LABRADOR IRON MINES HOLDINGS LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE QUARTER ENDED JUNE 30, 2012

Dated: August 14, 2012

GENERAL

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited condensed interim consolidated financial statements and notes thereto of Labrador Iron Mines Holdings Limited ("LIM" or the "Company") for the quarter ended June 30, 2012.

The historical resources referred to in this document are based on work completed and estimates prepared by the Iron Ore Company of Canada prior to 1983 and were not prepared in accordance with National Instrument 43-101 ("NI 43-101"). The Company is not treating the historical resource estimate as a defined current NI 43-101 resource verified by a Qualified Person, however the Company considers the historical resource estimate to be relevant and reliable.

The terms "iron ore" and "ore" in this document are used in a descriptive sense and should not be construed as representing current economic viability.

All currency amounts in this discussion are expressed in Canadian dollars, unless otherwise indicated. All numerical references to years are "calendar" years, unless otherwise indicated. All references to tonnes are dry metric tonnes, unless otherwise indicated.

This MD&A contains forward looking statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The Canadian Accounting Standards Board requires publicly accountable enterprises to adopt IFRS for fiscal years beginning on or after January 1, 2011. Accordingly, the Company's consolidated financial statements for the quarter ended June 20, 2012 have been prepared in accordance with IFRS as published by the International Accounting Standards Board.

The Company has also presented comparative information for the quarter ended June 30, 2011 on an IFRS basis. In preparing the Company's opening statement of financial position in accordance with IFRS, the Company adjusted amounts reported previously in the Company's financial statements prepared in accordance with pre-conversion Canadian generally accepted accounting principles ("GAAP"). For further information, refer to the Company's consolidated financial statements and notes thereto for the fiscal year ended March 31, 2012.

OVERVIEW

Labrador Iron Mines is Canada's newest iron ore producer, engaged in the mining of iron ore and in the exploration and development of direct shipping iron ore projects (the "Schefferville Projects") in the central part of the prolific Labrador Trough region, one of the major iron ore producing regions in the world, situated in the Province of Newfoundland and Labrador and in the Province of Quebec, centered near the town of Schefferville, Quebec.

LIM is currently the only Canadian iron ore producer listed on the Toronto Stock Exchange, where it trades under the symbol "LIM".

The Schefferville Projects consist of the James Mine and Silver Yards processing plant ("Silver Yards"), the Houston property ("Houston") and, subject to further exploration and development, other iron properties in the vicinity of Schefferville. LIM's Schefferville Projects are connected by a direct rail line to the port of Sept-Iles on the Atlantic Ocean and benefit from established infrastructure, including, the town, airport, roads, hydro power and rail service.

Initial production commenced at the James Mine in June 2011 and achieved sales of 386,000 tonnes of iron ore in its start-up 2011 season. Full scale production re-commenced on April 2, 2012. The Company commenced commercial production for accounting purposes effective April 1, 2012 and recognized revenue of $38 million (FOB Port of Sept-Iles) on sales of 486,000 dry tonnes of iron ore with three shipments completed in the quarter ended June 30, 2012. LIM is targeting production and sale of two million tonnes of iron ore in calendar 2012, leading on to the development of the Houston deposits, with the objective of ramping up production towards five million tonnes of iron ore per year by 2015.

The Schefferville Projects comprise 20 different iron ore deposits, which were part of the original Iron Ore Company of Canada ("IOC") direct shipping operations conducted from 1954 to 1982 and formed part of the 250 million tons of historical reserves and resources previously identified by IOC. The iron ore deposits which comprise the Schefferville Projects are divided into two separate portions, one within the Province of Newfoundland and Labrador and the other within the Province of Quebec.

At March 31, 2012, the Company had NI 43-101 compliant resources of 44.6 million tonnes in five DSO deposits and an additional 121 million tonnes of historical resources in about 15 other deposits.

Operations Summary

The James mine recommenced full-scale operations on April 2, 2012 after its planned seasonal shutdown. During the quarter ended June 30, 2012, approximately 668,000 tonnes of ore at a grade of 62.6% iron ("Fe") were mined. Of the total production during the quarter, approximately 483,000 tonnes were direct rail ore ("DRO") at an average grade of 62.6% Fe.

During the quarter ended June 30, 2012 the Company completed three shipments totaling 486,000 tonnes of direct rail ore at a weighted average price of approximately US$122 per tonne on a CFR China basis and subsequently received net proceeds of $38.0 million on a FOB Sept-Iles basis from these three shipments.

Cash operating costs were $35.1 million, or $72 per tonne of iron ore sold during the quarter, and included mining, processing, transportation and site expenses. The Company maintains its guidance of cash operating costs of $60 to $65 per tonne sold for the year.

By June 30, 2012, the James mine was operating at a rate of 32,000 tonnes per day (ore and waste), in excess of its planned mining rate of 28,000 tonnes per day (ore and waste), and could sustain at this enhanced rate for the balance of the 2012 operating season.

The general mining sequence planned for the current year commenced with mining and shipping higher grade (+60% Fe) DRO during the early months of the operating season while the processing plant was being recommissioned, followed by mining lower grade plant feed (+50% Fe) in the summer and fall when the processing plant is operating at full capacity. Sinter product is planned to be railed and shipped throughout the summer and early fall, followed by railing and shipping lump material in late fall. From previous experience, lump ore is most resilient against freezing in railcars during the late months of the operating season, due to its lower moisture content.

In accordance with the above general mining sequence, the Company's mining was focused on DRO during the quarter ended June 30, 2012, and has subsequently shifted to producing sinter and some lump product during the summer months.

Mass recovery of all products from the ore mined during the quarter ended June 30, 2012 was 87.7%. This very high mass recovery percentage is largely attributable to the fact that mainly DRO material was mined during the quarter. During the period, new crushing and screening equipment was brought into service in order to dry crush and screen this higher grade (+60% Fe) ore directly at the mine site.

Startup and re-commissioning of the Silver Yards plant commenced in mid-May, approximately one week behind schedule, due primarily to cold weather conditions. From mid-May to June 30, 2012, approximately 127,000 tonnes of 55.6% Fe material was fed to the plant, yielding approximately 52,000 tonnes of lump and sinter products.

The Silver Yards processing plant operated at approximately 50% through-put capacity, and achieved product yield of 41% during the re-commissioning period. Both of these results were lower than planned, as plant throughput was affected by a series of mechanical and physical commissioning issues, all of which have been addressed. The Company has engaged the plant designers to prepare a detailed analysis and optimization plan of plant operations. As part of this analysis, two of the plant designer's engineers have been retained onsite full time.

Continuous improvement was evident towards the end of the quarter, with through-put and product yield approaching design capacity for the phase 1 and phase 2 plant. Plant operational performance has improved significantly since quarter end with July throughput averaging 4,300 tonnes per day and mass yield increasing to 57.8%. Further plant performance improvements are anticipated throughout the current quarter.

Cash operating costs for the quarter were approximately $72 per tonne of product sold, unloaded at the port. Included in this amount are approximately $7.50 per tonne in non-recurring charges related to contractor mobilization, railway take-or-pay fees in April, and certain one off charges related to the Pointe-aux-Basques port facility which is no longer being pursued. In addition, fixed costs per tonne were higher than planned due to revenue recognition on three sales rather than the four shipments anticipated for the quarter. Excluding non-recurring charges, cash operating costs were approximately $64.50 per tonne, sold within the Company's original guidance. Cash operating costs in June and July were within the Company's 2012 guidance of $60 to $65 per tonne, unloaded at the port.

Production for Quarter Ended June 30, 2012 *(all tonnes are Dry Metric Tonnes)*		
	Tonnes	Grade % Fe
Total Ore Mined	668,193	62.55%
Direct Rail Ore portion	483,444	62.56%
Waste Mined	1,369,398	-
Ore Processed	127,463	55.59%
Lump Ore Produced	17,728	60.20%
Sinter Fines Produced	34,711	65.57%
Total Product Railed	532,329	62.56%
Tonnes Product Sold	486,506	63.23%
Port Product Inventory	223,492	62.96%
Site Product Inventory	65,372	64.05%
ROM Ore inventory	273,503	58.79%

Procurement and construction for the Phase 3 expansion of the Silver Yards processing plant to increase its production capacity and to recover ultra-fine material continued throughout the quarter and commissioning is expected to be completed in August 2012. This expansion is intended to increase plant throughput to 12,000 tonnes per day and improve mass yield to above 75%. The total revised Phase 3 project budgeted cost is approximately $25 million. Approximately $15 million of this had been spent and approximately $10 million was committed and remained to be spent as of June 30, 2012. By June 30, 2012, the camp expansion was largely completed. Additional capital programs in the James Mine / Silver Yards area for the remainder of 2012 are currently budgeted at $14 million.

Houston Project

Planning is underway for the development of a new separate Stage 2 operation for the Houston deposits (South Central Zone), which is the Company's major expansion project for the next five years. The Houston deposits are situated in Labrador about 15 kilometres ("km") southeast of the Company's currently operating James Mine and Silver Yards processing plant and approximately 20 km from Schefferville, Quebec.

An updated independent mineral resource estimate of the Houston deposits, prepared effective March 31, 2012, confirmed the measured and indicated resource estimate of 23 million tonnes, compared to 22 million tonnes previously reported and increased the inferred resource to 3.7 million tonnes from the 690,000 tonnes previously reported. The Houston deposits remain open along strike, particularly to the southeast, and further drilling is planned for 2012 to test for possible extensions and to upgrade the inferred resource.

The independent review of the Houston deposits entitled "*Mineral Resource Update of the Houston Property, Labrador West Area, Newfoundland and Labrador, Canada for Labrador Iron Mines Holdings Limited dated March 31, 2012*" was carried out by Maxime Dupere, P. Geo of SGS Canada Inc. and Justin Taylor P. Eng. DRA Americas Inc. who are Qualified Persons and independent persons of the Company within the meaning of NI 43-101.

In March 2012, the Minister of Environment and Conservation of the Government of Newfoundland and Labrador informed the Company that in accordance with the *Environmental Protection Act*, the development of the Houston 1 and 2 deposits, including a haul road and railway siding, was released from further environmental assessment, subject to a number of conditions. This environmental approval of the Stage 2 Houston Project represented a major step in the Company's development plans. During the quarter ended June 30, 2012 and subsequent thereto, the Company has been preparing and submitting applications for permits and regulatory approvals required for the construction of mine infrastructure and related facilities to enable the development and construction at the Houston deposits in the remainder of 2012 and the first half of 2013.

Development work to date includes completion of forestry work clearing the planned Houston access road route and commencement of forestry work clearing the planned Houston rail siding route. Engineering consultants have been chosen to design the Houston access road, bridge and rail siding, and their respective design work has commenced.

The Company expects initial production of Houston ore, including in-pit dry crushing and screening, will commence in the second half of 2013.

Development costs in 2012 for the first phase of the Houston project are estimated to be up to approximately $35 million, of which $1.0 million had been expended by June 30, 2012. Additional capital expenditures will be required in future years as the other Houston deposits are developed into production. All mine operating equipment is expected to be supplied by the Company's mining contractor. These estimates do not include the capital cost of a potential new dedicated processing plant for the Houston project, which will be evaluated in 2012. The development of the Houston project will be the Company's major capital investment and expansion activity from 2012 through to 2015.

Health and Safety

The Company continues its focus on developing and enhancing best practices in the area of health and safety. The Company had no significant health and safety incidents in the quarter ended June 30, 2012.

Environmental Compliance

The Company continues its focus on respecting the environment and environmental regulations and is in compliance with all of its permits.

Rail Transportation

Iron ore from the James Mine is transported by rail from the Silver Yards plant site, via LIM's 6 km spur line, the Tshiuetin Rail Transportation Inc. ("TSH") railway and the Quebec North Shore and Labrador ("QNS&L") railway, to the Port of Sept-Iles, where the ore is unloaded and stockpiled for shipping. During the quarter ended June 30, 2012, a total of approximately 532,000 tonnes of iron ore was railed to the Port of Sept-Iles.

To enable increased railing capacity in 2012, two additional trains have been introduced, for a total of four trains consisting of 120 railcars each. The Company has established its Centre Ferro maintenance and repair facility in Sept-Iles, which is now operating on a full-time basis maintaining the Company's fleet of rail cars.

In June 2012 the Company completed a life-of-mine agreement with TSH railway, replacing its previous annual agreement. Pursuant to this long-term confidential rail transportation contract with TSH, LIM has agreed to make contributions towards the costs of the TSH rail line upgrade program to a total of approximately $25 million (inclusive of the $8.5 million in upgrade contributions already made of which $3.5 million was made in 2011, $2.5 million was made in April 2012 and a further $2.5 million in July 2012), over the next four to five years. Future contributions will be repaid to the Company over an expected period of about four years commencing in 2017, subject to LIM maintaining normal annual transportation operations on the TSH railway. The Company has also paid TSH a refundable capacity reservation deposit of $1.5 million of which $750,000 was paid in 2011 and $750,000 was paid in April 2012.

The Company provides its own locomotives for its rail operations on the TSH rail line, which are supplied to LIM by Western Labrador Rail Services (“WLRS”), a division of Genesee and Wyoming. These locomotives are operated by WLRS on LIM’s spur line and are operated by TSH on the TSH rail line.

Under the Company’s confidential rail transportation contract signed with QNS&L in 2011, advance payments totaling $25 million were required, of which $10 million was paid in 2011, $5 million was paid in August 2012 and the remainder will be paid in two equal installments of $5 million each in September and October 2012. These advance payments were required by QNS&L to secure the locomotive equipment and infrastructure capacity to meet LIM’s anticipated haulage volumes on the QNS&L rail line. These advance payments will be recovered by the Company from QNS&L by means of a special credit of $3.50 per wet metric tonne hauled, commencing in July 2012. The Company is committed to minimum tonnages per month over its eight month annual operating season. QNS&L provides its own locomotives and operators for the haulage of LIM’s iron ore on the QNS&L rail line.

Port Arrangements

In July 2012, the Company entered into a long term customer contract with the Port of Sept-Iles securing ship loading capacity of 5 million tonnes per year, with the right to secure additional residual capacity, in a new multi-user deep water dock in the Port of Sept-Iles dedicated exclusively to iron ore shipments. The new multi-user dock in the Pointe-Noire area of the Port is a $220 million project comprising two berths equipped with two ship loaders as well as two conveyer lines, with an annual capacity of 50 million tonnes per year, which the Port expects to be completed by March 31, 2014. The new multi-user facility will allow users to directly load large cape size vessels. In February 2012, the Government of Canada announced that it would invest up to $55 million and would contribute to the construction of the new multi-user deep water dock in the Port of Sept-Iles. Under this contract, the Company paid a preliminary installment of $6.4 million towards its buy-in payment and guaranteed a final buy-in payment installment of $6.4 million in July 2013. These advance payments will be credited as discounts against future port wharfage and shipping fees until such time as the cumulative discounts amount to LIM’s buy-in payments. The Company also entered into long-term commitments with the Port in terms of annual volume of ship loading at the multi-user facility.

In August 2012 the Company entered in to an agreement with the Canadian National Railway Company ("CN") to work with CN and La Caisse de depot et placement du Quebec, as well as a group of mining companies, on a feasibility study to develop a new, continuous multi-user rail line from the northern Labrador Trough to the Port of Sept-Iles. The feasibility study will also evaluate a new terminal handling facility located at the Port of Sept-Iles.

The development of a new multi-user terminal handling facility at the Port of Sept-Iles would complement the planned development of the new multi-user dock at the Port, in which LIM is participating. A new railway in the Labrador Trough would provide optionality for long-term rail capacity, with the potential to provide greater efficiencies and optimization of rail access.

The feasibility study will examine the cost and engineering parameters of the proposed rail network and associated infrastructure. To advance the project timeline, CN has coordinated the timely start of upfront applications for regulatory approvals and permitting requirements for the project. This will also allow for appropriate consultation with First Nations, local communities and other stakeholders. CN is the largest rail carrier of iron ore in North America, with extensive operations in Minnesota and northern United States.

The port handling arrangements for the shipment of the Company’s iron ore production for 2013 and future years remain subject to ongoing evaluation and finalization. The Company continues to evaluate several different potential options for the unloading, stockpiling and ship loading of its iron ore products at the Port of Sept-Iles. The Company is currently in discussions with various companies involved with the Port regarding rail transportation, storage, reclaim and ship-loading of its iron ore products in the Port. There can be no assurance that arrangements on acceptable terms will be concluded or concluded on a timely basis.

Sales of Iron Ore

In February 2012, the Company entered into an agreement with IOC for the sale of all of LIM’s 2012 iron ore production. This 2012 confidential sales contract with IOC is similar, in operational and financial terms, to LIM’s 2011 sales agreement with IOC.

During the quarter ended June 30, 2012 the Company completed three shipments totaling 486,000 dry tonnes of direct rail ore which were sold at a weighted average price of approximately US$122 per tonne on a CFR China basis. The Company subsequently received net proceeds of $38.0 million on a FOB Sept-Iles basis from these three shipments. A fourth sale was booked shortly after the close of the quarter. While the pricing for the fourth sale was set during the quarter, the bill of lading generated at the time of sailing was available only in early July, so the sale was booked in the second quarter in accordance with the Company's revenue recognition policy.

Under the confidential sales contract with IOC, the iron ore was delivered to Asian markets and resold by IOC’s marketing organization on the spot market. The net proceeds received by LIM for iron ore sold to IOC is based on the actual realized price to Chinese customers, less participation, handling, loading, shipping and sales costs.

The Company continues to review its options for marketing its iron ore production in future years and is evaluating the optimum route to achieve these sales, while still maintaining maximum flexibility and independence. Marketing discussions are continuing with potential customers, both in Europe and in Asia and the Company is also continuing discussions with a number of internationally recognized commodity traders with specialist knowledge of the iron and steel industry. The Company has not concluded any agreements for the sale of any iron ore beyond 2012.

2012 Exploration Program Update

The Company’s $8.6 million 2012 drill program is underway. The drill programs, principally at Houston and Malcolm, as well as a number of other deposits, are focusing on generating further technical information required for more detailed mine planning.

In addition to this drilling, a bulk sampling program of some historic stockpiles will be initiated this month with a view to providing supplemental plant feed to the Silver Yards processing plant. Metallurgical test work aimed at evaluating historical manganese resources is also being carried out with a view to ascertaining compatibility with the Silver Yards processing plant flow sheet.

In a new initiative to the main focus on direct shipping (DSO) iron ore, LIM is undertaking an initial core drill program on recently identified taconite iron mineralization on LIM’s mineral claims. The Schefferville/Menihek area has a number of taconite deposits being explored by other companies and these deposits, which usually average about 30% Fe, can often show very significant tonnages. Ground geophysical surveys were carried out to determine drilling target locations on Gagnon and Elizabeth taconites.

Fieldwork for the 2012 exploration program began in June with the mobilization of the Company’s contract drillers. As of June 30, 2012, the Company had completed 424 metres (“m”) of reverse circulation (“RC”) holes targeting an improved delineation of the Houston 1 and 3 resources.

Additionally, the Company has completed its first diamond drill hole on the Houston 3 deposit at a depth of 140 m.

This part of the drilling program is aimed at proving up the potential use of diamond drilling to recover core needed to better understand the geological, geotechnical and various metallurgical parameters of the Houston, James and Malcolm deposits. If successful, diamond drilling will be used as long as possible into the winter season and extended to other deposits in the future.

The overall 2012 exploration program plans for the completion of approximately 10,800 m of drilling, of which 8,000 m could be achieved by diamond drilling.

Ground geophysical surveys were also extended to Houston, James and Howse deposits and were completed by the end of July.

The Company recently completed a ground gravity survey on the James deposits. This survey identified a positive anomaly extending approximately 400 m southeast of the James South orebody, containing similar characteristics to that of the James deposits. This anomaly will be drill tested later this year.

Iron Ore Market Conditions and Outlook

Iron ore spot prices continued to soften throughout the second quarter of the current calendar year, with port inventories in China remaining high, while Chinese steelmakers experienced a squeezing of operating margins. Recently, Chinese traders were apparently liquidating inventories. By early August, spot prices have continued to decline, and have reached US$111 on a CFR China basis.

The Company's iron ore products are re-sold by IOC through the Rio Tinto marketing organization, on the Chinese spot market. During July and August this market, in general, can best be described as challenging, with many cargos offered for sale receiving few or no bids. Sales by some companies have been revoked or prices re-negotiated and products have, on occasion, been withdrawn from the market for lack of buyer interest. Non-standard products, such as the Company's DRO have been difficult to sell, resulting in delays, very few or no bids, and/or lower-than-expected bids. The Company has discontinued this product and going forward plans to produce only sinter fines and lump. The Company continues to work closely with IOC and Rio Tinto to monitor market conditions in order to achieve the most favourable sales outcomes under very difficult market conditions.

Market commentators are speculating that a bottom could be reached this quarter, as the current iron ore spot price is below the assumed marginal cost of Chinese production. The Company believes this is likely and anticipates iron ore prices recovering to the US$130 to US$140 range on a CFR China basis later in the year.

2012 Outlook

On April 2, 2012, the James Mine commenced its first full-year of full-scale mining operations. Mining will continue through to December, using conventional open-pit mining methods and, where necessary, employing standard drilling and blasting practices. By June 30, 2012, the mine was operating at a rate of 32,000 tonnes per day (ore and waste), in excess of its planned mining rate of 28,000 tonnes per day (ore and waste), and could continue at this enhanced rate for the balance of the 2012 operating season. For 2012, total ore mined is expected to be about 3.0 million tonnes, together with approximately 3.5 million tonnes of waste.

The Silver Yards processing plant re-started in mid-May 2012. The Phase 3 expansion program, which includes the installation of a second washing and screening plant and a magnetic separator to enhance the recovery of fines material, is expected to be completed in August. This expansion is expected to increase plant throughput to 12,000 tonnes per day, or an annual throughput of 2.0 million tonnes per year, and is also expected to improve mass recoveries to above 75%.

The total 2012 saleable production target is 2 million tonnes of iron ore, which includes direct rail ore of mixed size, lump iron ore, sinter fines and ultra-fines products. Cash operating costs for products delivered to the Port of Sept-Iles are expected to be in the range of $60 to $65 per dry metric tonne, including mining, processing, general and administrative costs, railway costs and train unloading.

The Company has expanded its available railway capacity to four operating trains, and a fifth train set is scheduled for delivery later in the year. Up to the end of July 2012, the Company had railed a total of 795,000 wet tonnes of ore to the Port of Sept-Iles.

Revenue from sales of iron ore in the year to date are below budget as a result of a softening of iron ore prices in recent months. The Company is reviewing its capital spending program in light of lower operating cash flows achieved to date and may consider deferring or reducing certain capital programs. The assessment of these alternatives is ongoing and will continue throughout the year.

Qualified Persons and Technical Reports

Scientific and technical information disclosed herein has been prepared under the supervision of Rod Cooper, P.Eng., President and Chief Operating Officer and Terence N. McKillen, M.Sc., P.Geo., Executive Vice President and a director of the Company, both of whom act as the Company's qualified persons within the meaning of NI 43-101.

Technical Report entitled "*Schefferville Area Direct Shipping Iron Ore Projects Resource Update in Western Labrador and North Eastern Quebec Canada for Labrador Iron Mines Holdings Limited*" dated March 31, 2012 by Maxime Dupere, P. Geo of SGS Canada Inc. and Justin Taylor P. Eng. DRA Americas Inc. who are Qualified Persons and independent persons of the Company within the meaning of NI 43-101 and filed on SEDAR at www.sedar.com.

Technical Report entitled "*Mineral Resource Update of the Houston Property, Labrador West Area, Newfoundland and Labrador, Canada for Labrador Iron Mines Holdings Limited*" dated March 31, 2012 by Maxime Dupere, P. Geo of SGS Canada Inc. and Justin Taylor P. Eng. DRA Americas Inc. who are Qualified Persons and independent persons of the Company within the meaning of NI 43-101 and filed on SEDAR at www.sedar.com.

RESULTS OF OPERATIONS

Quarter Ended June 30, 2012

For the quarter ended June 30, 2012, the Company reported a loss of $10.6 million, or $0.16 per share, compared to a loss of $4.7 million, or $0.09 per share, during the same quarter of the previous year.

During the quarter, the Company recognized revenue of $38.0 million (FOB Port of Sept-Iles) on sales of approximately 486,000 dry tonnes of iron ore in three shipments completed during the quarter. There were no sales completed in the same quarter of the previous year.

Cash operating costs for the quarter were approximately $72 per tonne of product sold, unloaded at the port. Included in this amount are approximately $7.50 per tonne in non-recurring charges related to contractor mobilization, railway take-or-pay fees in April, and certain one off charges related to the Pointe aux Basque port facility. In addition, fixed costs per tonne were higher than planned due to revenue recognition on three sales rather than the four shipments anticipated for the quarter. Excluding non-recurring charges, operating costs which were approximately $64.50 per tonne. Cash operating costs in June and July were within the Company's 2012 guidance of $60 to $65 per tonne, unloaded at the port.

During the quarter, concurrent with the commencement of full scale mining operations, the Company recorded an amortization charge of $9.8 million. This amortization represents a period charge, primarily on a units-of-production basis, of the cost of the James mine (including capitalized stripping and dewatering), Silver Yards processing plant, transportation equipment, and infrastructure and site administration properties associated with the operational activities of the James mine. There was no such comparable amortization charged in the same quarter of the previous year, as the Company's mining operations were still in a start-up phase during that period.

During the quarter, the Company incurred corporate and administrative costs of approximately $2.7 million, an increase of $1.6 million over corporate and administration costs of approximately $1.1 million in the same quarter of the previous year. The increase is attributable to an increase in the scale and scope of activities and the commencement of commercial production, including additional head office and regional office costs, increases in staff and associated costs, higher travel costs, additional insurance costs and additional social development and information technology expenditures.

As the Company commenced full scale mining operations during the quarter, no start-up expenses were recorded during the period. The Company had incurred start-up costs of $3.5 million in the same quarter of the previous year, as the Company's mining operations were still in a start-up phase during that period.

During the quarter, the Company invested approximately $2.7 million in its mineral property interests. This investment was mainly exploration and development expenditures on deposits other than the James deposit. The equivalent investment in the same quarter of the previous year was $4.1 million.

During the quarter, the Company also invested approximately $19.0 million in property, plant and equipment, compared to approximately $21.2 million invested during the same quarter of the previous year. The $19.0 million invested during the current quarter consisted mainly of investments in Phase 3 of the Silver Yards processing plant, grid connection infrastructure, railcar modifications and the mine accommodation camp.

Financings

2011 Prospectus Financing

In April, 2011, the Company completed an equity financing by way of a short form prospectus (the "2011 Prospectus"), raising gross proceeds of $121,250,500 (the "2011 Prospectus Financing"). The following table sets out how the proceeds from the 2011 Prospectus Financing have been spent up to June 30, 2012, compared to the anticipated use of proceeds set out in the 2011 Prospectus.

	As disclosed in the 2011 Prospectus	**Actual expenditures, up to June 30, 2012**
Gross Proceeds, including from over-allotment option exercised	$121,250,500	$121,250,500
Underwriting fee	$6,062,525	$6,062,525
Other expenses of the 2011 Prospectus Financing	$200,000	$466,454
Net Proceeds	**$114,987,975**	**$114,721,521**
Use of Net Proceeds		
Silver Yards plant upgrades:		
• Phase 2 plant upgrade for fines recovery enhancement in 2011	$3,000,000	$2,891,309
• Phase 3 plant upgrade for increased capacity, products upgrade and high silica in 2012	$35,000,000)	$14,658,750
Rail infrastructure upgrade contribution and capacity advances due in 2011	$10,000,000	$10,000,000
Houston project: Detailed mine design and engineering studies concerning separate processing plant evaluation and development and access infrastructure work	$5,000,000	$1,584,897
Development expenditures on other deposits, including metallurgical, engineering, environmental studies and permitting work	$2,000,000	-
Exploration expenditures on James, Redmond, Gill, Ruth Lake 8, and Knob Lake deposits, including 7,000 metres of drilling and 4,000 metres of trenching	$4,750,000	$2,867,649
Exploration expenditures on Houston 1, 2 and 3 deposits, including 3,600 metres of RC drilling	$2,000,000	$2,010,463
Exploration expenditures on Denault deposit, including 2,500 metres of RC drilling	$1,600,000	$731,179
Exploration expenditures on other deposits	$5,000,000	$1,121,347
Working capital and general corporate purposes	$46,637,975	$74,437,288 (1)
Unspent net proceeds	-	$4,418,639
Total	**$114,987,975**	**$114,721,521**

Notes:

(1) The amount of $74,437,288 used for working capital and general corporate purposes is made up of the following:

a)	Working capital and general corporate expenses:	$8,550,805
b)	Stripping and dewatering at the James mine:	$18,922,687
c)	Additional transportation infrastructure and equipment, including acquisition of railcars (originally intended to be leased), rail spur extension costs and purchase of light vehicles:	$21,052,444
d)	Property, plant and equipment for completion of Phase 1 construction and commissioning Silver Yards plant:	$5,937,281
e)	Mineral property interest expenditures relating to the James mine consisting of development work including metallurgical, engineering and environmental studies:	$10,371,373
f)	Start-up costs consisting of non-refundable transportation related expenses incurred prior to establishing full scale rail transportation to port:	$9,602,698

The Silver Yards plant upgrade for fines recovery enhancement (Phase 2) anticipated in the 2011 Prospectus was completed within budget.

Work on the Silver Yards plant upgrade for increased capacity and products upgrade (Phase 3) commenced in late 2011 and is ongoing. The total budget for the Phase 3 project has been revised downwards to approximately $25 million, of which approximately $15 million had been spent up to June 30, 2012. This project is expected to be completed in August 2012 within the revised budget.

The amount spent for rail infrastructure upgrade contributions and capacity advances in 2011 was consistent with the $10 million anticipated in the 2011 Prospectus.

The majority of the development expenditures on Houston and other deposits anticipated in the 2011 Prospectus are expected to be incurred later in 2012 and 2013.

Subsequent to the 2011 Financing, the Company decided to purchase, rather than lease, its fleet of railcars.

The Company incurred $9,602,698 in previously unanticipated transportation related start-up expenses during fiscal 2012.

Payment for the operating costs associated with mining, processing and transporting the Company's iron ore production in fiscal 2012 and certain mineral property interest expenditures in fiscal 2012 were also funded in part by the proceeds from the sale of iron ore shipments.

2012 Prospectus Financing

On March 20, 2012, the Company completed an additional equity financing by way of a short form prospectus (the "2012 Prospectus"), raising gross proceeds of $71,625,000 (the "2012 Prospectus Financing"). The following table sets out how the proceeds from the 2012 Prospectus Financing have been spent up to June 30, 2012 compared to the anticipated use of proceeds set out in the 2012 Prospectus.

	As disclosed in the 2012 Prospectus	**Actual expenditures, up to June 30, 2012**
Gross Proceeds	$71,625,000	$71,625,000
Underwriting fee	$3,581,250	$3,581,250
Other expenses of the 2012 Prospectus Financing	$400,000	$421,883
Net Proceeds	**$67,643,750**	**$67,621,867**
Use of Net Proceeds		
Railway Equipment and Infrastructure:		
• Transportation and modification of rail cars	$3,000,000	$763,618
• Locomotive and infrastructure payment to QNS&L due in 2012	$15,000,000	-
Silver Yards Upgrades and Improvements:		
• Construction of infrastructure and installation equipment to connect to existing hydroelectric grid	$8,300,000	$4,367,728
• Plant enclosure and related expense	$5,500,000	-
Houston Project Development:		
• Access road construction/upgrade including culverts and bridge construction	$19,000,000	$917,073
• Ongoing Environmental permitting and related environmental studies	$1,000,000	-
Exploration Expenditures:		
• Additional drilling of Stage 2 Houston, Malcolm, Gill, Ruth and Denault deposits	$3,900,000	-
• Drilling of Stage 3 Barney and Howse deposits	$3,000,000	-
• Drilling, bulk sampling and metallurgical test work on taconite and manganese mineralization and stock piles	$2,000,000	-
• Support costs	$1,775,000	-
Working capital and general corporate purposes:	$5,168,750	$43,982,319
Unspent net proceeds:	-	$17,591,129
Total	**$67,643,750**	**$67,621,867**

Spending on the capital projects and the exploration expenditures contemplated in the 2012 Prospectus had, for the most part, yet to take place by June 30, 2012, with the exception of the commencement of rail car modification expenditures and Silver Yards grid connection infrastructure expenditures. An amount of $43,982,319 has been utilized in working capital as at June 30, 2012, pending receipt of sales receivables and commencement of the planned capital projects and exploration programs.

SUMMARY OF QUARTERLY RESULTS

($000s, except per share data)

	Quarter ended Sept 30, 2010	Quarter ended Dec 31, 2010	Quarter ended March 31, 2011	Quarter ended June 30, 2011	Quarter ended Sept 30, 2011	Quarter ended Dec 31, 2011	Quarter ended March 31, 2012	Quarter ended June 30, 2012
Net (loss)	(1,219)	(1,289)	(623)	(4,670)	(6,993)	(1,678)	(1,331)	(10,584)
(Loss) per share	(0.03)	(0.03)	(0.01)	(0.09)	(0.13)	(0.03)	(0.02)	(0.16)
Total assets	173,874	176,798	184,280	305,385	296,605	304,443	379,754	374,852

The increase in the quarterly loss and loss per share in the quarters ended June 30, 2011 and September 30, 2011 compared to previous quarters relates mainly to start-up costs of approximately $3.5 million and $5.6 million incurred respectively during those quarters. Such start-up costs were less significant during the quarter ended December 31, 2011 and were not incurred thereafter. The increase in quarterly loss and loss per share in the quarter ended June 30, 2012 relates largely to the commencement of amortization of mining, transportation and processing assets during the quarter as full scale production began, resulting in a $9.8 million amortization charge during the quarter compared to no comparable amortization charge in previous quarters.

The increase in total assets in the three quarters subsequent to March 31, 2011 relates to the completion of the 2011 Prospectus Financing during April 2011 for gross proceeds of approximately $121 million. The increase in total assets at March 31, 2012 and thereafter relates to the completion of the 2012 Prospectus Financing in March 2012 for gross proceeds of approximately $71.6 million.

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2012, the Company had current assets of $89.0 million, including inventories with a carrying value of $16.5 million and accounts receivable and prepaid expenses of $49.1 million. At June 30, 2012, the Company had a total of $22.0 million in unrestricted cash and cash equivalents and an additional $7.6 million in restricted cash. The Company's cash and cash equivalents are invested in an investment grade short-term money market fund and deposits with a major Canadian bank.

Current liabilities, consisting of accounts payable and accrued liabilities, the premium liability recognized on the issuance of flow-through shares and the current portion of finance lease obligations and rehabilitation provision, were in aggregate $46.2 million at June 30, 2012. The Company had working capital of $42.8 million as at June 30, 2012.

The increase in accounts receivable and prepaid expenses at June 30, 2012 is mainly due to the net proceeds of two shipments of iron ore included in accounts receivable at June 30, 2012, compared to no such receivable at March 31, 2012 or June 30, 2011.

The Company plans to fund its operating and capital expenditures in fiscal 2013 through a combination of existing working capital and anticipated operating cash flow. The Company is also evaluating various potential working capital credit facilities and debt facilities.

The Company regularly monitors conditions in the iron ore market and, in particular, price trends for iron ore. Proposed capital expenditures are therefore reviewed on a regular basis in comparison to budgeted and projected operational cash flow in order to prudently manage cash balances.

The carrying value of the Company's mineral property interests, under IFRS, at June 30, 2012 was $167.5 million, compared to $173.9 million at the beginning of the quarter. The decrease in the carrying value is a result of the Company beginning the amortization of its James mine, including capitalized stripping, during the current quarter, coinciding with the commencement of full scale mining operations.

As at June 30, 2012, the Company evaluated the carrying value of its mineral properties. Tests for recoverability were performed to determine if the estimated fair value exceeds the carrying amount of the Company's mineral property interests. Management does not consider that there has been any impairment in the value of the Company's mineral property interests. In assessing the future estimated cash flows, management used various estimates including, but not limited to, estimated operating and capital costs, estimated production, estimated iron ore prices and estimated measured, indicated, inferred and historical resources. By their very nature, there can be no assurance that these estimates will actually be achieved or reflect the actual future operations of the Schefferville Projects.

OFF BALANCE SHEET ARRANGEMENTS

As at June 30, 2012 the Company had no off balance sheet arrangements.

OBLIGATIONS AND CONTRACTUAL COMMITMENTS

Contractual Obligations as at June 30, 2012	**Payments Due by Period**				
	Total	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Office lease obligations	$3,592,500	$502,000	$1,506,000	$1,004,000	$580,500
Mine camp lease obligations	$4,698,000	$1,161,000	$2,792,000	$745,000	-
Equipment supply and transportation contracts	$203,728,000	$50,762,000	$102,446,000	$16,127,000	$34,393,000
Total	**$212,018,500**	**$52,425,000**	**$106,744,000**	**$17,876,000**	**$34,973,500**

The office lease obligations are the minimum monthly lease payments due on the Company's head office in Toronto, Ontario.

The mine camp lease obligations are the minimum monthly lease payments due on the Company's accommodation camp near Silver Yards.

The contractual obligations under equipment supply and rail transportation contracts relate to future locomotive supply and transportation infrastructure required payments and committed future minimum volume tonnages under agreements with WLRS, QNS&L and TSH.

As at June 30, 2012, the Company has committed to spend a remaining $4,418,639 in Canadian exploration expenses by December 31, 2012 as a result of the issuance of flow-through shares in the 2011 Prospectus Financing,

The Company has also committed to spend $10,675,000 in Canadian exploration expenses by December 31, 2013 as a result of the issuance of flow-through shares in the 2012 Prospectus Financing, the full amount of which remained unspent as at June 30, 2012.

Subsequent to June 30, 2012 the Company guaranteed a $6.4 million final installment buy-in payment to the Sept-Iles Port Authority due in July 2013 to secure five million tonnes of annual capacity on the new multi-user dock facility.

The Company has entered into IBAs with the Innu Nation of Labrador, the Innu of Matimekush-Lac John, the Naskapi Nation of Kawawachikamach and the Innu Takuaikan Uashat Mak Mani-Utenam. These IBAs are life of mine agreements which establish the processes and the sharing of benefits that will ensure an ongoing positive relationship between the Company and the respective First Nations groups. In return for their consent and support, the First Nations groups and their members will benefit through employment, training, business opportunities and financial participation in the Schefferville Projects.

FINANCIAL INSTRUMENTS

The Company's treasury policy is to invest its cash and cash equivalents in an investment grade short-term money market fund and deposits with a major Canadian bank. The Company monitors these investments and is satisfied with the credit rating and liquidity of its bank. The Company has never held any asset backed financial instruments.

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 statement of financial position date based on relevant market information and information about the financial instruments.

As at June 30, 2012, 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. As at June 30, 2012, the Company did not hold any balances in foreign currencies, other than United States dollars.

The Company has included disclosure concerning some of the risk factors relating to its financial instruments in Note 20 to its consolidated financial statements for the fiscal year ended March 31, 2012.

OUTSTANDING SHARE CAPITAL

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

As at June 30, 2012, the Company had 67,388,307 common shares 2,010,938 stock options and 1,140,835 broker warrants outstanding.

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

Security	Number	Weighted average exercise price	Weighted average remaining life (years)
Common shares	67,763,307	N/A	N/A
Stock options	2,496,250	3.36	3.25
Broker warrants	1,140,835	$8.32	0.72

Of the stock options currently outstanding, 659,375 options have an exercise price of $2.00 per share and expire on August 31, 2012, 243,750 options have an exercise price of $6.27 per share and expire on September 14, 2015, 12,500 options have an exercise price of $7.30 and expire on November 9, 2015, 132,500 options have an exercise price of $11.65 per share and expire on February 9, 2016, 65,000 options have an exercise price of $10.18 per share and expire on June 23, 2016, 100,000 options have an exercise price of $6.80 and expire on September 22, 2016, 40,000 options have an exercise price of $6.81 and expire on November 10, 2016, 200,000 options have an exercise price of $6.35 and expire on November 30, 2016 and 165,000 options have an exercise price of $6.20 and expire on February 9, 2017 and 878,125 options have an exercise price of $3.00 and expire on July 2, 2017.

All stock options vest as to one-eighth on the first day of each quarter following their grant date.

Of the broker warrants currently outstanding, 478,335 broker warrants have an exercise price of $12.50 per share and expire on October 26, 2012, and 662,500 broker warrants have an exercise price of $5.30 per share and expire on September 20, 2013.

TRANSACTIONS WITH RELATED PARTIES

During the quarter ended June 30, 2012, the Company recovered $30,015 (June 30, 2011 - $30,015) in respect of office rent from corporations with common directors and/or officers. As at June 30, 2012, $10,026 is included in accounts receivable (March 31, 2012 - $10,910).

During the quarter ended June 30, 2012, the Company also made payments to companies with common directors and/or officers in the amount of $133,400 (June 30, 2011 - $103,525), as compensation for management services provided. All of the management compensation in the quarter ended June 30, 2012 was expensed. At June 30, 2012, $56,117 in management compensation remained payable to these related companies (March 31, 2012 - $175,000).

During the quarter ended June 30, 2012, the Company also incurred legal fees (professional fees and share issue costs) in respect of services provided by a professional corporation controlled by an officer in the amount of $56,884 (June 30, 2011 - $138,658). As at June 30, 2012, $56,884 in legal fees remained payable to this related party (March 31, 2012 - $105,961).

CRITICAL ACCOUNTING ESTIMATES

Revenue Recognition

Prior to reaching commercial production, the proceeds from shipments of iron ore, net of the mining, processing, transportation and other associated costs of such shipments, were credited against mineral property interests.

Beginning in the quarter ended June 30, 2012, revenue is recognized when all of the following criteria have been met: (i) the significant risks and rewards of ownership of the product have been transferred to the buyer; (ii) neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the product sold, has been retained; (iii) the amount of revenue can be measured reliably; (iv) the collectability of the proceeds is probable; and (v) the costs associated with the sale can reliably be measured. All of these criteria will typically be met with respect to a shipment of the Company's iron ore when the vessel carrying the iron ore has departed the Port of Sept-Iles.

Use of estimates

The preparation of the financial statements in conformity with IFRS 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 fiscal year. Actual results could differ from estimates. During the periods presented, management has made a number of significant estimates and valuation assumptions, including the recoverability of investments in mineral property interests, the fair value of stock options and the valuation of capital lease obligations and asset retirement obligations. These estimates and valuation assumptions are based on historical experience, present conditions and management's planned course of action, as well as assumptions about future business and economic conditions. The use of different assumptions could result in different estimates. Should future business and economic conditions deteriorate, or the underlying valuation assumptions and estimates change, the recorded amounts could change by a material amount.

Mineral property interests and deferred exploration expenditures

The Company evaluates the carrying value of its mineral properties and equipment when events or changes in circumstances warrant and tests for recoverability of the long life asset value. A test for recoverability is performed to determine if the estimated fair value exceeds the carrying amount of the asset. Measurement of any impairment loss is determined by the estimated fair value of the assets based on the best information available at the time, including comparable asset values in the market.

In assessing the future estimated cash flows management uses various estimates including, but not limited to, future operating and capital costs as well as future iron ore prices and estimates based upon measured, indicated and historical resources. By their very nature, there can be no assurance that these estimates will actually be reflected in the future operation of the Schefferville Projects.

Any estimate of future cash flows is subject to risks and uncertainties and it is reasonably possible that changes in estimates could occur which may affect the expected recoverability of investments in mining properties. The ultimate recoverability of amounts deferred for mineral property interests is dependent upon, among other things, obtaining the necessary permits to operate the Schefferville Projects.

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, and in respect of options vested during the quarter ended June 30, 2012 based on the assumptions set out in Note 11(a) to the consolidated financial statements.

The Black-Scholes pricing 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 and in many cases does not generate a meaningful “fair value” for stock options of companies similar to LIM. 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.

Rehabilitation provisions

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

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

During fiscal 2011, the Company established a rehabilitation provision relating to its mining operations. The total undiscounted amount that is expected to settle the Company's reclamation and remediation obligations related to this portion of its mining operations at the end of its mine life is $2,940,067. The present value of this estimated amount has been calculated under IFRS as $3,034,464 as at June 30, 2012.

In determining the present value of the rehabilitation provision as at June 30, 2012, the Company has assumed a long-term inflation rate of approximately 2%, a current market discount rate of approximately 1.4% and a mine life of up to twenty years. Elements of uncertainty in estimating this amount include changes in the projected life of mining operations, reclamation expenditures incurred during ongoing operations and reclamation and remediation requirements and alternatives.

NEW ACCOUNTING STANDARDS

The Company is not aware of any new accounting standards that have a material impact on the Company's interim consolidated financial statements for the quarter ended June 30, 2012.

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 greater detail the Company's annual information form ("AIF") dated June 19, 2012, which is filed on SEDAR. A summary of the principal risks and uncertainties which the Company faces is set out below.

No Assurance of Profitable Production

Mineral exploration is highly speculative in nature, involves many risks, and frequently does not lead to the discovery of commercial reserves of minerals. There can be no assurance that the Company's past or future exploration efforts will be successful or that any such production therefrom will be obtained, continued or be profitable.

A feasibility study has not been conducted on any of the Schefferville Projects and the Company's decision to undertake commercial production from the James and Houston deposits has not been based upon a feasibility study of mineral reserves demonstrating economic and technical viability. Accordingly there is an increased risk of economic or technical failure as the volume and grade of iron ore mined and processed and recovery rates may not be the same as currently anticipated. Any material reductions in estimates of mineral resources, or of the Company's ability to extract iron ore, could have a material adverse effect on the Company's results of operations and financial condition.

Substantial expenditures are required to establish reserves through drilling and to develop the mining and processing facilities and infrastructure at any site chosen for mining. No assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that funds required for development can be obtained on a timely basis. The long-term profitability of the Company's operations will in part be directly related to the costs and success of its exploration and development programs, which may be affected by a number of factors.

The successful commercial development of the Company`s properties will depend upon the Company's ability to generate cash flow and or to obtain financing through private placement financing, public financing, joint venturing of projects, bank financing, commodity financing or other means. There can be no assurance that the Company will be successful in obtaining any required financing or in obtaining financing on reasonable or acceptable terms.

The Company has not concluded any agreements for the sale of any iron ore beyond 2012.

Availability of Qualified Personnel

The Company has limited experience in placing resource properties into production, and its ability to do so will be dependent upon securing the services of appropriately experienced personnel or entering into agreements with other companies or contractors that can provide such expertise. There can be no assurance that the Company will have available to it the necessary expertise or whether it will produce revenue, operate profitably or provide a return on investment in the future.

In common with all other mining operations in Canada and worldwide, the Company is competing for limited available skilled manpower, including professional, technical and trades personnel, which is likely to exacerbate with the major expansions announced by other companies operating in the Labrador Trough region. Staffing of operations in remote sites, including north-western Labrador, is a challenge due to both the remote location and to the shortage of trained and experienced personnel throughout the resource sector. The widespread adoption of fly-in fly-out arrangements and the roster schedule increase the number of employees required in a tight market. The increased demand for skilled personnel may increase the Company's costs of operating which could have a material adverse effect on the Company's results of operations and financial condition.

Recruiting and retaining qualified personnel is critical to the Company's success. The number of persons skilled in the acquisition, exploration, development and operation of mining properties is limited and competition for such persons is intense. As the Company's business activity grows, additional key financial, administrative and mining personnel as well as additional operations staff will be required. Although the Company believes it will be successful in attracting, training and retaining qualified personnel, there can be no assurance of such success. If the Company is not successful in attracting, training and retaining qualified personnel, the efficiency of operations could be affected.

Transportation and Port Infrastructure

The Company's iron ore product is transported via a 560 km railway line between Schefferville and the Port of Sept-Iles. This railway line is comprised of two sections, the Menihek Division railway line owned by TSH, which runs approximately 200 km between Schefferville and Emeril Junction, and the QNS&L railway line owned by IOC, which continues the remaining approximately 360 km to Sept-Iles. At Sept-Iles (Arnaud Junction), the QNS&L railway line connects to the Arnaud Railroad (Chemin de fer Arnaud) owned by Cliffs Wabush Mines, which runs approximately 34 km around the bay to the port terminal at Pointe-Noire.

During 2011, TSH carried out some upgrade work on its Menihek Division rail line following a cash investment by both the Company and Tata Steel Canada. This upgrade work will need to be continued to ensure that the tonnages planned for 2012 and expansion in future years can be efficiently transported. This ongoing TSH rail upgrade will require continuing cash investment by the two mine operating companies and TSH, and potentially by governments.

In July 2012, the Company completed a life-of-mine agreement with TSH railway, replacing its previous annual agreement. Pursuant to this long-term confidential rail transportation contract with TSH, LIM has agreed to make contributions towards the costs of the TSH Menihek rail line upgrade program to a total of approximately $25 million (inclusive of the $8.5 million in upgrade contributions already made of which $2.5 million was made in April 2012 and a further $2.5 million in July 2012) over the next four to five years. Future contributions will be repaid to the Company over an expected period of about four years commencing in 2017, subject to LIM maintaining normal annual transportation operations on the TSH railway.

The Company continues to evaluate several different options for the unloading, stockpiling and ship loading of the Corporation's iron ore products at the Port of Sept-Iles. These include the potential use of the Port's new multi-user deep water dock and/or other facilities of the Sept-Iles Port Authority expected to be operational in 2014. In July 2012, the Company entered into an agreement with the Sept-Iles Port Authority to secure loading capacity at the Port's proposed new multi-user deep water dock. The Company is currently in discussions with the Sept-Iles Port Authority, and with other rail and port operators, regarding rail transportation, storage, reclaim and ship-loading of its iron ore products in the Port. The Company has not concluded any agreements for the shipment of any iron ore beyond 2012. There can be no assurance that arrangements on acceptable terms will be concluded or concluded on a timely basis.

Development and Operating Risks

Mining operations, such as those at the James Mine and anticipated at Houston, generally involve a high degree of risk. Such operations are subject to all of the hazards and risks normally encountered in the exploration for, and the development and production of, iron ore, including unusual and unexpected geologic formations, seismic activity, cave-ins, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Processing operations are subject to hazards such as equipment failure, changes in ore characteristics, such as rock hardness, and mineralogy which may impact production rates and iron ore recovery, or failure of retaining dams which may result in environmental pollution and consequent liability.

Exploration, Development and Operating Risk

Resource exploration and development is a speculative business, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but also from finding mineral deposits that, though present, are insufficient in quantity and quality to return a profit from production. The marketability of minerals acquired or discovered by the Company may be affected by numerous factors that are beyond the control of the Company and which cannot be accurately predicted, such as market fluctuations, mineral markets and processing equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting minerals and environmental protection, the combination of which factors may result in the Company not receiving an adequate return on investment capital.

Fluctuating Iron Ore Prices

Factors beyond the control of the Company may affect the marketability of iron ore or other metals. Metal prices, including iron ore prices, are subject to significant fluctuation and are affected by a number of factors which are beyond the control of the Company. The principal risk factors include: diminished demand which may arise if rates of economic growth in China and India decline or are not sustained; increases in supply resulting from the discovery and/or the development of new sources of iron ore by the world's largest iron ore producers, or supply interruptions due to changes in government policies in iron ore consuming nations, war, or international trade embargoes. The effect of these factors on the Company's operations cannot be predicted.

Government Regulation and Permitting

The current or future operations of the Company, including development and construction activities, require permits from various federal, provincial or territorial and local governmental authorities, and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, water use, environmental protection, land claims of local people, mine safety and other matters.

Such operations and exploration activities are also subject to substantial regulation under applicable laws by governmental agencies that will require the Company to obtain permits, licences and approvals from various governmental agencies. There can be no assurance, however, that all permits, licences and approvals that the Company may require for its operations and exploration activities will be obtainable on reasonable terms or on a timely basis or that such laws and regulations will not have an adverse effect on any mining project which the Company might undertake.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations and, in particular, environmental laws.

Amendments to current laws, regulations and permits governing operations and activities of mining 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 reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

To the best of the Company's knowledge, it is operating in compliance with all applicable rules and regulations.

Environmental Risks and Hazards

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 Projects is uncertain. Although the Company makes 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 in 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 Projects, could have a material adverse effect on the Company's financial condition, liquidity or results of operations. The Company is not able to predict 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 at other deposits included in the Schefferville Projects, the Company must obtain regulatory approval, permits and licenses 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.

Legal and Title Risks

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/or Quebec 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 the usual due diligence with respect to determining title to and interests in the properties which comprise the Schefferville Projects, there is no guarantee that such title to or interests in such 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 or competing interests. Surveys have not been carried out on many of the properties which comprise the Schefferville Projects in accordance with the laws of Newfoundland and Labrador and Quebec; therefore, their existence and area could be in doubt. The Company can give no assurance as to the validity of title of the Company to those lands or the size of such mineral lands.

Insurance and Uninsured Risks

The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground or slope failures, cave-ins, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, rail locomotives, railcars or other transportation or shipping facilities, personal injury or death, environmental damage to the Company's properties or the properties of others, delays in development or mining, monetary losses and possible legal liability.

Although the Company purchases insurance to protect against certain risks in such amounts as it considers reasonable, such insurance may not cover all the potential risks associated with a mining company's operations or rail transport operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Company or to other companies in the mining industry on acceptable terms. The Company might also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

Political and Aboriginal / First Nations

The Company conducts its operations in western Labrador in the Province of Newfoundland and Labrador and in north-eastern Quebec, which areas are 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 asserted aboriginal land rights. Aboriginal claims to lands, and the conflicting claims to traditional rights between aboriginal groups are not currently governed by any existing treaty rights and may have an impact on the Company's ability to develop the Schefferville Projects. The boundaries of the traditional territorial claims by these groups, if established, may impact on the areas which constitute the Schefferville Projects. Mining licenses 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.

There are a number of Innu groups based in Quebec (including Schefferville and Sept-Iles) who assert aboriginal rights in Quebec and Labrador. The Innu of Quebec, located at Matimekush-Lac Jean near Schefferville, and at the communities of Uashat Takuaikan mak Mani-Utenam, near Sept-Iles, assert aboriginal rights to traditional lands which include parts of Quebec and Labrador. Members of the Innu Uashat Takuaikan mak Mani-Utenam, near Sept-Iles, Quebec, claim ownership of some registered trap lines in the Schefferville area.

The Innu of Matimekush-Lac John and Uashat Takuaikan mak Mani Utenam are two of five Innu communities living in northeastern Quebec who in 2009 formed the "Innu Strategic Alliance" seeking to have their ancestral rights on their traditional lands which extend on both sides of Quebec-Labrador border recognized by Governments. At various times, the Innu Strategic Alliance has stated that, in order to have their ancestral rights, including the caribou hunt recognized, the Quebec Innu would if necessary seek to block natural resource development projects in Labrador and Quebec, such as the Churchill hydro electric project in Labrador, the La Romaine hydro electric project in Quebec and mining projects near Schefferville. In June 2010, the Innu Strategic Alliance set up a barricade on the road leading from the town of Schefferville to the mining projects of two companies, including LIM, "to ensure protection of their rights". This barricade was removed by the Innu in early September 2010. LIM signed IBAs with each of the Innu of Matimekush-Lac John and the Innu Uashat in June 2011 and February 2012, respectively. In early July, 2012, a barricade was erected on the road leading from the town of Schefferville by some local Innu residents protesting against various regional mining and exploration projects in the Schefferville area and against the Quebec Government's Plan Nord. This barricade was removed by the protestors within five days.

There can be no assurance that the Company will be successful in its agreements and relationships with any 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 Projects.

Infrastructure

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants which affect capital and operating costs. The Company's iron ore operations require rail transportation from the Schefferville region to the port of Sept-Iles and storage, loading and ship berthing facilities at such port. Although the Company has negotiated agreements covering rail transportation to the Port of Sept-Iles and handling, storage and loading facilities at Sept-Iles, there can be no assurance that such arrangements will continue or continue on economically feasible terms. Discontinuation or failure of such arrangements or the inability to renegotiate same on economically feasible terms could render the Schefferville Projects unviable. Unusual or infrequent weather phenomena, terrorism, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the Company's operations, financial condition and results of operations.

Management

The success of the Company is currently largely dependent on the performance of its directors and officers and a small number of key personnel. There is no assurance the Company can maintain the services of its directors and officers or other qualified personnel required to operate its business. The loss of the services of these persons could have a material adverse effect on the Company and its prospects.

Foreign Currency Exchange

Exchange rate fluctuations may affect the costs that the Company incurs in its operations. The Company's financing activities have been denominated in Canadian dollars, while prices for iron ore are generally quoted in U.S. dollars. Fluctuations in the exchange rate of the Canadian dollar against the U.S. dollar may have a significant impact on the Company's financial position and results of operations in the future.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of the Company 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 IFRS.

The Company has adopted appropriate systems of internal controls over financial reporting. The CEO and CFO evaluated the effectiveness of the Company's internal control over financial reporting at March 31, 2012 and concluded that as of that date they were effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There were no changes to the Company's internal control over financial reporting during the quarter ended June 30, 2012, that have materially affected, or are reasonably likely to materially affect, the Company's internal control of financial reporting.

ADDITIONAL INFORMATION

Additional information regarding the Company, including the AIF, the audited consolidated financial statements for the fiscal year ended March 31, 2012 and the unaudited condensed interim consolidated financial statements for the quarter ended June 30, 2012, is available under the Company's profile on SEDAR at www.sedar.com.

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. There can be no assurance that the Company will be successful in maintaining any agreement with any 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 Projects. 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.