

**LABRADOR IRON MINES HOLDINGS LIMITED**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**FOR THE QUARTER AND SIX MONTHS ENDED SEPTEMBER 30, 2013**

**Dated: November 14, 2013**

**GENERAL**

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited condensed consolidated interim financial statements and notes thereto of Labrador Iron Mines Holdings Limited ("LIM" or the "Company") for the quarter and six months ended September 30, 2013.

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 estimates as current NI 43-101 resources. A Qualified Person has not done sufficient work to classify these estimates as current mineral resources, however the Company considers the historical resource estimates 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 references to tonnes are dry metric tonnes ("dmt"), unless otherwise indicated. All numerical references to years are "calendar" years, unless otherwise indicated.

This MD&A contains forward-looking statements.

**INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")**

The Company's consolidated interim financial statements for the quarters and six months ended June 30, 2012 and 2013 have been prepared in accordance with IFRS as published by the International Accounting Standards Board.

**OVERVIEW**

Labrador Iron Mines is 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 Menihek area 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, the Redmond Mine and adjacent Stage 1 deposits and Silver Yards processing facility ("Silver Yards"), the Stage 2 Houston property ("Houston"), which includes the Malcolm 1 deposit, the Stage 3 Howse property ("Howse"), now held in a joint venture with Tata Steel Minerals Canada Limited ("TSMC") and, subject to further exploration and development, other iron ore properties in the vicinity of

Schefferville. LIM's Schefferville Projects are connected by a direct railway 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.

LIM's 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 tonnes of historical reserves and resources previously identified by IOC. These historical resources estimates are based on work completed and estimates prepared by IOC prior to 1983 and were not prepared in accordance with NI 43-101. The IOC classification reported all resources (measured, indicated and inferred) within the total mineral resource. A Qualified Person has not completed sufficient work to classify the historical estimates as current mineral reserves. These historical results provide an indication of the potential of the properties and are relevant to ongoing exploration. However, the historical estimates should not be relied upon. LIM's 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.

LIM commenced production at its James Mine in June 2011 and is currently in its third season of mining operations. From 2011 through to the end of September 2013, LIM sold 19 cape-size shipments totalling approximately 3.0 million dry tonnes of iron ore into the Chinese spot market. The Company's mine operations are seasonal, from approximately the beginning of April to the end of November each year, with a planned winter shut down from approximately the beginning of December to the end of March each year.

### ***Resources***

As at March 31, 2013, LIM had NI 43-101 compliant measured and indicated mineral resources of approximately 59.5 million tonnes at an average grade of 56.7% iron ("Fe") on the Schefferville Projects. In addition, the Company holds previously-mined historical stockpiles, with a NI 43-101 compliant, indicated mineral resource of approximately 3.5 million tonnes at an average grade of 49.1% Fe and an inferred resource of approximately 2.9 million tonnes at an average grade of 48.8% Fe. These previously-mined stockpiles are located within 15 kilometres ("km") of Silver Yards and form part of LIM's Stage 1 deposits.

The Company has also announced an initial independent NI 43-101 compliant inferred mineral resource estimate for the Elizabeth Taconite Project (as at June 15, 2013) of 620 million tonnes at an average grade of 31.8% Fe. Taconites require upgrading through a concentrator involving a major capital investment to produce a saleable iron ore product.

The Company also currently holds approximately 108 million tonnes in historical resources. These are all part of the 250 million tonnes of historical reserves and resources previously identified by IOC.

A feasibility study has not been conducted on any of the Schefferville Projects and the Company's decision to undertake commercial production has not been based upon a feasibility study of mineral reserves demonstrating economic and technical viability.

## OPERATING RESULTS

### Summary

The Company's operating results for the quarters and six month periods ended September 30, 2013 and 2012 are summarized in the table below.

	Quarter Ended September 30, 2013		Quarter Ended September 30, 2012		Six Months Ended September 30, 2013		Six Months Ended September 30, 2012	
	Tonnes	Grade (%Fe)	Tonnes	Grade (%Fe)	Tonnes	Grade (%Fe)	Tonnes	Grade (%Fe)
<i>(all tonnes are dry metric tonnes)</i>								
Total Ore Mined	982,929	57.8%	961,737	60.8%	1,327,992	57.5%	1,629,930	61.5%
Waste Mined	766,837	-	1,533,211	-	1,800,518	-	2,902,609	-
Ore Processed and Screened	1,253,451	55.4%	643,715	58.2%	1,799,400	55.7%	771,178	57.8%
Lump Ore Produced	139,451	57.9%	62,884	60.5%	150,001	57.8%	80,612	60.4%
Sinter Fines Produced	626,937	61.7%	508,773	61.1%	956,255	61.1%	543,484	61.4%
Total Product Railed	723,091	60.7%	706,495	62.2%	1,050,662	60.2%	1,238,824	62.4%
Tonnes Product Sold	652,296	60.8%	647,643	62.3%	980,321	60.2%	1,134,149	62.7%
Port Product Inventory	183,594	60.6%	282,344	62.1%	183,594	60.6%	282,344	62.1%
Site Product Inventory	59,145	57.3%	89,917	60.2%	59,145	57.3%	89,917	60.2%
Site Run-of-Mine Ore inventory	256,297	56.3%	432,143	56.2%	256,297	56.3%	432,143	56.2%

### Silver Yards – James Mine, Redmond Mine and Ferriman Historical Stockpiles

In the second quarter of the 2013 operating season, the Company achieved a substantially higher volume of mining than in the first quarter of 2013, extracting an aggregate of 983,000 tonnes of ore and 767,000 tonnes of waste from a combination of the James Mine, the Redmond Mine (located approximately 12 km to the south of Silver Yards) and the Ferriman historical stockpiles (located approximately 5 to 7 km north of Silver Yards). The Company had achieved a low volume of mining in the first quarter of the 2013 operating season, extracting only 345,000 tonnes of ore and 1,034,000 tonnes of waste from the James Mine, due to a combination of slower than anticipated contractor mobilization and adverse weather conditions. Mining volumes in the second quarter were also higher than in the equivalent quarter of 2012, but mined iron grade was lower.

Mining of the James Mine continued throughout the second quarter of the 2013 operating season, with 775,000 tonnes of ore and 767,000 tonnes of waste removed from James during the quarter. The James mining activity was from deeper in the pit and exhibited a lower *in situ* iron grade and contained a greater fines component than previously experienced.

Initial mining of the Redmond Mine commenced in July 2013 and by September 30, 2013, 190,000 tonnes of ore had been extracted from Redmond, which was fed to both the dry and wet process plants at Silver Yards. Waste removal from Redmond was minimal, partially offsetting the additional costs of hauling the material 12 km to Silver Yards. High clay content in the Redmond material caused clogging in the current set-up of the wet processing plant, resulting in poor recovery levels. Mining at Redmond was discontinued for the season in September 2013.

Bulk sampling of ore from the Ferriman historical stockpiles commenced in September 2013 and by September 30, 2013, 18,500 tonnes of ore had been reclaimed from Ferriman. The Ferriman material has responded well to wet processing and bulk sampling activities from Ferriman continued into early November.

Processing activities at Silver Yards increased significantly in the second quarter compared to the first quarter of the 2013 operating season, as both the wet processing and dry screening facilities operated throughout the full second quarter. Processing activities during the first quarter had been limited to dry crushing and screening, prior to the seasonal commissioning of the wet plant in June.

A total of 1,253,500 tonnes of plant feed were processed and screened during the second quarter, producing an aggregate of 766,500 tonnes of lump and sinter iron ore product. While throughput increased compared to the first quarter, the product recovery rate remained low at 61%. The low recovery rate is attributable to a higher than anticipated amount of fines in the James plant feed extracted from deep in the pit, the high clay content of the Redmond plant feed and underperformance of the newly installed WHIMS (wet high intensity magnetic separator). The combined design plant recovery rate for the wet and dry plants is approximately 75%.

Railway operations accelerated in the second quarter, with four train sets of 164 railcars in operation. Each 164 railcar train set carries approximately 15,000 tonnes of product per trip. The Company railed a total of approximately 723,000 tonnes of iron ore to the Port of Sept-Iles in the second quarter, compared to approximately 328,000 tonnes railed in the first quarter. The Company did not incur significant take-or-pay volume penalties during the second quarter.

Four shipments of iron ore were sold in the second quarter, compared to two shipments sold in the first quarter. Subsequent to September 30, 2013, the Company has sold two additional shipments, and anticipates a total of ten shipments upon completion of the 2013 operating season.

### ***Capital and Operating Costs***

Under the approved budget for the 2013 operating season, all discretionary capital programs were deferred indefinitely. Only capital related to completion of the Phase 3 expansion to the Silver Yards wet plant and connection to grid power continued, as completion of these programs was considered essential.

Equipment installation associated with grid power connection at Silver Yards was completed during the second quarter. The power purchase agreement with Nalcor Energy was signed subsequent to quarter end and the system was energized in November. On a go-forward basis, the power supply for the Silver Yards processing facilities and the Bean Lake mine camp will be substantially converted from diesel fuel to lower cost electric power during the operating season. During the winter period, some electric power may be available depending on domestic consumption in the town of Schefferville, which has priority of service.

Higher processing costs experienced during the second quarter were primarily a function of the increase in volume of ore processed as all ore mined underwent crushing, screening and processing and the wet plant was in operation throughout the current period.

Operating cost saving initiatives were undertaken or are underway with respect to mining equipment rates, human resources and staffing, fuel procurement, aviation services, hydro-electric power, exploration costs, winter cost management, rail car leasing rates, James Mine pit dewatering and waste rock mining. The effects of these cost saving initiatives began to be recognised late in the 2013 season and the benefits are anticipated for the 2014 operating season.

### ***Sales of Iron Ore***

During the quarter ended September 30, 2013, the Company completed four shipments of iron ore totaling 652,000 dry tonnes, which were sold to the Iron Ore Company of Canada ("IOC") at a provisional weighted average actual realized price (i.e. CFR China spot price less marketing discounts and value-in-use adjustments) of approximately US\$117 per tonne on a CFR China basis. Three shipments were standard grade (~62% Fe) sinter cargos and one shipment was a split standard grade (~62% Fe) sinter and standard grade (~62% Fe) lump cargo. The Company recognized net revenue of \$40.3 million after netting shipping costs and IOC's participation from the CFR China actual realized price for these four shipments.

The actual realized price for a shipment of the Company's iron ore in 2013 is based on the monthly average spot price in China in the month the cargo departs Sept-Iles, adjusted for marketing discounts and value-in-use adjustments based on the cargo's specifications, as determined by final assay at the discharge port. The spot market in China is tracked daily by such organizations as Platts, which publishes a widely referenced spot price index. The typical markets referenced in connection with sales of the Company's iron ore products is the Platts 62% Fe CFR China Index, or the Platts 58% Fe CFR China Index, which quote the price, delivered to China on a dry tonne basis, of sinter fine iron ore product up to 10 millimetres in size, with a moisture content of 8.0%, a silica content of 4.5%, an alumina content of 2.0%, a phosphorus content of 0.075% and a sulphur content of 0.02%. To the extent each cargo deviates from the standard specifications, or contract specific specifications, in terms of iron ore content, percentage of specific non-iron elements in the ore, or sizing of the product, a value-in-use adjustment to the prevailing normalized spot price applies. Value-in-use adjustments usually result in the actual realized price for a cargo being at a discount compared to the reported spot price or potentially a premium to the extent that the iron grade is higher than 62.0%. The provisional price is subsequently reconciled against final assay specifications.

The Company has experienced value-in-use adjustments in the determination of the actual realized price (on a CFR China basis) on its cargos, typically related to the silica content of the iron ore, which is usually higher than the standard benchmark of 4.5% silica, or excessive fine fractions. The silica content of the Company's shipments in the 2013 operating season has generally been substantially higher than the standard 4.5%. The iron content of some of the shipments has also been somewhat lower than standard benchmark levels, resulting in some iron content deductions.

Of the four shipments of iron ore during the second quarter, three vessels contained standard grade (~62% Fe) sinter products and one vessel contained a split cargo of some lump (~62% Fe) and standard grade (~62% Fe) sinter products.

In May 2013, the Company signed a new two-year iron ore sales agreement with IOC for the 2013 and 2014 operating seasons. Under this sales agreement, IOC is paying for the iron ore progressively, as the ore is resold, with the price calculation based on the monthly average of the market index. IOC's payments are subsequently reconciled based on IOC's net actual aggregate resale price, adjusted for product quality specification penalties, after ocean freight and IOC's price participation. This monthly average pricing mechanism decreases LIM's exposure to the market volatility experienced in previous years.

In May 2013, RB Metalloyd Limited ("RBM") entered into an iron ore off-take agreement with IOC under which RBM agreed to buy all of the LIM iron ore from IOC during the 2013 and 2014 operating seasons on an FOB Sept-Iles basis.

In May 2013, LIM entered into a financing agreement with RBM, pursuant to which RBM advanced a pre-payment of US\$35 million to LIM, which is being repaid over a period of two years, credited against proceeds of LIM's committed sales of 3,500,000 wet tonnes of iron ore shipments between August 2013 and December 2014. At September 30, 2013, a total of 652,000 tonnes of iron ore had been delivered under this contract.

### ***Completion of Joint Venture with Tata Steel Minerals Canada to Develop the Howse Deposit***

In September 2013, the Company closed its previously announced joint venture with Tata Steel Minerals Canada Ltd. ("TSMC") for the exploration and development of LIM's Stage 3 Howse Deposit (North Central Zone). The Howse Deposit is located in Labrador about 25 km north of the James Mine and adjacent to TSMC's Timmins Area mines and new processing plant. The Howse Deposit has a historical resource of 28 million tonnes at a grade of 58% Fe (natural basis).

Under the terms of the joint venture agreement, TSMC and LIM have agreed to form an unincorporated joint venture (the "Joint Venture") pursuant to which Howse Minerals Limited ("HML"), a wholly owned subsidiary of TSMC, has acquired an initial 51% participating interest in the Howse Property for a total cash consideration of \$30 million.

As part of the Joint Venture, LIM is conducting a \$5 million exploration program on the Howse Property. The exploration program comprises a targeted 70 holes with up to 10,000 metres of drilling. The objective of the drill program is to convert the historical resources to NI 43-101 compliant mineral resources by spring 2014 and to collect metallurgical, geotechnical, hydrogeological, and hydrology information to advance Howse towards a feasibility study and production.

Following completion of LIM's \$5 million exploration program and the calculation of a new NI 43-101 resource, HML shall contribute the next \$23.5 million to the Joint Venture and thereby increase its participating interest in the Howse Deposit to 70%, following which the Howse Property will be held 70% TSMC and 30% LIM, with each party contributing and benefitting pro rata. It is currently planned to complete a feasibility study by July 2014, with a target for commencement of mine development in 2015 and commercial production in 2016.

Originally as part of LIM's planned Stage 3, the Howse Deposit was expected to be developed about 2020. The Joint Venture with TSMC is expected to expedite the start of production by 2016 and should also result in significant cost savings and synergies due to the accessibility of the Howse Deposit to TSMC's year round processing plant.

#### ***Principal Terms of the TSMC Joint Venture Agreement***

The following is a summary of the principal terms of the joint venture agreement (the "Agreement") among the Company and its wholly-owned subsidiary, Labrador Iron Mines Limited (collectively "LIM"), and TSMC and its wholly-owned subsidiary, HML (collectively "TSMC" and, collectively with LIM, the "Parties"), pursuant to which the Parties have agreed to form the Joint Venture for the purpose of developing the Howse Deposit.

TSMC acquired a 51% participating interest in the 39 staked mineral claims identified as License Numbers 021314M and 021315M that together comprise the Howse iron ore deposit for an initial purchase price of \$30 million. TSMC shall be the initial operator of the Joint Venture (the "Operator").

LIM will conduct a \$5 million exploration program on the Property over the course of the 2013 calendar year.

After the exploration program is completed, TSMC will earn an additional 19% participating interest in the Property by contributing \$23.5 million to the Joint Venture in any number of installments, such that the Property will then be held 70% by TSMC and 30% by LIM.

After TSMC has earned its 70% participating interest in the Property, each Party shall be obligated to contribute funds in response to any cash call by the Operator that is approved by the management committee (the "Management Committee") in proportion to their respective participating interests. To the extent that a Party does not fund a cash call, its participating interest will be reduced accordingly. If a Party's interest becomes less than 10%, such Party shall be deemed to have withdrawn from the Joint Venture and shall be deemed to have transferred its entire participating interest to the other Party.

The Management Committee will consist of between two and four members, with one to two members appointed by each of LIM and TSMC. The chairman of the Management Committee shall be appointed by the Party having the greater participating interest. Certain decisions shall require the approval of 85% or more of the participating interests.

The Operator shall commence a feasibility study as directed by the Management Committee, which will set forth a plan for the optimization by the Operator of the costs and logistics in connection with the mining, processing and transportation of iron ore product from the Property.

The Parties will negotiate in good faith an agreement for the beneficiation of the iron ore produced by the Joint Venture at TSMC's plant located at the Timmins Area and such agreement would be on mutually agreed terms on an arm's length basis.

If the Property is not in commercial production by June 1, 2017, LIM shall have the right, subject to certain conditions, to require TSMC to sell to LIM, at the price defined in the Agreement, such portion of TSMC's participating interest such that each of the Parties would own a 50% participating interest, following which LIM shall replace TSMC as the Operator.

The Agreement contains various rights often found in joint venture agreements of this nature, including rights of first refusal and first offer, drag-along rights and certain call rights, including: a right of first refusal in favour of TSMC in the event that LIM receives an offer from a third party to purchase its participating interest; a right of first offer in favour of LIM in the event that TSMC wants to sell its participating interest; and, in the event that TSMC proposes to transfer all of its participating interest to any arm's length third party, a drag-along right whereby TSMC may require LIM to transfer all of LIM's participating interest on the same terms and conditions as TSMC's proposed transfer.

In the event of a change in control of LIM, TSMC shall have the call right to require LIM to sell to TSMC all of LIM's participating interest or the put right to require LIM to purchase from TSMC all of TSMC's participating interest, in each case at fair market value. Once TSMC has earned its 70% participating interest, the TSMC call and put rights will only be available to TSMC as a result of an acquisition of control of LIM by a strategic competitor of TSMC.

### ***Cooperation Arrangements with TSMC***

As part of the strategic relationship between LIM and TSMC, the two companies have been cooperating with each other in various aspects of their respective iron ore operations in the Labrador Trough. The strategic relationship includes multi-part cooperation agreements in areas of logistics, property rationalization and various ancillary mutual support and potential off-take arrangements.

As part of the logistics agreements, the companies have formalized arrangements for construction of the new rail line that will extend LIM's current rail line from Silver Yards to TSMC's new Timmins Area processing plant and thus connect both companies to the TSH main rail line.

The construction of the rail line from LIM's Silver Yard to TSMC's Timmins Area processing plant is already underway. Pending the construction of the new rail line to the Timmins Area plant, TSMC is loading iron ore trains at LIM's Silver Yards rail facility and the two companies are sharing iron ore rail cars and rail locomotives.

The arrangements with TSMC are also expected to include co-operation in establishing infrastructure at the Port of Sept-Iles, with the objective of securing access and terminal facilities for both companies at the Port's new deep sea multi-user dock.

The multi-part cooperation arrangement with TSMC has the potential to provide significant cost synergies, position LIM to address key logistics and infrastructure issues and expedite the development of the Howse deposit.

## *Houston Project*

The Houston deposits (Stage 2 South Central Zone) are situated in Labrador about 15 km southeast of the Company's James Mine and Silver Yards processing plants and approximately 20 km from Schefferville, Quebec.

Following additional exploration drilling carried out during 2012, an updated independent mineral resource estimate of the Houston deposits, prepared as of March 31, 2013, confirmed the aggregate measured and indicated resource estimate of 31.3 million tonnes at an average grade of 57.5% Fe, a substantial increase from the total of 22.9 million tonnes at 57.2% Fe reported as of March 31, 2012.

The Company has also identified a new measured and indicated mineral resource estimate for its Malcolm 1 deposit of 9.2 million tonnes grading 57.8% Fe, which has more than tripled the previous historical resource estimate. The Malcolm 1 deposit is located approximately 4 km from Houston and is considered to be its northwest extension. Together, the Houston and Malcolm deposits are estimated to contain 40.6 million tonnes grading 57.6% Fe and currently comprise LIM's planned Stage 2 DSO operations.

*The independent review of the Houston deposits and the Malcolm 1 deposit was carried out by Maxime Dupéré, P. Geo of SGS Canada Inc. who is a Qualified Person and independent 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 first phase of the Houston 1 and 2 Deposits Mining Project, including the haulage road and railway siding, was released from further environmental assessment, subject to a number of conditions.

The initial mine development at the Houston deposit will include construction of the haulage road, mine infrastructure and related facilities. The Company is currently evaluating an interim plan to haul Houston ore to the Silver Yards process and rail loading facilities in 2014 as a first stage, lower initial capital approach for development of the Houston project.

Development of the Houston Project is subject to the availability of financing. The Company is evaluating various financing alternatives or off-take arrangements, and/or other potential strategic options, to fund the planned first phase Houston development and related transportation expenditures.

The second phase of the Houston Project would involve construction of a new 10,000 tonnes per day ("tpd") wet processing plant, incorporating crushing, screening, washing and magnetic separation. This plant will be capable of upgrading lower grade ore (50% to 59% Fe) into saleable sinter and lump products, and would be constructed in about the third year of Houston operations.

In February 2013, the Company filed registration documents with the Government of Newfoundland and Labrador and with the Federal Canadian Environmental Assessment Agency ("CEAA") for the construction of the wet process plant. In April 2013, CEAA notified LIM that a Federal Environmental Assessment was not required and in May 2013, the Minister of Environment and Conservation released this second phase of the Houston Project from the provincial environmental assessment process, subject to a number of conditions. This environmental release of the second phase of the Houston Project allowed the Company to complete the applications for permits and regulatory approvals required for the construction of the wet processing plant for the Houston Project.

When in full production, the Houston Project is expected to produce about 2.5 million tonnes of iron ore annually.



## *Transportation*

The Company's iron ore is transported by rail from the Silver Yards processing facilities, via the Company's six km spur line to the Tshiuetin Rail Transportation Inc. ("TSH") railway, which connects to the Quebec North Shore and Labrador ("QNS&L") railway at Emeril Junction and travels to the Port of Sept-Iles, where the train sets carrying the Company's iron ore are unloaded and the product is stockpiled for shipping.

Under the Company's confidential rail transportation contracts signed with QNS&L in 2011 and with TSH in 2012, the Company is committed to minimum tonnages per month over each eight month annual operating season.

Rail operations re-commenced for the 2013 operating season in early April. The Company began the 2013 operating season with one train set of 164 railcars in April and added a second train set of 164 railcars in May, a third train set of 164 railcars at the end of June and a fourth train of 164 railcars at the end of July. Each 164 railcar train set hauls approximately 15,000 tonnes of product. These railcars consist of three train sets of newly built rotary dumper compatible ore gondolas supplied by TSMC and one train set of rotary dumper compatible ore gondolas leased from IOC. These rotary dumper compatible ore gondolas allow for longer train sets and enable highly efficient unloading at the Port. LIM's fleet of retrofitted (non-rotary dumper compatible) railcars owned by the Company have not been used during the 2013 operating season but are available for use as required.

The Company railed a total of approximately 723,000 tonnes of iron ore to the Port of Sept-Iles in the second quarter of the 2013 operating season, a single quarter rail haulage record for the Company. The second quarter's haulage represented a significant improvement over the approximately 328,000 tonnes of ore railed during the first quarter, and an increase compared to the 706,500 tonnes railed during the second quarter of the previous year. For the first two quarters of the 2013 operating season, the Company railed approximately 1,051,000 tonnes of product to Port, compared to approximately 1,239,000 tonnes of product railed during the first six months of the previous operating season.

Railing volumes were below plan during the first quarter of the 2013 operating season, particularly in April and May, due to product availability issues at the mine site. By the end of July, rail volumes had increased substantially to an average of approximately five trains completed per week, utilizing four train sets.

As part of its long-term confidential rail transportation contract with TSH, LIM has agreed to make contributions towards the costs of the TSH upgrade program on its Menihék rail line up to a total amount of an additional \$16.5 million over the next four years. During 2013, TSH continued to carry out upgrade work following a cash investment by LIM of \$5.0 million in 2012 (in addition to a cash investment by LIM of \$3.5 million in 2011) and similar investments by TSMC. The Company contributed a further \$1.0 million to the TSH upgrade program in September 2013. The Company's remaining capital commitment towards the TSH upgrade program over the next four years is \$15.5 million.

All iron ore railed to Sept-Iles in 2013 and 2014 is being sold to IOC. The Company signed a two year iron ore sales agreement with IOC for the sale to IOC of all iron ore produced in the 2013 and 2014 operating seasons, under which all product sold to IOC will be handled by IOC through its port facilities at Sept-Iles.

The port handling arrangements for the shipment of LIM's iron ore production for 2015 and future years remain subject to ongoing evaluation and finalization. The Company is one of several mining companies that have entered into a long-term contract with the Sept-Iles Port Authority for capacity at a new multi-user dock in the Pointe-Noire area of the Port of Sept-Iles. The multi-user dock is a \$220 million project (of which the users are funding \$110 million by way of refundable advance payments) comprising two berths equipped with two ship loaders as well as two conveyer lines which the Port reports is on budget and on schedule for completion in mid-2014. The multi-user

dock is expected to have an annual capacity of up to 50 million tonnes per year, of which the Company has reserved 5 million tonnes of annual capacity.

Under the long-term user agreement, the Company paid \$6.4 million in 2012 as a first installment of an advance payment and agreed to a final advance payment installment of \$6.4 million. The Company has deferred payment of this final installment pending resolution of land access and product handling facility arrangements between the Port Authority and Cliffs Resources in the Pointe-Noire area and is working closely with the Sept-Iles Port Authority to resolve these arrangements. The Company has also agreed to long-term take or-pay volume commitments with respect to the new multi-user dock.

In February 2013, CN Rail announced the discontinuation of its port terminal and railway initiative for Sept-Iles and the Labrador Trough. LIM, as a participant in the CN Rail consortium, received a full refund of \$1.5 million, as well as all baseline environmental and technical data prepared by CN Rail. Subsequently, LIM has completed a scoping-level (+/-30%) study of a multi-user port terminal at Point Noire capable of handling and delivering 10 million tonnes per annum of iron ore products to the Port's multi-user dock. A surface lease application for the required land has been filed with the Quebec Ministry of Natural Resources. Further development of this port terminal project is contingent on agreements with the Port Authority, the Government of Quebec and other companies and on completion of engineering, permitting and financing.

### ***Outlook***

Subsequent to the end of the quarter, two additional shipments totaling approximately 339,000 wet tonnes were sold, bringing the total for the year to date to eight shipments and a total of about 1.4 million wet tonnes. Two more shipments are planned for the month of November and the Company expects to achieve the sale of ten shipments, or approximately 1.7 million wet tonnes of iron ore, as planned, for 2013. Of the four shipments in the subsequent quarter, three cargos are expected to be sinter fines (~58% Fe) and one cargo of lump ore (62% Fe).

In order to mitigate the risk of significant ocean freight cost escalation, the Company agreed to fixed freight costs to northern China on seven vessels during 2013 through a contract of affreightment with RBM. The freight costs on the remaining two shipments planned for the balance of the 2013 operating season will be at market rates, which increased significantly in September 2013.

Production from the James Mine will continue until the end of the 2013 operating season, after which an assessment will be undertaken to evaluate the economics of extraction of the remaining ore and the down-dip extensions of the higher grade portions of the deposit in 2014, if continuing dewatering during the winter months and additional stripping is economically justified, or if the pit should be permanently closed.

Beyond 2013, LIM's operations will continue be focused on the Company's Stage 1 deposits, including the James Mine, the Redmond Mine and other smaller satellite deposits and stockpiles, all located within a 15 km radius of the Silver Yards processing plants. The Company is also currently evaluating an interim plan to haul Houston ore to the Silver Yards process and rail loading facilities in 2014 as a first stage, lower initial capital approach for development of the Houston project.

For the longer term, the Company continues to pursue strategic initiatives aimed at permanent structural reductions in operating costs and revenue deductions. These include improving recoveries, increasing sales volumes, potentially owner mining, re-negotiation of mining contracts and railway tariffs, alternative port arrangements at Sept-Iles, sharing facilities with TSMC and developing alternative destination markets for the Company's products.

These strategic initiatives have targeted potential reductions in operating costs and revenue deductions of a minimum of \$20 per tonne of saleable product and may take several years to accomplish in their entirety. However, there can be no guarantee that these strategic initiatives will be concluded successfully or on a timely basis.

The Company's ongoing 2013 exploration program is focusing on the Howse, Houston and Gill deposits and consists mainly of delineation diamond drilling with a target of approximately 14,000 metres of core.

### ***Iron Ore Market Conditions***

The price of iron ore (CFR China 62% Fe) averaged approximately US\$133 per tonne in the quarter ended September 30, 2013, compared to approximately US\$113 per tonne in the same quarter in the previous year. Benchmark prices for 62% Fe iron ore in the Chinese market have remained above US\$130 since quarter end. Demand in China remains favourable, as inventories at ports and steel prices continue to support the seaborne trade.

Robust steel production and iron ore demand from emerging economies and in particular from China have underpinned the rise in iron ore prices over the past seven years. In addition, supply constraints, such as falling ore grades at major mines and increasing capital expenditures to build new capacity, have resulted in iron ore production consistently falling short of market expectations.

Growth in iron ore demand has been dominated by China, whose steel production and consumption (rate of steel usage per capita) has been steadily increasing over the past decade. The country's rapidly increasing steel intensity (steel usage per capita) has been driven by rapid economic growth and continued urbanization, leading to significant increases in the rate of residential construction, durable goods production and public infrastructure development.

There has been significant price volatility in iron ore prices since 2012 due to apparent changes in Chinese stock levels and there may be further volatility in the future. Nevertheless the Company is of the view that the long term iron prices will remain firm due to the following factors:

- strong steel and iron ore demand growth from China, which will continue to be supported by Chinese Government stimulus spending as well as structural factors, such as the urbanization of China's population;
- strong demand growth in the medium to long-term from the United States and emerging markets including Brazil, India, Russia, CIS countries, southeast Asia and the Middle East;
- efforts to increase the average grade of steel production, which necessitates the use of high-grade iron ore, will increase China's demand for higher grade iron ore imports;
- long-term supply constraints, as many of the new projects and production expansions previously planned by major companies are experiencing increased costs and delays or have been postponed, which is expected to delay or reduce the long-term growth of iron ore supply; and
- supply growth will continue to fall significantly short of market expectations.

Iron ore supply growth has consistently fallen below market expectations due to a number of factors including:

- the increase in capital costs by over 400% over the last decade;
- the substantial increase in operating costs;
- new projects have increasingly required high-cost greenfield infrastructure development;
- governments have demanded higher ownership stakes and taxes;
- labour supply has been severely limited; and
- governments have focused increasingly on environmental concerns.

The largest three iron ore producers (Rio Tinto, BHP Billiton and Vale) continue to face significant capital and operating cost inflation which has resulted in the deferral of many new projects and mine expansions. In addition, a significant portion of the forecasted increase in industry capacity is expected to come from higher risk jurisdictions such as Africa where higher geopolitical risk requires higher returns to warrant capital investment.

In the longer-term, the cost curve plays an integral role in establishing an effective 'floor' for iron ore prices. Higher marginal cost Chinese capacity is expected to be needed to meet growing iron ore demand in the medium term. The average marginal cost of Chinese iron ore production is approximately US\$120/tonne, which provides a strong support level for future iron ore prices (China import 62% Fe fines on a CFR China basis).

## **RESULTS OF OPERATIONS**

### ***Quarter Ended September 30, 2013***

The Company recognized net revenue from mining operations of \$40.3 million on sales of approximately 652,000 tonnes of iron ore in four shipments in the quarter ended September 30, 2013, compared to net revenue of \$33.0 million on sales of approximately 648,000 tonnes of iron ore in four shipments during the second quarter of the previous year. The increase in net revenue is attributable to an improvement in the weighted average actual realized CFR China price of iron ore (after value-in-use adjustments and marketing discount) from US\$96 per tonne in the previous year's second quarter to US\$117 in the current year's second quarter, offset by higher ocean freight rates in the current year's second quarter. The Company's product sales during the current year's second quarter experienced value-in-use penalties related to silica content, iron content and sizing specifications, which deviated from benchmark standards. The Company's net revenue is recognized net of deduction of ocean freight and IOC's participation.

The Company reported a loss of \$24.9 million, or \$0.20 per share in the quarter ended September 30, 2013, compared to a loss of \$31.7 million, or \$0.47 per share, during the previous year's second quarter. The loss in the current quarter included a depletion and depreciation charge of \$20.7 million, or \$0.16 per share, compared to \$14.4 million or \$0.21 per share charged during the second quarter of the previous year. The loss in the current year's second quarter also included a gain on the sale of a joint venture interest in the Company's Howse deposit of \$9.6 million, or \$0.08 per share.

Compared to the previous year's second quarter, the higher net revenue (reflecting improved iron ore prices quarter-over-quarter, offset somewhat by higher value-in-use adjustments, higher ocean freight costs and a higher marketing discount) and the recognition of a one-time gain on the sale of a joint venture interest in the Howse deposit in the current year's second quarter, were offset by higher processing costs, a higher charge for depletion and depreciation and a non-recurring charge for a reduction in value of put option contracts.

The increase in processing costs from \$9.2 million in the second quarter of the previous year to \$13.3 million in the second quarter of the current year is primarily a function of the increase in volume of ore processed and screened from approximately 643,500 tonnes to approximately 1,253,500 tonnes in the respective periods.

Rail and transportation costs of \$21.1 million during the second quarter of the current year were consistent with rail and transportation costs of \$20.3 million during the second quarter of the previous year, reflecting a consistent volume of ore haulage during the respective quarters. Take-or-pay volume penalties were not significant in either period.

The Company recorded a depletion and depreciation charge of \$20.7 million during the quarter ended September 30, 2013, an increase from \$14.4 million charged during the second quarter of the previous year. Depletion and depreciation represents a period charge, primarily on a units-of-production basis, of the cost of Stage 1 mining

assets, the Silver Yards processing plant, transportation equipment and infrastructure and site properties associated with Stage 1 operations. The increase in the depletion and depreciation charge in the current year's second quarter compared to the previous year's second quarter is due to a change in estimate of the remaining life of the James mine which resulted in an acceleration of the depletion rate applicable to James mine production.

The Company recorded a financing charge of \$2.1 million during the quarter ended September 30, 2013, representing the period end reduction in the carrying value of iron ore put options entered into in May 2013. During the quarter ended September 30, 2013, the Company invested approximately \$5.3 million in property, plant and equipment, compared to approximately \$8.3 million invested during the second quarter of the previous year. The reduction represents a concerted effort to limit capital expenditures to only essential capital projects. The \$5.3 million in capital expenditures in the second quarter related mainly to completion of the Phase 3 expansion of the Silver Yards wet processing plant and investment in grid connection infrastructure.

### ***Six Months Ended September 30, 2013***

The Company recognized net revenue from mining operations of \$58.2 million on sales of approximately 980,000 tonnes of iron ore in six shipments in the six months ended September 30, 2013, compared to net revenue of \$71.1 million on sales of approximately 1,134,000 tonnes of iron ore in seven shipments during the corresponding six month period of the previous year. The decrease in net revenue is attributable to one less shipment achieved during the current year's six month period and increased penalties, marketing discounts and higher ocean freight, partially offset by higher iron ore prices. The weighted average actual realized CFR China price of iron ore (after value-in-use adjustments and marketing discount) was US\$110 per tonne in the six months ended September 30, 2013 compared to US\$107 per tonne in the same six month period of the previous year. The Company's net revenue is recognized net of deduction of ocean freight and IOC's participation.

The Company reported a loss of \$53.4 million, or \$0.42 per share in the six months ended September 30, 2013, compared to a loss of \$42.3 million, or \$0.63 per share, in the six months ended September 30, 2012. The loss in the six months of the current year included a depletion and depreciation charge of \$26.3 million, or \$0.21 per share, compared to \$24.1 million or \$0.36 per share charged during the comparable six month period of the previous year. The loss in the current year's six month period also included a gain on the sale of a joint venture interest in the Company's Howse deposit of \$9.6 million, or \$0.08 per share.

Compared to the previous year's six month period, the Company recognized lower net revenue, higher processing costs and a non-recurring charge for a reduction in value of put option contracts in the six months ended September 30, 2013, offset somewhat by a one-time gain on the sale of a joint venture interest in the Howse deposit recognized in the current year's six month period.

The increase in processing costs from \$11.2 million in the previous year's six month period to \$23.5 million in the current year's six month period is primarily a function of the increase in volume of ore processed and screened from approximately 771,000 tonnes to approximately 1,800,000 tonnes in the respective periods. During the previous year's six month period the Company's production included 1,053,000 tonnes of iron ore products, which underwent limited crushing, screening and wet processing. During the current year's six month period, all ore mined has undergone crushing, screening and processing.

Rail and transportation costs decreased from \$41.3 million during the six month period of the previous year to \$37.2 million during the current year's six month period, reflecting a decline in ore haulage volumes from 1,239,000 tonnes to 1,051,000 period over period. The current year's six month period includes take-or-pay volume penalties of \$6.6 million, largely incurred in the first quarter, compared to \$2.4 million in the previous year's six month period, also largely incurred in the first quarter.

The Company recorded a depletion and depreciation charge of \$26.3 million during the six months ended September 30, 2013, compared to a depletion and depreciation charge of \$24.2 million during the same six month period of the previous year. Despite lower mining volumes during the current year's six month period, the depletion rate relating to the James mine increased during the current year's six month period due to a change in estimate of the remaining life of the James mine.

The Company recorded a financing charge of \$3.6 million during the six months ended September 30, 2013, representing the reduction in the carrying value of iron ore put options entered into in May 2013. No such charge was applicable during the similar six month period of the previous year.

During the six months ended September 30, 2013, the Company invested approximately \$13.7 million in property, plant and equipment, compared to approximately \$22.6 million invested during the similar six months of the previous year. The reduction represents a concerted effort to limit capital expenditures to only essential capital projects. Non-essential capital projects have been suspended or deferred. The \$13.7 million in capital expenditures in the current year's six month period related mainly to the Phase 3 expansion of the Silver Yards wet processing plant and investment in grid connection infrastructure.

In May 2013, the Company completed an advance payment off-take financing with RBM for gross cash proceeds of US\$35.0 million which is being repaid over a period of two years, credited against proceeds of LIM's committed sales of 3,500,000 wmt of iron ore shipments between August 2013 and December 2014.

## SUMMARY OF QUARTERLY RESULTS

(\$000s, except per share data)	Quarter Ended							
	Dec 31, 2011	March 31, 2012	June 30, 2012	Sept 30, 2012	Dec 31, 2012	March 31, 2013	June 30, 2013	Sept 30, 2013
Net (loss)	(1,678)	(1,331)	(10,584)	(31,712)	(16,110)	(71,269)	(28,507)	(24,928)
(Loss) per share	(0.03)	(0.02)	(0.16)	(0.47)	(0.19)	(0.65)	(0.23)	(0.20)
Total assets	304,443	379,754	374,852	359,381	358,789	296,359	321,288	288,270

The increase in loss and loss per share in the quarter ended June 30, 2012 relates largely to the commencement of depletion and depreciation of mining, transportation and processing assets during the quarter as full scale production began, resulting in a \$9.8 million depletion and depreciation charge during the quarter compared to no comparable depletion and depreciation charge in previous quarters. The increase in loss and loss per share in the quarter ended September 30, 2012 relates to a significant decline in the price of iron ore during the quarter, which had a significantly negative impact on operating results for the quarter. The loss and loss per share in the quarter ended September 30, 2012 also includes a depletion and depreciation charge of \$14.4 million for the quarter. The loss and loss per share in the quarter ended March 31, 2013 includes a non-cash write-down of mineral property interests and accounts receivable totaling in aggregate \$61.2 million.

## LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2013, the Company had current assets of \$70.5 million, including inventories with a carrying value of \$14.4 million and accounts receivable and prepaid expenses of \$25.1 million. At September 30, 2013, the Company had \$23.3 million in unrestricted cash and cash equivalents and an additional \$16.0 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 current portion of deferred revenue, finance lease obligations and rehabilitation provision, were in aggregate \$67.7 million at September 30, 2013.

The Company had no current or long-term bank debt at September 30, 2013. The Company has entered into finance lease agreements for its Bean Lake mine accommodation camp and is committed to minimum lease payments under these finance lease agreements. Under its rail transportation agreements, the Company is committed to minimum take or pay tonnages per month over its eight month annual operating season. In May 2013, the Company completed an advance payment off-take financing with RBM for gross cash proceeds of US\$35.0 million which is being repaid over a period of two years, credited against proceeds of LIM's committed sales of 3,500,000 wmt of iron ore shipments between August 2013 and December 2014. At September 30, 2013, a total of 652,000 tonnes of iron ore had been delivered under this contract.

In September 2013, the Company closed its previously announced joint venture with Tata Steel Minerals Canada Ltd. ("TSMC") for the exploration and development of LIM's Stage 3 Howse Deposit. LIM received \$30.0 million from TSMC for the sale of a controlling interest in the Howse deposit, which is being used to fund working capital, capital expenditure and exploration requirements for the 2013 operating season.

As part of the co-operation arrangements, TSMC advanced the Company a non-interest bearing loan of \$2.0 million, to undertake modifications to its Silver Yards rail siding to facilitate the construction and operation of the extended rail line from Silver Yards to TSMC's Timmins Area plant. An additional \$3 million non-interest bearing loan is expected to be advanced by TSMC to the Company prior to December 31, 2013, which will also be used by the Company to complete the modifications to the Company's Silver Yards rail siding. The Company has agreed to transfer ownership of its six kilometre rail spur main line (but not the Company's Silver Yards rail siding) to a third party rail operator, which will own and operate the Timmins extension rail line for \$5 million which will be used to repay the foregoing \$5 million loan to TSMC.

In resuming its planned seasonal mining operations in the spring of 2014, the Company will incur regular winter stand-by costs from December 2013 to March 2014 and seasonal start-up mining, processing, rail and transportation and site administration expenses for the months of April and May 2014 before receipt of payment for its first shipment anticipated in June 2014. The Company expects to require working capital of approximately \$20 million to \$30 million to fund these operating expenses. Resumption of mining operations in April 2014 for the 2014 operating season will depend on a number of interrelated factors including the Company securing a working capital financing facility or facilities by the end of March 2014 and the Company being successful in negotiating improved terms with its major contractors and port and rail infrastructure providers prior to commencement of the 2014 operating season.

The Company is actively pursuing additional working capital financing arrangements prior to the seasonal start-up of operations in the first quarter of its 2015 fiscal year (April to June 2014). Such financing may include off-take arrangements, a joint venture or a strategic partnership on the Houston project, a combination of these alternatives, or potentially other financing arrangements.

The Company has not achieved profitable operations and has an accumulated deficit since inception. The Company will need to secure additional financial arrangements in order to fund its 2014 start-up working capital, planned development programs and its corporate administration costs so as to continue as a going concern. There can be no assurance that the Company will be able to achieve positive cash flows or profitability. There are no assurances that the Company will be successful in obtaining any required financing, or in obtaining financing on a timely basis or on reasonable or acceptable terms. If the Company is unable to obtain adequate additional financing, the Company may be required to curtail operations and its development activities.

The carrying amount of the Company's mineral property interests at September 30, 2013 was \$83.6 million, compared to \$105.9 million at the beginning of the fiscal year.

At September 30, 2013 the net book value of property, plant and equipment was \$106.1 million.

## OFF BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheet arrangements.

## OBLIGATIONS AND CONTRACTUAL COMMITMENTS

Contractual Obligations as at September 30, 2012	Payments Due by Period			
	Total	Less than 1 year	Later than 1 year, not later than 5 years	After 5 years
Office lease obligations	\$2,970,167	\$502,000	\$2,008,000	\$460,167
Mine camp lease obligations	\$3,057,000	\$1,161,000	\$1,896,000	-
Equipment supply, port and transportation contracts and social development and training contributions and exploration commitments	\$178,041,957	\$48,909,097	\$104,780,360	\$24,352,500
<b>Total</b>	<b>\$184,069,123</b>	<b>\$51,572,097</b>	<b>\$108,684,360</b>	<b>\$24,812,667</b>

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 Bean Lake mine accommodation camp near Silver Yards.

The contractual obligations under equipment supply, port and rail transportation contracts relate to future locomotive supply, rail and port infrastructure required payments and committed future minimum volume tonnages under agreements with WLRS, QNS&L, TSH and the Port of Sept-Iles. Under a long-term user agreement with the Sept-Iles Port Authority, the Company paid \$6.4 million in 2012 as a first installment of an advance payment and agreed to a final advance payment installment of \$6.4 million in July 2013. The Company has deferred payment of this final installment pending resolution of land access and product handling facility arrangements between the Port Authority and Cliffs Resources in the Pointe-Noire area and is working closely with the Sept-Iles Port Authority to resolve these arrangements. Social development and training relates to contributions under IBAs entered into with various First Nations communities.

## 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 September 30, 2013, 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 September 30, 2013, 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 23 to its consolidated financial statements for the fiscal year ended March 31, 2013.

## **OUTSTANDING SHARE CAPITAL**

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

As at September 30, 2013, the Company had 126,200,807 common shares, 1,588,125 stock options, 2,042,500 broker warrants, 13,800,000 share purchase warrants and 576,272 deferred share units outstanding.

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

<b>Security</b>	<b>Number</b>	<b>Weighted average exercise price</b>	<b>Weighted average remaining life (years)</b>
Common shares	126,200,807	N/A	N/A
Stock options	1,588,125	\$5.08	3.1
Broker warrants	2,042,500	\$1.03	0.7
Share purchase warrants	13,800,000	\$1.35	2.2
Deferred share units	576,272	N/A	N/A

Of the stock options currently outstanding, 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; 82,500 options have an exercise price of \$11.65 per share and expire on February 9, 2016; 25,000 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; 112,500 options have an exercise price of \$6.20 and expire on February 9, 2017; and 771,875 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.

All 13,800,000 of the share purchase warrants outstanding have an exercise price of \$1.35 per share and expire on February 13, 2016.

Of the broker warrants currently outstanding, 662,500 broker warrants have an exercise price of \$1.00 per share and expire on May 6, 2014; and 1,380,000 broker warrants have an exercise price of \$1.05 per unit (each, a “Unit”) and expire on August 13, 2014. Each Unit consists of one common share and one half of a common share purchase warrant. Each common share purchase warrant is exercisable into one common share at an exercise price of \$1.35 per share until February 13, 2016.

## **TRANSACTIONS WITH RELATED PARTIES**

During the six months ended September 30, 2013, the Company recovered \$56,796 (September 30, 2012 - \$60,030) in respect of office rent from corporations with common directors and/or officers. As at September 30, 2013, \$16,855 (March 31, 2013 - \$34,366) is included in accounts receivable.

During the six months ended September 30, 2013, the Company also made payments to companies with common directors and/or officers in the amount of \$305,750 (September 30, 2012 - \$358,208), as compensation for management services provided. At September 30, 2013, \$78,333 (March 31, 2013 - \$76,833) in management compensation remained payable to these related companies.

During the six months ended September 30, 2013, the Company also incurred legal fees (professional fees and financing costs) in respect of services provided by a professional corporation controlled by an officer in the amount of \$86,000 (September 30, 2012 - \$118,190). As at September 30, 2013, \$Nil (March 31, 2013 - \$30,800) in legal fees remained payable to this related party.

## **CRITICAL ACCOUNTING ESTIMATES**

### **Commercial Production**

The Company commenced commercial production for accounting purposes effective April 1, 2012. The fiscal year ended March 31, 2012 was considered to have been a start-up and testing year.

### **Revenue Recognition**

Commencing effective April 1, 2012, revenue has been 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 are typically considered to have been 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 reporting period. 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 amount 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 stock-based 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 September 30, 2013 based on the assumptions set out in Note 10(a) to the condensed interim 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 the Company. 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.

The Company has established a rehabilitation provision relating to its current Stage 1 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 \$3,975,067. The present value of this estimated amount has been calculated under IFRS as \$4,010,608 as at September 30, 2013.

In determining the present value of the rehabilitation provision as at September 30, 2013, the Company has assumed a long-term inflation rate of approximately 1.4%, a current market discount rate ranging from 1.1% to 2.5% 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 condensed interim consolidated financial statements for the three and six months ended September 30, 2013, other than as set out in Note 4 to the condensed interim consolidated financial statements for the three months and six months ended September 30, 2013.

## **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 in the Company's annual information form ("AIF"), 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***

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. Many of the claims to which the Company has a right to acquire an interest are in the exploration stage only and are without a known body of commercial ore.

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.

Mining operations, such as those at the James and Redmond deposit and anticipated at Houston and other Stage 1 deposits, 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, rock bursts, 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.

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.

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. The Company has not achieved profitable operations, has an accumulated deficit since inception and expects to incur further losses in the development of its business. 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 limited experience in placing resource properties into production, and its ability to do so will be dependent upon using the services of appropriately experienced personnel or entering into agreements with other major resource companies that can provide such expertise. There can be no assurance that the Company will have available to it the necessary expertise when and if the Company places its resource properties into production and whether it will produce revenue, operate profitably or provide a return on investment in the future.

### ***Financing and Going Concern***

The successful development of the Company's properties depends upon the Company's ability to obtain financing through private placement financing, public financing, the joint venturing of projects, bank financing or other means. There is no assurance that the Company will be successful in obtaining the required financing.

Securities of junior resource companies have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include macroeconomic developments worldwide and global and market perceptions of the attractiveness of particular industries. The share price of the Company is likely to be significantly affected by short-term changes in iron ore prices. Other factors unrelated to the Company's performance that may have an effect on the price of its shares include the following: the extent of analytical coverage available to investors concerning the Company's business may be limited if investment banks with research capabilities do not follow the Company's securities; lessening in trading volume and general market interest in the Company's securities may affect an investor's ability to trade significant numbers of common shares; the size of Company's public float may limit the ability of some institutions to invest in the Company's securities; and a substantial decline in the price of the common shares that persists for a significant period of time could cause the Company's securities to be delisted from an exchange, further reducing market liquidity.

As a result of any of these factors, the market price of the Company's shares at any given point in time may not accurately reflect the Company's long-term value. Securities class action litigation often has been brought against companies following periods of volatility in the market price of their securities. The Company may in the future be the target of similar litigation. Securities litigation could result in substantial costs and damages and divert management's attention and resources.

The Company will need to generate additional financial resources in order to fund its planned exploration and development programs and its corporate administration costs. There is a risk that additional financing will not be available to the Company on a timely basis or on acceptable terms. There are no assurances that the Company will continue to be able to obtain additional financial resources and/or achieve positive cash flows or profitability. The Company has not achieved profitable operations, has an accumulated deficit since inception and expects to incur further losses in the development of its business. If the Company is unable to obtain adequate additional financing, the Company may be required to curtail operations and its exploration and development activities. Failure to

continue as a going concern would require that the Company's assets and liabilities be restated on a liquidation basis which would differ significantly from the going concern basis.

The ongoing development of the Company's properties, including its Stage 2 Houston Project, will require substantial additional capital investment. Failure to generate sufficient cash flow from current operations, and/or secure additional financing, could result in delaying or indefinite postponement of development or production of these properties. There can be no assurance that such cash flow will be generated or such additional financing will be available when needed or that, if available, the terms of such financing will be on terms favorable to the Company.

### ***Fluctuating Iron Ore Prices, Put Options and Ocean Freight Rates***

The viability of the Company's Schefferville Projects is dependent on the sale price of iron ore which has fluctuated considerably over the last two years.

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.

In order to mitigate the risk of significant ocean freight cost escalation, the Company agreed to fixed freight costs to northern China on seven vessels during 2013 through a contract of affreightment with RBM. The freight costs on the remaining two shipments planned for the balance of the 2013 operating season will be at market rates which increased significantly in September 2013.

### ***Uncertainty in the Estimation of Mineral Resources***

There is a degree of uncertainty to the calculation of mineral resources and corresponding grades being mined or dedicated to future production. Until mineral resources are actually mined and processed, the quantity of mineral resources and corresponding grades must be considered as estimates only. In addition, the quantity of mineral resources may vary depending on, among other things, metal prices. Any material change in quantity of mineral resources, grade or stripping ratio may affect the economic viability of the Schefferville Projects. In addition, there can be no assurance that iron ore recoveries in small scale laboratory tests will be duplicated in larger scale tests under on-site conditions or during production. Fluctuation in iron ore prices, results of drilling, metallurgical testing and production and the evaluation of mine plans subsequent to the date of any estimate may require revisions of such estimates. 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.

### ***Uncertainty Relating to Inferred Mineral Resources***

There is a risk that inferred mineral resources cannot be converted into mineral reserves as the ability to assess geological continuity is not sufficient to demonstrate economic viability. Due to the uncertainty which may attach to inferred mineral resources, there is no assurance that inferred mineral resources will be upgraded to resources with sufficient geological continuity to constitute proven and probable mineral reserves as a result of continued exploration.

### *Need for Additional Mineral Reserves and Mineral Resources*

Because mines have limited lives, the Company will be required to continually replace and expand its mineral resources as its mines produce iron ore. The life-of-mine estimates in respect of the James (Stage 1), Houston - Malcolm (Stage 2) and Howse (Stage 3) deposits may not be correct. The Company's ability to maintain or increase its annual production of iron ore in the future will be dependent in significant part on its ability to bring new mines into production and to expand mineral resources at existing mines.

### *Transportation and Port 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 future operations will require rail transportation from the Schefferville region to a sea port and ship berthing, storage and loading facilities at such port. Although the Company has negotiated agreements covering rail transportation to the Port of Sept-Iles and berthing, storage and loading facilities at Sept-Iles, there can be no assurance that such arrangements will continue to be on economically feasible terms. 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.

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 Menihék Division railway line owned by TSH, which runs approximately 200 km between Schefferville and Emeril Junction, and the QNS&L railway line, 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 Wabush Mines (Cliffs Resources), which runs approximately 34 km around the bay to the port terminal at Pointe-Noire.

In June 2012, the Company signed a confidential, life-of-mine agreement with TSH for the transportation of iron ore over the Menihék Division. During 2011 and 2012, TSH carried out some upgrade work on its Menihék Division rail line following a cash investment by both the Company and TSMC. This ongoing TSH rail upgrade will require continuing cash investment by the two mine operating companies and TSH, and potentially by governments to ensure that the tonnages planned for future years can be efficiently transported. As part of its long-term confidential rail transportation contract with TSH, LIM has agreed to make contributions towards the costs of this upgrade program to a total amount of an additional \$15.5 million over the next four years in addition to \$9.5 million in non-repayable upgrade contributions LIM has already advanced to TSH. The full amount of this \$15.5 million of future upgrade 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 port handling arrangements for the shipment of LIM's iron ore production for 2015 and future years remain subject to ongoing evaluation and finalization. The Company continues to evaluate different options for the unloading, stockpiling and ship loading of the Company's iron ore products at the Port of Sept-Iles. These include the potential use of the Port's proposed new multi-user deep water dock and/or other facilities of the Sept-Iles Port Authority.

Pursuant to its July 2012 long term customer contract with the Port of Sept-Iles, the Company has secured ship loading capacity of 5 million tonnes per year, with the right to secure additional residual capacity, at this new multi-user facility. Under this contract, the Company paid a preliminary instalment of \$6.4 million towards its buy-in payment and guaranteed a final buy-in payment instalment of \$6.4 million. The Company has deferred payment of the final advance payment instalment of \$6.4 million, pending resolution of land access and product handling facility arrangements in the Pointe-Noire area of the Port. The Company continues to cooperate with the Sept-Iles Port Authority to resolve

these issues and is in ongoing discussions with the Sept-Iles Port Authority, and with other port operators, regarding rail transportation, storage, reclaim and ship-loading and trans-shipment 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.

### ***Ability to Attract and Retain Qualified Personnel***

The Company is dependent on the services of key executives, including the Chairman and Chief Executive Officer (“CEO”), the President and Chief Operating Officer (“COO”), the Chief Financial Officer (“CFO”), the Senior Vice President Operations (“SVP”) and a number of other skilled and experienced executives and personnel. Due to the relatively small size of the Company, the loss of these persons or the Company’s inability to attract and retain additional highly skilled or experienced employees may adversely affect its business and future operations.

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 may be exacerbated as a result of expansions announced by other companies operating in the Labrador Trough region. 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 and development 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.

### ***Government Regulation and Permitting***

The current or future operations of the Company, including development activities and commencement of production on its properties, 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.

### ***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 hydroelectric 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 the Company, "to ensure protection of their rights". This barricade was removed by the Innu in early September 2010.

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.

### ***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 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 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 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 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. Surveys have not been carried out on any of the Schefferville Projects in accordance with the laws of Newfoundland and Labrador and Quebec; therefore, their existence and area could be in doubt. Until competing interests in the mineral lands have been determined, 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.

### ***Factors Beyond Company's Control***

The exploration and development of mineral properties and the marketability of any minerals contained in such properties will be affected by numerous factors beyond the control of the Company. These factors include government regulation, high levels of volatility in market prices, availability of markets, availability of adequate transportation and processing facilities and the imposition of new or amendments to existing taxes and royalties. The effect of these factors cannot be accurately predicted.

### ***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, 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 will purchase 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. 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.

### ***Lags***

The Company is unable to predict the amount of time which may elapse between the date when any new mineral deposit may be discovered, the date upon which such discovery may be deemed to be economic pursuant to a feasibility study and the date when production will commence from any such discovery.

### ***Management***

The success of the Company is currently largely dependent on the performance of its directors and officers. 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.

### ***Price Volatility of Publicly Traded Securities***

Securities of exploration and mining companies have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include macroeconomic developments in North America and globally, and market perceptions of the relative attractiveness of particular industries. The Company's share price is also likely to be significantly affected by short-term changes in metal prices or in the Company's financial condition or results of operations as reflected in quarterly earnings reports. Other factors unrelated to the Company's performance that may have an effect on the price of the the Company Shares include the following:

- the extent of analyst coverage available to investors concerning the Company's business may be limited if investment banks with research capabilities do not follow its securities;
- limited trading volumes and general market interest in the Company's securities may affect an investor's ability to trade the Company's shares;
- the relatively small number of publicly held shares may limit the ability of some institutions to invest in the Company's securities; and
- a substantial decline in the Company's share price that persists for a significant period of time could cause its securities to be delisted from any stock exchange upon which they are listed, further reducing market liquidity.

As a result of any of these factors, the market price of the Company's shares at any given point in time may not accurately reflect the Company's long-term value.

### ***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. The appreciation of the U.S. dollar against the Canadian dollar, if it occurs, may have a significant impact on the Company's financial position and results of operations in the future.

### ***Conflicts of Interest***

Certain of the directors and officers of the Company also serve as directors and/or officers of, or have significant shareholdings in, other companies involved in natural resource exploration and development and consequently there exists the possibility for such directors and officers to be in a position of conflict. Any decision made by any of such directors and officers involving the Company will be made in accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of the Company and its shareholders. In addition, each of the directors is required to declare and refrain from voting on any matter in which such directors may have a conflict of interest in accordance with the procedures set forth in the *Business Corporations Act* (Ontario) and other applicable laws.

To the extent that such other companies may participate in ventures in which the Company may participate, the directors of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for the approval of such participation or such terms.

From time to time several companies may collectively participate in the acquisition, exploration and development of natural resource properties thereby allowing for their participation in larger programs, permitting involvement in a greater number of programs and reducing financial exposure in respect of any one program. It may also occur that a particular company will assign all or a portion of its interest in a particular program to another of these companies due to the financial position of the company making the assignment. Under the laws of the Province of Ontario, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at that time.

## INTERNAL CONTROLS OVER FINANCIAL REPORTING

The CEO and 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, 2013 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 September 30, 2013, 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, 2013 and the unaudited condensed interim consolidated financial statements for the three and six months ended September 30, 2013, is available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

### Qualified Persons

Scientific and technical information disclosed herein has been prepared under the supervision of Rod Cooper, P.Eng., President and Chief Operating Officer and Michel Cormier, Geol. Eng., Vice President Exploration of the Company, both of whom act as the Company's Qualified Persons within the meaning of NI 43-101.

Technical Report entitled "*Technical Report: Schefferville Area Direct Shipping Iron Ore Projects Resource Update in Western Labrador and North Eastern Quebec, Canada for Labrador Iron Mines Holdings Limited*" dated effective April 12, 2013 by Maxime Dupéré, P.Geo. and Michel Dagbert, Eng. of SGS Canada Inc. and Justin Taylor P.Eng. of DRA Americas Inc., all of whom are Qualified Persons and independent persons of the Company within the meaning of NI 43-101, filed on SEDAR, which may be viewed under the Company's profile at [www.sedar.com](http://www.sedar.com).

Technical Report entitled "*Technical Report Mineral Resource Update of the Houston and Malcolm 1 Property, Labrador West Area, Newfoundland and Labrador and North Eastern Quebec Canada, for Labrador Iron Mines Holdings Limited*" dated effective April 24, 2013 by Maxime Dupéré, P.Geo. of SGS Canada Inc. and Justin Taylor P.Eng. of DRA Americas Inc., both of whom are Qualified Persons and independent persons of the Company within the meaning of NI 43-101, filed on SEDAR, which may be viewed under the Company's profile at [www.sedar.com](http://www.sedar.com).

Technical Report entitled "*Mineral Resource Technical Report Elizabeth Taconite Project Labrador*" dated effective June 15, 2013 by George H. Wahl, P.Geo., GH Wahl & Associates Consulting who is a Qualified Person and independent of the Company and within the meaning of NI 43-101, filed on SEDAR, which may be viewed under the Company's profile at [www.sedar.com](http://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.*