

LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

Interim Consolidated Financial Statements

(Unaudited – prepared by management)

Second Quarter

For the period ended September 30, 2009

In accordance with National Instrument 51-102, issued by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited interim financial statements for the period ended September, 30, 2009

LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

Interim Consolidated Financial Statements

(unaudited – prepared by management)

Second Quarter

For the three and six month periods ended September 30, 2009

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LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

Interim Consolidated Balance Sheets

	As at September 30, 2009	As at March 31, 2009
	<u>(Unaudited)</u>	<u>(Audited)</u>
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	28,439,861	35,201,989
Accounts receivable and prepaid expenses	344,388	537,015
	<u>28,784,249</u>	<u>35,739,004</u>
Non current assets		
Mineral property interests (Note 3)	145,104,079	140,797,497
Long-term prepaid expenses	605,000	155,000
Property, plant and equipment (Note 4)	2,566,259	994,332
	<u>177,059,587</u>	<u>177,685,833</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	1,673,686	1,067,424
Future income taxes (Note 10(b))	35,272,897	35,695,000
	<u>36,946,583</u>	<u>36,762,424</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 5(a))	125,630,307	125,630,307
Warrants (Note 5(b))	5,048,000	5,967,781
Contributed surplus (Note 5(d))	8,611,221	7,684,848
Accumulated comprehensive income		-
Retained earnings	823,476	1,640,473
	<u>140,113,004</u>	<u>140,923,409</u>
	<u>177,059,587</u>	<u>177,685,833</u>

Commitments and contingencies (Notes 1, 3 and 9)

APPROVED ON BEHALF OF THE BOARD:

Signed "John F. Kearney"
Director

Signed "Terence N. McKillen"
Director

LABRADOR IRON MINES HOLDINGS LIMITED*(A Development Stage Company)*

(Unaudited)

Interim Consolidated Statements of Operations and Comprehensive (Loss) Income and Retained Earnings

	For the three month period ended		For the six month period ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
	\$	\$	\$	\$
Expenses				
Professional fees	114,444	26,075	184,765	143,901
Depreciation	28,910	7,696	39,025	10,530
Corporate expenses	165,036	69,322	334,472	173,616
Management costs	50,000	75,000	100,000	91,666
Directors' fees	13,500	27,000	39,000	42,000
Administration	468,205	187,389	636,184	263,360
Stock-based compensation	3,708	355,490	3,708	586,563
Loss before the undernoted	843,803	747,972	1,337,154	1,311,636
Interest earned	32,650	330,092	98,054	709,158
Loss before income taxes	811,153	417,880	1,239,100	602,478
Future income tax recovery (Note 10(a))	280,880	20,587	422,103	5,252
Net loss for the period	530,273	397,293	816,997	597,226
Other comprehensive income	-	-	-	-
Comprehensive loss for the period	530,273	397,293	816,997	597,226
Retained earnings, beginning of period	1,353,749	1,793,028	1,640,473	1,992,961
Retained earnings, end of period	823,476	1,395,735	823,476	1,395,735
Net loss per share				
Basic and diluted	\$ 0.02	\$ 0.01	\$ 0.02	\$ 0.02
Weighted average number of shares outstanding – basic and diluted	37,148,451	37,193,951	37,148,451	37,193,951

See accompanying notes to the consolidated financial statements.

LABRADOR IRON MINES HOLDINGS LIMITED

(A Development Stage Company)

(Unaudited)

Interim Consolidated Statements of Cash Flows

	For the three month period ended		For the six month period ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
	\$	\$	\$	\$
Cash flows from operating activities				
Net (loss) for the period	(530,273)	(397,293)	(816,997)	(597,226)
Items not involving cash				
Stock-based compensation	3,708	355,490	3,708	586,563
Depreciation	28,910	7,696	39,025	10,530
Future income tax (recovery)	(280,880)	(20,587)	(422,103)	(5,252)
Changes in non-cash working capital	745,428	1,835,289	798,889	2,242,176
Cash flows from operating activities	(33,107)	1,780,595	(437,478)	2,236,791
Cash flows from investing activities				
(Increase) in mineral property interests	(2,974,234)	(5,050,781)	(4,303,698)	(6,233,126)
Decrease (increase) in long-term prepaid expenses	(450,000)	-	(450,000)	3,483
Property, plant and equipment purchases	(1,513,953)	(167,778)	(1,610,952)	(242,510)
Cash flows from investing activities	(4,971,294)	(5,218,559)	(6,364,650)	(6,472,153)
Change in cash and cash equivalents	(4,954,887)	(3,437,964)	(6,762,128)	(4,235,301)
Cash and cash equivalents, beginning of period	33,411,155	46,685,803	35,201,989	47,483,201
Cash and cash equivalents, end of the period	28,439,861	43,247,839	28,439,861	43,247,839
Cash and cash equivalents consist of:				
Cash			30,109	445,961
Cash equivalents			28,409,752	42,801,878
			28,439,861	43,247,839

Supplemental disclosure of cash flow information

Stock based compensation recorded to Mineral property interests	2,884	172,854	2,884	335,676
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See accompanying notes to the consolidated financial statements.

LABRADOR IRON MINES HOLDINGS LIMITED
(A Development Stage Company)
Notes to the Interim Consolidated Financial Statements
September 30, 2009

1. NATURE OF OPERATIONS

Labrador Iron Mines Holdings Limited (the "Company") was incorporated on May 17, 2007 under the Ontario Business Corporations Act. On December 3, 2007, the Company completed an Initial Public Offering and its shares were listed on the Toronto Stock Exchange. The Company is engaged in the evaluation and development of iron ore resources in Canada. The Company is in the development stage, as defined by the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 11 as the Schefferville Project is not yet in production.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Company will realize its assets and discharge its liabilities in the normal course of business. Management has carried out an assessment of the going concern assumption and has concluded that the Company has sufficient cash and cash equivalents, (as well as no debt obligations outside of normal course accounts payable and accrued liabilities) to continue operating at current levels for the ensuing twelve months. Accordingly, these financial statements do not reflect the adjustments to the carrying value of assets and liabilities, or the impact on the statement of operations and balance sheet classifications, that would be necessary were the going concern assumption not appropriate.

The recoverability of the carrying value of mineral property interests and the Company's continued existence is dependent upon the preservation of its interests in the underlying properties, the development of economically recoverable reserves, obtaining the necessary permits to operate a mine, the achievement of profitable operations and the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material writedowns of the carrying values.

Although the Company has taken steps to verify title to the properties in which it has an interest, in accordance with industry standards for the current stage of development of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, undetected defects, unregistered claims, native land claims, and non-compliance with regulatory and environmental requirements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

Financial Instruments

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

LABRADOR IRON MINES HOLDINGS LIMITED
(A Development Stage Company)
Notes to the Interim Consolidated Financial Statements
September 30, 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

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

Assets/Liabilities	Classification	Measurement
Cash and cash equivalents	Held-for-trading	Fair value
Accounts receivable	Loans and receivable	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in net (loss) income for the period. Available-for-sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive income until the asset is removed from the balance sheet in the case of unrealized losses, or until such losses are determined to be other than temporary. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Derivative instruments, including embedded derivatives, are measured at their fair value with changes in fair value recognized in net income for the period, unless the instrument is a cash flow hedge and hedge accounting applies, in which case changes in fair value are recognized in other comprehensive income.

Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid investments with original maturities of three months or less. The Company invests cash in term deposits maintained in high credit quality institutions.

Comprehensive (loss) income

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

Mineral property interests and deferred exploration expenditures

Where properties are acquired in exchange for the Company's shares, the properties are valued at the fair market value of the shares at the time of issuance. The cost of mineral property interests and related exploration and development costs are deferred. These costs will be amortized over the estimated useful life of the properties following commencement of commercial production or written off if the properties are sold, allowed to lapse, or the property shows no promise from prior exploration results, or management determines that there is a permanent and significant impairment in value. All of the Company's properties are considered to be in the exploration or development stage and none have achieved commercial production. Accordingly, any revenue generated from testing or pilot plant processing is credited to mineral property interests. The Company does not accrue future costs to keep the properties in good standing. Administrative expenditures, not directly related to property maintenance, are charged to operations as incurred.

LABRADOR IRON MINES HOLDINGS LIMITED
(A Development Stage Company)
Notes to the Interim Consolidated Financial Statements
September 30, 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Property, plant and equipment

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

Service buildings	5% declining balance
Computer equipment	30% declining balance
Field equipment	30% declining balance
Mining Equipment	Units of production
Pumping facilities	Units of production
Office equipment	30% declining balance
Vehicles	30% declining balance

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

Asset retirement obligations

The Company will be required to record a liability for the estimated future costs associated with legal obligations relating to the reclamation and closure of its mineral property interests. This amount will be initially recorded in the period in which it is identified at its discounted present value with subsequent annual recognition of an accretion amount on the discounted liability. An equivalent amount will be recorded as an increase to mineral property interests and will be amortized over the useful life of the property.

Use of estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the year. Actual results could differ from estimates. During the fiscal periods presented, management has made a number of significant estimates and valuation assumptions, including the recoverability of investments in mineral property interests, the future costs associated with environmental remediation and site restoration matters, fair value of financial instruments and valuation of tax accounts, warrants and stock-based compensation. These estimates and valuation assumptions are based on present conditions and management's planned course of action, as well as an assumption about future business and economic conditions. Should the underlying valuation assumptions and estimates change, the recorded amounts could change by a material amount.

LABRADOR IRON MINES HOLDINGS LIMITED
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Notes to the Interim Consolidated Financial Statements
September 30, 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes

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

Loss per share

Basic loss per share is calculated using the weighted average number of shares outstanding. Diluted loss per share is calculated using the treasury stock method. In order to determine diluted loss per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would decrease loss per share. As at September 30, 2009 and 2008, all outstanding convertible securities were anti-dilutive and therefore excluded from the diluted loss per share calculations.

Foreign currency translation

Transactions in foreign currencies have been translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are translated at the year-end exchange rate. Non-monetary assets have been translated at the historical rate of exchange prevailing at the date of the transaction. Expenses have been translated at the exchange rate at the time of the transaction. Realized and unrealized foreign exchange gains and losses are included in operations.

Stock-based compensation

The Company records compensation cost based on the fair value method of accounting for stock-based compensation. The fair value of stock options is estimated using the Black-Scholes option pricing model. The fair value of the options is recognized over the vesting period as compensation expense and contributed surplus. Compensation expense is charged to operations, mineral property interests, or capital transaction costs, as applicable. When options are exercised, the proceeds received, together with any related amount in contributed surplus, will be credited to capital stock.

Capital Disclosures

The Company is required to disclose the following, based on the information provided internally to the Company's key management personnel:

- (i) qualitative information about its objectives, policies and processes for managing capital;
- (ii) summary quantitative data about what it manages as capital;
- (iii) whether during the period it complied with any externally imposed capital requirements to which the Company is subject; and
- (iv) when the Company has not complied with such externally imposed capital requirements (if any), the consequences of such non-compliance.

LABRADOR IRON MINES HOLDINGS LIMITED
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments – Disclosures and Presentation

The disclosure standards require companies to provide disclosure of quantitative and qualitative information in their financial statements that enable users to evaluate (a) the significance of financial instruments for the Company's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks. Companies will be required to disclose the measurement basis or bases used, and the criteria used to determine classification for different types of instruments.

New Accounting Standards

Impairment Testing of Mineral Exploration Properties, Emerging Issue Committee 174

On March 27, 2009, the CICA approved EIC-174 "Mining Exploration Costs." This guidance clarified that an entity that has initially capitalized exploration costs has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The Company has adopted this standard effective March 31, 2009.

Section 3064, Goodwill and Intangible Assets

In February 2008, the CICA issued the new Section 3064 to replace Section 3062, "Goodwill and Other Intangible Assets" and establish standards for the recognition, measurement and disclosure of goodwill and intangible assets. In addition, the CICA issued amendments to Section 1000 "Financial Statement Concepts" and Accounting Guideline 11, "Enterprises in the Development Stage" and withdrew Section 3450, "Research and Development Costs, The Company adopted Section 3064 effective April 1, 2009

International Financial Reporting Standards

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed that the use of International Financial Reporting Standards ("IFRS") will be required in 2011 for public companies in Canada (IFRS will replace Canadian GAAP for public companies). The official changeover date will apply for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is currently assessing the impact of the implementation of IFRS and has developed a changeover plan.

Sections 1582, Business Combinations, 1601, Consolidations and 1602, Non-controlling Interests

In January 2009, the CICA issued these new sections to replace Section 1581, "Business Combinations" and Section 1600, "Consolidated Financial Statements." Section 1582 will apply to a transaction in which the acquirer obtains control of one or more businesses (as defined in the Section). Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. A bargain purchase will result in the recognition of a gain. Acquisition costs will be expensed. Any non-controlling interest will be recognized as a separate component of shareholders' equity and net income will be allocated between the controlling and noncontrolling interests. These new standards will apply to fiscal years beginning on or after January 1, 2011. The Company does not believe that these new Sections will have an impact on its consolidated financial statements.

LABRADOR IRON MINES HOLDINGS LIMITED
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3. MINERAL PROPERTY INTERESTS

The Company holds a 100% interest in the Schefferville Project. The Schefferville Project comprises a series of iron ore deposits located in Western Labrador in the Province of Newfoundland and Labrador, near the town of Schefferville.

The Schefferville Project was acquired during the period ended March 31, 2008 for the issuance of 24,000,000 common shares of the Company, valued at \$3.56 per common share, based on the IPO price of the common shares of the Company. The purchase price was allocated as follows:

Purchase price	
24,000,000 common shares @ \$3.56 per share	<u>\$ 85,440,000</u>
Purchase price allocation	
Current assets	262,920
Mineral properties	126,337,866
Current liabilities	(361,814)
Future income tax liability	<u>(40,798,972)</u>
	<u>\$ 85,440,000</u>

Pursuant to an underlying Agreement with Fonteneau Resources Limited dated September 15, 2005 as amended June 30, 2007, and further amended August 11, 2009, all of the properties comprising the Schefferville Project (the "Fonteneau Properties") are held subject to a royalty (the "Fonteneau Royalty") in the amount of 3% of the selling price (FOB Port) of iron ore produced and shipped from the properties, such royalty being payable quarterly in arrears.

Increases in mineral property interests for the three and six month periods ended September 30, 2009 and for the year ended March 31, 2009 are as follows:

	Three months ended September 30 2009 \$	Six months ended September 30 2009 \$	Year Ended March 31 2009 \$
Balance, beginning of period	<u>142,126,961</u>	<u>140,797,497</u>	<u>127,934,282</u>
Additions:			
Community	173,560	194,669	334,808
Engineering	432,560	568,946	1,979,839
Environment and permits	398,013	598,606	1,597,170
Exploration	1,799,737	2,645,519	4,938,893
Feasibility	-	-	1,323,626
Transport services	157,594	213,644	728,403
Travel and accommodations	12,770	82,314	262,476
Stock-based compensation	2,884	2,884	1,698,000
Total additions	<u>2,977,118</u>	<u>4,306,582</u>	<u>12,863,215</u>
Balance, end of period	<u>145,104,079</u>	<u>145,104,079</u>	<u>140,797,497</u>

LABRADOR IRON MINES HOLDINGS LIMITED
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Notes to the Interim Consolidated Financial Statements
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4. PROPERTY PLANT AND EQUIPMENT

	Net book value March 31, 2009 \$	Additions \$	Depreciation \$	Net book value September 30, 2009 \$
Service buildings	881,265	-	13,281	867,984
Computer equipment	41,297	745	4,532	37,510
Field equipment	9,943	50,000	6,325	53,618
Leasehold improvements	24,436	-	803	23,633
Mining equipment	-	618,622	-	618,622
Pumping facilities	-	881,130	-	881,130
Office equipment	16,932	10,870	864	26,938
Vehicles	20,459	44,500	8,135	56,824
	<u>994,332</u>	<u>1,610,867</u>	<u>39,025</u>	<u>2,566,259</u>

5. SHARE CAPITAL

(a) Common shares

Authorized

Unlimited common shares

Issued

	Shares #	Amount \$
Balance, March 31, 2008	37,193,951	125,784,181
Repurchases - normal course issuer bid (i)	(45,500)	(43,026)
Excess of book value of shares over repurchase price (i)	-	(110,848)
Balance, March 31, 2009	<u>37,148,451</u>	<u>125,630,307</u>
Balance September 30, 2009	<u>37,148,451</u>	<u>125,630,307</u>

Normal course issuer bid

The Company obtained TSX approval to conduct a normal course issuer bid pursuant to which the Company may purchase until October 9, 2009, up to a maximum of 684,140 common shares in the capital of the Company representing approximately 10% of the public float of the Company. As of September 30, 2009, the Company had repurchased 45,500 shares at a cost of \$43,026. The excess of the average book value over the cost to repurchase these shares amounting to \$110,848 has been charged to contributed surplus.

(b) Share purchase warrants

As at September 30 2009, the Company had the following outstanding share purchase warrants:

<u>Warrants</u>	<u>Estimated Grant Date Fair Value</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
6,596,975	\$5,048,000	\$5.00 per share	December 3, 2009

LABRADOR IRON MINES HOLDINGS LIMITED
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5. SHARE CAPITAL (Continued)

(c) Stock options

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

The maximum number of common shares reserved for issuance upon the exercise of options cannot exceed 10% of the total number of common shares outstanding immediately prior to such an issuance. The options are non-assignable and may be granted for a term not exceeding ten years. The exercise price of the options is fixed by the Board of Directors at the market price of the shares at the time of grant, subject to all applicable regulatory requirements.

On August 7, 2007 the Company granted 2,950,000 options to purchase common shares pursuant to the Stock Option Plan at an exercise price of \$4.00. These options vested as to 50% on the date that the IPO was completed and 50% one year thereafter. These options had an expiry date of August 6, 2012, and an estimated grant date fair value of \$6,726,000. On March 11, 2008, the Company granted 400,000 options to purchase common shares pursuant to the Stock Option Plan at an exercise price of \$4.85. These options vest over a period of two years. These options had an expiry date of March 11, 2013, and an estimated grant date fair value of \$848,000.

On, September 15, 2009 at the Annual Meeting of the Company, shareholders approved the cancellation of all 3,350,000 outstanding stock options, exercisable at \$4.00 and \$4.85 per share, to be replaced with 1,675,000 stock options all having an exercise price of \$2.00 per share, and all with an expiry date of August 31, 2012, and vesting as to one-eighth thereof quarterly over a period of two years.

On September 15, 2009, the Board of Directors also approved the grant of an additional 280,000 options to new employees at an exercise price of \$2.00 per share, all with an expiry date of August 31, 2012, and all vesting as to one-eighth thereof quarterly over a period of two years. These options have a grant date estimated fair value of \$ 316,400 calculated using the Black-Scholes option pricing model based on the following assumptions: risk-free interest rate of 3.69%, expected life of 3 years, expected dividend rate of 0%, and current volatility of 133%.

The stock based compensation expense related to the vesting during the period ended September 30, 2009 of one-eighth of the new issue of 280,000 options has been recorded as to \$2,884 as a mineral property interest capitalized cost and \$3,708 as an operating expense.

LABRADOR IRON MINES HOLDINGS LIMITED
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September 30, 2009

5. SHARE CAPITAL (Continued)

At September 30, 2009, the total number of options outstanding under the Company's Stock Option Plan was 1,955,000, all exercisable at \$2.00 per share and all with an expiry date of August 31, 2012.

Number of Options Outstanding	Number of Options Exercisable	Exercise Price	Expiry Date	Grant Date Fair Value	Expensed/ Capitalized to Sept. 30, 2009
1,955,000	244,375	\$2.00	Aug. 31, 2012	\$7,890,400*	\$7,580,592

*	
Fair value of cancelled options	\$7,574,000
Fair value of new options	316,400
Total fair value	<u>\$7,890,400</u>

As the recalculated value of the replacement options was less than the fair value of the cancelled options the grant date fair value of the options has been carried forward without adjustment.

(d) Contributed surplus

The contributed surplus balance results from the following transactions for the six month period ended September 30, 2009 and year ended March 31, 2009:

	September 30 2009 \$	March 31 2009 \$
Balance, beginning of period	7,684,848	5,721,387
Stock-based compensation on grant of options to employees	6,592	1,852,613
Issuer bid share buyback excess of book value over purchase price (Note 5(a)(i))	-	110,848
Expiry of broker warrants	919,781	
Balance, end of period	<u>8,611,221</u>	<u>7,684,848</u>

6. RELATED PARTY TRANSACTIONS

During the six month period ended September 30, 2009, the Company recovered \$99,776 in respect of office rent from corporations with common directors and/or officers, of which \$16,252 was outstanding at September 30, 2009.

The Company also made payments to companies with common directors and/or officers, in respect of management compensation and administrative services provided in the amount of \$205,000. The Company incurred legal fees in respect of services provided by an officer in the amount of \$17,250..

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

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7. FINANCIAL INSTRUMENTS

Fair value

Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates. The carrying amounts for cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities on the balance sheet approximate fair value because of the limited term of the instruments.

Financial risk management

This section provides disclosures relating to the nature and extent of the Company's exposure to risks arising from financial instruments, including credit risk, liquidity risk, foreign currency risk, interest rate risk and commodity price risk and how the Company manages those risks.

i) Credit risk

The Company considers that financial assets are exposed to credit risk. Cash and cash equivalents are valued at \$28.4 million as at September 30, 2009. Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company does not currently generate any revenue from sales to customers nor does it hold derivative type instruments that would require a counterparty to fulfill a contractual obligation. The Company has never held any asset backed paper instruments. The Company seeks to place its cash and cash equivalents with reputable financial institutions. Accordingly, the Company believes that it is exposed to minimal credit risks at the current time, although concerns surrounding financial institutions globally have increased the risk of a credit default by a major bank impacting the Company. At September 30, 2009, the Company's cash and cash equivalents were invested in major Canadian financial institutions.

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 fall due. As at September 30, 2009, the Company had working capital of \$27.1 million. Accordingly the Company is able to meet its current obligations and has minimal liquidity risk.

iii) Foreign currency risk

The majority of the Company's cash flows and financial assets and liabilities are denominated in Canadian dollars, which is the Company's functional and reporting currency. Foreign currency risk is limited to the portion of the Company's business transactions denominated in currencies other than the Canadian dollar. For the quarter ended September 30, 2009, the Company had no sales and no significant expenses denominated in a currency other than the Canadian dollar, but incurred certain development costs related to its property in currencies other than the Canadian dollar.

The future expected sale of iron ore will be denominated in U.S. dollars and, as a result, fluctuations in the U.S. dollar exchange rate relative to the Canadian dollar could create volatility in the Company's cash flows and the reported amounts for sales in its consolidated statement of operations and comprehensive income, 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 balance sheet date, the impact of which is reported as a foreign exchange gain or loss in the consolidated statement of operations and comprehensive income.

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7. FINANCIAL INSTRUMENTS (continued)

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 from time-to-time may use 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.

As at September 30, 2009, the Company was not exposed to any significant foreign currency risk.

iv) Interest rate risk

Included in the loss for the year in these consolidated financial statements is investment income on the Company's cash and cash equivalents. If interest rates throughout a twelve month period had been 100 basis points (1%) lower (higher) then net loss would have been approximately \$280,000 higher (lower). The Company does not have any debt obligations which expose it to interest rate risk.

v) Commodity price risk

The future profitability of the Company is directly related to the market price of iron ore. As the Company is not yet in mining operations, there were no sales during the quarter ended September 30, 2009. However, fluctuations in the iron ore price could create volatility in the Company's future cash flows and the future reported amounts for sales in its consolidated statement of operations and comprehensive income, both on a period-to-period basis and compared with operating budgets and forecasts. In addition, a drop in actual iron ore prices or expected long-term iron ore prices could impact the Company's ability to raise the additional financing required to complete the development of its property and development could also be halted if iron ore prices fall below expected operating costs.

8. CAPITAL MANAGEMENT

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

The Company's mineral property interests are in the exploration and development stages; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will utilize its existing working capital and seek to raise additional amounts as needed.

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

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8. CAPITAL MANAGEMENT (continued)

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

There were no changes to the Company's approach to capital management during the quarter ended September 30, 2009. The Company is not subject to externally imposed capital requirements.

9. COMMITMENTS AND CONTINGENCIES

- (a) The Company is committed to a minimum amount of rental payments under a long-term lease for its office premises, which expires on August 31, 2019. Minimum rental commitments remaining under this lease approximate \$3,309,000, including \$167,000 due in 2010. Minimum rental commitments for successive years approximate the following:

2010	\$	167,000
2011		334,000
2012		334,000
2013		334,000
2014 and beyond		<u>2,140,000</u>
	\$	<u>3,309,000</u>

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

- (b) The Company has committed to put phase one of the Schefferville Project (the "Fonteneau Properties") into production and has arranged production financing for the first one million tons of production from one or more of the Fonteneau Properties. The Company has undertaken a program of community consultation and intends to negotiate and enter into memoranda of understanding and later, impact benefits agreements, with Aboriginal First Nations communities living in or adjacent to, or having an interest in or claims to, historic land or treaty rights in the Schefferville Project area or who may be impacted by the Schefferville Project.
- (c) In July 2008, the Company signed an Impact Benefit Agreement with the Innu Nation of Labrador. The IBA is a life of mine agreement that establishes the processes and sharing of benefits that will ensure an ongoing positive relationship between the Company and the Innu Nation of Labrador. The Innu Nation and their members will benefit through training, employment, business opportunities and financial participation in the Project.

The Company has signed Memoranda of Understanding with the Innu Nation of Matimekush-Lac John (Schefferville) and with the Naskapi Nation (Kawawachikamach) reflecting the agreement of the parties with respect to community support for the development of the Project and the parties commitment to negotiate more detailed co-operation agreements.

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10. INCOME TAXES

(a) Provision for income taxes

The major items causing the Company's income tax expense to differ from the Canadian combined federal and provincial statutory rate of 33.5% (2008 - 33.5%) were:

	For the three months ended		For the six months ended	
	September 30 2009	September 30 2008	September 30 2009	September 30 2008
Future income tax assets (liabilities)	\$ 851,153	\$ 397,293	\$ 1,279,100	\$ 602,478
Expected income tax recovery at statutory rates	281,846	131,107	423,069	198,818
Adjustments resulting from:				
Stock-based compensation	966	(110,520)	966	(193,566)
Future income tax recovery	\$ 280,880	\$ 20,587	\$ 422,103	\$ 5,252

(b) Future income tax balances

The future income tax liability initially arose due to the difference between the purchase price and the underlying income tax values of the mineral property interests acquired (Note 3).

The tax effect of temporary differences that give rise to future income tax assets and liabilities in Canada at September 30, 2009 and March 31, 2009 are as follows:

	September 30 2009 \$	March 31 2009 \$
Future income tax assets (liabilities)		
Non-capital losses	1,146,103	724,000
Mineral property interests	(37,271,000)	(37,271,000)
Capital losses	143,000	143,000
Share issue costs	852,000	852,000
Valuation allowance	(143,000)	(143,000)
Future income tax liability (net)	(35,272,897)	(35,695,000)

(c) As at September 30, 2009, the Company has approximately \$3,249,000 of non-capital losses in Canada and approximately \$18,300,000 of development and exploration expenditures which under certain circumstances can be used to reduce the taxable income of future years. The non-capital losses expire as follows: 2028 - \$900,000; 2029 - \$2,349,000.