March 31, 2021 consisted of the final instalment of \$250,000 due on the assignment of certain rights to a rail siding. The full amount of the final instalment was received in June 2021.

**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. Refer to Note 10.

	<u>September 30, 2021</u>	<u>March 31, 2021</u>
Current	\$ 1,001,221	\$ 80,258
Non-current	<u>28,695</u>	<u>949,175</u>
Restricted cash	<u>\$ 1,029,916</u>	<u>\$ 1,029,433</u>

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

**LABRADOR IRON MINES HOLDINGS LIMITED**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
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(Unaudited, expressed in Canadian dollars)

**7. Exploration and Evaluation Assets**

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

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

All of the iron ore properties located in Labrador held by LIM are held subject to an underlying royalty in the amount of 3% of the selling price (FOB Port of Sept-Iles) of iron ore shipped and sold from such properties, subject to such royalty being no greater than US\$1.50 per tonne.

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

SMI holds certain other mining claims in Quebec subject to the payment of a royalty of \$2.00 per tonne of iron ore shipped from the properties.

Certain historical stockpiles are subject to a 50% net profit interest and the Elizabeth Taconite Property is subject to a deferred payment of \$500,000 upon commencement of commercial production.

During the years ended March 31, 2015 and 2017, the carrying value of the Company's exploration and evaluation assets was impaired based on an assessment using then-prevailing economic conditions. The full impairment of the Company's exploration and evaluation assets was maintained as at March 31, 2020, pending additional evidence of a sustainable improvement in market conditions.

During the year ended March 31, 2021, the iron ore market continued to improve and the Company commissioned an independent Preliminary Economic Assessment ("PEA") of the Houston Project. The PEA dated February 26, 2021 reported a base case net present value ("NPV"), using a discounted cash flow methodology, of \$109,139,582, which the Company has used as an estimate of the Houston Project's value-in-use. Base case assumptions included a long term iron ore price of US\$90/tonne; production of 2 million tonnes of iron ore per year; a 12 year mine life; a discount rate of 8%; and a USD/CAD foreign exchange rate of 1.33. Based on the results of the PEA, the Company recognized an impairment reversal of \$25,963,413 of the Houston Project, representing the full pre-impairment net book value of the Houston Project.

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

	<u>Exploration and Evaluation Assets</u>
<b>Cost at:</b>	
March 31, 2020	\$ 1
Impairment reversal	25,963,413
Additions	436,903
March 31, 2021	<u>26,400,317</u>
Additions	9,595
September 30, 2021	<u>26,409,912</u>
<b>Accumulated depletion:</b>	
March 31, 2020 and 2021 and September 30, 2021	<u>-</u>
<b>Net book value at:</b>	
March 31, 2020	<u>\$ 1</u>
March 31, 2021	<u>\$ 26,400,317</u>
September 30, 2021	<u>\$ 26,409,912</u>

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

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**8. Property, Plant and Equipment**

	Plant and equipment	Total
	\$	\$
<b>Cost at:</b>		
March 31, 2020 and 2021 and September 30, 2021	<u>1</u>	<u>1</u>
<b>Accumulated Depreciation at:</b>		
March 31, 2020 and 2021 and September 30, 2021	<u>-</u>	<u>-</u>
<b>Net Book Value at:</b>		
March 31, 2020 and 2021 and September 30, 2021	<u>1</u>	<u>1</u>

**9. Accounts Payable and Accrued Liabilities**

	<u>September 30, 2021</u>	<u>March 31, 2021</u>
<b>Current</b>		
Trade payables and accruals	\$ 645,629	\$ 685,542
Sales taxes and statutory liabilities	<u>218,625</u>	<u>157,306</u>
	864,254	842,848
<b>Non-current</b>		
Accrued liabilities	<u>231,250</u>	<u>231,250</u>
	<u>\$ 1,095,504</u>	<u>\$ 1,074,098</u>

The full balance of the non-current accrued liabilities is deferred executive compensation with respect to the years ended March 31, 2016 and 2017. The balance is unsecured, non-interest bearing and payable on or after October 1, 2022.

Refer to Note 20.

**10. Rehabilitation Provision**

Rehabilitation provision represents the regulatory obligation associated with 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.

The Company completed its rehabilitation and closure of its previous mining operations during the six months ended September 30, 2021. The rehabilitation provision recovery represents the difference between the actual rehabilitation expenditures incurred during the period and the previously estimated costs that formed the basis of the rehabilitation liability discharged. A portion of the rehabilitation provision recovery relates to the transfer of the full rehabilitation obligation with respect to a rail siding to a third party as partial consideration for the assignment of certain rights in the rail siding to the third party.

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

	<u>Six Months ended September 30, 2021</u>	<u>Year ended March 31, 2021</u>
Balance, beginning of period	\$ 1,145,067	\$ 1,593,569
Accretion	1,223	7,137
Recovery	(1,032,567)	(21,134)
Reduction	<u>(113,723)</u>	<u>(434,505)</u>
Balance, end of period	<u>\$ -</u>	<u>\$ 1,145,067</u>

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**11. Government Assistance**

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 pandemic relief measure. The CEBA loan is unsecured and non-interest bearing during an initial term ending December 31, 2022. Thereafter, the CEBA loan will continue to be unsecured but will bear interest of 5% per year during an extended term ending December 31, 2025.

	<u>September 30, 2021</u>	<u>March 31, 2021</u>
CEBA loan	<u>\$ 40,000</u>	<u>\$ 40,000</u>

During the six months ended September 30, 2021, the Company received \$79,100 (six months ended September 30, 2020 - \$71,907) in wage subsidy from the Government of Canada under the Canada Emergency Wage Subsidy (“CEWS”) program, which has been credited against corporate and administrative costs. The CEWS wage subsidy is not repayable.

**12. Non-Controlling Interest**

Non-controlling interest (“NCI”) represents the 48% (2020 - 48%) equity share of LIMH’s subsidiary LIM not owned by LIMH.

On initial recognition, NCI was measured at the proportionate share of LIM equity when the NCI was established in December 2016. Subsequently, adjustments are made to the carrying amount representing the NCI’s proportionate share of changes to LIM’s equity.

Refer to Note 1.

	<u>Six months ended September 30, 2021</u>	<u>Year ended March 31, 2021</u>
Beginning balance	\$ 12,044,109	\$ (607,635)
Net income of LIM attributable to non-controlling interest	<u>445,783</u>	<u>12,651,744</u>
Ending balance	<u>\$ 12,489,892</u>	<u>\$ 12,044,109</u>

**13. Share Capital**

**Authorized**

Unlimited common shares, no par value

**Issued**

	<u>Shares #</u>	<u>Amount \$</u>
Balance, March 31, 2020 and 2021 and September 30, 2021	<u>162,364,427</u>	<u>395,687,172</u>

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**14. Reserves**

**(a) Deferred Share Units**

On April 1, 2012, the Company adopted a 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 DSU entitles the holder to receive, after deduction of any applicable taxes and other required source deductions, at the Company's option: (i) a common share issued from treasury; (ii) a cash payment equal to the market value of a common share; or (iii) a cash payment used to purchase a common share on the open market on behalf of the participant.

As at and prior to March 31, 2020, DSUs were classified as Other Liabilities, on the assumption that they would likely be settled in cash upon redemption. Effective March 31, 2021, DSUs were reclassified as a Reserve account balance, based on a revised assumption that they would more likely be settled in common shares upon redemption.

A summary of DSUs in Reserves is presented below:

	DSUs in Reserves	
	Number	Reserves
Balance, March 31, 2020	-	\$ -
Transfer from Other Liabilities	1,077,362	383,541
Balance, March 31, 2021 and September 30, 2021	1,077,362	\$ 383,541

Effective March 31, 2014, granting of additional DSUs was suspended. All outstanding DSUs are fully vested.

**(b) Restricted Share Units**

Effective March 31, 2021, the Company adopted and implemented a rolling Restricted Share Unit Plan ("RSU Plan") whereby the Company may issue up to 5% of its issued capital as Restricted Share Units (each, an "RSU") to eligible directors, officers, employees and consultants.

The RSU Plan was adopted to provide remuneration and long-term incentives to the Company's directors, executives, employees and service providers, while preserving the Company's cash, and to align the interests of such persons with the long term interests of shareholders. Upon vesting, each RSU entitles the grantee the right to receive, on or after the payout election date and until the expiry date, after deduction of any applicable taxes and other required source deductions, at the Company's option: (i) a common share issued from treasury; (ii) a cash payment equal to the market value of a common share; or (iii) a cash payment used to purchase a common share on the open market on behalf of the participant.

The following table sets out the activity of RSUs granted during the six months ended September 30, 2021.

	RSU Activity	
	Six months ended September 30, 2021	Year ended March 31, 2021
	Number	Number
Balance, beginning of period	1,475,000	-
Granted during the period	303,378	1,475,000
Balance, end of period	1,778,378	1,475,000

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**14. Reserves (continued)**

**(b) Restricted Share Units (continued)**

The following table sets out the terms of RSUs granted as at September 30, 2021:

RSU Terms				
Number	Grant Date	Vesting Date	Commencement of Payout Election Period	Expiry Date
887,500	March 31, 2021	March 31, 2021	January 1, 2022	December 31, 2024
587,500	March 31, 2021	March 31, 2022	January 1, 2023	December 31, 2024
100,674	June 30, 2021	March 31, 2022	April 1, 2023	December 31, 2024
202,704	September 30, 2021	March 31, 2022	April 1, 2023	December 31, 2024
1,778,378				December 31, 2024

**(c) Reserves**

A summary of activity in the Reserves account balance is presented below:

	Six months ended September 30, 2021	Year ended March 31, 2021
Balance, beginning of the period	\$ 699,491	\$ -
Transfer of 1,077,362 DSUs	-	383,541
Full recognition of 887,500 RSUs	-	315,950
Partial recognition of 587,500 RSUs	104,575	-
Partial recognition of 100,674 RSUs	10,000	-
Balance, end of period	<u>\$ 814,066</u>	<u>\$ 699,491</u>

On March 31, 2021, 1,077,362 previously issued fully vested DSUs were transferred from Other Liabilities to Reserves, based on a revised assumption that they would more likely be settled in common shares upon redemption.

887,500 RSUs granted on March 31, 2021 were fully recognized in Reserves on their grant date as they fully vested on grant date. The market value of common shares of the Company was \$0.356 per share on March 31, 2021.

587,500 RSUs granted on March 31, 2021 (which do not vest until March 31, 2022) have been partially recognized in Reserves during the six months ended September 30, 2021 using the graded vesting method of recognition based on their grant date market value of common shares of the Company.

100,674 RSUs granted on June 30, 2021 (which do not vest until March 31, 2022) have been partially recognized in Reserves during the six months ended September 30, 2021 using the graded vesting method of recognition based on their grant date market value of common shares of the Company, which was \$0.298.

The 202,704 RSUs granted on September 30, 2021 (which do not vest until March 31, 2022) will be recognized in Reserves in ensuing periods until their vesting date using the graded vesting method of recognition based on the market value of common shares of the Company on their grant date of September 30, 2021, which was \$0.148.



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**15. Share Based Compensation**

Share based compensation consists of compensation to directors, employees and consultants in the form of stock options, DSUs and RSUs.

	<u>Six months ended September 30, 2021</u>	<u>Six months ended September 30, 2020</u>
Revaluation of 1,077,362 DSUs (Note 14(a))	\$ -	\$ -
Full recognition of 887,500 RSUs (Note 14(c))	-	-
Partial recognition of 587,500 RSUs (Note 14(c))	104,575	-
Partial recognition of 100,674 RSUs (Note 14(c))	<u>10,000</u>	<u>-</u>
	<u>\$ 114,575</u>	<u>\$ -</u>

There were no stock options granted or outstanding as at September 30, 2021.

**16. Capital Management**

The capital of the Company consists of share capital and reserves. There were no changes to the Company's approach to capital management during the three and six months ended September 30, 2021. 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, DSUs and RSUs to retain and provide incentives to directors, employees and consultants. The granting of stock options, DSUs and RSUs is primarily determined by the Board of Directors. No stock options were granted or outstanding as at September 30, 2021.

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

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**18. Assignment of Rights**

The Company assigned certain rights in a rail siding to a third party in September 2020 in exchange for cash consideration of \$750,000 in three equal instalments.

	Three months ended		Six months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Assignment of rights	\$ -	\$ 250,000	\$ -	\$ 250,000

**19. Related Party Transactions**

During the six months ended September 30, 2021, the Company incurred office rent of \$12,000 (September 30, 2020 - \$6,000) payable to a corporation with common directors and/or officers. As at September 30, 2021, \$2,000 (March 31, 2021 - \$24,000) remained payable to this related party with respect to office rent.

During the six months ended September 30, 2021, the Company incurred administrative services costs payable to a company controlled by an officer in the amount of \$15,000 (September 30, 2020 - \$15,000). As at September 30, 2021, \$80,000 (March 31, 2021 - \$65,000) remained payable to this related party with respect to administrative services.

All related party balances payable as at September 30, 2021 and March 31, 2021 are included in accounts payable and accrued liabilities. The balances are unsecured, non-interest bearing and have no fixed terms of repayment.

**20. Compensation of Key Management Personnel**

The remuneration of directors and other key management personnel (i) during the six months ended September 30, 2021 and 2020 was as follows:

	Six months ended September 30, 2021	Six months ended September 30, 2020
Short-term compensation (ii)	\$ 158,280	\$ 148,976
Share based compensation (iii)	81,200	-
	<u>\$ 239,480</u>	<u>\$ 148,976</u>

- (i) In accordance with IAS 24, 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.
- (ii) Short-term compensation includes cash based salaries, bonuses and allowances, employment benefits and directors' fees.
- (iii) Share based compensation includes RSU compensation recognized during the period.

As at September 30, 2021, \$253,269 (March 31, 2021 - \$264,375) of short-term compensation remained payable to key management personnel. Of the balance of short-term compensation outstanding at September 30, 2021, \$231,250 (March 31, 2021 - \$231,250) is deferred executive compensation from the years ended March 31, 2016 and 2017, which is unsecured, non-interest bearing and due on or after October 1, 2022. The remaining balance is unsecured, non-interest bearing and due on demand. All such accrued compensation is included in accrued liabilities.

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**21. 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 September 30, 2021, the Company's financial instruments that are carried at fair value, consisting of cash equivalents, have been classified as Level 2 within the fair value hierarchy.

Fair value

Fair value estimates are made at the financial position date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of 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 six months ended September 30, 2021.

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 September 30, 2021, 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 September 30, 2021, the Company had working capital of \$233,849 (March 31, 2021 - working capital deficit of \$132,087). 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.

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**21. Financial Instruments (continued)**

*Financial risk management (continued)*

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.

iv) *Interest rate risk*

Included in net income for the six months ended September 30, 2021 is interest earned on the Company's cash and cash equivalents. If interest rates throughout the six months ended September 30, 2021 had been 100 basis points higher (lower), the net loss would have been approximately \$1,000 higher (lower). 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 six months ended September 30, 2021 or 2020.