LABRADOR IRON MINES HOLDINGS LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE INTERIM PERIOD ENDED DECEMBER 31, 2008

Dated: February 12, 2009

GENERAL

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim Consolidated Financial Statements and Notes thereto of Labrador Iron Mines Holdings Limited (the "Company") for the three and nine month periods ended December 31, 2008.

At December 31, 2008, the Company had $37.7 million in cash and is in a healthy financial condition to weather the current worldwide economic and financial crisis and to carry out its planned programs to move the Schefferville Area direct shipping iron ore project in Western Labrador into production.

The financial information contained in the discussion of results and operations was prepared in accordance with Canadian generally accepted accounting principles. All amounts in this discussion are expressed in Canadian dollars, unless identified otherwise.

This MD&A contains forward looking statements.

OVERVIEW

The Company is a mineral resource company focused on the development of direct shipping iron ore in Western Labrador. The Company's shares are listed on the TSX under the symbol "LIR".

The Company was incorporated under the *Business Corporations Act* (Ontario) on May 17, 2007 for the purpose of becoming the holding company for and, through a wholly owned subsidiary, Labrador Iron Mines Limited ("LIM"), to carry on the business of exploring and developing a direct shipping iron ore project in the Labrador Trough, in the Province of Newfoundland and Labrador, near Schefferville, Quebec (the "Schefferville Project").

On September 10, 2007, the Company entered into a merger agreement whereby in consideration of the issue of an aggregate of 24,000,000 common shares, the Company acquired a 100% interest in the Schefferville Project.

On December 3, 2007, the Company closed an Initial Public Offering ("IPO") through the issue of 11,473,000 Units for gross proceeds of $45,892,000. On January 8, 2008 the Agent in the Company's IPO exercised its over-allotment option and the Company issued a further 1,720,950 Units for additional gross proceeds of $6,883,800. Each Unit comprises one common share and one-half share purchase warrant exercisable at $5.00 per share for a period of two years.

As of the end of January 2009, LIM holds interests in 47 Mineral Rights Licenses issued by the Department of Natural Resources, Province of Newfoundland and Labrador, representing 214 mineral claims located in Western Labrador covering approximately 5,350 hectares. These licenses are held subject to a royalty of 3% of the selling price FOB port of iron ore produced and shipped from the properties.

During the period from September 2005 to December 31, 2007, LIM had expended $1.4 million in conducting exploration and development work on the Schefferville Property. Such work comprised geological evaluation, sampling, geophysical surveys, trenching, drilling, bulk sampling, resource verification, assaying, metallurgical test work, preliminary mine planning, community consultation, transportation studies and other work.

Following the IPO, the Company commenced plans to complete a program of verification drilling and bulk sampling on certain of the properties and the calculation of a compliant mineral resource, leading to the undertaking of a detailed engineering study of mining these hematite deposits to produce "direct shipping" lump and sinter fine ore, which will require mineral processing, for sale to European and Far Eastern steelmakers.

During the ensuing months, the Company expanded its management team and operating team with a number of senior appointments, initiated further activities to advance the developmental stages of the Project and awarded various contracts, including environmental baseline studies, detailed exploration drilling, bulk sampling, resource estimation, metallurgical process testing, rail and port studies and engineering design, all directed with the intention to move the Schefferville Project forward towards initial production targeted for 2009.

The development plan for the Schefferville Project envisages initial production from two brownfield deposits using contractors with low strip ratio open cut mining followed by beneficiation using simple washing and screening. Mining and processing operations will be conducted for eight months per year, from April to November at an anticipated mining rate of 9,000 tonnes per day. The material excavated should contain around 56% to 58% iron and it is expected that the beneficiation process will remove unwanted silica and increase the product grade to around 65% iron. Two products will be produced, the first coarse lump ore, and the second, a finer sinter feed product. Approximately 25% of the product will be lump ore which generally commands a premium price in the market. These products will be transported by the existing railroad systems to the port of Sept-Îles on the St Lawrence River for onward shipping, probably to steel mills in Europe. The whole operation will use well proven and relatively low technology and closely reflects that previously carried out for almost thirty years by the Iron Ore Company of Canada in the same general location.

Permitting and Environmental Work Advanced
Labrador Iron Mines had initiated Environmental Baseline studies in the region at the start of exploration in 2005/2006. Since that time, seasonal environmental studies, including work with elders of the various nearby aboriginal communities, has been conducted to document the existing environment and to include the collection of traditional knowledge in Environmental Assessment. These programs were ramped up in 2008 to meet the scope of the proposed development and included detailed assessments of the aquatic and terrestrial ecology, hydrology and groundwater, geochemistry and socio-economic components.

In April, 2008, the Company submitted the Project Registration Application for the first phase of development of the Schefferville Project to the Department of Environment and Conservation in the Province of Newfoundland and Labrador and to the Canadian Environmental Assessment Agency (CEAA). The Project Registration Documentation addresses production from the first phase of the Schefferville Project, being the James North, James South and Redmond properties. These properties have been the subject of prior activity carried out by the Iron Ore Company of Canada and are already partially developed. The development plan as outlined in the Registration Document calls for the initial production of iron ore in 2009 and building up to three million tonnes in 2012.

In August 2008 the Minister of Environment and Conservation requested an Environmental Impact Statement (EIS) as part of the Application process. In October 2008 the Minister published for public consultation the draft guidelines for the preparation of the EIS. Following this period of public consultation, during which the Company conducted three public meetings in Labrador and in

Schefferville, the Final Guidelines were issued by the Minister on December 12, 2008. The Company, in conjunction with its consultants, carried out an extensive program to prepare the EIS based initially on the draft guidelines and then amended based on the Final Guidelines. The EIS was submitted to the Minister on December 22, 2008 and was registered on December 23, 2008.

Public comments on the EIS can be submitted up to February 11, 2009 and the Minister should decide the acceptability of the EIS no later than March 3, 2009.

Upon release of project approval the Company will submit the applications for the necessary operating permits and licences. Assuming these permits and licences are issued during the second quarter of calendar 2009, the Company is currently planning, subject to on-going reviews of future iron ore prices, to commence initial mining operations during the summer of 2009. This program, if achieved will enable the Company to test all its operational and transport facilities ahead of commercial production in 2010. If the permits are not issued in time to enable initial operations during the summer and fall of 2009, then the start of initial production will be delayed to 2010. This will have an impact on the commissioning and debugging process and this could affect initial commercial production.

Active Site Program – Summer 2008 – Bulk Sampling and Drilling

A reverse circulation and core drilling program commenced in July 2008 to provide data for a compliant resource estimate on the various deposits, including a resource estimate on the Phase One Properties, and to assist with both short term mine planning and with longer term operational planning. This 4,500 metre program was completed in October 2008 and was supplemented by an exploration trenching program. In addition a detailed program of hydro-geological drilling comprising over 1,000 metres in 18 holes together with associated pump testing was completed.

Samples prepared in the Company's own laboratory were sent to SGS-Lakefield for assay. There was significant delay in receipt of assay results due to a backlog at the laboratory as a result of the unprecedented volume of work generated by the upsurge in mineral exploration activity in 2008. All of these assays have now been received and are being incorporated into the relevant resource estimates.

A test mining program to excavate 6,500 tonnes of bulk ore samples from the Phase One deposits was carried out by RSM Mining from Labrador City. This material was crushed and screened to produce samples proximating to the lump ore and sinter ore. The test mining program was successfully carried out and did not encounter any particular problems in mining or processing. Test washing was not carried out at site. Some of this bulk sample material was used in the metallurgical testing program and the remainder is available for market testing by potential iron ore buyers. Some of these samples have been washed offsite to replicate the final expected products. A number of such samples have been dispatched to potential end users primarily in Europe.

SNC-Lavalin, in conjunction with Geostat and with participation by the Labrador Innu Development Corporation, was awarded a contract for a Resource and Engineering Study, including detailed engineering design and specifications for major items of plant and infrastructure. In addition metallurgical test-work aimed at the design of the process circuit required to meet market specifications for the particular types of iron ore was carried out by SGS-Lakefield. These activities are nearing completion and it is anticipated that the engineering report will be received during the first quarter of 2009.

The metallurgical testwork indicated that the direct shipping ore mined during the bulk sampling exercise is readily amenable to a simple washing and screening process. This process removes silica and enhances the grades of both the lump ore and the sinter fines to acceptable levels. In addition the level of deleterious impurities in the samples is generally low and suitable for end users. Where high spot levels of impurities are encountered during normal operations, a degree of product blending will maintain this acceptable level.

Rail and Port-Transportation Infrastructure
An important aspect of the planned operations is the use of the major infrastructure facilities currently in place. The most critical of these facilities are the railroad and the port. The railroad between the site of the planned operations and Sept-Îles has been in continuous operation for over 50 years. It is currently split into three sections each managed by a different operator. Under Canadian Federal legislation each operator is designated as a Common Carrier and is obliged to provide a suitable level of service.

To support the transfer of the bulk sample iron ore to the Port of Sept-Iles in 2008 the Company leased ten 90 tonne gondola ore cars and also rented five ballast cars from Tshiuetin Rail Transportation Inc. ("TSH"). TSH currently operates a passenger and light freight service between Schefferville and the Port of Sept-Iles. The gondola cars will become part of the future leased transport fleet that will include additional ore cars as well as main line and shunting locomotives. During the quarter the Company successfully transported the bulk sample products by rail from Schefferville to Sept-Îles over both the TSH track and over track operated by Quebec and North Shore & Labrador Railway. The products that were moved were the first iron ore shipments to leave the Schefferville area for over a quarter of a century.

The Port of Sept-Îles was originally developed for the initial IOC operations in the late 1940's and has continued and grown since that time. Today it exports in excess of 20 million tonnes of iron products annually as well as importing substantial inward goods for use by mining companies and others. It is managed by the Port of Sept–Îles Authority which operates its own facilities and wharves, generally through contractors. In addition a number of other companies run their own facilities in the port. LIM has agreed MOU's with the Port Authority and stevedoring contractors regarding the use of the Authority's wharves for the storage and ship-loading of the Company's products.

Marketing discussions have commenced with a number of potential end users, particularly in Europe, based on the metallurgical test results and on samples that have been supplied. These discussions have indicated a very encouraging level of interest in the LIM products. The high iron grades and the low level of impurities are important and should ensure that LIM will be able to find a market for both its lump ore and its sinter fines products.

IBA Agreement signed with Labrador Innu
On July 24, 2008, the Company and Innu Nation of Labrador, signed an Impact Benefit Agreement (IBA) committing to an ongoing relationship between the Innu Nation and Labrador Iron Mines with respect to the development of the Company's direct shipping hematite iron ore project located in Western 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 Labrador Iron Mines and the Innu Nation. In return for their consent and support of the project, the Innu Nation and their members will benefit through training, employment, business opportunities and financial participation in the project.

Iron Ore Price Outlook
Associated with the downturn in most major economies, there has been a considerable degree of weakness in the world-wide steel industry during the last three months with a number of major steel producers announcing significant production cut-backs and redundancy programs. This has resulted in a major decline in both the spot iron ore price and in associated shipping rates. This downturn has been particularly severe in Europe and North America though China has also indicated that its production has been considerably reduced.

The timing and extent of the downturn and the subsequent recovery will be driven both by the success in the new national infrastructure initiatives currently being implemented in both China and in western countries, and in the level of confidence in the success of such initiatives by both steel producers and end-user consumers. It is likely to be some months before a meaningful picture of any recovery develops.

In the meantime levels of demand for iron ore products are likely to remain depressed. Currently this does not significantly affect LIM as production targets and hence sales for 2009 are planned to be modest.

High demand for iron ore in recent years has been driven primarily by Chinese and south-east Asian demand. This demand effectively raised the price of iron ore fines from around US$42 per tonne FOB in 2005 to around US$50 per tonne FOB in 2006, to around US$55 per tonne FOB in 2007 and to around US$95 per tonne FOB in 2008. Lump ore generally commands about a 25% premium to fine ore. Benchmark iron ore pricing negotiations between the major iron ore suppliers and consuming steel manufacturers for 2009 contract prices are expected to be concluded during the first half of 2009. As a result of the downturn in the steel industry it is almost certain that there will be some reduction in the benchmark prices from the 2008 levels. The extent of such reductions is still being negotiated between major suppliers and steel mills but forecasters are predicting it is likely to be at least 20% and perhaps more. The sales price of LIM’s iron ore products will largely be based on these benchmark reference prices.

Beyond 2009 the future of iron ore pricing will be dependent on both the rate of recovery of world-wide economies and the extent to which current and planned new production capacity has been closed or deferred and on the speed with which this closed and deferred production can be brought back on stream. LIM has a view that there will be some recovery of prices in 2010, over the reduced prices expected for 2009, and LIM is consequently targeting 2010 as its first year of significant commercial production. LIM considerably benefits from the flexibility built into its operational plan that will allow rapid reductions and resumptions in production capacity to meet movements in iron-ore prices without having significant impact on the operational costs of the project.

RESULTS OF OPERATIONS

The Company is in the exploration and development stage and had no operations for the period ended December 31, 2008.

For the three and nine month periods ended December 31, 2008 the Company reported net losses of $682,489 and $1,279,715 respectively, the main components of which were, stock-based compensation expense of $498,562 and $1,085,125 for the three and nine month periods ended December 31, 2008, corporate expenses of $217,403 and $391,019 for the three and nine month periods, and administration expenses of $199,721 and $463,081 for the three and nine month periods, offset in part by interest income of $262,785 for the three month period and $971,943 for the nine month period ended December 31, 2008.

The stock-based compensation expense arose on the vesting of part of the stock options granted in prior periods to directors and management under the Company’s Stock Option Plan.

Interest income of $262,785 and $971,943 for the three and nine month periods, arose from the investment of cash in highly liquid GIC’s with a major Canadian financial institution.

During the three and nine month periods ended December 31, 2008 the Company invested $3,939,372 and $10,172,498 respectively, (including $195,497 and $531,172 respectively in capitalized stock-based compensation on options granted to exploration and operating employees) on its mineral properties, the principal components of which were geology, engineering, environmental, permitting and community consultation. For details refer to Note 3 to the interim Consolidated Financial Statements.

SUMMARY OF QUARTERLY RESULTS

	($000's) Quarter ended December 31, 2007 (Amended)	($000's) Quarter ended March 31, 2008	($000's) Quarter ended June 30, 2008	($000's) Quarter ended September 30, 2008	($000's) Quarter ended December 31, 2008
Net income (loss)	$ 3,819	$ (1,625)	$ (200)	$ (397)	$ (682)
Income (loss) per share	$ 0.10	$ (0.06)	$ (0.003)	$ (0.011)	$ (0.019)
Total assets	$ 169,301	$ 175,722	$ 176,092	$ 178,431	$ 178,199

*****The income in the quarter ended December 31, 2007 included a future income tax recovery arising from changes in the statutory income tax rate. The loss in the quarter ended March 31, 2008 included stock-based compensation expenses of $1.75 million arising on the grant of stock options during that quarter.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2008, the Company had $38.4 million in cash and current assets and is in a healthy financial condition. Current liabilities, comprising accounts payable, were $2.57 million. The cash is invested in short-term money market instruments or deposits with major banks. The Company has no borrowings or debt and has no externally imposed capital requirements.

The carrying value of the Company's mineral property interests at December 31, 2008 was $138.6 million. The carrying value of the mineral property interests was calculated upon the acquisition of such properties in 2007 for 24,000,000 shares, which were valued at the IPO price of $3.65 per share. (See Note 5 to Interim Consolidated Financial Statements). The Company's share price declined significantly in the quarter ended December 31, 2008 and closed at $0.45 per share on December 31, 2008. The carrying value includes an amount of $40.8 million which represents the corresponding amount to a future income tax liability established upon the acquisition of the properties (See Note 3 to Interim Consolidated Financial Statements). The carrying value of mineral properties is not necessarily indicative of the realizable value of such properties if they were to be offered for sale.

Originally, upon the IPO, the carrying value of mineral properties included an amount of $40.8 million which represented the future income tax effect arising from temporary differences between the purchase price and the underlying income tax value of the mineral property interests acquired. A corresponding amount is recorded as Future Income Tax liability. Subsequent to the date of the transaction, two changes in the statutory income tax rate in the period ended December 31, 2007 effectively reduced the future income tax liability related to the carrying value of mineral properties by $3.4 million to $37.4 million. Following subsequent adjustments, the balance of the Future Income Tax liability as at December 31, 2008 was $35.9 million. (See Note 9(b) to Interim Consolidated Financial Statements).

The Schefferville Property is in the exploration and development stage and, as a result, the Company has no source of operating revenue. The Company depends upon its cash resources and interest income to fund its exploration, development, operating and administrative expenses. In December 2007, the Company raised through the IPO the financial resources to undertake the currently planned activities and believes it has sufficient funding to undertake an exploration and development program, prepare a detailed engineering study on the Schefferville Project and place the first one million tons from the phase one deposits (the Fonteneau Properties) into production. It is currently planned to commence production in 2009, subject to timely receipt of permits, with commercial production to be achieved in 2010. There can be no assurance that the Company would be successful in obtaining any additional required funding necessary to conduct additional development work, or to expand production on the properties.

The capital cost to put the first phase of the Schefferville Project into production has not yet been determined pending completion of the Engineering Study, receipt of project approval and release of the EIS and a final decision on the scale of operations to be conducted in 2009.

Additional funds may be required to place phase two of the Schefferville properties into commercial production. The only sources of future funds presently available to the Company, other than any revenue that may be generated from operations, are the sale of equity capital of the Company, interest earned on invested capital, or the sale by the Company of an interest in any of its properties in whole or in part. The ability of the Company to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Company. Market conditions and hence the investment interest in the shares of junior resource companies, have changed significantly since the Company completed its IPO in December 2007. If additional financing is raised by the issuance of shares from treasury of the Company, control of the Company may change and shareholders may suffer dilution. If adequate financing is not available, the Company may be required to delay, reduce the scope of, or eliminate one or more activities or relinquish rights to certain of its property interests. Failure to obtain additional financing on a timely basis could cause the Company to lose or reduce its interests in some or all of the properties and reduce or terminate its operations.

OFF BALANCE SHEET TRANSACTIONS

The Company has no off balance sheet transactions.

OBLIGATIONS AND CONTRACTUAL COMMITMENTS

The Company has committed to put phase one of the Schefferville Project (the Fonteneau Properties) into production and through the IPO of $52.8 million has arranged the production financing for the first one million tons of production from one or more of the Fonteneau Properties. (See Note 3 to the interim Consolidated Financial Statements). At December 31, 2008, the Company held cash of $37.7 million, which is considered sufficient to place the first phase of the Schefferville Project into production.

The Company does not believe that there are any significant environmental obligations requiring material capital outlays in the immediate future and anticipates that such obligations will only arise when full scale development of the Schefferville Project commences. As the Schefferville Project is still in the exploration and development stage and no significant environmental impact has occurred to date, the Company does not currently consider that expenditures required to meet any ongoing environmental obligations at the Schefferville Project are material to the results or to the financial condition of the Company at this time. However, these costs may become material in the future and will be reported in the Company's filings at that time.

The Company is committed to rental payments under a long term lease of its office premises which expires in 2019. Minimum rental commitments remaining under this lease approximate $3,559,500, which will be partly offset by cost sharing with associated companies.

Rental commitments for successive financial years ended March 31, are approximately as follows:

2009	$ 83,500
2010	334,000
2011	334,000
2012	334,000
2013 and beyond	2,474,000
	$ 3,559,500

FINANCIAL INSTRUMENTS

The Company's policy is to invest its cash balances in investment grade short term deposits or guaranteed investment certificates with major Canadian banks. This has been the Company's investment policy since completion of the IPO in 2007 and has not been changed as a result of recent and current economic conditions. The Company has never had any asset backed financial instruments. The Company monitors these investments and is satisfied with the credit rating and liquidity of its banks.

The Company has designated its cash and cash equivalents as held for trading, which are measured at fair value. Fair value estimates of financial assets are made at the balance sheet date based on relevant market information and information about the financial instrument. These estimates involve uncertainties and are subjective in nature. At December 31, 2008 the carrying amounts and fair value of the Company's financial instruments were considered to be the same, primarily because of the short term nature and liquidity of these instruments. At December 31, 2008, the Company did not hold any balances in foreign currencies that would give rise to exposure to foreign exchange risk.

OUTSTANDING SHARE CAPITAL

The Company's authorized share capital is an unlimited number of common shares.

At December 31, 2008 the Company had 37,148,451 common shares outstanding. The Company also had outstanding 6,596,975 share purchase warrants, 857,607 broker warrants and 3,350,000 stock options as at December 31, 2008.

The following is the outstanding share data as of the date of this MD&A.

Securities	Number	Weighted average exercise price $	Weighted average remaining life (years)
Common shares	37,148,451	N/A	N/A
Stock options	3,350,000	4.10	4.5
Broker Warrants	857,607	4.00	0.5
Warrants	6,596,975	5.00	0.9

Each stock option and warrant is exercisable for one common share of the Company. The broker warrants are exercisable for Units comprising one common share and one-half share purchase warrant.

TRANSACTIONS WITH RELATED PARTIES

The Schefferville Project was acquired through a series of underlying agreements and arrangements, some of which are with companies who have directors and/or officers that are also directors and/or officers of the Company or with companies that are controlled by directors and/or officers of the Company. The common shares of the Company issued to acquire the Schefferville Project were issued to corporations controlled by directors and/or officers of the Company or with which such corporations had directors and/or officers in common with the Company. (See Note 3 to the interim Consolidated Financial Statements).

The Company incurred expenses of $21,600 in respect of rent to companies in which directors or officers of the Company were also directors or officers. The Company also made payments to directors and officers, and or to companies controlled by directors or officers of the Company in respect of director's fees and management compensation and administrative services. These transactions with related parties were within the normal course of business and have been recorded at the exchange amounts, being the amounts agreed to be the transacting parties.

CRITICAL ACCOUNTING ESTIMATES

The Company's critical accounting policies are described in Note 2 to the interim Consolidated Financial Statements for the period ended December 31, 2008. Management considers the following to be the most critical in understanding the judgments involved in preparing the Company's financial statements and the uncertainties that could impact its results of operations, financial conditions and future cash flows.

Mineral property interests and deferred exploration expenditures

The Company's mineral properties were acquired in exchange for shares in the Company, and the properties were valued at the fair market value of the shares, based on the price of shares sold in the IPO. The carrying value of mineral property interests also includes an amount corresponding to a future income tax liability and the fair value of the capitalized stock option compensation awarded to exploration or project personnel.

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 exploration results, or management determines that there is a permanent and significant impairment in value.

Although the price of the Company's shares has declined significantly from the IPO price, particularly in the period ended December 31, 2008, management does not consider that there has been a permanent impairment in value of the Company's mineral property interests. The Company will keep this matter under review pending clarity on the future long term price of iron ore.

All of the Company's properties are considered to be in the exploration or development stage and none have achieved commercial production. 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 mineral property interests are charged to operations as incurred.

Stock-based compensation

The Company records compensation cost based on the fair value method of accounting for stock-based compensation. The fair value of stock options is determined using the Black-Scholes option pricing model. The fair value of the options is recognized over the vesting period as compensation expenses and contributed surplus. Stock compensation awarded to exploration or project personnel is capitalized to mineral property interests. When options are exercised, the proceeds received, together with any related amount in contributed surplus, will be credited to capital stock.

The Black-Scholes model, which is now widely used in determining the "fair value" of stock options, was developed for use in estimating the fair value of freely traded options which are fully transferable and have no vesting restrictions. The Company's options have characteristics that are significantly different from those of traded options and changes in any of the assumptions used can materially affect fair value estimates.

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 statements 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. At December 31, 2008, the Company had recorded a future income tax liability of $35.9 million.

The effect on future income tax assets and liabilities of a change in income tax rates (such as occurred in the third quarter ended December 31, 2007) 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.

Use of estimates

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles 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, fair value of stock options and valuation of tax accounts. These estimates and valuation assumptions are based on present conditions and management's planned course of action, as well as assumptions about future business and economic conditions. Should future business and economic conditions continue to deteriorate, or the underlying valuation assumptions and estimates change, the recorded amounts could change by a material amount.

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. Management is not currently aware of any significant asset retirement obligation of the Company and no such amount has been recorded.

NEW ACCOUNTING STANDARDS

The Company adopted several new standards which are applicable to the financial disclosures and results of operations for interim and annual periods beginning April 1, 2008, including CICA Handbook Section 1535 "Capital Disclosures"; Section 3031" Inventories" and Section 3862, "Financial Instruments – Disclosures". The adoption of these accounting standards did not have any material effect on the financial position or performance of the Company.

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 (i.e., 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.

NORMAL COURSE ISSUER BID

The Company has obtained TSX approval to conduct a normal course issuer bid (the "Bid") pursuant to which the Company may purchase up to a maximum of 684,140 common shares in the capital of the Company representing approximately 5.0% of the public float of the Company as at September 30, 2008.

The Bid may be carried out from October 2, 2008 for a period of up to one year. Pursuant to TSX policies, daily purchases made by the Company under the Bid may not exceed 21,126 shares, which is 50% of the average daily trading volume of 42,253 shares on the TSX over the previous nine months, subject to certain prescribed exceptions. Purchases pursuant to the Bid will be made from time to time through the facilities of the Toronto Stock Exchange. Common shares purchased will be paid for with cash available from the Company's working capital. All common shares purchased pursuant to the Bid will be cancelled and returned to treasury. No insiders of the Company intend to participate in the Bid.

As of December 31, 2008, the Company had repurchased 45,500 shares at a cost of $43,027.

RISKS AND UNCERTAINTIES

In conducting its business, the Company faces a number of risks and uncertainties. The principal risks and uncertainties faced by the Company are set out in the Company's Prospectus dated November 23, 2007 and in the Company's Annual Information Form for the part year ended March 31, 2008 and are summarized below.

Exploration Development and Operating Risks

Exploration for minerals and development of mining operations involve many risks, most of which are outside the Company's control. There can be no assurance that any mineral production will be obtained or continued from the Company's properties, or that any such production will be profitable. In addition to the normal and usual risks of exploration and mining, Schefferville is situated in a remote location and does not have road access to other parts of Canada. The only means to transport iron ore from Schefferville is by rail and refurbishment of the tracks, rails and culverts will have to be carried out.

The Company's future operations will require rail transportation from the Schefferville region to the Port of Sept-Iles and ship berthing, storage and loading facilities at such port. There can be no assurance that the Company will be successful in negotiating such arrangements or in negotiating them on economically feasible terms. Failure to negotiate such arrangements could render the Schefferville Project unviable.

Permitting

The Schefferville Area Project is located in a remote area in the north-west of Western Labrador adjacent to the boundary with the Province of Québec. The Company is required to obtain various permits to carry on its activities and is subject to various reclamation and environmental conditions. While the Company has all necessary permits to complete the exploration work, resource definition work and engineering studies, additional permits will be required to bring the Schefferville Area Project to production.

The Company submitted the Project Registration Application for the first phase of the Schefferville Area Project to the Department of Environment and Conservation in the Province of Newfoundland and Labrador and to the Canadian Environmental Assessment Agency and has subsequently submitted an Environmental Impact Statement to the Department. There can be no assurance that the necessary permits will be obtained within a reasonable time or at all. If the necessary permits are not issued within a reasonable time the Company may be delayed in achieving its planned commencement of initial production in 2009. To the extent such approvals are required and not obtained, the Company may be curtailed or prohibited from proceeding with planned development of its Schefferville Project or other mineral properties or from commencing or continuing its mining operations.

Environmental

The Company's activities are subject to extensive national, provincial and local laws and regulations governing environmental protection and employee health and safety. The Company is required to obtain governmental permits and provide bonding requirements under environmental laws. All phases of the Company's operations are subject to environmental regulation. These regulations mandate, among other things, the maintenance of water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, and more stringent environmental assessments of proposed projects. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations.

The ultimate amount of reclamation to be incurred for the planned mining operations at the Schefferville Project is uncertain. Although the Company will make provision for reclamation obligations when these arise, it cannot be assured that these provisions will be adequate to discharge its obligations for these costs. Environmental hazards may exist on the properties on which the Company holds interests which have been caused by previous owners or operators of the properties. As environmental protection laws and administrative policies change the Company will revise the estimate of its total obligations and may be obliged to make further provisions or provide further security for mine reclamation cost.

Environmental laws and regulations are complex and have tended to become more stringent over time. These laws are continuously evolving. Any changes in such laws, or in the environmental conditions at the Schefferville Project, could have a material adverse effect on the Company's financial condition, liquidity or results of operations. The Company is not able to determine the impact of any future changes in environmental laws and regulations on its future financial position due to the uncertainty surrounding the ultimate form such changes may take.

Existing and possible future environmental legislation, regulations and actions could cause additional expense, capital expenditures, restrictions and delays in the activities of the Company, the extent of which cannot be predicted. Before production can commence on the Schefferville Project, the Company must obtain regulatory approval, permits and licences and there is no assurance that such approvals will be obtained. No assurance can be given that new rules and regulations will not be enacted or made, or that existing rules and regulations will not be applied, in a manner which could limit or curtail production or development.

Failure to comply with applicable environmental and health and safety laws can result in injunctions, damages, suspension or revocation of permits and imposition of penalties. There can be no assurance that the Company has been or will be at all times in complete compliance with all such laws, regulations and permits, or that the costs of complying with current and future environmental and health and safety laws and permits will not materially adversely affect the Company's business, results of operations or financial condition. Amendments to current laws, regulations and permits governing operations and activities of mining and exploration companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in exploration expenses, capital expenditures or production costs, or require abandonment or delays in development of mining properties.

Political and First Nations

The Company conducts its operations in Western Labrador in the Province of Newfoundland and Labrador in an area which is subject to conflicting First Nations land claims. There are a number of First Nations peoples living in the Quebec-Labrador peninsula with overlapping claims to treaty or aboriginal land rights. Generally, the Government of Newfoundland and Labrador views acceptance by both the Federal Government and the Government of Newfoundland and Labrador of such a claim for the purposes of comprehensive land claim negotiations as a necessary, but not a sufficient, condition of a “credible claim.” Aboriginal claims to lands, and the conflicting claims to traditional rights between aboriginal groups, may have an impact on the Company’s ability to develop the Schefferville Project. The boundaries of the traditional territories claims by these groups, if established, may impact on the Labrador area, including the areas which constitute the Schefferville Project. Mining licences and their renewals may be affected by land and resource rights negotiated as part of any settlement agreements entered into by Governments with First Nations.

Section 35 of the *Constitution Act, 1982* recognizes and affirms existing aboriginal and treaty rights. There have also been significant judicial decisions which have impacted the relationship of Aboriginal peoples with government. Government activities cannot infringe upon aboriginal rights unless there is proper justification. When development is proposed in an area to which an aboriginal group asserts aboriginal rights and titles, and a credible claim to such rights and titles has been made out, a developer may be required to conduct consultations concerning the proposed development with the aboriginal group that may be affected by the project.

Consultations can vary depending on the nature of the aboriginal right affected and the degree of impact. The results of the consultations may conclude that the interests of the aboriginal group be accommodated wherever appropriate Obligations can range from information sharing to provisions for the participation of the aboriginal group in the development, and compensation for impacts. Consultation must be meaningful with the view to accommodating the interests of the aboriginal group affected.

The Innu of Labrador, as represented by the Innu Nation, are the only aboriginal party with a land claim that has been accepted by the Government of Newfoundland Labrador. The Innu of Labrador claim aboriginal rights and title to land and resources in Western Labrador in an area which includes the proposed Schefferville Project area. The claim has been accepted by the Governments of Canada and Newfoundland and Labrador. The Government of Newfoundland and Labrador, together with the Government of Canada, entered into a framework agreement with the Innu of Labrador in March 2006 as a first step in the process towards reaching a treaty. The land claim framework agreement provides a road map for the next stage in treaty negotiations. It outlines the subjects to be negotiated such as land title, aboriginal harvesting rights, access to resources, aboriginal participation in resource management and financial compensation. In September 2008, the Government of Newfoundland and Labrador and the Innu Nation, signed the Tshash Petapen (New Dawn) Agreement which resolves key issues relating to matters between the Province and the Innu Nation and will facilitate the finalization of the Innu Rights Agreement.

The Labrador Métis Nation has asserted a land claim in parts of Labrador but does not appear to include the Schefferville Project area. However, this land claim has not been accepted for negotiation by the Governments of Canada or Newfoundland and Labrador.

There are other Innu groups from Québec who claim aboriginal rights in Labrador. No land claim settlement agreements have been reached between Canada or the Province of Newfoundland and Labrador with the Innu of Quebec. Their claims have not been accepted for negotiation by the Government of Newfoundland and Labrador. However, their claims in Québec have been accepted for negotiation by the Governments of Canada and Québec. The Innu of Quebec, located at Matimakush near Schefferville, and at the communities of Uashat and Mani-Utenam, near Sept-Iles Quebec, assert aboriginal rights to traditional lands which include the area of the Schefferville Project and the Innu of Québec may be regarded as having overlapping credible land claims in the Schefferville Project area.

No land claim settlement agreement has been reached between Canada or the Province of Newfoundland and Labrador with the Naskapi First Nation, located at Kawawachikamach Quebec, about 25 kilometers northeast of Schefferville, with respect to asserted claims in Labrador.

The Company has initiated a program of community consultation and intends to negotiate and enter into memoranda of understanding and later collaboration agreements with 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.

On July 24, 2008, the Company and Innu Nation of Labrador, representing the Sheshatshiu Innu First Nation and the Mushuau Innu First Nation, respectively, living in the communities of Sheshatshiu and Natuashish, Labrador, signed an Impact Benefit Agreement (IBA), committing to an ongoing relationship between the Innu Nation and Labrador Iron Mines with respect to the development of the Company's direct shipping hematite iron ore project located in northwestern 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 Labrador Iron Mines and the Innu Nation. In return for their consent and support of the project, the Innu Nation and their members will benefit through training, employment, business opportunities and financial participation in the project.

There can be no assurance that the Company will be successful in reaching any agreement with any other First Nations groups who may assert aboriginal rights or may have a claim which affects the Company's Properties or may be impacted by the Schefferville Project, including the Naskapi First Nation and/or the Innu of Quebec.

Metal Prices and Market Sentiment

The prices of metals, including iron and steel, fluctuate widely and are affected by many factors outside the Company's control. The relative price of metals and future expectations for such prices, have a significant impact on the market sentiment for investment in mining and mineral exploration companies. Metal price fluctuations may be either exacerbated or mitigated by international currency fluctuations which affect the sales revenue received in terms of the domestic currency in which such metals are produced. The Company relies on equity financings for its working capital requirements and to fund its exploration, development and permitting activities. There is no assurance that any additional financing will be available to the Company or that it will be available on acceptable terms.

Currency risk

When in production, the Company will be exposed to currency risk as the price of iron ore is generally quoted and denominated in U.S. dollars. Changes in the U.S. dollar/Canadian dollar exchange rate may result in a decrease or increase in foreign exchange gains or losses. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

Title risk

Title to mineral properties and mining rights involves certain inherent risks including difficulties in identification of the actual location of specific properties. The Company relies on contracts with third parties and on title opinions by legal counsel who base such opinions on the laws of Newfoundland and Labrador and the federal laws of Canada applicable therein. Although the Company has investigated title to all of its mineral properties for which it holds contractual interests or mineral licenses, the Company cannot give assurance that title to such properties will not be challenged or impugned or become the subject of title claims by First Nation groups or other parties.

Although the Company has exercised due diligence with respect to determining title to and interests in its mineral properties, there is no guarantee that such title to or interests in the mineral properties will not be challenged or impugned and title insurance is generally not available. The Company's mineral property interests may be subject to prior unregistered agreements or transfers, or Native land claims, and title may be affected by, among other things, undetected defects. Surveys have not been carried out on any of the mineral properties in accordance with the laws of Newfoundland and Labrador and therefore their exact location and area could be in doubt. The Company can give no assurance as to the validity of title of the Company to its mineral properties or the size of such mineral properties.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer and Chief Financial Officer are responsible for designing internal controls over financial reporting, or causing them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The Company has adopted basic systems of internal controls over financial reporting. The Chief Executive Officer and the Chief Financial Officer have evaluated and continue to evaluate the design of internal controls over financial reporting. During this process, management identified certain potential deficiencies in internal controls over financial reporting. These deficiencies are not considered to be significant. The design of a control system must reflect that there are staffing and financial resource constraints, and that the benefits of controls must be considered relative to their costs to the Company. Due to the limited number of staff at the Company, it is not feasible or cost effective to achieve "ideal" segregation of duties. These matters and their related risks are not uncommon in a company of this size and stage of growth and are not considered to be significant. The Company has taken such action as it considered appropriate to minimize any potential risks from these potential deficiencies, including increased senior management review. The Company anticipates hiring additional accounting and administrative staff as the Company grows.

The Company's management, including the Chief Executive Officer and Chief Financial Officer, believe that any system of internal control over financial reporting, including those systems determined to be effective, and no matter how well conceived and operated, has inherent limitations and can provide only reasonable, not absolute, assurance that the objectives of the control system are met with respect to financial statement preparation and presentation. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error, mistake or faulty communication. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and may not be detected.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurances that material information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer as appropriate, to permit timely decisions regarding public disclosure. Management, including the Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2008. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that as of the end of the period covered by this Management Discussion and Analysis the Company's disclosure controls and procedures, as defined in Multilateral Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings, were effective to provide reasonable assurance that material information required to be disclosed in reports filed or submitted by the Company is recorded, processed, summarized and reported within the appropriate time periods.

It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure controls and procedures provide a reasonable level of assurance and that they are effective, they do not expect that the disclosure controls and procedures can prevent all errors or mistakes. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

OUTLOOK

The immediate and medium-term outlook for the minerals industry is uncertain. There has been a considerable degree of weakness in the world-wide steel industry during the last three months. This has resulted in a major decline in both the spot iron ore price and in associated shipping rates. The timing and extent of the downturn and the subsequent recovery will be driven both by the success in the new national infrastructure initiatives currently being implemented in both China and in the western countries, and in the level of confidence in the success of such initiatives both by steel producers and by end-user consumers. It is likely to be some months before a meaningful picture of any recovery develops.

Management believes that the long-term fundamentals of the iron ore market will remain generally strong for the majority of the expected life of the Company's operations. This view is based upon several factors including an expected recovery in Chinese and south-east Asia demand. Despite the recent decline in Chinese demand, iron ore prices are expected to remain robust once the demand situation returns to more stable levels. In the meantime levels of demand for iron ore products are likely to remain depressed. Currently this does not significantly affect LIM as production targets and sales for 2009 will be very modest. Beyond 2009 the future of iron ore pricing will be dependent on the rate of recovery of world-wide economies. LIM has a view that there will be some recovery of prices in 2010 over the reduced prices expected for 2009 and consequently LIM is targeting 2010 as its first year of significant commercial production.

Assuming the relevant permits and licenses are issued during the second quarter of the 2009 calendar year, the Company is currently planning, subject to on-going reviews of future iron ore prices, to commence initial mining operations during the summer of 2009. This program, if achieved, will enable to Company to test all its operational and transport facilities ahead of commercial production in 2010. Production would then build up to three million tonnes in 2012. If the permits are not issued in time to enable initial operations during the summer and fall of 2009, then the start of initial production will be delayed to 2010.

Qualified Person

Scientific and technical information disclosed herein has been prepared under the supervision of Terence N. McKillen, P. Geo., Vice President and a Director of the Company and is the Company's Qualified Person under National Instrument 43-101.

ADDITIONAL INFORMATION

Additional information regarding the Company is available on SEDAR at www.sedar.com and on the Company's website www.labradorironmines.ca.

FORWARD LOOKING STATEMENTS

This management's discussion and analysis contains certain forward-looking statements relating to, but not limited to, the Company's expectations, intentions, plans and beliefs. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "expect", "goal", "plan", "intend", "estimate", "may" and "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Forward-looking information may include reserve and resource estimates, estimates of future production, unit costs, costs of capital projects and timing of commencement of operations, and is based on current expectations that involve a number of business risks and uncertainties. Factors that could cause actual results to differ materially from any forward-looking statement include, but are not limited to, failure to establish estimated resources and reserves the grade and recovery of ore which is mined varying from estimates, capital and operating costs varying significantly from estimates, delays in obtaining or failures to obtain required governmental, environmental or other project approvals, delays in the development of projects changes in exchange rates, fluctuations in commodity prices, inflation and other factors. Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from expected results. Shareholders and prospective investors should be aware that these statements are subject to known and unknown risks uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Shareholders are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking information whether as a result of new information, future events or other such factors which affect this information, except as required by law.