



(A Development-Stage Company)

Condensed Interim Consolidated Financial Statements
For the three and nine month periods ended September 30, 2017
(in Canadian dollars)
(Unaudited)

Alderon Iron Ore Corp.

Condensed Interim Consolidated Statements of Financial Position

(in Canadian dollars)

(Unaudited)

	As of September 30, 2017	As of December 31, 2016
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents (note 20)	4,650,447	8,854,646
Short-term investments (note 20)	1,540,857	1,253,365
Restricted investments (note 3)	21,000,000	-
Receivables (note 4)	182,952	400,409
Prepaid expenses (note 5)	202,555	96,391
Total current assets	27,576,811	10,604,811
Non-current assets		
Restricted investments (note 3)	-	21,000,000
Mineral properties (note 6)	89,951,385	177,120,145
Property, plant and equipment (note 7)	14,665,615	28,906,099
Long-term advance (note 8)	10,383,000	20,465,016
Total non-current assets	115,000,000	247,491,260
Total assets	142,576,811	258,096,071
LIABILITIES		
Current liabilities		
Payables and accrued liabilities (note 9)	18,867,030	10,119,409
Due to related parties (note 11)	338,429	350,746
Deferred share unit liability (note 12)	144,913	1,195,736
Interest payable on convertible debt (note 10)	474,048	-
Total current liabilities	19,824,420	11,665,891
Non-current liabilities		
Convertible debt (note 10)	22,200,000	21,411,871
Total liabilities	42,024,420	33,077,762
EQUITY		
Share capital, warrants and conversion option (notes 10, 13 and 14)	264,486,581	264,346,796
Other capital (notes 12 and 15)	26,053,393	25,044,099
Deficit	(203,243,597)	(107,753,906)
Equity attributable to owners of the parent	87,296,377	181,636,989
Non-controlling interest	13,256,014	43,381,320
Total equity	100,552,391	225,018,309
Total liabilities and equity	142,576,811	258,096,071

Basis of preparation, nature of operations and going concern (note 1)

Commitments and contingencies (notes 3 and 22)

Subsequent events (note 23)

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

Approved by the Board of Directors

"Adrian Loader"

Adrian Loader
Director

"David Porter"

David Porter
Director

Alderon Iron Ore Corp.

Condensed Interim Consolidated Statements of Changes in Equity

For the nine month periods ended September 30, 2017 and 2016

(in Canadian dollars, except share data)

(Unaudited)

	Attributable to owners of the parent				Non-controlling interest	Total
	Common shares	Share capital, warrants, and conversion option	Other capital	Deficit		
	(number)	\$	\$	\$		
Balance – January 1, 2016	132,134,061	264,346,796	24,964,602	(105,139,643)	47,364,184	231,535,939
Share-based compensation costs – stock options (note 15)	-	-	27,744	-	-	27,744
Net loss and comprehensive loss	-	-	-	(1,577,343)	(2,558,323)	(4,135,666)
Total contributions by and distributions to owners	-	-	27,744	(1,577,343)	(2,558,323)	(4,107,922)
Balance – September 30, 2016	132,134,061	264,346,796	24,992,346	(106,716,986)	44,805,861	227,428,017

	Attributable to owners of the parent				Non-controlling interest	Total
	Common shares	Share capital, warrants, and conversion option	Other capital	Deficit		
	(number)	\$	\$	\$		
Balance – January 1, 2017	132,134,061	264,346,796	25,044,099	(107,753,906)	43,381,320	225,018,309
Issuance of common shares (notes 12 and 13)	504,456	139,785	-	-	-	139,785
Modification of deferred share unit plan (note 12)	-	-	793,556	-	-	793,556
Share-based compensation costs – stock options (note 15)	-	-	195,925	-	-	195,925
Share-based compensation costs – deferred share units (note 12)	-	-	19,813	-	-	19,813
Net loss and comprehensive loss	-	-	-	(95,489,691)	(30,125,306)	(125,614,997)
Total contributions by and distributions to owners	504,456	139,785	1,009,294	(95,489,691)	(30,125,306)	(124,465,918)
Balance – September 30, 2017	132,638,517	264,486,581	26,053,393	(203,243,597)	13,256,014	100,552,391

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

Alderon Iron Ore Corp.

Condensed Interim Consolidated Statements of Comprehensive Loss
For the three and nine month periods ended September 30, 2017 and 2016

(in Canadian dollars, except share and per share data)
(Unaudited)

	Three month periods ended September 30,		Nine month periods ended September 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Operating expenses				
Impairment of Kami Project (note 17)	-	-	111,666,355	-
Newfoundland and Labrador Hydro settlement (note 3)	9,500,000	-	9,500,000	-
General and administrative expenses (note 18)	654,398	507,180	2,119,307	1,835,043
Project maintenance expenses (note 18)	212,360	220,086	742,466	793,427
Foreign exchange loss (gain)	(192,956)	41,893	(363,800)	(279,856)
	<u>10,173,802</u>	<u>769,159</u>	<u>123,664,328</u>	<u>2,348,614</u>
Loss from operations	(10,173,802)	(769,159)	(123,664,328)	(2,348,614)
Finance income	63,150	105,080	251,811	324,883
Finance costs (note 10)	(745,871)	(711,646)	(2,202,480)	(2,111,935)
Net finance costs	<u>(682,721)</u>	<u>(606,566)</u>	<u>(1,950,669)</u>	<u>(1,787,052)</u>
Net loss and comprehensive loss	<u>(10,856,523)</u>	<u>(1,375,725)</u>	<u>(125,614,997)</u>	<u>(4,135,666)</u>
Attributable to:				
Owners of the parent	(8,724,862)	(235,837)	(95,489,691)	(1,577,343)
Non-controlling interest	(2,131,661)	(1,139,888)	(30,125,306)	(2,558,323)
	<u>(10,856,523)</u>	<u>(1,375,725)</u>	<u>(125,614,997)</u>	<u>(4,135,666)</u>
Net loss per share (note 16)				
Basic and diluted	<u>(0.07)</u>	<u>(0.00)</u>	<u>(0.72)</u>	<u>(0.01)</u>
Weighted average number of shares outstanding (note 16)				
Basic and diluted	<u>132,155,994</u>	<u>132,134,061</u>	<u>132,141,452</u>	<u>132,134,061</u>

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

Alderon Iron Ore Corp.

Condensed Interim Consolidated Statements of Cash Flows

For the three and nine month periods ended September 30, 2017 and 2016

(in Canadian dollars)

(Unaudited)

	Three month periods ended September 30,		Nine month periods ended September 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Cash flows from operating activities				
Net loss	(10,856,523)	(1,375,725)	(125,614,997)	(4,135,666)
Adjustments for:				
Impairment of Kami Project (note 17)	-	-	111,666,355	-
Share-based compensation costs (notes 12 and 15)	93,855	13,380	215,738	27,744
Deferred share unit compensation costs (recovery) (note 12)	(204,467)	(19,402)	(117,482)	198,299
Finance income	(63,150)	(105,080)	(251,811)	(324,883)
Finance costs	745,871	711,646	2,202,480	2,111,935
Changes in operating assets and liabilities (note 19)	9,378,589	202,699	8,986,524	(57,655)
Interest received	289	32,597	333,123	396,086
Net cash used in operating activities	(905,536)	(539,885)	(2,580,070)	(1,784,140)
Cash flows from investing activities				
Additions to mineral properties (note 6)	-	-	(175,095)	(169,041)
Deposit on equipment (note 7)	(221,239)	(221,239)	(221,239)	(221,239)
Increase in short-term investments	-	-	(287,492)	(286,354)
Disposal of property, plant and equipment (note 7)	-	-	-	93,590
Net cash used in investing activities	(221,239)	(221,239)	(683,826)	(583,044)
Cash flows from financing activities				
Principal paid on convertible debt (note 10)	-	-	-	(92,804)
Interest paid on convertible debt (note 10)	-	-	(940,303)	(946,129)
Net cash used in financing activities	-	-	(940,303)	(1,038,933)
Net change in cash and cash equivalents	(1,126,775)	(761,124)	(4,204,199)	(3,406,117)
Cash and cash equivalents at the beginning of the period	5,777,222	11,229,621	8,854,646	13,874,614
Cash and cash equivalents at the end of the period	4,650,447	10,468,497	4,650,447	10,468,497

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

Alderon Iron Ore Corp.

Notes to the Condensed Interim Consolidated Financial Statements
September 30, 2017

(amounts in Canadian dollars, except share/option/warrant/unit data)
(Unaudited)

1 Summary of business, reporting entity, basis of preparation, nature of operations and going concern

Summary of business

Alderon Iron Ore Corp. ("Alderon" or the "Company") is a development-stage company conducting iron ore evaluation activities related entirely to its Canadian properties located in western Labrador in the province of Newfoundland and Labrador. Those properties are collectively referred to as the Kamistiatusset, or "Kami", Property. All activities associated with the Kami Property are referred to as the Kami Project.

Reporting entity

The accompanying condensed interim consolidated financial statements include the accounts of Alderon Iron Ore Corp., an entity incorporated under the laws of the Province of British Columbia, and its subsidiaries: 0964896 BC Ltd., an entity incorporated under the laws of the Province of British Columbia, and Kami General Partner Limited ("Kami GP"), an entity incorporated under the laws of the Province of Ontario. The condensed interim consolidated financial statements also include the accounts of an affiliate, The Kami Mine Limited Partnership ("The Kami LP"), an entity established under the laws of the Province of Ontario. Kami GP and The Kami LP are each owned 75%, directly or indirectly, by the Company. The Company transferred the Kami Property into The Kami LP during the year ended December 31, 2013.

The Company's common shares are listed on the Toronto Stock Exchange ("TSX") under the symbol "IRON". During the nine month period ended September 30, 2017, the Company changed its trading symbol from "ADV" to "IRON" effective March 8, 2017.

Basis of preparation, nature of operations and going concern

Basis of preparation

The accompanying condensed interim consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, *Interim Financial Reporting* ("IAS 34"), and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2016.

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates and the exercise of management's judgment in applying the Company's accounting policies. Areas involving a high degree of judgment or complexity and areas where assumptions and estimates are significant to the Company's condensed interim consolidated financial statements are discussed in note 2.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and effective as of September 30, 2017. These condensed interim consolidated financial statements were approved by the Company's Board of Directors on November 7, 2017.

Nature of operations and going concern

The accompanying condensed interim consolidated financial statements were prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due.

Alderon Iron Ore Corp.

Notes to the Condensed Interim Consolidated Financial Statements
September 30, 2017

(amounts in Canadian dollars, except share/option/warrant/unit data)
(Unaudited)

1 Summary of business, reporting entity, basis of preparation, nature of operations and going concern (continued)

The application of the going concern concept is dependent upon the Company's ability to satisfy its liabilities as they become due and to obtain the necessary financing to complete the development of its mineral property interests, the attainment of profitable mining operations or the receipt of proceeds from the disposition of its mineral property interests. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period.

The business of exploration, development and mining of minerals involves a high degree of risk and there can be no assurance that current exploration, development and mining plans will result in profitable mining operations. The recoverability of the carrying value of assets and the Company's continued existence is dependent upon the preservation of its interests in the underlying properties, the development of economically recoverable resources, the achievement of profitable operations and the ability of the Company to raise additional financing. Changes in future conditions or anticipated future conditions could require further material write-downs to the carrying values of the Company's assets (note 17).

On December 9, 2014, the Company announced a cash preservation program designed to allow it to maintain sufficient liquidity during the advancement of its financing plan. This program included an interest deferral agreement with Liberty Metals & Mining Holdings, LLC ("Liberty"), a subsidiary of Liberty Mutual Insurance and a significant shareholder of Alderon (note 10), voluntary partial payment deferrals with equipment vendors for work completed to date, workforce reductions and the implementation of a deferred share unit plan (note 12) for directors in place of cash director fees.

The Company currently does not have sufficient financial resources to cover all of its originally planned commitments and as a result, it has split its purchase orders for equipment into two phases, engineering and manufacturing. Advances for engineering have been paid in full while commitments for manufacturing and fabrication remain contingent upon the Company issuing to its suppliers a notice to proceed following successful completion of its financing plan (note 22).

To date, the Company has not recorded any revenues from operations, has no source of operating cash flow and no assurance that additional funding will be available to it for further development of the Kami Project. The Company does not have financial resources sufficient to cover all of its commitments for the coming year, which include net amounts payable as at September 30, 2017, necessary general and administrative costs through the next 12 months, interest payments due on convertible debt, and contractual obligations as at September 30, 2017 (in relation to anticipated equipment payments (note 22)). In addition, the principal balance of the convertible debt in the amount of \$23,702,393 becomes due on December 31, 2018 (note 10). Subsequent to the nine month period ended September 30, 2017, the Company received cash in the amount of \$12,182,582 as a result of a settlement with Newfoundland and Labrador Hydro ("NLH") (notes 3 and 23).

On March 14, 2017, the Company filed on SEDAR a Technical Report, entitled *Re-scoped Preliminary Economic Assessment of the Kamistatusset (Kami) Iron Ore Property, Labrador for Alderon Iron Ore Corp.* (the "PEA"), dated effective February 28, 2017. The Company re-scoped the capital and operating costs of the Kami Project in order to identify savings that have arisen in the market and changes in ownership and management of assets in the Labrador Trough. The re-scoping process resulted in revised project economics and considers certain proposed infrastructure integrations which are subject to uncertainty. The proposed infrastructure integrations included a neighbouring mine to which the Company was unable to secure access as a result of a third party acquisition (notes 5 and 17). As a result, the Company prepared an updated preliminary economic assessment (the "Updated PEA") subsequent to the nine month period ended September 30, 2017. Prior to construction commencing, the Company will have to complete a feasibility study for the re-scoped Kami Project, reassemble the owner's team, award an Engineering, Procurement and Construction Management ("EPCM") or Engineering, Procurement and Construction ("EPC") contract, resume detailed engineering, and have construction financing in place.

Alderon Iron Ore Corp.

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2017

(amounts in Canadian dollars, except share/option/warrant/unit data)

(Unaudited)

1 Summary of business, reporting entity, basis of preparation, nature of operations and going concern (continued)

The revised project economics included in the PEA form the basis for the cash flows used to test the recoverability of the Kami Project assets, including mineral properties, property, plant and equipment and the long-term advance. As certain infrastructure access was not secured as expected, the cash flows used to test the recoverability of the Kami Project assets were revised and impairment occurred during the nine month period ended September 30, 2017 (note 17).

The Company has plans in place and is seeking to arrange the necessary funds in order to satisfy its obligations and commitments. Specifically, the Company continues to advance all of the elements of its financing plan, including debt and equity. There can be no assurance that implementation of the results of the re-scoping process and completion of the financing plan will be successful. These conditions and events indicate material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern.

If management is unable to obtain new funding and/or continue to delay the payment of certain of its amounts payable, the Company may be unable to continue its operations, and amounts realized for assets might be less than amounts reflected in these condensed interim consolidated financial statements. If the going concern assumption were not appropriate, adjustments to the carrying value of assets and liabilities, reported expenses and condensed interim consolidated statement of financial position classifications would be necessary. Such adjustments could be material.

2 Significant accounting policies and critical accounting estimates and judgments

Significant accounting policies

The accounting policies disclosed in the notes to the annual consolidated financial statements of the Company for the year ended December 31, 2016 have been applied consistently to all periods presented in these condensed interim consolidated financial statements, except for as discussed below.

Share-based payments

The Company accounts for employee share-based compensation using the fair value-based method. The fair value of stock options is determined at the date of grant using the Black-Scholes option pricing model, which includes estimates of the number of awards that are expected to vest over the vesting period. The Company takes into account the expected forfeiture rate of the granted share options based on the Company's past experience. Where granted share options vest in installments over the vesting period (defined as graded vesting), the Company treats each installment as a separate share option grant. Share-based compensation expense is recognized over the vesting period, or as specified vesting conditions are satisfied, and credited to other capital within equity.

Any consideration received by the Company in connection with the exercise of stock options is credited to share capital. Any other capital component of the share-based compensation is transferred to share capital upon the issuance of shares.

For equity-settled deferred share units, fair values are determined at the date of grant using the five-day volume weighted average price per share at which the common shares traded on the TSX immediately prior to the grant date. The expense is recognized as a component of general and administrative expenses with a corresponding increase to other capital within equity. Upon redemption, the fair value of the award is reclassified from other capital to share capital.

For cash-settled deferred share units, fair values are determined at each reporting date and periodic changes are recognized as a component of general and administrative expenses, with a corresponding change to liabilities.

Alderon Iron Ore Corp.

Notes to the Condensed Interim Consolidated Financial Statements
September 30, 2017

(amounts in Canadian dollars, except share/option/warrant/unit data)
(Unaudited)

2 Significant accounting policies and critical accounting estimates and judgments (continued)

Critical accounting estimates and judgments

The preparation of the Company's condensed interim consolidated financial statements in accordance with IAS 34 requires management to make estimates about and apply assumptions to future events and other matters that affect the reported amounts of the Company's assets, liabilities, expenses and related disclosures. Assumptions and estimates are based on historical experience, expectations, current trends and other factors that management believes to be relevant at the time at which the Company's condensed interim consolidated financial statements are prepared. Management reviews, on a regular basis, the Company's accounting policies, assumptions and estimates in order to ensure that the condensed interim consolidated financial statements are presented fairly and in accordance with IAS 34.

Critical accounting estimates are those that have a significant risk of causing material adjustment and are often applied to matters or outcomes that are inherently uncertain and subject to change. As such, management cautions that future events often vary from forecasts and expectations and that estimates routinely require adjustment. The significant judgments made by the Company in applying accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements of the Company for the year ended December 31, 2016, except for as discussed below.

Carrying value and recoverability of long-lived assets

The carrying amounts of the Company's mineral properties and related long-lived assets do not necessarily represent present or future values, and the Company's long-lived assets have been accounted for under the assumption that the carrying amounts will be recoverable. Recoverability is dependent on various factors, including the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development and upon future profitable production or proceeds from the disposition of the mineral properties themselves. Additionally, there are numerous geological, economic, environmental and regulatory factors and uncertainties that could impact management's assessment as to the overall viability of the Kami Project or to the ability to generate future cash flows necessary to cover or exceed the carrying value of the Company's mineral properties and related long-lived assets.

Mineral properties, property, plant and equipment and the long-term advance are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Management is required to assess at each reporting date whether there is any indication that an asset may be impaired. Where such an indication exists, the asset's recoverable amount is compared to its carrying value, and an impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Impairment losses are recognized in profit or loss in the statement of comprehensive loss. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows, or cash-generating units ("CGU"). In determining value in use of a given asset or CGU, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Alderon Iron Ore Corp.

Notes to the Condensed Interim Consolidated Financial Statements
September 30, 2017

(amounts in Canadian dollars, except share/option/warrant/unit data)
(Unaudited)

2 Significant accounting policies and critical accounting estimates and judgments (continued)

During the nine month period ended September 30, 2017, management determined that there were indicators that the Kami Project assets, including mineral properties, property, plant and equipment and the long-term advance, may not be recoverable (note 17). The Company determined the recoverable amount of Kami Project assets using the value in use calculation which was assessed using cash flow projections, which take into account the capital and operating costs over the expected construction timeline and life of mine, as well as the cash generated from subsequent sales of the Kami Project's iron ore production based on the PEA. The key assumptions used in this calculation include the Kami Project's capital cost, estimated production volume, the long-term iron ore sales price, the long-term Canadian and US dollar exchange rate, expected operating costs, as well as discount rates which are based on estimates of the risks associated with the projected cash flows based on information available as of the date of the impairment test. During the nine month period ended September 30, 2017, the Company recognized an aggregate impairment loss in the amount of \$111,666,355 in the condensed interim consolidated statements of comprehensive loss with respect to mineral properties and related long-lived assets (note 17).

To the extent that any of management's assumptions change, there could be a significant impact on the Company's future financial position, operating results and cash flows (note 1).

3 Restricted investments

Restricted investments represent investments deposited with the Company's bank to guarantee letters of credit issued in the course of the Company's development activities. Such investments must remain on deposit as long as the letters of credit are outstanding.

On February 19, 2014, the Company entered into a Power Purchase Agreement ("PPA") with NLH, pursuant to which NLH agrees to sell electrical power and energy to the Company. Power will be provided based on a rate schedule in line with the Labrador Industrial Rates Policy published in December 2012. Under the terms of the Security Agreement with NLH (the "Security Agreement"), the Company agreed to provide a total of \$65,000,000 in security deposits that would each take the form of a letter of credit that would be released to the Company once the Kami Project was interconnected to the electrical system as contemplated under the PPA, and had been commissioned and the Company had loaded saleable product produced from the Kami Project in two consecutive months.

The first security deposit in the amount of \$21,000,000 (the "Security Deposit") was paid upon the signing of the Security Agreement. The remaining \$44,000,000 in security deposits was to be provided to NLH at such time as NLH could reasonably demonstrate that it had additional existing and pending commitments for such amount to construct the new transmission line.

On September 18, 2017, the Company and NLH executed a settlement agreement with respect to the Security Agreement and the Security Deposit in the amount of \$21,000,000 (the "Settlement Agreement"). In accordance with the Settlement Agreement, the Company will pay NLH \$9,500,000 (the "Settlement Amount") in exchange for the release of the Security Deposit and transfer of the remaining funds, plus accrued interest, to the Company. Upon receipt of the Settlement Amount by NLH, the Security Agreement shall be deemed terminated. In addition, should NLH receive any financial benefit with respect to certain remobilization credits, NLH shall pay one half of the financial value of that credit to the Company.

As at September 30, 2017, the Company accrued the Settlement Amount of \$9,500,000 payable to NLH in accordance with the Settlement Agreement (note 9). Subsequent to the nine month period ended September 30, 2017, the Settlement Amount was paid to NLH, the Security Deposit was released and the Company received \$12,182,582, representing the balance of funds, plus accrued interest (note 23).

Alderon Iron Ore Corp.

Notes to the Condensed Interim Consolidated Financial Statements
September 30, 2017

(amounts in Canadian dollars, except share/option/warrant/unit data)
(Unaudited)

4 Receivables

	As of September 30, 2017	As of December 31, 2016
	\$	\$
Interest receivable	131,326	212,638
Sales tax credits receivable	51,626	187,771
	<u>182,952</u>	<u>400,409</u>

5 Prepaid expenses

On March 27, 2017, the Company submitted a binding offer (the "Offer") in connection with formal sale procedures developed by Wabush Mines, Wabush Resources Inc., Wabush Iron Co. Limited, Wabush Lake Railway Company Limited (collectively, the "Vendors") in consultation with FTI Consulting Canada Inc. (the "Monitor"). The Offer was to purchase certain assets related to the Scully Mine, located north of the Town of Wabush in Newfoundland and Labrador, for the purpose of disposing of the tailings produced from the Kami Project (the "Scully Assets"). As consideration for the Scully Assets, the Company offered to pay \$1,000,000 and assume certain liabilities and obligations associated with ownership and operation of the Scully Assets. The Company paid a deposit in the amount of \$250,000 which would have been applied against the purchase price on closing if the Offer was accepted.

The Offer was rejected and the deposit in the amount of \$250,000 was returned to the Company on June 19, 2017 (note 17).

6 Mineral properties

On January 15, 2013, the Company filed on SEDAR a Technical Report, entitled *Feasibility Study of the Rose Deposit and Resource Estimate for the Mills Lake Deposit of the Kamistiatusset (Kami) Iron Ore Property, Labrador for Alderon Iron Ore Corp.*, (the "Feasibility Study"), dated effective December 17, 2012. As the technical feasibility and commercial viability of the extraction of the Kami Property's mineral reserves had been demonstrated, the Company started to capitalize directly attributable pre-production expenditures that gave rise to future economic benefits as of February 1, 2013. Pre-production expenditures incurred prior to February 1, 2013 were recorded in the statement of comprehensive loss as exploration and evaluation expenses or environmental, aboriginal, government and community expenses. Generally, as of November 15, 2014, the Company ceased to incur development costs eligible for capitalization as it was focused on the advancement of its financing plan rather than the development of the Kami Project. Accordingly, most of the costs incurred with respect to the Kami Project subsequent to November 15, 2014 have been recorded as project maintenance expenses in the Company's operating expenses.

On March 14, 2017, the Company filed on SEDAR a Technical Report, entitled *Re-scoped Preliminary Economic Assessment of the Kamistiatusset (Kami) Iron Ore Property, Labrador for Alderon Iron Ore Corp.*, dated effective February 28, 2017. As a result of a third party acquiring the Scully Assets to which the PEA assumed access for the purpose of disposing of the tailings produced from the Kami Project, the Company prepared the Updated PEA subsequent to the nine month period ended September 30, 2017.

Alderon Iron Ore Corp.

Notes to the Condensed Interim Consolidated Financial Statements
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(amounts in Canadian dollars, except share/option/warrant/unit data)
(Unaudited)

6 Mineral properties (continued)

Components of the Company's mineral properties, as well as activity associated therewith, are summarized below.

	Acquisition costs	Development costs	Share-based compensation costs capitalized	Interest capitalized	Depreciation capitalized	Accumulated impairment	Total
	\$	\$	\$	\$	\$	\$	\$
Balance – January 1, 2016	88,668,710	86,043,162	495,423	1,694,823	48,986	-	176,951,104
Additions during the year	-	169,041	-	-	-	-	169,041
Balance – December 31, 2016	88,668,710	86,212,203	495,423	1,694,823	48,986	-	177,120,145
Additions during the period	-	175,095	-	-	-	-	175,095
Impairment loss (note 17)	-	-	-	-	-	(87,343,855)	(87,343,855)
Balance – September 30, 2017	88,668,710	86,387,298	495,423	1,694,823	48,986	(87,343,855)	89,951,385

Additions to mineral properties in the condensed interim consolidated statements of cash flows are presented on a cash basis. During the nine month period ended September 30, 2017, cash expenditures totaled \$175,095 (2016 - \$169,041). During the three month periods ended September 30, 2017 and 2016, cash expenditures totalled \$nil.

During the nine month period ended September 30, 2017, the Company recorded an impairment loss with respect to the Kami Project in the amount of \$111,666,355 of which \$87,343,855 was allocated to mineral properties on a pro-rata basis (note 17).

7 Property, plant and equipment

The change in the balance of property, plant and equipment during the nine month period ended September 30, 2017 is summarized below.

	Construction in progress
	\$
Historical cost – January 1, 2017	28,906,099
Additions	-
Disposals	-
Historical cost – September 30, 2017	28,906,099
Accumulated depreciation and impairment – January 1, 2017	-
Depreciation expense	-
Impairment loss (note 17)	(14,240,484)
Accumulated depreciation and impairment – September 30, 2017	(14,240,484)
Carrying value – September 30, 2017	14,665,615

There was no change in the balance of property, plant and equipment during the year ended December 31, 2016.

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7 Property, plant and equipment (continued)

During the three and nine month periods ended September 30, 2017, the Company advanced \$221,239 (2016 - \$221,239) to suppliers in relation to the purchase of equipment. Construction in progress relates to advances paid or accrued on equipment (note 9).

During the nine month period ended September 30, 2017, the Company recorded an impairment loss with respect to the Kami Project in the amount of \$111,666,355 of which \$14,240,484 was allocated to property, plant and equipment on a pro-rata basis (note 17).

During the nine month period ended September 30, 2016, the Company sold land and building which were previously classified as asset held for sale and had a carrying value in the amount of \$93,590. The Company received gross proceeds of \$99,961 and incurred transaction costs of \$6,371 and sales tax of \$786. Subsequent to the sale of the land and building, the Company paid the net proceeds of the sale in the amount of \$92,804 to Liberty to reduce the principal outstanding on the Amended Note in consideration for Liberty releasing its security interest in the land and building (note 10).

8 Long-term advance

On July 13, 2012, the Company entered into an agreement with the Sept-Îles Port Authority (the "Port") to secure usage of a new multi-user deep water dock facility that the Port is constructing (the "Port Agreement"). The initial commitment paid by the Company was \$20,465,016 (the "Buy-in Payment"), which constitutes an advance on Alderon's future shipping fees. The Buy-in Payment will be reimbursed to the Company via a discount that will be applied to shipping fees to be billed by the Port once Alderon's usage of the multi-user facility commences. Once the new multi-user dock facility is operational, the Company has a take or pay obligation based on a discounted rate applied on 50% of the 8,000,000 tons minimum annual shipping capacity and is payable even if Alderon does not use the facilities.

The change in the balance of the long-term advance during the nine month period ended September 30, 2017 is summarized below.

	\$
Balance – January 1, 2017	20,465,016
Impairment loss (note 17)	<u>(10,082,016)</u>
Balance – September 30, 2017	<u>10,383,000</u>

There was no change in the balance of the long-term advance during the year ended December 31, 2016.

During the nine month period ended September 30, 2017, the Company recorded an impairment loss with respect to the Kami Project in the amount of \$111,666,355 of which \$10,082,016 was allocated to the long-term advance on a pro-rata basis (note 17).

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9 Payables and accrued liabilities

	As of September 30, 2017	As of December 31, 2016
	\$	\$
Newfoundland and Labrador Hydro settlement (notes 3 and 23)	9,500,000	-
Accrued payable on purchases of equipment (note 7)	5,217,103	5,803,208
Accrued development and project maintenance costs	3,450,033	3,503,600
Other accrued liabilities	365,608	365,892
Trade accounts payable	281,013	240,957
Sales tax credits payable	-	160,979
Accrued legal and professional expenses	50,500	42,000
Accrued salaries and benefits	2,773	2,773
	18,867,030	10,119,409

10 Convertible debt

On February 24, 2014, Liberty provided a loan to The Kami LP (the "Note") in the amount of \$22,000,000. \$21,000,000 of the gross proceeds of the Note was used to fund the Security Deposit (note 3). The remaining \$1,000,000 was used for working capital purposes, including for the payment of the establishment fee and transaction costs. Commencing 12 months after the issuance of the Note, the principal amount of the Note and any accrued but unpaid interest, became convertible at Liberty's option into the Company's common shares at a conversion price equal to \$2.376 per common share. The Note is secured with a mortgage over the Kami Project and bears interest at a rate of 8% per annum, payable on June 30th and December 31st of each year. A 1.5% establishment fee was paid to Liberty in connection with the Note. The Company has the option to prepay the entire balance of the Note, at a premium of a 20% internal rate of return to Liberty. The maturity date of the Note is December 31, 2018.

As of February 24, 2014, the effective interest rate that was used to accrete the liability component of the Note up to the principal amount at maturity was 12.7%. The issuance of the Note was recorded at inception as follows:

	\$
Debt component	18,266,247
Equity component	3,403,753
Transaction costs	330,000
Gross proceeds	22,000,000

The recording of the equity component of the Note as described in the table above increased the non-controlling interest in the Company by \$850,938.

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10 Convertible debt (continued)

On December 8, 2014, the Company and Liberty amended the Note (the "Amended Note"). Liberty agreed to defer the interest payments due on December 31, 2014 and June 30, 2015. The deferred interest was added to the principal amount of the Note and is subject to interest in accordance with the terms of the Amended Note. In consideration of such deferral, Liberty was issued on each deferred interest payment date a number of warrants determined by dividing the interest payable by a dollar amount equal to a 10% premium to the volume weighted average trading price of the Company's common shares on the TSX for the five trading days prior to the applicable interest payment date. The Company issued 1,987,083 warrants to Liberty at a fair value of \$399,974 on December 31, 2014 and 3,254,353 warrants to Liberty at a fair value of \$399,974 on June 30, 2015 (note 14). The Company accounted for the warrants issued as additional transaction costs of the Note which modified the carrying amount of the Note. The effective interest rate of the Amended Note is now 13.3%.

Transactions affecting the debt component of the Amended Note for the nine month period ended September 30, 2017 and the year ended December 31, 2016 are summarized as follows:

	\$
Balance – January 1, 2016	20,556,395
Accretion	948,280
Principal payment	<u>(92,804)</u>
Balance – December 31, 2016	21,411,871
Accretion	<u>788,129</u>
Balance – September 30, 2017	<u>22,200,000</u>

During the nine month period ended September 30, 2017, the Company accrued interest in the amount of \$1,414,351 (2016 - \$1,420,177), paid interest in the amount of \$940,303 (2016 - \$946,129) and recorded accretion expense in the amount of \$788,129 (2016 - \$691,758). During the three month period ended September 30, 2017, the Company accrued interest in the amount of \$474,048 (2016 - \$474,048), paid interest in the amount of \$nil (2016 - \$nil) and recorded accretion expense of \$271,823 (2016 - \$237,598). Interest and accretion expenses related to the Amended Note have been recorded as finance costs in the condensed interim consolidated statements of comprehensive loss.

During the nine month period ended September 30, 2016, the Company sold land and building and received gross proceeds of \$99,961 and incurred transaction costs of \$6,371 and sales tax of \$786 (note 7). The Company subsequently paid the net proceeds of the sale in the amount of \$92,804 to Liberty to reduce the principal outstanding on the Amended Note in consideration for Liberty releasing its security interest in the land and building.

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11 Related party disclosures

Related parties and related party transactions impacting the accompanying condensed interim consolidated financial statements are summarized below and include transactions with the following individuals or entities:

Key management personnel

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consists of executive and non-executive members of the Company's Board of Directors, corporate officers, including the Company's Chief Executive Officer and Chief Financial Officer, as well as any Vice Presidents reporting directly to a Corporate Executive Board member or officer, acting in that capacity.

Remuneration attributed to key management personnel can be summarized as follows:

	Three month periods ended September 30,		Nine month periods ended September 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Short-term benefits*	548,298	314,238	1,116,557	999,532
Share-based and deferred share unit compensation (recovery) (notes 12, 13 and 15)	(127,487)	(8,717)	61,420	226,042
	420,811	305,521	1,177,977	1,225,574

* include base salaries, pursuant to contractual employment or consultancy arrangements, directors' fees and other non-post-retirement benefits.

Other related parties

King & Bay West Management Corp. ("King & Bay"): King & Bay is an entity that is owned by the Company's Chief Executive Officer and Non-Executive Chairman of the Company's Board of Directors. King & Bay provides certain administrative, management, geological, legal and regulatory, accounting, corporate development, information technology support and corporate communications services to the Company.

Liberty: Liberty is a significant shareholder of the Company and is entitled to a representative on Alderon's Board of Directors. During the years ended December 31, 2014 and 2013, Liberty provided the Company with financing. The Company pays interest related to the Amended Note and also made a principal repayment during the year ended December 31, 2016 (note 10).

HBIS International Holding (Canada) Co., Ltd ("HBIS"): HBIS is a subsidiary of HBIS Group Co., Ltd. (formerly "Hebei Iron & Steel Group Co., Ltd.") ("HBIS Group"), a significant shareholder of the Company and a 25% owner of The Kami LP. HBIS has nominated two individuals who act as officers of Kami GP and provide services to the Company.

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11 Related party disclosures (continued)

Transactions entered into with related parties, other than key management personnel and not otherwise disclosed, include the following:

	Three month periods ended September 30,		Nine month periods ended September 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
King & Bay	126,909	57,754	358,669	221,825
HBIS	80,004	80,004	240,012	240,012
	206,913	137,758	598,681	461,837

Amounts owed to related parties, other than key management personnel and not otherwise disclosed, are summarized below.

	As of September 30,	As of December 31,
	2017	2016
	\$	\$
HBIS	256,680	284,696
King & Bay	81,749	66,050
	338,429	350,746

12 Deferred share units ("DSUs")

The Company has in place a deferred share unit plan (the "DSU Plan") whereby directors are issued DSUs, which vest immediately and are equivalent in value to a common share upon issuance of the Company. Under the DSU Plan, directors have the option to convert 25, 50, 75 or 100 percent of their annual director fees into DSUs. To support the Company's cash preservation program, the directors agreed to convert 100 percent of their annual director fees into DSUs as of September 30, 2014 and through to March 31, 2016. Effective April 1, 2016, the directors agreed to convert 50 percent of their annual director fees into DSUs. The director fees are converted into DSUs on a quarterly basis by dividing the appropriate percentage of director fees by the five-day volume weighted average price per share at which the common shares traded on the TSX immediately prior to the grant date. DSUs can only be redeemed following departure from the Company in accordance with the terms of the DSU Plan.

The DSU Plan was initially established as a cash-settled award plan. On September 14, 2017, the Company amended the DSU Plan whereby DSUs are to be settled by the payment of cash, the issuance of common shares from treasury, or a combination of both, as determined by the Board of Directors. On the basis that it is the Company's option and intent to settle any DSU redemptions received subsequent to September 14, 2017 by the issuance of common shares from treasury, the DSU Plan is considered an equity-settled award plan effective September 14, 2017.

As of September 14, 2017, the Company had 3,894,571 DSUs outstanding of the which the Company had received redemption notices for 1,008,912 DSUs prior to the effective date of amendment. As a result of the amendment, 2,885,659 DSUs were considered equity-settled awards and \$793,556 was reclassified from deferred share unit liability to other capital within equity.

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12 Deferred share units ("DSUs") (continued)

During the three and nine month periods ended September 30, 2017, two former directors of the Company redeemed 1,008,912 DSUs of which 504,456 DSUs were settled in common shares issued from treasury on September 26, 2017 and 504,456 DSUs were settled in cash in the amount of \$139,785 subsequent to the nine month period ended September 30, 2017 (notes 13 and 23). The elections to redeem the DSUs were received prior to the effective date of the amended DSU Plan. The balance of deferred share unit liability as of September 30, 2017 consists of the cash-settled DSU payment of \$139,785 and related source deductions of \$5,128.

During the year ended December 31, 2016, a former director of the Company redeemed 635,390 DSUs which the Company settled in cash in the amount of \$74,150.

A summary of the activity related to the Company's DSUs is provided below.

	<u>Number</u>
Balance – January 1, 2016	3,183,433
Granted	1,247,943
Redeemed	<u>(635,390)</u>
Balance – December 31, 2016	3,795,986
Granted	173,518
Redeemed	<u>(1,008,912)</u>
Balance – September 30, 2017	<u>2,960,592</u>

During the nine month period ended September 30, 2017, the Company recorded a recovery of compensation costs related to cash-settled DSUs in the condensed interim consolidated statements of comprehensive loss in the amount of \$117,482 (2016 – compensation costs of \$198,299) classified in general and administrative expenses.

During the three month period ended September 30, 2017, the Company recorded a recovery of compensation costs related to cash-settled DSUs in the statement of comprehensive loss in the amount of \$204,467 (2016 – \$19,402).

During the three and nine month periods ended September 30, 2017, the Company recorded compensation costs related to equity-settled DSUs in the amount of \$19,813 (2016 - \$nil), which were classified as share-based compensation costs within general and administration expenses.

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13 Share capital

The Company has authorized for issue an unlimited number of common shares (being voting and participating shares) without par value, and all shares issued and outstanding as of September 30, 2017 and December 31, 2016 are fully paid. Pursuant to the Company's articles of incorporation (the "Articles"), the Company may by following the procedures set out in the Articles and the *Business Corporations Act* (British Columbia) (the "Act"): create one or more classes or series of shares, with rights and restrictions specific to each class; subdivide or consolidate all or any of its unissued or fully paid issued shares; alter the identifying name of any of its shares; or otherwise alter its shares or authorized share structure when required or permitted to do so by the Act.

The Company issued the following common shares during the nine month period ended September 30, 2017:

On September 26, 2017, the Company issued 504,456 common shares valued at \$139,785 upon the redemption of 504,456 DSUs by former directors of the Company (note 12).

There were no common shares issued or cancelled during the year ended December 31, 2016.

14 Warrants

There were no warrants issued during the nine month period ended September 30, 2017 or the year ended December 31, 2016.

Warrants outstanding as of September 30, 2017 are summarized below.

Exercise price (\$)	Expiry date	Remaining expected life (years)	Number of warrants outstanding
0.2790	December 31, 2018	1.25	3,254,353
0.4465	December 31, 2018	1.25	1,987,083
			<u>5,241,436</u>

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15 Stock options

The Company operates an equity-settled share-based compensation plan under which the Company receives services from employees as consideration for equity instruments of the Company. The related stock option plan (the "Plan") follows applicable stock exchange policies regarding stock option awards granted to employees, directors and consultants.

The Plan allows for a fixed maximum number of shares equal to 16,500,000 to be reserved for issuance under the Plan. Options granted under the Plan have a maximum term of ten years. The vesting terms are at the discretion of the Company's Board of Directors.

The following table summarizes the activity under the Company's stock option plan.

	Number	Weighted average exercise price \$
Balance – January 1, 2016	7,095,000	2.69
Granted	2,880,000	0.15
Expired	(3,700,000)	3.36
Forfeited	(1,645,000)	2.15
Balance – December 31, 2016	4,630,000	0.77
Granted	780,000	0.40
Expired	(950,000)	2.01
Forfeited	(300,000)	0.15
Balance – September 30, 2017	4,160,000	0.47

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15 Stock options (continued)

Options outstanding as of September 30, 2017 are summarized below.

Exercise price (\$)	Expiry date	Remaining expected life (years)	Number of stock options outstanding	Number of stock options exercisable
1.87	January 23, 2018	0.32	150,000	150,000
1.55	December 11, 2018	1.20	50,000	50,000
1.48	May 29, 2019	1.66	600,000	600,000
0.15	September 7, 2021	3.94	2,580,000	1,290,000
0.53	January 23, 2022	4.32	180,000	45,000
0.43	March 30, 2022	4.49	100,000	25,000
0.34	April 27, 2022	4.57	350,000	-
0.35	June 7, 2022	4.69	150,000	-
			4,160,000	2,160,000

During the nine month period ended September 30, 2017, the Company recorded share-based compensation with respect to stock options in the amount of \$195,925 (2016 - \$27,744) which was recorded in operating expenses in the condensed interim consolidated statements of comprehensive loss.

During the three month period ended September 30, 2017, the Company recorded share-based compensation with respect to stock options in the amount of \$74,042 (2016 - \$13,380) which was recorded in operating expenses in the condensed interim consolidated statements of comprehensive loss.

The Company settles stock options exercised through the issuance of common shares from treasury.

Fair value input assumptions

The table below shows the assumptions, or weighted average parameters, applied to the Black-Scholes Option Pricing Model in order to determine share-based compensation costs over the life of the awards for options granted during each of the periods presented.

	Nine month period ended September 30, 2017	Nine month period ended September 30, 2016
Expected dividend yield	0.00%	0.00%
Estimated volatility	94.16%	77.65%
Weighted average risk-free annual interest rate	1.03%	0.62%
Weighted average expected life (years)	5.00	5.0
Grant date fair value	\$0.29	\$0.07

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16 Net loss per share

For the three and nine month periods ended September 30, 2017 and 2016, diluted net loss per share was calculated based on the net loss and comprehensive loss attributable to owners of the parent using the basic weighted average number of shares outstanding, since all outstanding conversion options, warrants, deferred share units and stock options have been excluded from the calculation of diluted net loss per share because they were anti-dilutive. Accordingly, diluted net loss per share for each period was the same as the basic net loss per share.

17 Impairment of the Kami Project

As a result of a third party acquiring the Scully Assets to which the PEA assumed access for the purpose of disposing of the tailings produced from the Kami Project (note 5) and the downward pressure on the price of iron ore, the Company revised the future cash flows used to test the recoverability of its long-lived assets related to the Kami Project during the nine month period ended September 30, 2017 (note 2). These revisions, for the purpose of the impairment test, included the addition of the estimated incremental costs to construct an alternative tailings management facility and reassessment of iron ore pricing and the discount rate applied to estimated future cash flows. Iron ore pricing was based on a historical average of The Steel Index, adjusted for a quality premium specific to the grade of iron ore at the Kami Property. The values assigned to key assumptions represent management's assessments of future trends in the iron ore industry and in the global economic environment. The assumptions used are management's best estimates and are based on both current and historical information from external and internal sources.

For the purpose of the impairment test, the Company determined the CGU related to the Kami Project to include mineral properties, property, plant and equipment and the long-term advance (the "Kami Project CGU"). During the nine month period ended September 30, 2017, the Company determined the recoverable amount of the Kami Project CGU based on a value in use calculation which comprised estimated future cash flows discounted at a pre-tax discount rate of 15.5% (December 31, 2016 – 13.5%). As the recoverable amount of the Kami Project CGU (\$115,000,000) was less than the carrying amount of the assets (\$226,666,355), an impairment loss in the amount of \$111,666,355 was recorded in the condensed interim consolidated statements of comprehensive loss and allocated on a pro-rata basis based on each asset's carrying value.

A reconciliation of the impairment loss allocation to each asset is presented below.

	Impairment loss allocation
	\$
Kami Project CGU	
Mineral properties (note 6)	87,343,855
Property, plant and equipment (note 7)	14,240,484
Long-term advance (note 8)	10,082,016
	111,666,355

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18 Operating expenses

General and administrative expenses for the three and nine month periods ended September 30, 2017 and 2016 are summarized below.

	Three month periods ended September 30,		Nine month periods ended September 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Consulting, professional and legal fees	502,960	295,799	1,356,270	912,284
Office and administration	63,773	71,690	221,009	207,992
Share-based compensation (notes 12 and 15)	93,855	13,380	215,738	27,744
Investor relations	71,163	863	157,395	7,517
Rent and facilities	41,610	36,600	116,742	112,980
Director fees	46,015	98,239	82,898	127,108
Travel	2,224	6,087	30,559	41,215
Regulatory	37,265	3,924	56,178	49,492
Salaries and benefits	-	-	-	150,412
Deferred share unit compensation (recovery) (note 12)	(204,467)	(19,402)	(117,482)	198,299
	654,398	507,180	2,119,307	1,835,043

Project maintenance expenses for the three and nine month periods ended September 30, 2017 and 2016 are summarized below.

	Three month periods ended September 30,		Nine month periods ended September 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Professional services and consulting	111,202	85,946	428,862	433,429
Rent and facilities	99,715	110,973	308,717	343,730
Other costs	1,443	23,167	4,887	16,268
	212,360	220,086	742,466	793,427

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19 Supplemental disclosure of cash flow information

	Three month periods ended		Nine month periods ended	
	September 30,		September 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Changes in operating assets and liabilities				
Receivables	(23,991)	66,799	136,145	297,306
Prepaid expenses	34,659	50,955	(106,164)	(88,513)
Payables and accrued liabilities	9,376,886	63,760	8,968,860	(324,014)
Due to related parties	(8,965)	21,185	(12,317)	57,566
	9,378,589	202,699	8,986,524	(57,655)

20 Capital disclosures

The Company's objective in managing capital, consisting of equity, with cash being its primary component, is to ensure sufficient liquidity to fund: development and other Kami Project activities; general and administrative expenses; working capital; and capital expenditures.

Management regularly monitors the Company's capital structure and makes adjustments thereto based on funds available to the Company for the acquisition, exploration and development of mineral properties. The Board of Directors has not established quantitative return on capital criteria for capital management, but rather relies upon the expertise of the management team to sustain the future development of the business.

The properties in which the Company currently has an interest are in the development stage, and the Company does not generate any revenue. Accordingly, the Company is dependent upon sources of external financing to fund both the Kami Project and its other costs. While the Company endeavours to minimize dilution to its shareholders, management has in the past engaged in dilutive financial transactions, such as private placements, and may engage in dilutive arrangements in the future.

The Company's policy on dividends is to retain cash to keep funds available to finance the activities required to advance the Company's Kami Project. Although the Company is not subject to any capital requirements imposed by any regulators or by any other external source, Alderon has provided commitments to HBIS Group with respect to the use of the \$119,926,293 (the "Initial Investment") in proceeds that HBIS Group provided in exchange for a 25% interest in The Kami LP during the year ended December 31, 2013.

As at September 30, 2017, \$4,040,650 of cash and \$1,540,857 in short-term investments are held by The Kami LP which originated from the Initial Investment. Under the terms of the agreements with HBIS Group, Alderon has agreed that the proceeds from the Initial Investment would be used solely for Kami Project related expenditures. As a result, Alderon is restricted from transferring this cash from The Kami LP to Alderon, with the exception of sales tax transactions on accrued intercompany management fees. The net funds received as a result of the Settlement Agreement are not attributable to the Initial Investment and have no such restrictions (note 3). However, the Company will need to obtain additional financing in the future (note 1).

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21 Financial instruments

The carrying values of the Company's cash and cash equivalents, restricted investments, short-term investments, receivables, payables and accrued liabilities, amounts due to related parties and interest payable to a related party approximate their fair values due to their short-term maturities or to the prevailing interest rates of the related instruments, which are comparable to those of the market. The determination of fair value of the convertible debt is based on a discounted cash flow model using the current market interest rate that the Company could have obtained for a similar secured loan without a conversion option.

The fair values of the Company's financial assets and liabilities, together with the carrying values included in the condensed interim consolidated statements of financial position, as of September 30, 2017 and December 31, 2016 are presented below. In the following tables, receivables exclude sales tax credits, and payables and accrued liabilities exclude sales tax credits payable.

As of September 30, 2017	Carrying value	Fair value
	\$	\$
Financial assets		
Cash and cash equivalents	4,650,447	4,650,447
Restricted investments (note 3)	21,000,000	21,000,000
Short-term investments	1,540,857	1,540,857
Receivables (note 4)	131,326	131,326
Financial liabilities		
Payables and accrued liabilities (note 9)	(18,867,030)	(18,867,030)
Due to related parties (note 11)	(338,429)	(338,429)
Interest payable on convertible debt (note 10)	(474,048)	(474,048)
Convertible debt (note 10)	(22,200,000)	(21,886,038)
	<u>(14,556,877)</u>	<u>(14,242,915)</u>
As of December 31, 2016	Carrying value	Fair value
	\$	\$
Financial assets		
Cash and cash equivalents	8,854,646	8,854,646
Restricted investments (note 3)	21,000,000	21,000,000
Short-term investments	1,253,365	1,253,365
Receivables (note 4)	212,638	212,638
Financial liabilities		
Payables and accrued liabilities (note 9)	(9,958,430)	(9,958,430)
Due to related parties (note 11)	(350,746)	(350,746)
Convertible debt (note 10)	(21,411,871)	(20,247,086)
	<u>(400,398)</u>	<u>764,387</u>

Alderon Iron Ore Corp.

Notes to the Condensed Interim Consolidated Financial Statements
September 30, 2017

(amounts in Canadian dollars, except share/option/warrant/unit data)
(Unaudited)

22 Commitments and contingencies

The Company has the following commitments with respect to an operating lease:

	For the years ending December 31,					Total
	2017	2018	2019	2020	2021	
	\$	\$	\$	\$	\$	\$
Rent	15,000	60,000	60,000	60,000	40,000	235,000

The Company has negotiated contracts with suppliers in relation to the purchase of equipment. As at September 30, 2017, payments of \$30,085,000 remain to be paid on the equipment for contracts entered into and approximately \$29,904,000 of this amount is contingent on confirmation by the Company of future fabrication of this equipment.

In connection with the 2010 purchase from Altius Resources Inc. ("Altius") of the Kami Property, Alderon committed to paying Altius a 3% gross royalty on iron ore concentrate that is generated from the Kami Project.

In connection with the 2012 subscription transaction and the Initial Investment into the Kami Project, HBIS Group agreed to purchase, upon the commencement of commercial production, 60% of the actual annual production from the Kami Project up to a maximum of 4,000,000 tonnes of the first 8,000,000 tonnes of iron ore concentrate produced annually at the Kami Project. The price paid by HBIS Group will be based on the Platts Iron Ore Index ("Platts Price"), including additional quoted premium for iron content greater than 62%, less a discount equal to 5% of such quoted price. HBIS Group also will have the option to purchase additional tonnages at a price equal to the Platts Price, without any such discount.

On January 21, 2014, the Company entered into an agreement (the "Agreement") with the Town of Labrador City ("Labrador City") with respect to the development of the Kami Project (as amended on October 21, 2016). Under the terms of the Agreement, the Company will pay to Labrador City an annual grant based on the Kami Project mining operations that will be located in the Municipal Planning Area of Labrador City. The Company will not be required to pay municipal or other taxes except with respect to such assets and business of the Company, as may be located from time to time within the town boundaries of Labrador City.

On January 21, 2014, the Company and the Innu Nation entered into an Impact and Benefits Agreement ("IBA") with respect to carrying out the Kami Project. The IBA provides for participation in the Kami Project on the part of the Innu Nation in the form of training, jobs and contract opportunities, along with providing their community with financial and socio-economic benefits over the life of the mine. The IBA also contains provisions which recognize and support the culture, traditions and values of the Innu Nation.

On March 25, 2014, the Company signed a Grant-in-lieu of Municipal Taxes Agreement (the "Wabush Agreement") with the Town of Wabush ("Wabush") with respect to the development of the Kami Project. Under the terms of the Wabush Agreement, the Company will pay to Wabush an annual grant-in-lieu of municipal taxes on the Kami Project mining operations. Payments under the Wabush Agreement will commence after initial production occurs at the Kami Project. As long as the Company makes the payments required under the Wabush Agreement, Wabush will not seek to charge or assess the Company for any municipal taxes in relation to the Kami Project or the business carried on by the Company on the Kami Project.

Alderon Iron Ore Corp.

Notes to the Condensed Interim Consolidated Financial Statements
September 30, 2017

(amounts in Canadian dollars, except share/option/warrant/unit data)
(Unaudited)

22 Commitments and contingencies (continued)

On May 27, 2014, Alderon signed a benefits agreement with the Province of Newfoundland and Labrador (the "Provincial Agreement"). The Provincial Agreement covers the life of the Kami Project and sets out employment, procurement and training benefits. Under the terms of the Provincial Agreement, Alderon has committed to provide full and fair opportunity and first consideration for provincial residents and suppliers. The Company has also agreed to establish an education and training fund commencing after the Kami Project achieves commercial production.

On June 30, 2014, the Company announced the completion of the required engineering work in order to commence construction at the Kami Project. The commencement of construction remains subject to the completion of the Company's financing plan and project sanction by the Board of Directors of Alderon. As such, Alderon has temporarily suspended any further work by its EPCM contractor. It is likely that the temporary suspension of the EPCM contractor will result in certain demobilization costs to be incurred and charged to the Company in accordance with the terms of the EPCM contract. The actual amount to be incurred is a function of the duration of delay, actual costs incurred and commitments entered into by the EPCM contractor, and adjustments to the estimate will be recorded in future periods as necessary.

On July 29, 2014, the Company entered into an off-take agreement (the "Glencore Agreement") with a subsidiary of Glencore plc ("Glencore"), with respect to an off-take transaction pursuant to which Glencore will acquire all of actual annual production from the Kami Project that has not been allocated to HBIS Group. Under the terms of the Glencore Agreement, Glencore will be obligated to purchase upon the commencement of commercial production, 40% of the actual annual production from the Kami Project up to a maximum of 3,200,000 tonnes of the first 8,000,000 tonnes of iron ore concentrate produced annually at the Kami Project. The term of the Glencore Agreement will continue until the Company has delivered 48,000,000 tonnes of iron ore concentrate to Glencore, which is expected to be 15 years after the commencement of commercial production. The market price paid by Glencore will be based on the Platts Price, including additional quoted premium for iron content greater than 62%, less a discount equal to 2% of such quoted price.

23 Subsequent events

The following events occurred subsequent to the nine month period ended September 30, 2017:

On October 2, 2017, the Company settled 504,456 DSUs which were redeemed during the nine month period ended September 30, 2017 by cash payments totalling \$139,785 (note 12).

On October 11, 2017, the Settlement Amount was paid to NLH, the Security Deposit was released and the Company received \$12,182,582, representing the balance of funds, plus accrued interest (note 3).