(A Development-Stage Company)

Consolidated Financial Statements
As of December 31, 2014 and 2013 and for three-year period ended December 31, 2014
(in Canadian dollars)

KPMG LLP
600 de Maisonneuve Blvd. West
Suite 1500
Tour KPMG
Montréal (Québec) H3A 0A3

Telephone (514) 840-2100
Fax (514) 840-2187
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Alderon Iron Ore Corp.

We have audited the accompanying consolidated financial statements of Alderon Iron Ore Corp., which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013, the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Alderon Iron Ore Corp. as at December 31, 2014 and December 31, 2013, and its consolidated financial performance and its consolidated cash flows for each of the years in the three-year period ended December 31, 2014 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1 in the consolidated financial statements, which indicates that Alderon Iron Ore Corp. does not have financial resources sufficient to cover all of its commitments for the coming year including the remaining security deposits and has temporarily suspended any further work by its contractor pending the completion of its financing plan. These conditions, along with other matters as set forth in Note 1 in the consolidated financial statements, indicate the existence of material uncertainties that cast substantial doubt about Alderon Iron Ore Corp.'s ability to continue as a going concern.

/s/ KPMG LLP *

March 26, 2015

Montréal, Canada

*CPA auditor, CA, public accountancy permit No. A120220

Alderon Iron Ore Corp.
Consolidated Statements of Financial Position
(in Canadian dollars)

	As of December 31, 2014	As of December 31, 2013
	$	$
ASSETS		
Current assets		
Cash and cash equivalents	21,442,903	95,366,039
Restricted short-term investments (note 5)	22,202,011	-
Prepaid expenses and other current assets (note 6)	2,246,607	1,322,204
Receivables (note 7)	1,314,506	3,760,730
Total current assets	47,206,027	100,448,973
Non-current assets		
Mineral properties (note 8)	176,574,918	138,645,822
Property, plant and equipment (note 9)	27,250,606	4,265,204
Long-term advance (note 10)	20,465,016	20,465,016
Total non-current assets	224,290,540	163,376,042
Total assets	271,496,567	263,825,015
LIABILITIES		
Current liabilities		
Payables and accrued liabilities (note 11)	8,922,367	14,179,526
Due to related parties (note 14)	614,561	221,029
Total current liabilities	9,536,928	14,400,555
Non-current liabilities		
Convertible debt (note 13)	18,852,378	-
Deferred share unit liability (note 15)	131,500	-
Total non-current liabilities	18,983,878	-
Total liabilities	28,520,806	14,400,555
EQUITY		
Share capital, warrants and conversion option (notes 13, 16 and 17)	263,946,822	259,143,095
Other capital (note 18)	24,845,096	24,206,055
Deficit	(99,426,086)	(90,639,603)
Equity attributable to owners of the parent	189,365,832	192,709,547
Non-controlling interest (note 19)	53,609,929	56,714,913
Total equity	242,975,761	249,424,460
Total liabilities and equity	271,496,567	263,825,015

Basis of preparation, nature of operations and going concern (note 1)
Commitments and contingencies (note 27)

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

Approved by the Board of Directors

"Lenard Boggio"
Lenard Boggio
Director

"David Porter"
David Porter
Director

Alderon Iron Ore Corp.
Consolidated Statements of Changes in Equity
For the years ended December 31, 2014, 2013 and 2012
(in Canadian dollars, except share data)

	Common shares	Share capital and warrants	Other capital	Deficit	Total
	(number)	$	$	$	$
Balance – January 1, 2012	84,717,514	149,573,447	13,096,693	(68,790,827)	93,879,313
Issuances pursuant to private placements, net of transaction costs	44,656,343	107,418,488	-	-	107,418,488
Issuances pursuant to the exercise of warrants	384,010	1,070,683	-	-	1,070,683
Issuances pursuant to the exercise of stock options	386,300	1,080,477	(496,386)	-	584,091
Share-based compensation costs	-	-	9,019,475	-	9,019,475
Net loss and comprehensive loss	-	-	-	(71,481,115)	(71,481,115)
Balance – December 31, 2012	130,144,167	259,143,095	21,619,782	(140,271,942)	140,490,935

	Attributable to owners of the parent					
	Common shares	Share capital, warrants, and conversion option	Other capital	Deficit	Non-controlling interest	Total
	(number)	$	$	$	$	$
Balance – January 1, 2013	130,144,167	259,143,095	21,619,782	(140,271,942)	-	140,490,935
Changes in ownership interest of an affiliate that does not result in a loss of control						
Proceeds received following the issuance of units of The Kami LP to Hebei (note 16)	-	-	-	-	119,926,293	119,926,293
Reallocation of non-controlling interest between partners of The Kami LP (note 19)	-	-	-	61,503,377	(61,503,377)	-
Total changes in ownership interest of an affiliate	-	-	-	61,503,377	58,422,916	119,926,293
Contributions by and distributions to owners						
Share-based compensation costs (note 18)	-	-	2,586,273	-	-	2,586,273
Net loss and comprehensive loss	-	-	-	(11,871,038)	(1,708,003)	(13,579,041)
Total contributions by and distributions to owners	-	-	2,586,273	(11,871,038)	(1,708,003)	(10,992,768)
Balance – December 31, 2013	130,144,167	259,143,095	24,206,055	(90,639,603)	56,714,913	249,424,460

Alderon Iron Ore Corp.

Consolidated Statements of Changes in Equity
For the years ended December 31, 2014, 2013 and 2012
(in Canadian dollars, except share data)

	Attributable to owners of the parent					
	Common shares	Share capital, warrants, and conversion option	Other capital	Deficit	Non-controlling interest	Total
	(number)	$	$	$	$	$
Balance – January 1, 2014	130,144,167	259,143,095	24,206,055	(90,639,603)	56,714,913	249,424,460
Equity component of convertible debt, net of transaction costs (notes 13 and 19)	-	3,403,753	-	(850,938)	850,938	3,403,753
Issuance of common shares (note 16)	1,990,049	1,000,000	-	-	-	1,000,000
Issuance of warrants (notes 13, 17 and 19)	-	399,974	-	(99,993)	99,993	399,974
Cancellation of treasury shares	(155)	-	-	-	-	-
Share-based compensation costs (note 18)	-	-	639,041	-	-	639,041
Net loss and comprehensive loss	-	-	-	(7,835,552)	(4,055,915)	(11,891,467)
Total contributions by and distributions to owners	1,989,894	4,803,727	639,041	(8,786,483)	(3,104,984)	(6,448,699)
Balance – December 31, 2014	132,134,061	263,946,822	24,845,096	(99,426,086)	53,609,929	242,975,761

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

Alderon Iron Ore Corp.
Consolidated Statements of Comprehensive Loss
For the years ended December 31, 2014, 2013 and 2012
(in Canadian dollars, except share and per share data)

	Years ended December 31,		
	2014	2013	2012
	$	$	$
Operating expenses			
General and administrative expenses	8,303,557	13,838,902	27,884,718
Development expenses (note 27)	4,097,610	-	-
Environmental, aboriginal, government and community expenses	47,083	887,175	7,448,157
Exploration and evaluation expenses	-	503,981	36,446,047
	12,448,250	15,230,058	71,778,922
Loss from operations	(12,448,250)	(15,230,058)	(71,778,922)
Finance income	863,277	1,651,017	437,504
Finance costs	(306,494)	-	(356,157)
Net finance income	556,783	1,651,017	81,347
Loss before income taxes	(11,891,467)	(13,579,041)	(71,697,575)
Income tax recovery (note 21)	-	-	216,460
Net loss and comprehensive loss	(11,891,467)	(13,579,041)	(71,481,115)
Attributable to:			
Owners of the parent	(7,835,552)	(11,871,038)	(71,481,115)
Non-controlling interest	(4,055,915)	(1,708,003)	-
	(11,891,467)	(13,579,041)	(71,481,115)
Net loss per share (note 22)			
Basic and diluted	(0.06)	(0.09)	(0.65)
Weighted average number of shares outstanding (note 22)			
Basic and diluted	130,334,975	130,144,167	109,493,640

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

Alderon Iron Ore Corp. Inc.

Consolidated Statements of Cash Flows
For the years ended December 31, 2014, 2013 and 2012
(in Canadian dollars)

	Years ended December 31, 2014	2013	2012
	$	$	$
Cash flows from operating activities			
Net loss	(11,891,467)	(13,579,041)	(71,481,115)
Adjustments for:			
Share-based compensation costs (note 18)	530,576	2,199,315	9,019,475
Depreciation	140,761	147,940	103,345
Finance income	(863,277)	(1,651,017)	(437,504)
Finance costs	306,494	-	119,907
Loss on disposal of property, plant and equipment	-	-	24,713
Income tax recovery (note 21)	-	-	(216,460)
Changes in operating assets and liabilities (note 23)	3,764,754	(14,993,522)	(9,406,398)
Interest received	826,527	1,810,538	305,705
Interest paid	(7,676)	-	(119,907)
Net cash used in operating activities	(7,193,308)	(26,065,787)	(72,088,239)
Cash flows from investing activities			
Additions to mineral properties (note 8)	(46,440,959)	(39,057,956)	-
Increase in restricted short-term investments (note 5)	(22,202,011)	-	-
Deposits on equipment (note 9)	(19,754,594)	(3,605,576)	-
Purchases of property, plant and equipment, net of disposals (note 9)	(2,264)	(375,759)	(200,132)
Decrease (increase) in restricted cash equivalents (note 10)	-	10,232,508	(10,232,508)
Net cash used in investing activities	(88,399,828)	(32,806,783)	(10,432,640)
Cash flows from financing activities			
Proceeds received on the issuance of convertible debt, net of transaction costs of $330,000 (note 13)	21,670,000	-	-
Proceeds received following the issuance of units of The Kami LP to Hebei (note 16)	-	119,926,293	-
Proceeds from private placement issuance of common shares, net of cash transaction costs (note 16)	-	-	107,418,488
Proceeds from the issuance of debt (note 12)	-	-	10,500,000
Repayment of debt (note 12)	-	-	(10,500,000)
Proceeds from the exercise of warrants	-	-	1,070,683
Proceeds from the exercise of stock options	-	-	584,091
Net cash provided by financing activities	21,670,000	119,926,293	109,073,262
Net change in cash and cash equivalents	(73,923,136)	61,053,723	26,552,383
Cash and cash equivalents at the beginning of the year	95,366,039	34,312,316	7,759,933
Cash and cash equivalents at the end of the year	21,442,903	95,366,039	34,312,316
Cash and cash equivalents components:			
Cash	21,442,903	87,606,502	1,138,310
Cash equivalents	-	7,759,537	33,174,006
	21,442,903	95,366,039	34,312,316

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

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 advancing towards production its Canadian properties located in western Labrador in the province of Newfoundland & 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 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. and Kami General Partner Limited ("Kami GP"), a corporation incorporated under the laws of the Province of Ontario. The consolidated financial statements also include the accounts of an affiliate, The Kami Mine Limited Partnership ("The Kami LP"), 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's common shares are listed on the Toronto Stock Exchange ("TSX"), under the symbol "ADV" and on the NYSE MKT, under the symbol "AXX".

Basis of preparation, nature of operations and going concern

Basis of presentation

The accompanying 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").

The policies applied in these consolidated financial statements are based on IFRS issued and effective as of December 31, 2014. These consolidated financial statements were approved by the Company's Board of Directors on March 26, 2015.

Nature of operations and going concern

The accompanying 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.

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 could require material write-downs to the carrying values of the Company's assets.

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

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 includes net amounts payable, as at December 31, 2014, necessary general and administrative costs through 2015, contractual obligations as at December 31, 2014 (in relation to anticipated equipment payments, see also note 27) and the remaining security deposits which could be required to be advanced to Newfoundland and Labrador Hydro ("NLH"), a subsidiary of Nalcor Energy (see note 5), as of a date to be determined. As noted below (see note 27), Alderon has completed the engineering work required to commence construction at the Kami Project. The commencement of construction of the Kami Project is subject to the completion of the Company's financing plan and project sanction by the Company's Board of Directors. As the Kami Project's required pre-construction engineering is substantially complete, Alderon has temporarily suspended any further work by its Engineering, Procurement and Construction Management ("EPCM") contractor. The Company's internal project team is continuing to advance the Kami Project in preparation for the start of construction once the Company's financing plan is completed. The Company has plans in place and is seeking to arrange the necessary funds in order to cover these obligations. Specifically, the Company continues to advance all of the elements of its financing plan, including debt and equity. There can be no assurance that management's financing plan will be successful. These conditions and events indicate material uncertainties that cast substantial doubt upon the Company's ability to continue as a going concern.

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 includes an interest deferral agreement with Liberty Metals & Mining Holdings, LLC ("Liberty"), a subsidiary of Liberty Mutual Insurance and a significant shareholder of Alderon (see note 13), voluntary partial payment deferrals with equipment vendors for work completed to date, workforce reductions and the implementation of the DSU Plan (see note 15) 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 for the coming year 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, estimated at $7.6 million for 2015 and $22.6 million for 2016, remain contingent upon the Company issuing to its suppliers a notice to proceed following successful completion of its financing plan (see note 27).

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

2 Significant accounting policies

Principles of consolidation

These consolidated financial statements include any entity in which the Company, directly or indirectly, holds more than 50% of the voting rights or over which it exercises control. An entity is included in the consolidation from the date that control is transferred to the Company, while any entities that are sold are excluded from the consolidation from the date that control ceases. All intercompany balances and transactions are eliminated on consolidation. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using the same accounting policies.

2 Significant accounting policies

Non-controlling interest

Non-controlling interest in the Company's less than wholly owned subsidiary is classified as a separate component of equity. On initial recognition, non-controlling interest is measured at the fair value of the non-controlling entity's contribution into the related subsidiary. Subsequent to the original transaction date, adjustments are made to the carrying amount of non-controlling interest for the non-controlling interest's share of changes to the subsidiary's equity.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are recorded as equity transactions. The carrying amount of non-controlling interest is adjusted to reflect the change in the non-controlling interest's relative interest in the subsidiary, and the difference between the adjustment to the carrying amount of non-controlling interests and the Company's share of proceeds received and/or consideration paid is recognized directly in equity and attributed to owners of the Company.

Foreign currency

The accompanying consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in the consolidated statement of comprehensive loss.

Foreign exchange gains and losses that relate to cash and cash equivalents are presented within finance income or finance costs in the consolidated statement of comprehensive loss. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive loss within operating expenses.

Cash and cash equivalents

Cash and cash equivalents consist of unrestricted cash on hand and balances with banks, as well as short-term, interest-bearing deposits, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, with a maturity of three months or less from the date of acquisition.

Mineral properties

Mineral properties, consisting of assets that are being explored and evaluated and representing titles associated with the Kami Property, are recorded at cost. Any option payments received by the Company from third parties or tax credits refunded to the Company are credited to the capitalized cost of the mineral property. If payments received exceed the capitalized cost of the mineral property, the excess is recognized as income in the year received. The carrying value of mineral properties is presented net of impairment charges, if any, and depreciation, which is recognized over the estimated useful life of the properties following the commencement of production. Mineral properties are derecognized in the event that mineral properties are sold or projects are abandoned.

Management has taken actions to verify the ownership rights for mineral properties in which the Company owns an interest in accordance with industry standards for the current exploration phase of these properties. However, these procedures do not guarantee that one or more titles to the Kami Property will not be challenged. Title to the Kami Property may be subject to prior unregistered agreements, transfers or claims or may be affected by, among other factors, undetected defects.

2 Significant accounting policies (continued)

Exploration and evaluation expenditures

Pre-exploration costs, which include costs incurred prior to the Company's obtaining rights to explore and evaluate a defined area, are expensed as incurred. As noted above, costs to acquire mineral properties are capitalized and include costs that are directly related to the acquisition of the underlying mineral rights.

Exploration and evaluation expenditures include engineering, metallurgical and other studies and activities that are necessary in order to delineate an ore body, as well as employee costs (including share-based compensation) related to the Company's exploration and evaluation personnel. Specifically, exploration and evaluation expenditures include costs associated with the following activities: surveying; geological, geochemical and geophysical studies; exploratory drilling; land maintenance; sampling and analyses; and efforts associated with the assessment of technical feasibility and commercial viability.

Expenditures related to the exploration and evaluation of mineral properties are expensed as incurred, until the technical feasibility and commercial viability of the extraction of a project's mineral reserves are demonstrated, at which time any further directly attributable pre-production expenditures that give rise to future economic benefits are capitalized as development costs.

Property, plant and equipment and depreciation

Items of property, plant and equipment are recorded at cost, net of impairment charges and accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the assets and that have been incurred up until the time that the assets are in the condition necessary to be used or operated in the manner intended by management. Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment. Residual values, the method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Depreciation is calculated using the straight-line method, over the estimated useful life of each component, as follows:

Category	Useful life (years)
Building	25
Furniture and fixtures	5
Exploration equipment	5
Computer and office equipment	3
Computer software	3
Leasehold improvements	Over the lease term

Depreciation expense is allocated to the appropriate functional expense categories to which the underlying items of property, plant and equipment relate.

Items of property, plant and equipment are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the related asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the consolidated statement of comprehensive loss. Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

2 Significant accounting policies (continued)

Impairment of long-lived assets

Mineral properties and property, plant and equipment 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 amount 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.

In the event that mineral properties or property, plant and equipment suffer impairment losses, those losses are reviewed for possible reversal if there has been a change, since the date of the most recent impairment test, in the estimates used to determine the impaired asset's recoverable amount. However, an asset's carrying amount, increased due to the reversal of a prior impairment loss, must not exceed the carrying amount that would have been determined, net of depreciation, had the original impairment not occurred.

Employee benefits

Salaries and other short-term benefit obligations are measured on an undiscounted basis and are recognized in the consolidated statement of comprehensive loss over the related service period or when the Company has a present legal or constructive obligation to make payments as a result of past events and when the amount payable can be estimated reliably.

Financial instruments

The Company classifies its financial instruments in the following categories: "Loans and receivables" and "Other financial liabilities".

Financial assets and liabilities are offset, and the net amount is reported in the consolidated statement of financial position, when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(a) Classification

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included in current assets, except for instruments with maturities greater than 12 months after the end of a given reporting period or where restrictions apply that limit the Company from using the instrument for current purposes, which are classified as non-current assets.

The Company's loans and receivables are comprised of cash and cash equivalents, restricted short-term investments and receivables.

2 Significant accounting policies (continued)

Other financial liabilities

Other financial liabilities include payables, accrued liabilities, and amounts due to related parties.

(b) Recognition and measurement

Loans and receivables

Loans and receivables are recognized on the settlement date at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment losses.

Other financial liabilities

Financial instruments classified as “Other financial liabilities” are recognized at fair value less any directly attributable transaction costs. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest rate method.

(c) Impairment

Financial assets measured at amortized cost are reviewed for impairment at each reporting date. Where there is objective evidence that impairment exists for a financial asset measured at amortized cost, an impairment charge equivalent to the difference between the asset’s carrying amount and the present value of estimated future cash flows is recorded in profit or loss in the consolidated statement of comprehensive loss. The expected cash flows exclude future credit losses that have not been incurred and are discounted at the financial asset’s original effective interest rate.

Impairment charges, where applicable, are reversed if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. However, the reversal cannot result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

Convertible debt

The Company’s convertible debt is accounted for as a compound financial instrument comprised of a non-derivative host contract and a conversion option. The conversion option is equity classified because it will result in the issuance of a fixed number of equity instruments issued in return for a fixed dollar value. The liability component of a compound financial instrument is recognized initially at the fair value of a similar secured liability that does not have an equity conversion option. The equity component is recognized initially as the residual difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition. The Company’s option to prepay the instrument early is a separable embedded derivative but has nominal value at inception and period end.

2 Significant accounting policies (continued)

Provisions

Provisions represent liabilities to the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation and where the amount can be reliably estimated. Provisions may represent obligations associated with the retirement of reclamation of mineral property or other assets. Provisions are not recognized for future operating losses. The expense relating to the provision for demobilization costs (see note 27) is presented in the consolidated statement of comprehensive loss.

Share capital and warrants

Common shares are classified as equity. Share purchase warrants are also classified as equity when the warrants are derivative instruments that will be settled only by the Company exchanging a fixed number of its own shares for a fixed amount of cash; otherwise, warrants would be classified as liabilities. Incremental costs that are directly attributable to the issuance of common shares and equity-classified warrants are recognized as a deduction from equity, net of any tax effects.

The Company has issued share purchase warrants to investors who have participated in certain private placements as well as to placement agents, underwriters, finders or brokers who have facilitated certain financing transactions with investors. Share purchase warrants issued to placement agents, underwriters, finders or brokers are measured at their fair value on the date that the services are provided and are accounted for as additional transaction costs, since the issuance of the underlying warrants is directly attributable to the financing transaction to which the warrants relate.

Flow-through shares

The Company has financed certain exploration expenditures through the issuance of flow-through shares, per a program that is available under Canadian income tax legislation. Under a flow-through arrangement, any qualifying resource expenditure deductions for income tax purposes are renounced by the Company to investors, who in turn can claim the tax deductions that otherwise would be available to the Company.

Flow-through proceeds are allocated between the offering of the common shares and the premium associated with the effective sale of tax benefits when the common shares are offered. The allocation is performed based on the difference between the market price of the common shares at the date of issuance and the amount the investor pays for the flow-through shares. A liability (or flow-through share premium obligation) is recorded on the date of share issuance for the premium paid by the investors and recognized through profit and loss in the consolidated statement of comprehensive loss as the Company expends the flow-through proceeds and renounces the expenditures to investors.

Share-based payments

The Company accounts for employee share-based compensation using the fair value-based method. 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.

2 Significant accounting policies (continued)

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 cash-settled stock-based compensation plans, fair values are determined at each reporting date and periodic changes are recognized as compensation costs, with a corresponding change to liabilities.

Related party transactions

A related party is defined as any person, including close members of that person's family, or entity that has significant influence over the Company. Related parties also include members of the Company's key management personnel—namely, those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company. Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies. Significant influence may be gained by share ownership, statute or agreement.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Finance income

Finance income comprises interest income earned on cash and cash equivalents and on restricted short-term investments.

Finance costs

Finance costs comprise of interest and other costs incurred in connection with the borrowing of funds, net of amounts capitalized to mineral properties.

Income taxes

Income tax on profit or loss comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income (loss).

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss or differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred taxes are recognized as income or expense in profit or loss, except to the extent that they arise from business combinations and transactions recognized in equity. Therefore, when deferred taxes relate to equity items, a backward tracing is necessary to determine the adjustment to taxes (e.g. change in tax rates and change in recognized deferred tax assets) that should be recorded in equity. For this purpose, the accounting policy of the Company is to allocate changes in the recognition of deferred tax assets based on their expected maturity date.

2 Significant accounting policies (continued)

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Net loss per share

Basic net loss per share is calculated using the weighted average number of common shares outstanding during the year. Diluted net loss per share is calculated based on the weighted average number of common shares outstanding during the year, plus the effects of dilutive common share equivalents, such as stock options and warrants.

3 Critical accounting estimates and judgments

The preparation of the Company's consolidated financial statements in accordance with IFRS requires management to make estimates and judgments 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 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 consolidated financial statements are presented fairly and in accordance with IFRS.

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.

Judgments:

Management considers the following areas to be those where critical accounting policies affect the significant judgments used in the preparation of the Company's consolidated financial statements.

Capitalization of development costs

The application of the Company's accounting policy for development costs requires judgment in determining the timing at which to begin capitalizing development costs and whether future economic benefits, which are based on assumptions about future events and circumstances, may be realized. In general the Company has stopped capitalizing development costs as of November 15, 2014, as the Company has implemented a cash preservation program designed to allow it to maintain sufficient liquidity during the advancement of its financing plan.

3 Critical accounting estimates and judgments (continued)

Carrying value and recoverability of mineral properties

The carrying amount of the Company's mineral properties does not necessarily represent present or future values, and the Company's mineral properties have been accounted for under the assumption that the carrying amount 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.

Mineral properties 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 amount 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.

Management has determined that an indication that the capitalized mineral properties may not be recoverable has occurred in 2014. The Company determined the recoverable amount of the mineral properties using the value in use calculation which was assessed using cash flow projections, which take into account the capital costs to be incurred to complete the Kami Project over the expected construction timeline, as well as the cash generated from subsequent sales of the Kami Project's iron ore production. The key assumptions used in this calculation include the Kami Project's capital cost, estimated production volume, the long-term iron ore sales price established by independent sources, 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 the best information available as of the date of the impairment test. The pre-tax discount rate applied to the cash flow projections was 8%. The Company determined that the recoverable amount exceeded the carrying amounts and therefore, no impairment was recorded.

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.

3 Critical accounting estimates and judgments (continued)

Capitalization of borrowing cost

The Company must apply its judgment when determining if a constructed asset, such as a manufacturing plant, is considered a qualifying asset under International Accounting Standard ("IAS") 23, *Borrowing costs*. To make this determination, management must consider whether the entity has incurred significant borrowing costs that are attributable to the construction of the asset. In addition to the application of judgment regarding which borrowing costs are eligible for capitalization and when capitalization of borrowing costs should commence, management must also apply its judgment in determining on an ongoing basis if capitalization should continue, for example, if the Company reduces or suspends during an extended period, the activities necessary to prepare an asset for its intended use. This requires an evaluation of the level of substantial technical and administrative activities being carried out during a given period. Based on its assessment of the facts at each reporting period, borrowing costs will either be capitalized or expensed during a given period. The Company determined that borrowing costs attributable to the Kami Project should be capitalized and consequently commenced capitalizing those costs in the first quarter of 2014. Based on its assessment, management had determined that capitalization of interest should cease effective November 15, 2014, as a result of its ongoing review of such estimates and judgments, and considering that the Company has implemented a cash preservation program designed to allow it to maintain sufficient liquidity during the advancement of its financing plan.

Deferred transaction costs

The Company has capitalized professional fees in connection with a future financing transaction that Management has judged to be realizable on the basis that the future financing transaction is probable of occurrence, although the attainment of the financing has taken longer than expected. Such costs will be written off to the statement of comprehensive loss in a future period if the future financing transaction was no longer expected to be completed.

Estimates:

Management considers the following areas to be those where critical accounting policies affect the significant estimates used in the preparation of the Company's consolidated financial statements.

Fair value of warrants and stock options

Determining the fair value of warrants (see note 17) and stock options (see note 18) requires the estimation of stock price volatility, the expected forfeiture rate and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could result in a significant impact on the Company's future operating results.

Fair value estimates of financial liabilities

The determination of the fair value of the liability component of the convertible debt requires management to make estimates of the interest rate that the Company would have obtained for a similar secured loan without a conversion feature.

4 New standards and interpretations not yet adopted

International Financial Reporting Interpretations Committee ("IFRIC") 21, *Levies,* provides guidance on accounting for levies in accordance with the requirements of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014, and is to be applied retrospectively. The accounting policy has been applied consistently by all subsidiaries of the Company. The impact of the adoption of this standard is not significant.

The standard that is considered to be relevant to the Company's operations that is issued, but not yet effective, up to the date of issuance of the Company's financial statements is disclosed below:

IFRS 9, *Financial Instruments* ("IFRS 9"), which represents the completion of the first part of a three-part project to replace IAS 39, *Financial Instruments: Recognition and Measurement*, with a new standard. IFRS 9 introduces new requirements for the classification and measurement of financial assets and introduces additional changes relating to financial liabilities. In addition IFRS 9 includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. The Company intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The impact of the adoption of this standard has yet to be determined.

5 Restricted short-term investments

Restricted short-term investments represent short-term investments deposited with the Company's bank to guarantee letters of credit issued in the course of the Company's development activities. Such short-term 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 has agreed to provide a total of $65,000,000 in security deposits that will each take the form of a letter of credit that will be released to the Company once the Kami Project is interconnected to the electrical system as contemplated under the PPA, and has been commissioned and the Company has 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 on the signing of the Security Agreement. The remaining $44,000,000 in security deposits will be provided to NLH at such time as NLH can reasonably demonstrate that it has additional existing and pending commitments for such amount to construct the new transmission line. NLH is required to provide sufficient advance notice of the timing and amounts of additional security deposits. The letter of credit expires on April 7, 2015.

On March 14, 2014, the Company issued a letter of credit for $967,011 in favour of Fisheries and Oceans Canada ("DFO") in relation to the DFO's monitoring of the Kami Project. The letter of credit expires on March 13, 2016.

On March 17, 2014, the Company issued a letter of credit for $235,000 in favour of Hydro-Quebec ("HQ") in relation to HQ's energy study at the Company's port facilities in Sept-Îles. The letter of credit was released in February 2015.

The Company expects that each of the letters of credit described above will be renewed at expiration.

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

6 Prepaid expenses and other current assets

	As of December 31, 2014	As of December 31, 2013
	$	$
Deferred transaction costs	2,162,694	896,005
Deposits on Kami Project activities	-	403,600
Other	83,913	22,599
	2,246,607	1,322,204

During the year ended December 31, 2014, the Company incurred professional fees of $1,266,689 ($896,005 in 2013) that are directly related to a probable future debt transaction. These costs will be reclassified to debt upon completion of the debt transaction.

7 Receivables

	As of December 31, 2014	As of December 31, 2013
	$	$
Sales tax credits receivable	731,555	3,489,901
Interest receivable	324,201	12,079
Deposits receivable	258,750	258,750
	1,314,506	3,760,730

8 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 have been demonstrated, the Company has started to capitalize directly attributable pre-production expenditures that give rise to future economic benefits as of February 1, 2013. Pre-production expenditures incurred prior to February 1, 2013 have been recorded in the consolidated statement of comprehensive loss as exploration and evaluation expenses or environmental, aboriginal, government and community expenses. In general the Company has stopped capitalizing development costs as of November 15, 2014, as the Company has implemented a cash preservation program designed to allow it to maintain sufficient liquidity during the advancement of its financing plan.

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

8 Mineral properties (continued)

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

	Acquisition costs	Development costs	Share-based compensation costs capitalized	Depreciation capitalized	Total
	$	$	$	$	$
Balance – January 1, 2013	88,668,710	-	-	-	88,668,710
Additions during the period	-	49,576,480	386,958	13,674	49,977,112
Balance – December 31, 2013	88,668,710	49,576,480	386,958	13,674	138,645,822
Additions during the period	-	36,090,496	108,465	35,312	36,234,273
Interest capitalized (note 13)	-	1,694,823	-	-	1,694,823
Balance –December 31, 2014	88,668,710	87,361,799	495,423	48,986	176,574,918

Additions to mineral properties in the consolidated statement of cash flows are presented on a cash basis. During the year ended December 31, 2014, cash expenditures totaled $46,440,959 ($39,057,956 in 2013, nil in 2012). As at December 31, 2014, $1,050,995 remained in accrued expenditures ($10,518,524 in 2013, nil in 2012), other non-cash items totaled $1,631,670 ($400,632 in 2013, nil in 2012) and $275,372 remained in receivables (nil in 2013 and 2012).

9 Property, plant and equipment

Components of the Company's property, plant and equipment, as well as annual activity associated therewith, are summarized below.

	Land and building	Exploration equipment	Computer and office equipment	Computer software	Furniture and fixtures	Leasehold improve-ments	Construction in progress	Total
	$	$	$	$	$	$	$	$
Historical cost – January 1, 2013	180,000	101,770	35,816	35,576	99,168	149,898	-	602,228
Additions	-	-	153,300	51,587	58,995	111,877	3,605,576	3,981,335
Disposals	-	-	-	-	-	-	-	-
Historical cost – December 31, 2013	180,000	101,770	189,116	87,163	158,163	261,775	3,605,576	4,583,563
Accumulated depreciation – January 1, 2013	17,600	37,326	16,213	29,931	24,940	30,735	-	156,745
Depreciation expense	5,832	14,504	50,747	14,242	26,121	50,168	-	161,614
Disposals	-	-	-	-	-	-	-	-
Accumulated depreciation – December 31, 2013	23,432	51,830	66,960	44,173	51,061	80,903	-	318,359
Carrying value – December 31, 2013	156,568	49,940	122,156	42,990	107,102	180,872	3,605,576	4,265,204

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

9 Property, plant and equipment (continued)

	Land and building	Exploration equipment	Computer and office equipment	Computer software	Furniture and fixtures	Leasehold improve-ments	Construction in progress	Total
	$	$	$	$	$	$	$	$
Historical cost – January 1, 2014	180,000	101,770	189,116	87,163	158,163	261,775	3,605,576	4,583,563
Additions	-	-	-	-	13,274	-	23,159,211	23,172,485
Disposals	-	(11,010)	-	-	-	-	-	(11,010)
Historical cost – December 31, 2014	180,000	90,760	189,116	87,163	171,437	261,775	26,764,787	27,745,038
Accumulated depreciation – January 1, 2014	23,432	51,830	66,960	44,173	51,061	80,903	-	318,359
Depreciation expense	5,643	8,228	63,039	17,196	34,067	47,900	-	176,073
Disposals	-	-	-	-	-	-	-	-
Accumulated depreciation – December 31, 2014	29,075	60,058	129.999	61,369	85,128	128,803	-	494,432
Carrying value – December 31, 2014	150,925	30,702	59,117	25,794	86,309	132,972	26,764,787	27,250,606

During the year ended December 31, 2014, the Company advanced $19,754,594 ($3,605,576 in 2013) to various suppliers in relation to the purchase of equipment (see also note 11).

10 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”).

Per the Port Agreement, the total initial commitment by the Company is $20,465,016 (the “Buy-in Payment”), which constitutes an advance on Alderon’s future shipping fees. The Buy-in Payment was payable in two equal installments, the first of which was paid upon signing the Port Agreement, and the second of which was paid on June 28, 2013. 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. 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.

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

11 Payables and accrued liabilities

	As of December 31, 2014	As of December 31, 2013
	$	$
Accrued development costs	3,830,541	9,159,018
Accrued payable on purchases of equipment (note 9)	3,404,617	-
Accrued legal and professional expenses	408,045	441,619
Accrued salaries and benefits	402,935	2,101,783
Trade accounts payable	336,265	807,884
Sales tax credits payable	319,886	148,063
Accrued environmental, aboriginal, government and community expenses	59,313	240,595
Accrued finder's fee (note 27)	-	1,198,875
Other accrued liabilities	160,765	81,689
	8,922,367	14,179,526

12 Bridge financing

On July 13, 2012, Liberty provided a bridge loan (the "Note") to the Company in the amount of $10,500,000. Liberty also had agreed to provide a further $10,500,000 (the "Additional Note"), if necessary. As per the terms of the Note, when the Company completed the subscription transaction with Hebei Iron & Steel Group Co., Ltd. ("Hebei") (see note 16), Alderon was required to reimburse the entire principal amount of the Note then outstanding, together with all accrued and unpaid interest thereon. The Company repaid this amount on September 4, 2012, along with an establishment fee, equivalent to 1.5% of the principal amount of the Note as well as a commitment fee, equivalent to 0.75% of the principal amount of the Additional Note.

13 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. 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, become 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.

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

13 Convertible debt (continued)

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

*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 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.

On December 8, 2014, Alderon and Liberty amended the Note (the "Amended Note"). Liberty agreed to defer the payments of the interest due on December 31, 2014 and June 30, 2015. The deferred interest is 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 is to be 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 to Liberty 1,987,083 warrants with an exercise price of $0.4465 on December 31, 2014 (see note 17) and accounted for this as additional transaction costs of the Note which modifies the carrying amount of the Note. The effective interest rate of the Amended Note is 13.3%.

Transactions affecting the debt component for the year ended December 31, 2014 were as follows:

	$
Balance at January 1, 2014	-
Issuances	18,266,247
Transaction costs (note 17)	(799,948)
Accretion	1,386,079
Balance at December 31, 2014	18,852,378

During the year ended December 31, 2014, the Company accrued and paid $607,562 in interest charges. The accrued and paid amount and $1,087,261 in accretion charges are capitalized to mineral properties (see note 8). $298,818 has been charged to interest costs in the consolidated statement of comprehensive loss for the year ended December 31, 2014.

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

14 Related party disclosures

Related parties and related party transactions impacting the accompanying 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, Chief Operating 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:

	Years ended December 31,		
	2014	2013	2012
	$	$	$
Short-term benefits*	3,472,390	3,462,913	1,959,607
Share-based compensation	658,166	1,986,535	6,411,959
Incentive compensation other than share-based compensation	130,000	1,402,737	2,557,813
	4,260,556	6,852,185	10,929,379

* include base salaries, pursuant to contractual employment or consultancy arrangements, Directors' fees, applicable payroll taxes 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 Executive Chairman of the Company's Board of Directors. King & Bay provides certain administrative, management, geological, legal and regulatory, corporate development, information technology support and corporate communications services to the Company.

McInnes Cooper ("McInnes"), formerly Ottenheimer Baker Barristers & Solicitors: A Director of the Company was a partner at McInnes, which provides certain legal services to the Company.

Cassels Brock & Blackwell LLP ("Cassels"): A former Director of the Company is the Deputy Managing Partner of Cassels, which acted as lead external counsel for 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 (see notes 12 and 13).

HBIS International Holding (Canada) Co., Ltd ("HBIS"): HBIS is a subsidiary of Hebei, a significant shareholder of the Company. HBIS has nominated two individuals who act as officers of Kami GP and provide services to the Company.

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

14 Related party disclosures (continued)

Forbes & Manhattan, Inc. ("F&M"): F&M is an entity that is wholly owned by the spouse of the former Vice Chairman of the Company's Board of Directors. F&M provided certain financial management and business consulting services to the Company.

2227929 Ontario Inc. ("Ontario"): Ontario is an entity that shares office premises with F&M, which in turn acted from time to time as an agent for Ontario for various activities and services. On October 1, 2012, the Company entered into a shared costs service agreement (the "Service Agreement") with Ontario for certain promotional, corporate development and general and administrative services. The Service Agreement was terminated on October 1, 2013.

Image Air Charter Ltd. ("Image Air"): On March 1, 2012, the Company entered into a two-year aircraft charter agreement (the "Charter Agreement") with Image Air for a plane that Image Air leases from a limited partnership. The former Vice Chairman of the Company's Board of Directors is the sole limited partner of this limited partnership. The Charter Agreement was terminated on April 9, 2013.

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

	Years ended December 31,		
	2014	2013	2012
	$	$	$
King & Bay	1,018,373	1,558,066	2,008,486
Cassels	807,002	1,708,821	2,139,726
HBIS	381,266	144,007	-
McInnes	45,947	11,315	18,717
Image Air*	-	-	606,262
F&M*	-	-	480,000
Liberty	-	-	349,017
Ontario*	-	-	79,736
	2,252,588	3,422,209	5,681,944

*These entities are no longer related parties in 2013 and 2014.

Amounts owed to related parties other than key management personnel are summarized below.

	Years ended December 31,	
	2014	2013
	$	$
Liberty	399,974	-
King & Bay	131,916	92,423
HBIS	82,671	-
Cassels	-	128,606
	614,561	221,029

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

15 Deferred share units ("DSUs")

The Company has in place a program (the "DSU Plan") whereby Directors are issued DSUs, which vest immediately, are equivalent in value to a common share upon issuance of the Company and are settled in cash. Under the DSU Plan, Directors have the option to convert 25, 50, 75 or 100 percent of their annual director fees into DSUs. The director fees are converted into DSUs on a quarterly basis by dividing the director fees by the closing value of Alderon's share price at the end of each quarter. DSUs can only be redeemed following departure from the Company in accordance with the terms of the DSU Plan.

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

	Year ended December 31, 2014
	Number
Balance, beginning of period	-
Granted	323,968
Redeemed	-
Balance, end of period	323,968

The Company recorded compensation costs of $131,150 related to the outstanding DSUs in the consolidated statement of comprehensive loss for the year ended December 31, 2014.

16 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 December 31, 2014 and December 31, 2013 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.

Common shares issued pursuant to private placements

On January 13, 2012, the Company completed a private placement with Liberty, pursuant to a subscription agreement that resulted in the issuance of 14,981,273 of the Company's common shares in exchange for aggregate gross proceeds of $39,999,999, less cash transaction costs of $2,662,528, which in turn were comprised primarily of the placement agent's cash placement fee equal to 6% of the gross proceeds. Liberty also has a pre-emptive right to participate in any future equity financings of Alderon, and in the event that Liberty desires to sell any of the aforementioned purchased shares, Alderon will hold the right to identify a purchaser or purchasers to whom those shares shall be sold.

On September 4, 2012, the Company completed a subscription transaction (the "Subscription Transaction") with Hebei, pursuant to an agreement whereby Hebei purchased 25,858,889 of the Company's common shares by way of a private placement in exchange for aggregate gross proceeds of $62,319,922, less cash transaction costs of $1,435,901.

16 Share capital (continued)

On closing of the Subscription Transaction, Hebei and Alderon also entered into an arrangement pursuant to which Hebei would invest an additional $119,926,293 (the “Initial Investment”) in exchange for a 25% interest in the Kami Project. Per the definitive agreements entered into between the Company and Hebei, the latter’s 25% interest would be made into The Kami LP. The Kami LP was established in order to develop and operate the Kami Project, and it is this entity into which Alderon would transfer all assets associated with the Kami Project contemporaneously with the Initial Investment. Alderon and Hebei would be required to contribute to capital expenditures for the development of the Kami Project not covered by initial capital contributions and project debt financing, in accordance with their respective interests. However, Hebei’s further contributions to The Kami LP will depend upon the amount of aggregate proceeds received as project debt financing and will not exceed $220,000,000.

On March 15, 2013, Hebei contributed the Initial Investment, and Alderon contributed the Kami Property and its related assets to The Kami LP. In connection with Hebei’s contribution of the Initial Investment, the Company has provided confirmations to Hebei with respect to certain information rights related to the development of the Kami Project and to the use of the Initial Investment proceeds.

Also, Hebei has agreed to purchase, upon the commencement of commercial production, 60% of the actual annual production from the Kami Project up to a maximum of 4.8 million tonnes of the first 8.0 million tonnes of iron ore concentrate produced annually at the Kami Project. The price paid by Hebei 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. Hebei also will have the option to purchase additional tonnages at a price equal to the Platts Price, without any such discount.

In addition to the capitalized incremental transaction costs noted above, in September 2012, the Company committed to pay up to $9,813,750 in finder’s fees, financial advisory and other legal costs, $8,014,850 of which were incurred during the year-ended December 31, 2012. These costs, while incurred in connection with the overall transaction with Hebei, were deemed not directly attributable to the issuance of common shares. Consequently, these costs were expensed as incurred and have been presented under general and administrative expenses in the accompanying consolidated statement of comprehensive loss for the year-ended December 31, 2012. The remaining $1,798,900 represents finder’s fees associated with the Initial Investment (see note 27).

Concurrent with the closing of the Subscription Transaction with Hebei, Liberty exercised its pre-emptive right to maintain its relative proportionate interest in the Company following this private placement. Consequently, Liberty acquired 3,816,181 common shares for additional gross proceeds to the Company of $9,196,996.

Alderon engaged a contractor under an agreement (the “Contractor Agreement”) pursuant to which the contractor was engaged to provide financial, management and business consulting services to the Company. On November 12, 2014, the Company and the contractor agreed to terminate the Contractor Agreement and settle all outstanding fees and expenses under the Contractor Agreement in exchange for the issuance of 1,990,049 common shares of Alderon.

In November 2014, the Company cancelled 155 shares that it held in Treasury.

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

17 Warrants

As noted above (see note 13) the Company issued 1,987,083 warrants to Liberty on December 31, 2014, which expire on December 31, 2018.

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

	Year ended December 31, 2014	
	Number	Weighted average exercise price $
Balance, beginning of period	-	-
Granted	1,987,083	0.45
Exercised	-	-
Expired	-	-
Balance, end of period	1,987,083	0.45

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 the fair value of the warrants granted to Liberty at the date of issuance. As of December 31, 2014, the total fair value of the warrant grant of $399,974 was recorded under share capital, warrants and conversion option in the consolidated statement of financial position and increased the non-controlling interest in the Company by $99,993.

	Year ended December 31, 2014
Expected dividend yield	0.0%
Estimated volatility	70.3%
Weighted average risk-free annual interest rate	1.25%
Contractual term (years)	4
Grant date fair value	$0.20

18 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.

Previously, the Plan allowed a maximum of 10% of the issued shares to be reserved for issuance under the Plan. On June 20, 2013, at the Company's Annual General and Special Meeting of Shareholders, the Company received approval for an amendment to the Plan to reserve for issuance a fixed maximum number of shares equal to 16,500,000.

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

18 Stock options (continued)

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. Although the options have a maximum term of ten years, the options issued for the years ended December 31, 2014, 2013 and 2012 were granted with a term of five years.

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

	Year ended December 31, 2014		Year ended December 31, 2013		Year ended December 31, 2012	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Balance, beginning of period	14,830,000	2.46	14,102,500	2.58	11,636,300	2.57
Granted	600,000	1.48	1,655,000	1.40	3,015,000	2.49
Exercised	-	-	-	-	(386,300)	1.51
Forfeited	(1,335,000)	2.27	(927,500)	2.42	(162,500)	2.72
Balance, end of period	14,095,000	2.44	14,830,000	2.46	14,102,500	2.58

	Options outstanding as of December 31, 2014		
Exercise price	Number	Weighted average remaining expected life (years)	Weighted average exercise price ($)
0.97 - 1.50	2,635,000	2.40	1.34
1.51 - 2.25	3,785,000	1.95	1.82
2.26 - 3.00	2,885,000	1.56	2.67
3.01 - 3.70	4,790,000	1.56	3.39
	14,095,000	1.82	2.44

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

18 Stock options (continued)

	Options exercisable as of December 31, 2014		
Exercise price	Number	Weighted average remaining contractual life (years)	Weighted average exercise price ($)
0.97 - 1.50	1,847,500	1.72	1.35
1.51 - 2.25	3,620,000	1.87	1.83
2.26 - 3.00	2,885,000	1.56	2.67
3.01 - 3.70	4,790,000	1.56	3.39
	13,142,500	1.67	2.51

As of December 31, 2014, the total compensation cost related to unvested stock options not yet recognized amounted to $193,792 ($583,555 in 2013, $2,203,640 in 2012). This amount is expected to be recognized over a weighted average period of 0.88 years (0.86 years in 2013, 0.83 years in 2012).

Share-based compensation costs for the year ended December 31, 2014 totaled $639,041 ($2,586,273 in 2013, $9,019,475 in 2012): $108,465 capitalized in mineral properties ($386,958 in 2013, nil in 2012); nil in exploration and evaluation expenses ($39,912 in 2013, $934,570 in 2012); $530,576 in general and administrative expenses ($2,133,407 in 2013, $7,391,055 in 2012); and nil in environmental, aboriginal, government and community expenses ($25,996 in 2013, $693,850 in 2012).

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.

	Year ended December 31,		
	2014	2013	2012
Expected dividend yield	0.0%	0.0%	0.0%
Estimated volatility	59.5%	63.5%	70.5%
Weighted average risk-free annual interest rate	1.09%	1.15%	1.23%
Weighted average expected life (years)	2.5	2.5	2.5
Grant date fair value	$0.55	$0.55	$1.08

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

19 Non-controlling interest

The Kami LP has material non-controlling interest. The following is summarised financial information for The Kami LP, prepared in accordance with IFRS. The information is before inter-company eliminations with other subsidiaries of the Company.

	Year ended December 31, 2014	Year ended December 31, 2013
	$	$
Loss from operations	(16,653,310)	(8,105,889)
Net finance income	429,651	1,273,876
Net loss and comprehensive loss	(16,223,659)	(6,832,013)
Net loss and comprehensive loss attributable to non-controlling interest	(4,055,915)	(1,708,003)
Current assets	38,468,260	86,122,508
Non-current assets	224,044,876	162,985,131
Current liabilities	(29,221,042)	(22,247,988)
Non-current liabilities	(18,852,378)	-
Net assets	214,439,716	226,859,651
Net assets attributable to non-controlling interest	53,609,929	56,714,913
Cash flows used in operating activities	(1,464,333)	(11,651,429)
Cash flows used in investing activities	(88,725,546)	(26,709,242)
Cash flows from financing activities	21,670,000	119,926,293
Net (decrease) increase in cash	(68,519,879)	81,565,622

The carrying amount of non-controlling interest was adjusted by $950,931 ($61,503,377 in 2013) to reflect the change in the non-controlling interest's relative interest in The Kami LP. The difference between this adjustment to the carrying amount of non-controlling interests and the Company's share of proceeds received is recognized directly in equity and attributed to owners of the Company.

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

20 Operating expenses

Components of the Company's operating expenses include the following:

	Years ended December 31, 2014	2013	2012
	$	$	$
Share-based compensation costs	530,576	2,199,315	9,019,475
Salaries, employment taxes and short-term benefits	2,639,761	2,973,592	4,707,401
Total employee benefit expenses	3,170,337	5,172,907	13,726,876
Consulting, professional and legal fees	7,276,917	7,028,024	19,722,104
Goods and services*	930,890	2,250,502	37,750,374
Building rental, services and maintenance	670,847	458,956	446,092
Depreciation	144,417	147,940	103,345
Other	254,842	171,729	30,131
Total operating expenses, by nature	12,448,250	15,230,058	71,778,922

* including, but not limited to, technical consulting expenses, engineering costs, drilling costs, helicopter support, travel and other costs.

21 Income taxes

The reconciliation of the combined Canadian federal and provincial income tax rate to the income tax recovery presented in the accompanying consolidated statements of comprehensive loss is provided below.

	Years ended December 31, 2014	2013	2012
	$	$	$
Loss before income taxes	(11,891,467)	(13,579,041)	(71,697,575)
Income tax recovery at combined federal and provincial income tax rate of 27.2% (2013-27.2%, 2012-27.0%)	3,229,763	3,693,499	19,358,345
Change in unrecognized deferred income tax assets	(1,656,234)	(2,769,750)	(17,716,455)
Share-based compensation costs	(125,059)	(597,449)	(2,433,815)
Income tax attributable to non-controlling interest	(900,699)	(496,250)	-
Impact of the equity component of the Liberty Loan	(987,091)	-	-
Change in renounced expenditures pursuant to flow-through share agreements	-	-	(77,790)
Impact of future income tax rates applied versus current statutory rate	206,297	207,632	1,242,542
Non-deductible expenditures and other	233,023	(37,682)	(156,367)
	-	-	216,460

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

21 Income taxes (continued)

Deferred tax assets and liabilities are attributable to the following:

	December 31, 2014	December 31, 2013
	$	$
Deferred tax assets (liabilities)		
Mining properties	510,750	-
Convertible debt	(510,750)	-
Net deferred tax assets (liabilities)	-	-

The deferred tax recovery is comprised of the following components:

	Years ended December 31, 2014	2013	2012
	$	$	$
Origination and reversal of temporary differences	(1,656,234)	(2,769,750)	(17,716,455)
Changes in unrecognized deductible temporary differences	1,656,234	2,769,750	17,716,455
Deferred tax recovery on reversal of flow-through share premium obligation	-	-	216,460
Total tax recovery	-	-	216,460

Income tax recovery for the year ended December 31, 2012 is entirely domestic in nature and represents deferred taxation arising subsequent to the renunciation of expenditures pursuant to the issuances of flow-through shares.

Significant components of the Company's unrecognized deferred income tax assets are summarized below.

	Years ended December 31, 2014	2013	2012
	$	$	$
Temporary differences attributable to:			
Non-capital losses	18,237,500	15,134,000	11,486,000
Mineral properties	14,932,000	16,075,500	16,655,000
Share-issue expenses	554,750	862,000	1,228,000
Property, plant and equipment	111,500	102,250	35,000
Allowable capital losses	136,000	136,000	136,000
	33,971,750	32,309,750	29,540,000

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

21 Income taxes (continued)

As of December 31, 2014, the Company's unrecognized non-capital loss carryforwards expire as follows:

	$
2015	271,231
2027	289,664
2028	385,975
2029	81,027
2030	2,956,099
2031	7,672,864
2032	29,359,621
2033	13,052,010
2034	8,819,260
	62,887,751

The Company currently has unrecognized investment tax credits related to qualifying expenditures. These investment tax credits, which as of December 31, 2014 totaled $6,680,217 are not refundable and expire as follows:

	$
2030	209,155
2031	1,395,974
2032	3,273,870
2033	1,801,218
	6,680,217

Deferred tax assets have not been recognized in respect of all of these items because it is not probable that future taxable profit will be available against which the Company can utilize benefits therefrom.

Non-capital loss carryforwards are subject to review, and potential adjustment, by tax authorities.

22 Net loss per share

For the years ended December 31, 2014, 2013 and 2012, 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 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.

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

23 Supplemental disclosure of cash flow information

	Years ended December 31,		
	2014	2013	2012
	$	$	$
Changes in operating assets and liabilities			
Receivables	2,758,346	(1,174,187)	162,569
Prepaid expenses and other current assets	(924,403)	(618,512)	1,346,789
Long-term advance (note 10)	-	(10,232,508)	(10,232,508)
Payables and accrued liabilities	1,937,253	(2,880,120)	(835,609)
Due to related parties	(6,442)	(88,195)	152,361
	3,764,754	(14,993,522)	(9,406,398)

24 Capital disclosures

The Company's objective in managing capital, consisting of equity, with cash and cash equivalents 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 confirmation to Hebei with respect to the use of the Initial Investment proceeds.

As at December 31, 2014, $13,045,743 of cash is held by The Kami LP which is the remaining amount of the Initial Investment. Under the terms of the agreements with Hebei, 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. Currently this restriction does not have an effect on Alderon's ability to meet its short- to medium-term obligations as Alderon held $8,397,160 of cash and cash equivalents as at December 31, 2014. However, Alderon will need to obtain additional financing at the parent company level in the future.

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

25 Financial instruments, financial risk management and fair value

Financial risk management

The Company is exposed in varying degrees to certain risks arising from financial instruments, as discussed below.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

As discussed in note 24, the Company's capital management objectives include working to ensure that the Company has sufficient liquidity to fund Company activities that are directly and indirectly related to the advancement of the Kami Project.

The Company endeavours to ensure that it will have sufficient liquidity in order to meet short- to medium-term business requirements and all financial obligations as those obligations become due (see also Nature of operations and going concern in note 1). Historically, sufficient liquidity has been provided predominantly through external financing initiatives, including strategic, traditional and flow-through private placements to investors and institutions. The Company does not currently have sufficient resources to fund the construction of the Kami Project. Alderon is actively engaged in discussions to raise the necessary capital to meet its funding requirements for the Kami Project, including debt and equity financing. The Company will continue to rely upon sources of external financing in future periods until such time as commercial production commences. There is no assurance that financing of sufficient amounts or on terms acceptable to the Company will be available.

The following are the contractual maturities of the financial liabilities as of December 31, 2014:

	Carrying Amount	Contractual Cash Flows	Less than 1 year	1-2 years	3-4 years	More than 5 years
	$	$	$	$	$	$
Payables and accrued liabilities	8,602,481	8,602,481	8,602,481	-	-	-
Due to related parties	614,561	614,561	614,561	-	-	-
Convertible debt	18,852,378	30,450,000	985,000	3,800,000	25,665,000	-
	28,069,420	39,667,042	10,202,042	3,800,000	25,665,000	-

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Company's receivables consist primarily of sales tax credits, which are due from Canadian federal and provincial tax agencies. Additionally, the Company's cash and cash equivalents and restricted short-term investments are held in deposit at high-credit quality Canadian financial institutions. As a result, management considers the risk of non-performance related to accounts receivable, cash and cash equivalents and restricted short-term investments to be minimal.

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

25 Financial instruments, financial risk management and fair value (continued)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Fluctuations of market interest rates have little impact on the Company's financial results since the Company does not have variable rate debt at December 31, 2014. Changes in market interest rates do not have an impact on interest expense related to the Amended Note because the rate of the Amended Note is fixed.

Fair value

The carrying values of the Company's cash and cash equivalents, restricted short-term investments, receivables, payables and accrued liabilities and amounts due to related parties 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 as at December 31, 2014 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 balance sheet, as of December 31, 2014 and December 31, 2013 are presented below.

December 31, 2014	Carrying value	Fair value
	$	$
Financial assets		
Cash and cash equivalents	21,442,903	21,442,903
Restricted short-term investments (note 5)	22,202,011	22,202,011
Receivables (note 7)	582,951	582,951
Financial liabilities		
Payables and accrued liabilities (note 11)	(8,602,481)	(8,602,481)
Due to related parties (note 14)	(614,561)	(614,561)
Convertible debt (note 13)	(18,852,378)	(16,955,000)
	16,158,445	18,055,523

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

25 Financial instruments, financial risk management and fair value (continued)

December 31, 2013	Carrying value	Fair value
	$	$
Financial assets		
Cash and cash equivalents	95,366,039	95,366,039
Receivables (note 7)	270,829	270,829
Financial liabilities		
Payables and accrued liabilities (note 11)	(14,031,463)	(14,031,463)
Due to related parties (note 14)	(221,029)	(221,029)
	81,384,376	81,384,376

In the preceding tables, receivables exclude sales tax credits, and payables and accrued liabilities exclude sales tax credits payable.

Fair value hierarchy

The Company defines the fair value hierarchy for financial instruments carried at fair value as follows:

a) Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities.
b) Level 2 fair value measurements includes inputs other than quoted prices included in level 1 that are observable for the assets or liability, either directly or indirectly.
c) Level 3 valuations use unobservable inputs that are supported by little or no market activity and that are financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instrument for which the determination of fair value requires significant judgment or estimation.

If the inputs used to measure the financial assets and liabilities fall within more than one level described above, the categorization is based on the lowest level input that is significant to the fair valued measurement of the instrument.

26 Segment information

The Company operates in a single operating segment, being the acquisition, exploration and evaluation of mineral resources. All of the Company's resource properties and items of property, plant and equipment are located in Canada.

27 Commitments and contingencies

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.

The Company expects to pay $510,000 in 2015, $262,000 in 2016 and $18,000 in 2017 with regards to various operating leases for its premises.

In connection with the closing of the Subscription Transaction (see note 16), the Company had committed to pay a finder’s fee associated with the Initial Investment (the “Finder’s Fee”) and an off-take sales fee to the finder engaged to identify Hebei to the Company and to assist with the conclusion of the transaction with Hebei (the “Finder”). On March 15, 2013, the Company sent notice terminating the finder’s fee agreement, in accordance with its terms. On July 31, 2013, the Company and the Finder concluded a settlement agreement for the Finder’s Fee and the off-take sales fee. The total amount of the settlement is $1,798,500. All payments made also included an interest amount calculated at a rate of 1% per annum from April 30, 2013 until the date of payment. As part of the settlement, the Finder has released all claims to the off-take sales fee.

On March 1, 2012, the Company entered into the Charter Agreement with Image Air for a plane that Image Air leases from a limited partnership. The former Vice Chairman of the Company’s Board of Directors is the sole limited partner of this limited partnership. Per the Charter Agreement, the minimum cost to the Company is $44,400 per month, with additional charges incurred for each hour that the aircraft is flown. On April 9, 2013, the Company sent notice to Image Air terminating the Charter Agreement, in accordance with its terms. On November 28, 2014, the Company obtained a release of all outstanding claims under the Charter Agreement from Image Air.

The Company has negotiated contracts with suppliers in relation to the purchase of equipment. As at December 31, 2014, payments of $31,560,000 remain to be paid on the equipment for contracts entered into and approximately $30,230,000 of this amount is contingent on confirmation by the Company of future fabrication of this equipment.

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. 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.

27 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. As at December 31, 2014, the Company has estimated an accrual of $3,300,000 in demobilization costs, which have been accounted as development expenses in the consolidated statements of comprehensive loss as these costs were determined to not be directly attributable to the Kami Project for the year ended December 31, 2014. 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 Hebei. 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 monthly average price for iron ore sinter feed fines quoted by Platts Iron Ore Index for 62% iron content (plus additional quoted premium for iron content greater than 62%), less a discount equal to 2% of such quoted price.

In the normal course of operations, the Company may become involved in various claims and legal proceedings. No contingent liabilities have been accrued for claims or litigations as of December 31, 2014 or 2013, nor are there, in management's view, any known disputes pending against the Company that could significantly impact the Company's consolidated financial statements.

Introduction

This Management's Discussion and Analysis ("MD&A") provides a review of the financial performance, financial condition and cash flows of Alderon Iron Ore Corp. for the year ended December 31, 2014. In this MD&A, "Alderon", the "Company", "we", "us" or "our" mean Alderon Iron Ore Corp. and its subsidiaries and affiliates. This MD&A should be read in conjunction with the Company's annual consolidated financial statements as of December 31, 2014 and 2013 and for the three-year period ended December 31, 2014 (the "Financial Statements"). This MD&A is prepared as of March 26, 2015.

The Company has prepared this MD&A with reference to National Instrument 51-102 "Continuous Disclosure Obligations" of the Canadian Securities Administrators.

All dollar amounts in this MD&A are presented in Canadian dollars (which is the Company's presentation and functional currency), except where otherwise indicated.

Responsibility of financial reports

Management is responsible for the preparation and integrity of financial reports, as well as for the maintenance of appropriate information systems, procedures and internal controls and for ensuring that information used internally or disclosed externally, including our Financial Statements and MD&A, is complete and reliable. The Company's Board of Directors follows recommended corporate governance guidelines for public companies to ensure transparency and accountability to shareholders. Our Board of Director's Audit Committee meets with management quarterly to review the Financial Statements and the MD&A and to discuss other financial, operating and internal control matters.

Our Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. Consequently, all comparative financial information presented in this MD&A reflects the consistent application of IFRS.

Except as otherwise indicated, Mr. Brian Penney, P.Eng., the Chief Operating Officer of Alderon and a Qualified Person, as defined by National Instrument 43-101, *Standards of Disclosure for Mineral Projects* ("NI 43-101"), has reviewed and approved the technical information contained in this MD&A.

Forward-looking information

This MD&A contains "forward-looking information" within the meaning of the U.S. Private Securities Litigation Reform Act and applicable Canadian securities laws concerning anticipated developments and events that may occur in the future. Forward looking information contained in this MD&A includes, but is not limited to, statements with respect to: (i) the estimation of mineral reserves and mineral resources; (ii) permitting time lines; (iii) the sufficiency of working capital; (iv) requirements for additional capital; (v) development, construction and production timelines and estimates; (vi) the timing of long lead equipment items; (vii) the supply of power for the Kami Project; (viii) the use of financing proceeds; (ix) the results of our Feasibility Study (as defined below), including statements about estimated future production, future operating and capital costs, the projected internal rate of return ("IRR"), net present value ("NPV"), payback period, construction timelines and production timelines for the

Kami Property (as defined below); (x) forecasts for future expenditures; (xi) the Company's financing strategy for the development of the Kami Project, including the Senior Debt Facility (as defined below); and (xii) the statements in the "Outlook for 2015" section of this MD&A including the anticipated amount, timing and successful completion of the Senior Debt Facility and other financing for the construction of the Kami Project, the expected timeline for the commencement of construction and its duration, the negotiation and conclusion of infrastructure contracts, implementation of agreements and ongoing consultation with aboriginal groups.

In certain cases, forward-looking information can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Forward-looking information contained in this MD&A is based on certain factors and assumptions regarding, among other things, the estimation of mineral reserves and resources, the realization of resource estimates, iron ore and other metal prices, the timing and amount of future exploration and development expenditures, the estimation of initial and sustaining capital requirements, the estimation of labour and operating costs, the availability of necessary financing and materials to continue to explore and develop the Kami Property (as defined below) in the short-and long-term, the progress of exploration and development activities, the receipt of necessary regulatory approvals, the estimation of insurance coverage, and assumptions with respect to currency fluctuations, environmental risks, title disputes or claims, and other similar matters. While the Company considers these assumptions to be reasonable based on information currently available to it, these assumptions may prove to be incorrect.

Forward looking information involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information including, without limitation, the following risks and uncertainties referred to under the heading "Risk Factors" in the Company's Annual Report on Form 20-F ("Annual Report") for the year ended December 31, 2014:

- risks relating to the fact that the Company depends on a single mineral project;
- risks inherent in the exploration and development of mineral deposits, including risks relating to changes in project parameters as plans continue to be redefined including the possibility that mining operations may not commence at the Kami Property;
- risks relating to variations in mineral resources and reserves, grade or recovery rates resulting from current exploration and development activities;
- risks related to fluctuations in the price of iron ore as the Company's future revenues, if any, are expected to be derived from the sale of iron ore;
- risks related to a reduction in worldwide and specifically Chinese demand for iron ore which could result in lower prices and demand for iron ore;
- financing, capitalization and liquidity risks, including the risk that the financing necessary to fund the development and construction activities at the Kami Property may not be available on satisfactory terms, or at all;
- the Company has no history of mining operations and no revenues from operations and expects to incur losses for the foreseeable future;
- risks related to the Company relying on two customers for 100% of its expected iron ore concentrate production;

- risks related to the Company obtaining various permits required to conduct its current and anticipated future operations;
- risks related to unresolved land claims by various aboriginal groups;
- risks related to disputes concerning property titles and interest;
- risks relating to the ability to access rail transportation, sources of power and port facilities;
- the Company is dependent on the support and cooperation of Hebei Iron & Steel Group Co. Ltd ("Hebei"), its partner to develop the Kami Property;
- operational risks inherent in the conduct of mining activities, including the risk of accidents, labour disputes, increases in capital and operating costs and the risk of delays or increased costs that might be encountered during the development process;
- risks related to the significant governmental regulation that the Company is subject to;
- environmental risks;
- reliance on key personnel;
- risks related to increased competition in the market for iron ore and related products and in the mining industry generally;
- risks related to potential conflicts interests among the Company's directors and officers;
- the absence of dividends;
- risks related to current global financial conditions;
- land reclamation requirements may be burdensome;
- risks associated with the acquisition of any new properties;
- uncertainties inherent in the estimation of mineral resources;
- the Company may become subject to legal proceedings; and
- risks relating to the Company's common shares.

Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. The forward-looking information is made as of the date of this MD&A.

Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement. Except as required by applicable securities laws, the Company does not undertake any obligation to publicly update or revise any forward-looking information, and readers should also carefully consider the matters discussed under the heading, "Risk Factors", in this MD&A and under the heading, "Risk Factors", in the Annual Report.

Cautionary Note to investors in the United States regarding resource estimates

This MD&A has been prepared in accordance with the requirements of the securities laws in effect in Canada, which differ from the requirements of United States ("U.S.") securities laws. Unless otherwise indicated, all resource and reserve estimates included in this MD&A have been prepared in accordance with NI 43-101 and the Canadian Institute of Mining and Metallurgy Classification System. NI 43-101 is a rule developed by the Canadian Securities Administrators which establishes standards for all public disclosure an issuer makes of scientific and technical information concerning mineral projects.

Canadian standards, including NI 43-101, differ significantly from the requirements of the United States Securities and Exchange Commission ("SEC"), and reserve and resource information contained herein may not be comparable to similar information disclosed by U.S. companies. In particular, and without limiting the generality of the foregoing, the term "resource" does not equate to the term "reserves". Under U.S. standards, mineralization may not be classified as a "reserve" unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. The SEC's disclosure standards normally do not permit the inclusion of information concerning "measured mineral resources", "indicated mineral resources" or "inferred mineral resources" or other descriptions of the amount of mineralization in mineral deposits that do not constitute "reserves" by U.S. standards in documents filed with the SEC. U.S. investors should also understand that "inferred mineral resources" have a great amount of uncertainty as to their existence and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an "inferred mineral resource" will ever be upgraded to a higher category. Under Canadian rules, estimated "inferred mineral resources" may not form the basis of feasibility or pre-feasibility studies. Investors are cautioned not to assume that all or any part of an "inferred mineral resource" exists or is economically or legally mineable. Disclosure of "contained ounces" in a resource is permitted disclosure under Canadian regulations; however, the SEC normally only permits issuers to report mineralization that does not constitute "reserves" by SEC standards as in place tonnage and grade without reference to unit measures. The requirements of NI 43-101 for identification of "reserves" are also not the same as those of the SEC. Accordingly, information concerning mineral deposits set forth herein may not be comparable with information made public by U.S. companies subject to the reporting and disclosure requirements of the SEC.

Description of business and overview

Alderon is a development-stage company advancing towards production its Canadian iron ore properties, located in the province of Newfoundland & 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.

The Company's common shares are listed on both the Toronto Stock Exchange ("TSX"), under the symbol "ADV", and on the NYSE MKT LLC, under the symbol "AXX".

Highlights for the year ended December 31, 2014

- In January 2014, the Company and the Innu Nation entered into an Impact and Benefits Agreement ("IBA").
- On January 10, 2014, the Government of Newfoundland and Labrador released the Kami Project from the Provincial Environmental Assessment (the "PEA") process.
- On January 21, 2014, the Company entered into an agreement (the "LC Agreement") with Labrador City with respect to an annual grant-in-lieu of municipal taxes.
- In February 2014, Alderon finalized orders for the supply of the rotary car dumper and stacker-reclaimer.
- On February 18, 2014, the Federal Minister of Environment released the Environmental Assessment Decision which determined that the Kami Project is not likely to result in any significant negative environmental effects. This decision marked the conclusion of the Federal Environmental Assessment process.
- On February 19, 2014, the Company entered into a Power Purchase Agreement ("PPA") with Newfoundland and Labrador Hydro ("NLH"), a subsidiary company of Nalcor Energy ("Nalcor").
- On February 24, 2014, Liberty Metals & Mining Holdings, LLC ("Liberty") provided a loan (the "Liberty Loan") to the Company in the amount of $22.0 million.

- In March 2014, the Company entered into an agreement (the "Framework Agreement") with the Innu of Uashat mak Mani-Utenam and the Innu of Matimekush-Lac John (collectively, "The Innu").
- On March 25, 2014, the Company signed a grant-in-lieu of Municipal Taxes Agreement (the "Wabush Agreement") with the Town of Wabush ("Wabush").
- On May 13, 2014, Alderon's General Environmental Protection Plan, Environmental Protection Plan for Valued Environmental Components and Environmental Effects Monitoring Plan (collectively, the "Plans") were approved by the Provincial Minister of Environment and Conservation.
- On May 27, 2014, Alderon received its Mining and Surface Leases (collectively, the "Leases").
- On May 27, 2014, Alderon signed a benefits agreement with the Province of Newfoundland and Labrador (the "Provincial Agreement") which sets out employment, procurement and training benefits.
- In June 2014, the Company concluded purchase and sale agreements with twenty-three cabin owners.
- On June 11, 2014, the Company signed a Life Cycle Services Agreement with Metso Minerals Canada ("Metso") for provision of maintenance services for the planned iron ore concentrator.
- On June 30, 2014, the Company announced that it had completed the required pre-construction engineering on the Kami Project and as such has temporarily suspended any further work by WorleyParsons Canada Services Ltd. ("WorleyParsons").
- On July 29, 2014, Alderon 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 Hebei.
- On August 20, 2014, Alderon appointed Endeavour Financial Limited (Cayman) ("Endeavour Financial") to act as its financial advisor with respect to the project financing process and intends to form a club syndicate of international banks to provide the Senior Debt Facility (as defined below).
- On October 2, 2014, the Company reported that NLH has cleared 20 kilometers in preparation for the installation of the New Transmission Line (as defined below).
- In December 2014, Alderon reported that it has implemented a comprehensive cash preservation program that will allow the Company to maintain a healthy working capital position into 2017 without the need to access equity or debt financing during the intervening period, aside from the financing required to commence construction at the Kami Project.

The Kami Project

Alderon is focused on developing its core asset, the Kami Property, which is located next to the mining towns of Wabush and Labrador City in western Labrador, Canada. The Kami Property is surrounded by two producing mines and is within close proximity to a common carrier railway that is connected to deep sea ports with year-round access to the global market. The Company's goal is to develop the Kami Property into a profitable mining operation and to become a producer of low-cost iron concentrate by taking advantage of the Kami Property's strategic location and of the readily available regional infrastructure.

The following represents a brief summary of key activities, milestones and deliverables associated with the ongoing advancement of the Kami Project during the year ended December 31, 2014. Information related to prior periods is included where contextualization for 2014 activities is deemed appropriate. In addition to the technical, geological and exploration-specific activities carried out on the Kami Property, the following summary presents information related to environmental, aboriginal, government and community-related efforts, as well as a brief discussion of infrastructure-related matters and initiatives.

Much of the information presented below is derived from the Company's 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 and filed on January 16, 2013, on SEDAR (accessible at www.sedar.com). The information below from the Feasibility Study has not been updated from its effective date. Additional and more detailed information can be found in the Feasibility Study, as well as in the Company's Annual Report for the year ended December 31, 2014.

Exploration and development initiatives

From January 1, 2010, through to December 31, 2014, the Company has incurred a cumulative total of $157.5 million related to the Kami Project. These costs include $65.5 million of exploration and evaluation expenditures and $4.1 million in development expenditures which have been accounted for as expenses in the consolidated statements of comprehensive loss and $87.9 million of development costs which have been accounted for as additions to mineral properties in the consolidated statement of financial position. A description of the nature of the development costs is detailed in the discussion under the heading "Consolidated statement of financial position information-Mineral properties" below.

Feasibility Study initiatives

On January 9, 2013, Alderon announced that it had received the results of the Feasibility Study on the Rose Deposit. The Feasibility Study was completed by BBA Inc. ("BBA"), located in Montreal, Quebec, Stantec Consulting Ltd. ("Stantec"), located in St. John's, Newfoundland & Labrador, and Watts, Griffis and McOuat Limited ("WGM"), located in Toronto, Ontario. The Feasibility Study was based on a subset of the total resource and utilized the measured and indicated resources in the Rose Deposit only. The highlights of the Feasibility Study include the estimates that are presented below (dollar amounts are USD and are presented on a pre-tax basis, except where otherwise indicated):

NPV at 8% discount rate	$3,244 million
IRR	29.3%
Total estimated capital cost (excluding sustaining capital and closure costs)	$1,273 million
Average estimated operating costs (loaded in ship Port of Sept-Îles) per tonne	$42.17
Free on board ("FOB") concentrate sales price forecast- based on long-term Cost and Freight ("CFR") benchmark prices of $115/t (from Year 1-5) and $110/t (from Year 6 onward) @ 62% iron adjusted for Kami Iron ("Fe") grade and Hebei agreement terms Year 1-5 Year 6 onward	 $107 $102
Estimated mine life (the number of years that the Company is planning to mine and treat ore)	30 years
Final product grade (% iron content)	65.2%
Measured and Indicated Resource of the Rose Deposit (in tonnes)	1,093.2 million
Proven and Probable Reserves of the Rose Deposit (in tonnes)	668.5 million
Annual production (average life of mine, post ramp-up year) (in tonnes)	8.0 million
Projected years to payback, at 8% discount rate	3.8

The level of accuracy of the Feasibility Study was considered by the authors to be +/-15% and a foreign exchange rate of US$1.00=$1.00 was used. Please refer to the heading "Outlook for 2015" in this MD&A for the expected timing of certain key project milestones.

The mineral resource estimate for the Kami Property is set out below. WGM was retained to audit an in-house estimate completed by Alderon. Mr. Michael Kociumbas, P.Geo. and Mr. Richard Risto, P.Geo., with independent firm, WGM, are Qualified Persons as defined by NI 43-101 and were responsible for reviewing and approving this mineral resource estimate. They have verified, reviewed and approved the technical data contained in the underlying sampling, analytical and test data. The mineral resource estimate has been prepared using a 15% Total Fe cut-off grade, and is inclusive of mineral reserves.

Zone	Category	Tonnes (millions)	Total Iron Content (TFe)%	Magnetite Iron (MagFe)%	Hematite Iron (hmFe)%
Rose Central	Measured	249.9	29.4	17.6	8.1
	Indicated	294.5	28.5	17.7	5.9
	Total	544.4	28.9	17.7	6.9
	Inferred	160.7	28.9	16.9	7.1
Rose North	Measured	236.3	30.3	13.0	14.7
	Indicated	312.5	30.5	11.8	17.1
	Total	548.8	30.4	12.3	16.1
	Inferred	287.1	29.8	12.5	15.5
Mills Lake	Measured	50.7	30.5	21.5	7.0
	Indicated	130.6	29.5	20.9	3.9
	Total	181.3	29.8	21.1	4.8
	Inferred	74.8	29.3	20.3	2.7

The mining engineering work performed for the Feasibility Study was based on the 3-D block model provided by Alderon and audited by WGM. Pit optimizations were performed on Measured and Indicated resources, and the pit shell having the optimal discounted NPV and strip ratio at a cut-off grade of 15% Total Fe was selected for the mineral reserve estimate. The final mineral reserve was estimated after applying engineering and operational design parameters. BBA is of the opinion that the mineral reserve estimate derived in the Feasibility Study reasonably quantifies the economical ore mineralization of the Rose Deposit. The mineral reserves presented in the table below are included in the mineral resource estimate set out above.

Category	Mt	TFe%	Weight recovery ("WREC")%	MagFe%	Magnetite%
Proven	431.7	29.7	35.5	15.5	21.4
Probable	236.8	29.2	34.1	14.9	20.5
Total	668.5	29.5	35.0	15.3	21.1

The Kami Project, as stated in the Feasibility Study, includes the following components:

- The Rose Deposit and waste rock disposal areas.
- Processing infrastructure, including a crushing and grinding circuit, spiral plant, magnetite plant and fine tailings thickener.
- Tailings management facility.
- Ancillary infrastructure to support the mine and process plant (gate and guardhouse, reclaim water pumphouse, truck wash bay and repair shop, electrical substation, administration/office buildings, maintenance offices, warehouse area and employee facilities, conveyors, load out silo, stockpiles, sewage and effluent water treatment systems, mobile equipment and transmission lines).
- Services for a temporary construction camp located off-site and operated by a third party.
- The rail infrastructure, including the rail line connecting to Quebec North Shore & Labrador ("QNS&L") railway, the rail loop and the service tracks consist of a total of 25 km of new track passing to the south and east of Wabush.
- Power provided by Nalcor directly to the Kami site main substation by means of a 315 kV transmission line.

Facilities at the Port of Sept-Îles (the "Port") will include:

- A rail transportation component consisting of a Sept-Îles Junction interchange, railway line and staging tracks.
- A car dumper.
- A stacker/reclaimer system.
- A concentrate storage area with a capacity of 550,000 tonnes.
- A conveyor system feeding the future common deep water shiploading facility, capable of loading high capacity vessels destined for Asia, operated by the Sept-Îles Port Authority (the "Port Authority").

The proposed project, as stated in the Feasibility Study, will produce 8.0 million tonnes of iron ore concentrate per year and will ship concentrate to market via the Port facilities at Pointe Noire, Quebec. Ore processing will take place at the Kami Property and will involve the following steps:

- Ore will be mined from the open pit mine using conventional drill and blast and loading techniques and transported via haul trucks.
- Ore will be hauled to the primary crusher in proximity of the pit and the crushed ore will be delivered to the stockpile and to the process plant via conveyor.
- The process plant will include grinding, screening, and gravity and magnetic concentration.
- Tailings (process waste) will be pumped to the tailings impoundment area south of the process plant.
- Iron ore concentrate will be loaded onto gondola rail cars for transportation to the Port where it will be stockpiled and in turn transferred to ships for delivery to market.

Mr. Angelo Grandillo, P.Eng, of BBA, a Qualified Person as defined by NI 43-101 has reviewed and approved the technical information contained in this section, with the exception of the mineral resource estimate which was reviewed and approved by WGM as noted above. Mr. Grandillo has verified all the data underlying the technical information disclosed in this section.

Since the effective date of the Feasibility Study, certain technical and financial parameters and inputs have changed and the Company has revised the expected timing of certain key project milestones. In addition, during this period Alderon has completed detailed engineering. The authors of the Feasibility Study cannot attest to, nor consent to, the quality or results of any technical or financial work completed since the effective date of the Feasibility Study or the impact of this work on the original conclusions and recommendations drawn by the authors of the Feasibility Study.

Environmental, aboriginal, government and community initiatives

<u>Environment</u>

The Kami Project is subject to the environmental assessment provisions of the Newfoundland and Labrador *Environmental Protection Act* and the *Canadian Environmental Assessment Act*.

On September 30, 2013, the Provincial Government announced that the Environmental Impact Statement ("EIS") submitted by Alderon complies with the legislation and the EIS Guidelines and that no further work under the PEA process was required. Subsequently, on January 10, 2014, the Government of Newfoundland and Labrador determined that the Kami Project met the requirements of Part X of the Newfoundland and Labrador Environment Protection Act and released the Kami Project from the PEA process. This marked the end of the PEA process. In compliance with the conditions of release from the PEA process, Alderon submitted the Plans for Ministerial approval on April 16, 2014. The Plans were approved by the Minister of Environment and Conservation on May 13, 2014.

At the Federal level, the Canadian Environmental Assessment Agency ("CEAA") prepared its Comprehensive Study Report which presents CEAA's analysis of the Kami Project to determine whether the Kami Project is likely to cause significant adverse environmental effects. On February 18, 2014, the Minister of Environment released the Environmental Assessment Decision which determined that the Kami Project is not likely to result in any significant negative environmental effects. This decision marked the conclusion of the Federal Environmental Assessment process. In addition, the Company received the federal *Navigable Waters Protection Act* Approval pursuant to subsections 5(1) and (3) of the *Navigable Waters Protection Act* and the federal *Fisheries Act* Authorization pursuant to Sections 35(2)(b) of the federal *Fisheries Act*.

At the municipal level, Labrador City and Wabush (collectively, the "Towns") municipal plan amendments to rezone lands within the Kami Project has been completed. The footprint of the Kami Project's operations in Labrador is located entirely within the municipal planning areas of the Towns. The Towns published these amendments in the March 14, 2014 edition of the Newfoundland and Labrador Gazette following their registration by the Provincial Department of Municipal Affairs. These amendments were necessary to permit mineral extraction and mineral workings within the Kami Project area.

Alderon has received the Leases, pursuant to Sections 31 and 33, respectively, of the *Mineral Act* RSNL 1990, c. M-12. The Leases were registered on February 17, 2014 and signed and sealed by the Minister of Natural Resources on May 27, 2014. The Mining Lease gives the Company the exclusive rights to develop the mineral resource underlying the Kami Project. The Surface Lease provides the Company with the surface rights covering the area of the Mining Lease and areas for siting the required infrastructure incidental to the development of the mine.

Aboriginal groups

Alderon continues to actively engage with aboriginal groups as part of its initiatives to identify, understand and address any potential effects of the Kami Project on aboriginal communities and groups and their current use of land and resources for traditional purposes.

There are no treaties or settled land claims which overlap the project area. However, the Kami Property is located in an area which five aboriginal groups assert as their traditional territory: Innu Nation, NunatuKavut Community Council (the "NCC"), the Naskapi Nation of Kawawachikamach (the "Naskapi Nation"), the Innu of Matimekush-Lac John and the Innu of Uashat mak Mani-Utenam. While there are no aboriginal communities in proximity to the Kami Property, over 100 members of the NCC reside in the Towns.

The Terminal, defined and discussed below, is located within the asserted traditional territory of two aboriginal groups: the Innu of Uashat mak Mani-Utenam and the Innu of Matimekush-Lac John. Though located near Schefferville, approximately 500 km north of Sept-Îles, the Innu of Matimekush-Lac John share their ancestral territory with the Innu of Uashat mak Mani-Utenam.

Alderon is committed to the development of collaborative relationships based on mutual trust and respect with aboriginal groups whose asserted rights or interests or traditional territory may be potentially affected by the Kami Project. Consistent with that commitment, Alderon's engagement efforts with each of the five aboriginal groups commenced prior to project registration and have been ongoing since that time. These efforts include the regular and timely provision of project-related information, meetings with leadership and community residents to discuss issues and concerns and offers to fund land and resource use studies and other initiatives designed to identify and mitigate or avoid any adverse effects of the Kami Project upon asserted aboriginal rights and interests. In order to enhance the positive effects of the Kami Project, Alderon has extended offers to various aboriginal groups to enter into formal arrangements which are intended to create opportunities for participation in employment, business, training and environmental monitoring and follow-up. Alderon will continue to engage with each aboriginal group throughout the life of the Kami Project, including through the provision of permit applications to each aboriginal group for review and comment and meetings with leadership and the community to provide Kami Project updates.

On June 24, 2013, the Company concluded a Community Participation Agreement (the "CPA") with the NCC with respect to the development of the Kami Project. The CPA sets out the basic positions of each of the Company and the NCC and addresses such matters as environmental permitting, training and employment, business opportunities and community initiatives. Alderon will provide the NCC with capacity funding for the review of permits, participation in any follow-up or monitoring programs, and training initiatives. In return, the NCC will support the Kami Project and not take any action which would delay or interfere with the Kami Project. Implementation of the CPA has commenced, with parties meeting to discuss employment and business opportunities and the Company holding a procurement workshop with NCC businesses.

In January 2014, the Company and the Innu Nation entered into an 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, permit review and environmental monitoring, 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. In return, Innu Nation agrees to support the Kami Project and not take any action which would delay or interfere with the Kami Project. Implementation of the IBA is underway: an IBA Implementation Committee has been established and has met to discuss employment and business opportunities.

In March 2014, the Company entered into the Framework Agreement with The Innu. The Framework Agreement establishes the terms of reference for the negotiation of an IBA. Discussions are currently ongoing and The Innu have agreed not to object to the issuance of any permits or authorizations or to take any action which would delay or interfere with the Kami Project while negotiations are in progress.

The Company continues to engage with the Naskapi Nation. The parties have been engaged in the negotiation of a community benefits agreement since the fall of 2013. The draft agreement addresses training and employment, business opportunities and environmental monitoring. If the agreement is concluded, the Naskapi Nation will agree to support the Kami Project and not to take any action which would delay or interfere with the Kami Project.

Community relations

Alderon is committed to operating within a sustainable development framework. A key principle of sustainable development is to consult with stakeholders who may have an interest in or be affected by the Kami Project in order to build and maintain positive, long-term and mutually beneficial relationships.

On January 21, 2014, the Company entered into the LC Agreement with respect to the development of the Kami Project. Under the terms of the LC Agreement, the Company will pay to Labrador City an annual grant-in-lieu of municipal taxes on the Kami Project mining operations that will be located in the Municipal Planning Area of Labrador City. Payments under the LC Agreement will commence after initial production occurs at the Kami Project.

On March 25, 2014, the Company signed the Wabush Agreement 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 that will be located within the municipal boundaries of Wabush. The Company will also provide a capital projects disbursement to Wabush, with the funds going towards required infrastructure needs. Payments under the Wabush Agreement will commence after initial production occurs at the Kami Project.

On May 27, 2014, Alderon signed the Provincial Agreement with the Province of Newfoundland and Labrador which 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.

In June 2014, the Company concluded purchase and sale agreements with twenty-three cabin owners. The cabins purchased were identified as being directly impacted by the Kami Project and such, the Company negotiated purchase and sale agreement with each of the identified cabin owners. Payments for these cabins totalled $1.2 million as at December 31, 2014.

Alderon continues to actively engage all stakeholders and aboriginal groups to ensure an efficient and timely completion of any required permit to develop the Kami Project.

Infrastructure

Port infrastructure

As noted above, the Kami Property is in close proximity to a transportation network that will enable the Company to access a deep sea port, from which Alderon will dispatch iron ore concentrate to international customers. As part of the construction to support the Kami Project, Alderon will build a facility in Pointe-Noire, Quebec for receiving, unloading, stockpiling and reclaiming concentrate for ship loading (the "Terminal").

On July 13, 2012, the Company entered into an agreement with the Port Authority to secure usage of a new multi-user deep water dock facility that the Port Authority is constructing (the "Port Agreement"). Pursuant to the Port Agreement, Alderon has reserved an annual capacity of 8.0 million tonnes of iron ore that Alderon can ship through the Port. Construction on the new multi-user dock facility by the Port Authority is progressing with construction scheduled to wrap up during the summer of 2015.

Per the Port Agreement, the total initial commitment by the Company is $20.5 million (the "Buy-in Payment"), which constitutes an advance on Alderon's future shipping fees. The Buy-in Payment was payable in two equal installments, the first of which was paid upon signing the Port Agreement, and the second was paid on June 28, 2013. 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 Authority once Alderon's usage of the multi-user facility commences. Once the new multi-user dock facility is operational, the Company will have a take or pay obligation based on a discounted rate applied on 50% of the 8.0 million tons minimum annual shipping capacity, payable even if Alderon does not use the facilities.

The Port Agreement includes a base fee schedule for wharfage and equipment fees for iron ore loading for Alderon's shipping operations. The rates commence when the deep water dock facility is ready for use, and the rates are on a sliding scale based on the volume of iron ore that is shipped. The term of the Port Agreement is 20 years from the date of the Port Agreement, with the option to renew for further five year terms, up to a maximum of four renewals.

On April 2, 2014, the Company announced the commencement of preliminary work for the Terminal. Specifically, the tree cutting has been completed at the Terminal, which will be built for receiving, unloading, stockpiling and reclaiming concentrate for ship loading. The Terminal will consist of a railcar unloading stub track, a single rotary car dumper, a concentrate storage yard with stacker-reclaimer and interconnecting conveyor systems. Two of the most critical pieces of the material handling system for the Kami Project, the car dumper and the stacker-reclaimer, have already been ordered, as discussed below under the heading "Site infrastructure and equipment".

Rail infrastructure

The Kami Project is in close proximity to an established rail network that currently services other operating mining operations in the region.

In April 2012, Alderon initiated preliminary tariff negotiations with QNS&L and Chemin de Fer Arnaud ("CFA"). Alderon's base case for the Feasibility Study is to use these two rail operators to transport its iron ore concentrate from the Kami Project to the Port. Tariffs are expected to be within industry norms. The Company has had discussions with QNS&L and CFA in order to negotiate rail transportation tariffs. No agreement has been concluded to date, however, as they are common carriers, the railways are obligated by law to haul third party shipments.

Power supply

Although low cost power from a major hydroelectric facility at Churchill Falls to the east of the Kami Property is currently transmitted into the region for the existing mining operations, the current availability of additional electric power on the existing infrastructure in the region is constrained by the transmission infrastructure.

In February 2014, the Government of Newfoundland and Labrador confirmed that it would proceed with the construction of a third transmission line from Churchill Falls to Labrador West (the "New Transmission Line"). Nalcor had previously confirmed that it would be able to supply power to the Kami Project but the New Transmission Line is necessary to ensure there is enough transmission capacity to deliver the power to the Kami Project.

On February 19, 2014, the Company entered into a 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. The Company also agreed, pursuant to the terms of a security agreement with NLH (the "NLH Security Agreement") to provide security for its commitment to begin purchasing electrical power under the terms and conditions of the PPA once the Kami Project is commissioned. Under the terms of the NLH Security Agreement, the Company has agreed to provide a total of $65.0 million in security deposits that will each take the form of a letter of credit that will be released to the Company once the Kami Project is interconnected to the electrical system as contemplated under the PPA, and has been commissioned and the Company has loaded saleable product produced from the Kami Project in two consecutive months.

The first security deposit in the amount of $21.0 million was paid on the signing of the NLH Security Agreement. The remaining $44.0 million in security deposits will be provided to NLH at such time as NLH can reasonably demonstrate that it has additional existing and pending commitments for such amount to construct the New Transmission Line. NLH is required to provide sufficient advance notice of the timing and amounts of additional security deposits.

On October 2, 2014, the Company reported that NLH has cleared 20 kilometers in preparation for the installation of the New Transmission Line but has halted construction of the New Transmission Line. Construction of the remaining portion of the New Transmission Line will proceed once the Company secures its project financing for the Kami Project (as discussed below under the "Corporate activities" heading). As noted above, Alderon provided an initial security deposit in the amount of $21.0 million to NLH and all of the New Transmission Line costs incurred to date are covered by this security deposit.

Site infrastructure and equipment

Alderon has placed orders for the autogenous ("AG") and ball mills for the Kami Project. The AG and ball mills are the key processing equipment in the proposed concentrator as described in the Feasibility Study. Specifically, an order has been placed with Metso for the supply of AG and ball milling systems. Additionally, the AG and ball mill drive systems were awarded to General Electric which complement the mills that were ordered from Metso. The AG mill, which is 36 ft. in diameter and 23 ft. long, the largest diameter commonly used in pinion driven systems, has a 15 megawatt (MW) power rating. The ball mill is 22 ft. in diameter and 41 ft. long having a 10 MW rating. As of December 31, 2014, the AG and ball milling systems are ready for shipment to site.

In February 2014, Alderon finalized orders for two critical pieces of its material handling system for the Terminal. An order has been placed with Metso for the supply of the rotary car dumper which was originally due for delivery in Q1 2015. In addition, the stacker-reclaimer will be acquired from Sandvik AB and the delivery was originally scheduled for Q2 2015. The Company has not yet released the rotary car dumper and stacker-reclaimer for fabrication, and will schedule this with Metso and Sandvik AB once the Company's financing plan (as discussed below under the "Corporate activities" heading) is completed.

On June 11, 2014, the Company signed a Life Cycle Services Agreement with Metso, which will provide ongoing maintenance services with respect to all mechanical maintenance of equipment located in the Kami Project's processing area.

Corporate activities

Liberty private placement (the "Liberty investment")

On January 13, 2012, the Company completed the Liberty investment, pursuant to a subscription agreement that resulted in the issuance of 14,981,273 of the Company's common shares in exchange for aggregate gross proceeds of $40.0 million, less cash transaction costs of $2.7 million. Liberty also has a pre-emptive right to participate in any future equity financings of Alderon, and in the event that Liberty desires to sell any of the aforementioned purchased shares, Alderon will hold the right to identify a purchaser or purchasers to whom those shares shall be sold.

Strategic investment from Hebei (the "Strategic Investment")

On September 4, 2012, the Company completed a subscription transaction (the "Subscription Transaction") with Hebei, pursuant to an agreement whereby Hebei purchased 25,858,889 of the Company's common shares by way of a private placement in exchange for aggregate gross proceeds of $62.3 million, less cash transaction costs of $1.4 million.

On March 15, 2013, Hebei and Alderon completed the Strategic Investment in which Hebei contributed $119.9 million (the "Initial Investment") into The Kami LP for 25% interest in the Kami Project and Alderon contributed the Kami Property and its related assets into The Kami LP for 75% interest in the Kami Project. Alderon and Hebei are required to contribute to capital expenditures for the development of the Kami Project not covered by initial capital contributions and project debt financing, in accordance with their respective interests. However, Hebei's further contributions to The Kami LP will depend upon the amount of aggregate proceeds received as project debt financing and will not exceed $220.0 million.

In connection with the closing of the Strategic Investment, the Company had committed to pay a finder's fee associated with the Initial Investment (the "Finder's Fee") and an off-take sales fee to the finder engaged to identify Hebei to the Company and to assist with the conclusion of the transaction with Hebei (the "Finder").

On March 15, 2013, the Company sent notice terminating the Finder's Fee agreement, in accordance with its terms. On July 31, 2013, the Company and the Finder concluded a settlement agreement for the Finder's Fee and the off-take sales fee. The total amount of the settlement is $1.8 million, which was accrued as a general and administrative expense during the third quarter of 2012. All payments made included an interest amount calculated at a rate of 1% per annum from April 30, 2013 until the date of payment. As part of the settlement, the Finder has released all claims to the off-take sales fee.

Engineering Procurement and Construction Management ("EPCM") services agreement

A formal, comprehensive EPCM services agreement (the "EPCM Agreement") with WorleyParsons was executed effective April 30, 2013.

On June 30, 2014, the Company announced that it had completed the required pre-construction engineering on the Kami Project and as such has temporarily suspended any further work by WorleyParsons. Alderon's internal project team has taken over the management of all works in progress to continue advancing the Kami Project in preparation for the start of construction, once the Company's financing plan (as discussed below) is completed. It is likely that the temporary suspension of WorleyParsons will result in certain demobilization costs to be incurred and charged to the Company in accordance with the terms of the EPCM Agreement. As at December 31, 2014, the Company has estimated an accrual of $3.3 million in demobilization costs, which have been accounted as development expenses in the consolidated statements of comprehensive loss as these costs were determined to not be directly attributable to the Kami Project for the year ended December 31, 2014. The actual amount to be incurred is a function of the duration of delay, actual costs incurred and commitments entered into by WorleyParsons, and adjustments to the estimate will be recorded in future periods as necessary.

Independent contractor agreement

Alderon engaged a contractor under an agreement (the "Contractor Agreement") pursuant to which the contractor was engaged to provide financial, management and business consulting services to the Company. On November 12, 2014, the Company and the contractor agreed to terminate the Contractor Agreement and settle all outstanding fees and expenses under the Contractor Agreement in exchange for the issuance of 1,990,049 common shares of Alderon.

Image Air Charter Ltd ("Image Air")

On March 1, 2012, the Company entered into a two-year aircraft charter agreement (the "Charter Agreement") with Image Air for a plane that Image Air leases from a limited partnership. The former Vice Chairman of the Company's Board of Directors is the sole limited partner of this limited partnership. Per the Charter Agreement, the minimum cost to the Company is $44,000 per month, with additional charges incurred for each hour that the aircraft is flown. On April 9, 2013, the Company sent notice to Image Air terminating the Charter Agreement, in accordance with its terms. On November 28, 2014, the Company obtained a release of all outstanding claims under the Charter Agreement from Image Air.

Debt financing

Alderon is pursuing a financing strategy for the Kami Project based on a combination of an up to US$1.0 billion senior debt facility (the "Senior Debt Facility"), other debt options, equipment financing, and equity. In order to provide flexibility and maximize its financing options, Alderon intends to pursue the Senior Debt Facility and its other debt options in parallel, and is targeting a total debt financing amount of up to US$1.0 billion. There can be no assurance that the Company will successfully conclude the Senior Debt Facility or any of its financing strategy.

Convertible debt

On February 24, 2014, Liberty provided the Liberty Loan to the Company in the amount of $22.0 million. $21.0 million of the gross proceeds of the Liberty Loan was used to fund the first security deposit that is required by NLH in connection with the construction of the New Transmission Line. The remaining $1.0 million 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 Liberty Loan, the principal amount of the Liberty Loan and any accrued but unpaid interest, become convertible at Liberty's option into the Company's common shares at a conversion price equal to $2.376 per common share. The Liberty Loan 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 is payable to Liberty in connection with the Liberty Loan. The Company has the option to prepay the entire balance of the Liberty Loan, at a premium of a 20% internal rate of return to Liberty. The maturity date of the Liberty Loan is December 31, 2018.

On December 8, 2014, Alderon and Liberty amended the Liberty Loan (the "Amended Note"). Liberty agreed to defer the payments of the interest due on December 31, 2014 and June 30, 2015. The deferred interest is added to the principal amount of the Liberty Loan and is subject to interest in accordance with the terms of the Amended Note. In consideration of such deferral, Liberty is to be 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 to Liberty 1,987,083 warrants with an exercise price of $0.4465 on December 31, 2014 and accounted for this as additional financing costs of the Liberty Loan.

Letters of credit

In addition to the first security deposit paid on the signing of the NLH Security Agreement, the Company had the following letters of credit outstanding as at December 31, 2014:

- On March 14, 2014, the Company issued a letter of credit for $967,011 in favour of Fisheries and Oceans Canada ("DFO") in relation to the DFO's monitoring of the Kami Project. The letter of credit expires on March 13, 2016.
- On March 17, 2014, the Company issued a letter of credit for $235,000 in favour of Hydro-Quebec ("HQ") in relation to HQ's energy study at the Company's port facilities in Sept-Îles. This letter of credit was released in February 2015.

Off-take agreement

On July 29, 2014, The Kami LP entered into the Glencore Agreement 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 Hebei.

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 3.2 million tonnes of the first 8.0 million tonnes of iron ore concentrate produced annually at the Kami Project. The term of the Glencore Agreement will continue until Kami LP has delivered 48.0 million 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 monthly average price for iron ore sinter feed fines quoted by Platts Iron Ore Index for 62% iron content (plus additional quoted premium for iron content greater than 62%), less a discount equal to 2% of such quoted price.

Cash conservation program

On December 9, 2014, the Company announced a cash preservation program (the "Program") designed to allow it to maintain sufficient liquidity during the advancement of its financing plan. The Program includes an interest deferral agreement with Liberty as discussed above, voluntary partial payment deferrals with equipment vendors for work completed to date, workforce reductions and the implementation of the DSU Plan for Directors in place of cash director fees as discussed below under the "Consolidated statement of financial position-DSU liability" heading.

Results of operations

Consolidated statements of comprehensive loss information

	Years ended December 31, 2014	2013	2012
	$	$	$
Operating expenses			
General and administrative expenses	8,303,557	13,838,902	27,884,718
Development expenses	4,097,610	-	-
Environmental, aboriginal, government and community expenses	47,083	887,175	7,448,157
Exploration and evaluation expenses	-	503,981	36,446,047
	12,448,250	15,230,058	71,778,922
Loss from operations	(12,448,250)	(15,230,058)	(71,778,922)
Finance income	863,277	1,651,017	437,504
Finance costs	(306,494)	-	(356,157)
Net finance income	556,783	1,651,017	81,347
Loss before income taxes	(11,891,467)	(13,579,041)	(71,697,575)
Income tax recovery	-	-	216,460
Net loss and comprehensive loss	(11,891,467)	(13,579,041)	(71,481,115)
Attributable to:			
Owners of the parent	(7,835,552)	(11,871,038)	(71,481,115)
Non-controlling interest	(4,055,915)	(1,708,003)	-
	(11,891,467)	(13,579,041)	(71,481,115)
Net loss per share			
Basic and diluted	(0.06)	(0.09)	(0.65)
Weighted average number of shares outstanding			
Basic and diluted	130,334,975	130,144,167	109,493,640

General and administrative expenses

Comparative general and administrative expenses, by nature of expenditure, are summarized below:

	Year ended December 31,		
	2014	2013	2012
	$	$	$
Legal, professional and consulting costs	3,496,781	6,040,838	14,407,218
Salaries, wages and benefits	1,937,679	2,454,737	2,635,686
Rent and facilities	670,847	454,511	333,390
Investor relation costs	590,175	983,265	1,352,807
Share-based compensation	530,576	2,133,407	7,391,856
Travel costs	511,737	1,032,387	1,059,020
Other costs	565,762	739,757	704,741
	8,303,557	13,838,902	27,884,718

During the year ended December 31, 2014, our general and administrative expenses decreased by $5.5 million, as compared to the same period in 2013. The primary reason for the decrease is due to a significant decrease in legal, professional and consulting costs of $2.5 million, predominantly in relation to the closing of the Strategic Investment, as discussed above under the heading "Corporate activities-Strategic investment from Hebei". While the Subscription Transaction occurred in September 2012, the Initial Investment was finalized in March 2013, and therefore, non-capitalizable transaction costs were incurred during the first half of 2013. These costs were not incurred during the year ended December 31, 2014. In addition, share-based compensation costs were significantly lower ($1.6 million), which in turn is due to the lower degree of vesting associated with stock options granted in prior periods. The decrease in travel and investor relation costs ($0.9 million) coincides with the temporary suspension of the EPCM Agreement and the continued focus on the Senior Debt Facility.

During the year ended December 31, 2013, our general and administrative expenses decreased by $14.0 million, as compared to the same period in 2012. The most significant reason for the decrease is due to transaction costs having been incurred in connection with the closing of the Strategic Investment. We expensed $9.8 million in legal, professional and consulting costs in relation to this transaction for the year ended December 31, 2012. In addition, share-based compensation costs were significantly lower ($5.3 million), which in turn is due to the lower degree of vesting associated with stock options granted in prior periods.

It is our expectation that, consistent with the Program, total general and administrative expenses will be at lower levels for the year ending December 31, 2015, as compared to the year ended December 31, 2014, excluding the impact of share-based compensation costs, which in turn depend on a number of unknown or currently inestimable factors, including the number of options that will be granted in future periods and any changes to parameters or judgments applied to the option pricing model used to calculate the underlying fair value of awards.

Development expenses

As noted above under the "Corporate activities" heading, the Company has temporarily suspended any further work by WorleyParsons. The Company has estimated that demobilization costs caused by this suspension will total approximately $3.3 million. In general the Company has stopped capitalizing development costs as of November 15, 2014, which coincides with the implementation of the Program, as discussed under the "Corporate activities-Cash conservation program" heading.

Environmental, aboriginal, government and community expenses ("EAGC")

EAGC expenses represent any non-general or administrative (i.e. corporate and strategic) activities in connection with engaging with relevant aboriginal, governmental and community groups as the Kami Project advances, as well as other costs related to planning and similar initiatives that are required in order to allow the Kami Project to proceed through the environmental assessment process. Typical expenditures reflected in this category include, but are not limited to, employee salaries and benefits (including share-based compensation) of the Company's environmental and aboriginal affairs and government and community affairs staff, as well as consulting and professional service fees that are directly attributable to underlying functional areas.

There were $47,083 in EAGC expenses incurred during the year ended December 31, 2014, as compared to $0.9 million and $7.4 million for the same periods in 2013 and 2012. The decreases of $0.8 million and $7.4 million are due to the Company capitalizing EAGC costs that are directly attributable to the Kami Project as of February 1, 2013. Therefore, EAGC costs incurred after February 1, 2013 have been predominantly capitalized as development costs and are discussed under the heading "Consolidated statement of financial position information-Mineral properties" below.

Exploration and evaluation expenses

Our accounting policy on exploration and evaluation expenditures is to expense these costs as they are incurred, until such time as the technical feasibility and commercial viability of the extraction of mineral reserves are demonstrated, at which time any further directly attributable pre-production expenditures that give rise to future economic benefits are capitalized. The Company started to capitalize costs that are directly attributable to the Kami Project as of February 1, 2013, which broadly coincides with the release of the Feasibility Study. Pre-production expenditures incurred prior to February 1, 2013 have been recorded in the consolidated statement of comprehensive loss as exploration and evaluation expenses or EAGC expenses.

As noted above, we started capitalizing all costs that are directly attributable to the Kami Project as of February 1, 2013. As such, ongoing evaluation and other development activities, which, prior to February 1, 2013, had been expensed in our consolidated statement of comprehensive loss, are recorded as additions to mineral properties in our consolidated statement of financial position. Details of capitalized development expenditures are provided under the heading "Consolidated statement of financial position information-Mineral properties" below. As noted above, in general the Company has stopped capitalizing development costs as of November 15, 2014.

Quarterly consolidated results of operations information

As shown below, our loss from operations for the three-month period ended December 31, 2014, amounted to approximately $2.6 million, as compared to approximately $2.4 million for the three-month period ended December 31, 2013. The quarter-over-quarter increase is due to the Company generally expensing development costs incurred as of November 15, 2014 ($0.8 million), as noted above. This increase is slightly offset by the quarter-over-quarter decrease in our general and administrative expenses ($0.6 million), as compared to the same period in 2013. The main reasons for this decrease is due to the implementation of the Program as discussed under the "Corporate activities-Cash conservation program" heading above.

The net operating expenditure increases discussed above largely explain the increase in net loss and comprehensive loss attributable to owners of the parent, which increased to approximately $1.8 million for the three-month period ended December 31, 2014 from approximately $1.6 million for the three-month period ended December 31, 2013.

Operating results for the year ended December 31, 2012

Loss from operations and net loss and comprehensive loss attributable to owners of the parent for the year ended December 31, 2012, as per our consolidated statement of comprehensive loss for that period, amounted to approximately $71.8 million and $71.5 million, respectively. This operating loss resulted predominantly from the expenditure of exploration and evaluation expenses of $36.4 million, EAGC expenses of $7.4 million and general and administrative expenses of $27.9 million. During the year ended December 31, 2013, our exploration and evaluation activities decreased by $35.9 million and the EAGC expenses decreased by $6.6 million, as compared to the same period in 2012, as we released the Feasibility Study and commenced capitalizing costs that are directly attributable to the Kami Project. During the year ended December 31, 2013, our general and administrative expenses decreased by approximately $14.0 million, as compared to the same period in 2012. As noted above, this decrease primarily related to transaction costs incurred in connection with the Strategic Investment.

Selected quarterly consolidated results of operations information include the following:

	Quarters ended			
	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014
	$	$	$	$
Loss from operations	(2,649,480)	(2,358,146)	(5,118,803)	(2,321,821)
Net loss and comprehensive loss attributable to owners of the parent	(1,813,979)	(1,196,462)	(3,591,049)	(1,234,062)
Net loss per share Basic and diluted	(0.01)	(0.01)	(0.03)	(0.01)

	Quarters ended			
	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
	$	$	$	$
Loss from operations	(2,443,601)	(3,272,972)	(2,738,072)	(6,775,413)
Net loss and comprehensive loss attributable to owners of the parent	(1,555,697)	(2,250,753)	(1,605,431)	(6,459,157)
Net loss per share Basic and diluted	(0.01)	(0.02)	(0.01)	(0.05)

Net loss per share is based on each reporting period's weighted average number of shares outstanding, which may differ on a quarter-to-quarter basis. As such, the sum of the quarterly net loss per share amounts may not equal year-to-date net loss per share.

Historical quarterly results of operations and net loss per share data do not necessarily reflect any recurring expenditure patterns or predictable trends. As such, quarterly results cannot be interpreted as being indicative of future expectations, results of operations or net loss per share. As noted above, the Company's loss from operations and net loss and comprehensive loss has remained consistent quarter upon quarter notwithstanding, the three-month periods ended June 30, 2014 and March 31, 2013.

The loss from operations and net loss and comprehensive loss for the three-month period ended June 30, 2014 was largely attributable to the demobilization costs ($3.3 million) discussed above under the "Corporate activities-EPCM services agreement" heading. The loss from operations and net loss and comprehensive loss for the three-month period ended March 31, 2013 is explained predominantly by the overall ramping up of exploration and evaluation activities, and subsequently by the movement of the Kami Project into the development stage, at which time further project-specific expenditures are capitalized.

Consolidated statement of financial position information

	As of December 31, 2014	2013	2012
	$	$	$
Cash and cash equivalents	21,442,903	95,366,039	34,312,316
Restricted cash equivalents	-	-	10,232,508
Restricted short-term investments	22,202,011	-	-
Receivables and other current assets	3,561,113	5,082,934	3,449,756
Mineral properties	176,574,918	138,645,822	88,668,710
Property, plant and equipment	27,250,606	4,265,204	445,483
Long-term advance	20,465,016	20,465,016	10,232,508
Total assets	271,496,567	263,825,015	147,341,281
Total current liabilities	9,536,928	14,400,555	6,850,346
Convertible debt	18,852,378	-	-
Deferred share unit liability	131,500	-	-
Equity attributable to owners of the parent	189,365,832	192,709,547	140,490,935
Non-controlling interest	53,609,929	56,714,913	-
Total liabilities and equity	271,496,567	263,825,015	147,341,281

<u>Cash and cash equivalents</u>

As noted below under the heading "Liquidity and capital resources", cash and cash equivalents decreased by $73.9 million for the year ended December 31, 2014, due largely to the additions to mineral properties, deposits made on key processing and material handling equipment, and the cash used in operating activities. Cash and cash equivalents increased by $61.1 million for the year ended December 31, 2013, due largely to the completion of the $119.9 million Strategic Investment, partially offset by the cash used in operating activities, as discussed below.

<u>Restricted cash equivalents</u>

Restricted cash equivalents held as of December 31, 2012, represent cash equivalents deposited with the Company's bank to guarantee a letter of credit issued as security for the second installment of the Buy-in Payment. The Buy-in Payment was made on June 28, 2013, and this letter of credit was subsequently cancelled.

<u>Restricted short-term investments</u>

Restricted short-term investments represent short-term investments deposited with the Company's bank to guarantee letters of credit issued in the course of the Company's development activities as noted above under the heading "Corporative activities- Letters of credit". Such short-term investments must remain on deposit as long as the letters of credit are outstanding.

Mineral properties

	Acquisition costs	Development costs	Share-based compensation costs capitalized	Depreciation capitalized	Total
	$	$	$	$	$
Balance – January 1, 2013	88,668,710	-	-	-	88,668,710
Additions during the period	-	49,576,480	386,958	13,674	49,977,112
Balance – December 31, 2013	88,668,710	49,576,480	386,958	13,674	138,645,822
Additions during the period	-	36,090,496	108,465	35,312	36,234,273
Interest capitalized	-	1,694,823	-	-	1,694,823
Balance –December 31, 2014	88,668,710	87,361,799	495,423	48,986	176,574,918

Components of the additions to development costs for the years ended December 31, 2014 and 2013 include the following:

	2014	2013
	$	$
Consulting and professional costs	29,708,956	42,313,176
Salaries, employment taxes and short-term benefits	3,498,101	3,406,295
Environmental, aboriginal, government and community costs	2,047,222	1,507,573
Information technology and telecommunications	399,140	718,919
Travel costs	318,160	1,266,244
Share-based compensation costs	108,465	386,958
Other costs	154,229	377,947
	36,234,273	49,977,112

During the year ended December 31, 2014, the Company incurred $36.2 million in development costs that are directly attributable to the Kami Project as compared to $50.0 million in the same period for 2013.

In 2014, a total of $29.7 million was incurred on consulting and professional costs. These costs primarily reflect the detailed engineering, planning and procurement services rendered by WorleyParsons ($23.3 million) in preparation for the Kami Project's construction. These costs also include services provided by direct consultants of the Company ($2.2 million). Direct consultants are part of the Kami Project team, working alongside employees of the Company in order to advance all facets of the Kami Project towards and through construction. In addition, as noted under the "Community relations" heading above, the Company has purchased cabins that were directly impacted by the Kami Project ($1.2 million).

In 2013, a total of $42.3 million was incurred on consulting and professional costs. These costs primarily reflect the services rendered by WorleyParsons in order to transition the Project from the feasibility stage to the development stage ($27.8 million). These costs also include additional services provided by Stantec ($4.9 million) for geotechnical and hydrological investigation, to supplement WorleyParson's detailed engineering discussed above. In addition, the Company completely funded Nalcor's Stage III engineering and assessment related to providing transmission and electrical plant and services associated with supplying electrical power for the Kami Project ($3.4 million).

The results of this work has allowed the Company to advance its procurement of long-lead items and complete the required pre-construction engineering such that it will be able to commence construction, once the Company's financing plan is completed as described in this MD&A under the heading "Outlook for 2015".

As noted above under the heading "Results of operation-Development costs", the Company has stopped capitalizing most development costs as of November 15, 2014. Development costs will only increase significantly once the Company's financing plan is in place and the Company commences construction of the Kami Project.

Property, plant and equipment

The increase in property, plant and equipment as of December 31, 2014 relates primarily to the Company's cash advances of $19.8 million to suppliers for key processing and material handling equipment, as discussed above under the "Infrastructure- Site infrastructure and equipment" heading. In addition the Company has accrued in short-term liabilities $3.4 million owing to these suppliers. For the year ended December 31, 2013, the Company made advances of $3.6 million to suppliers for key processing and material handling equipment.

Long-term advance

As discussed above under the heading "Infrastructure-Port infrastructure", the long-term advance relates to the Buy-in Payment per the Port Agreement. The Buy-in Payment was payable in two equal installments, the first of which was paid upon signing the Port Agreement, and the second was paid on June 28, 2013, using the Company's previously restricted cash equivalents.

Current liabilities

Current liabilities, comprised of payables and accrued liabilities and amounts due to related parties decreased significantly ($5.3 million) since December 31, 2013. As noted above under the "Corporate activities" heading, the Company has temporarily suspended any further work by WorleyParsons. This has led to a decrease in accrued development costs of $8.6 million. In addition, there has been a decrease in accrued salaries and benefits ($1.7 million) and in the Finder's Fee due ($1.2 million) as noted above under the "Corporate activities-Strategic investment from Hebei" heading. These decreases are offset by equipment costs accrued by the Company ($3.4 million), as noted above under the "Property, plant and equipment" heading and the demobilization costs accrued by the Company ($3.3 million), as noted above under the "Corporate activities-EPCM Services Agreement" heading.

Current liabilities increased by $7.6 million from December 31, 2012 to December 31, 2013. This increase was primarily due to the increase in accrued development costs ($9.2 million), as Alderon was not in the development stage as at December 31, 2012, and due to the remaining provision of $1.2 million for the Finder's Fee, discussed above. These increases are slightly offset by the decreases in accrued evaluation and exploration costs ($1.7 million), as Alderon was no longer completing exploration and evaluation activities on the Kami Project as at December 31, 2013, and accrued salaries and benefits ($0.3 million).

Convertible debt

As discussed above under the "Corporate activities-Convertible debt" heading, the Company entered into the Liberty Loan which amounted to $22.0 million ($21.7 million, net of $0.3 million transaction costs). The Liberty Loan is a compound instrument composed of both a debt component and an equity component. The equity component is due to the embedded derivatives identified in the agreement that come in the form of the convertible debentures holders' conversion option and the Company's early repayment option. Management has determined that the fair value of the debt component at inception was $18.3 million, with the residual value of $3.4 million allocated to the equity component.

As discussed above under the "Corporate activities-Convertible debt" heading, Alderon and Liberty amended the Liberty Loan. The Company issued to Liberty 1,987,083 warrants, with an exercise price of $0.4465 on December 31, 2014 and will issue additional warrants on June 30, 2015. The cost of these warrants ($0.8 million) was accounted for as additional financing costs of the Liberty Loan.

The Company will use an effective interest rate of 13.3% to accrete the debt component of the Amended Note up to the principal amount at maturity. Accretion charges during the year ended December 31, 2014 totaled $1.4 million.

Deferred share unit ("DSU") liability

The Company has in place a program (the "DSU Plan") whereby Directors are issued DSUs, which vest immediately, are equivalent in value to a common share upon issuance of the Company and are settled in cash. As of October 1, 2014, under the DSU Plan, Directors have the option to convert 25, 50, 75 or 100 percent of their annual director fees into DSUs. For the year ended December 31, 2014, Alderon has issued 323,968 DSUs to directors of the Company. DSUs can only be redeemed following departure from the Company in accordance with the terms of the DSU Plan.

Equity attributable to owners of the parent

Equity attributable to owners of the parent has decreased by $3.3 million since December 31, 2013. This decrease is primarily related to the net loss and comprehensive loss totaling $7.8 million for this period and an adjustment of $0.9 million to reflect the change in the non-controlling interest's relative interest in The Kami LP, as discussed below. These decreases are partially offset by the Liberty Loan's equity component ($3.4 million) discussed above, the issuance of common shares ($1.0 million) as discussed under the "Corporate activities-Independent contractor agreement" heading, and the share-based compensation costs ($0.6 million) incurred during the year.

Equity attributable to owners of the parent has increased by $52.2 million from December 31, 2012 to December 31, 2013. This increase in primarily related to the adjustment by $61.5 million to reflect the change in the non-controlling interest's relative interest in The Kami LP, as discussed below, and share-based compensation costs of $2.6 million for the year-ended December 31, 2013. These increases are offset by the net loss and comprehensive loss totaling $11.9 million for the same period.

No distributions or cash dividends were made or declared during the years ended December 31, 2014 and 2013.

Non-controlling interest

Non-controlling interest represents Hebei's 25% interest in the equity of the Company's less than wholly-owned affiliate, The Kami LP, and is classified as a separate component of equity. On initial recognition, non-controlling interest, which represents Hebei's $119.9 million contribution into The Kami LP, was measured at fair value. Changes in the Company's ownership interest in The Kami LP that do not result in a loss of control are recorded as equity transactions. The carrying amount of non-controlling interest decreased by $3.1 million during the year ended December 31, 2014 due to the non-controlling interest's portion of net loss for this period ($4.1 million). This is partially offset by an adjustment of $1.0 million to reflect the non-controlling interest's portion of the Liberty Loan equity component as discussed above.

The carrying amount of non-controlling interest was adjusted by $61.5 million during the year ended December 31, 2013 to reflect the change in the non-controlling interest's relative interest in The Kami LP. The difference between this adjustment to the carrying amount of non-controlling interests and the Company's share of proceeds received is recognized directly in equity and attributed to owners of the Company.

Liquidity and capital resources

Consolidated statements of cash flows information

As of December 31, 2014, the Company had cash and cash equivalents of $21.4 million, as compared to $95.4 million as of December 31, 2013 ($34.3 million as of December 31, 2012), and a working capital surplus (total current assets less total current liabilities) of $37.7 million, as compared to $86.0 million as of December 31, 2013 ($41.1 million as of December 31, 2012).

As discussed under the "Consolidated statement of financial position information" heading, changes in cash and cash equivalents during the years ended December 31, 2014, 2013 and 2012 were most impacted by the net cash used in investing activities relating to additions to mineral properties, deposits made on equipment and issuances of letters of credit. In addition, changes in cash and cash equivalents during the years ended December 31, 2014, 2013 and 2012 were impacted by operating expenditures, as discussed above under the heading "Results of operations". For the year ended December 31, 2014, these uses of cash were slightly offset by net cash proceeds received in connection with financing activities discussed above under the heading "Convertible debt". For the years ended December 31, 2013 and 2012, these uses of cash were offset by net cash proceeds received from the financing activities discussed under the "Liberty Investment" and "Strategic Investment" headings above.

The impacts of all the activities noted above are summarized below.

	Year ended December 31,		
	2014	2013	2012
	$	$	$
Net cash used in operating activities	(7,193,308)	(26,065,787)	(72,088,239)
Net cash (used in) from investing activities	(88,399,828)	(32,806,783)	(10,432,640)
Cash flows from financing activities:			
Proceeds received on the issuance of convertible debt, net of transaction costs	21,670,000	-	-
Proceeds received following the issuance of units of The Kami LP to Hebei	-	119,926,293	-
Proceeds from private placement issuance of common shares, net of cash transaction costs	-	-	107,418,488
Proceeds from the exercise of warrants	-	-	1,070,683
Proceeds from the exercise of stock options	-	-	584,091
Net cash provided by financing activities	21,670,000	119,926,293	109,073,262
Net change in cash and cash equivalents	(73,923,136)	61,053,723	26,552,383
Cash and cash equivalents at the beginning of the period	95,366,039	34,312,316	7,759,933
Cash and cash equivalents at the end of the period	21,442,903	95,366,039	34,312,316

Cash used in operating activities represents our net loss and excludes the impact of any non-cash transactions, such as the recording of share-based compensation costs (which amounted to $0.5 million, $2.2 million and $9.0 million during the years ended December 31, 2014, 2013 and 2012, respectively). Additionally, net cash used in operating activities reflects any changes in components of working capital, such as receivables and payables, which fluctuate in a manner that does not necessarily reflect predictable patterns for the overall use of cash, the generation of which depends almost entirely on sources of external financing to fund our evaluation and development initiatives and other expenses.

Cash used in investing activities primarily represents cash development costs that have been capitalized, increases in restricted short-term investments and advances made to suppliers of equipment, as discussed above in the "Consolidated statement of financial position information" section of this MD&A. These costs are directly attributable and give rise to future economic benefits for the Kami Project.

As at December 31, 2014, $13.0 million of cash is held by The Kami LP which is the remaining amount of the Initial Investment. Under the terms of the agreements with Hebei, 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 the parent company (Alderon Iron Ore Corp.). Currently this restriction does not have an effect on Alderon's ability to meet its short- to medium-term obligations as Alderon held $8.4 million of cash as at December 31, 2014; however, Alderon will need to obtain additional financing at the parent company level in the future. See below under the headings, "Financial instruments and risk management – Liquidity risk" and "Risk factors".

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 has $21.4 million in cash and cash equivalents. The Company currently does not have sufficient financial resources to cover all of its planned commitments for the coming year 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, estimated at $7.6 million for 2015 and $22.6 million for 2016, remain contingent upon the Company issuing to its suppliers a notice to proceed following successful completion of its financing plan.

In addition, the Company is committed to paying its net amounts payable ($8.2 million), as at December 31, 2014, necessary general and administrative costs through 2015 which are projected at approximately $7.0 million over the next twelve months, and $1.5 million in contractual obligations as at December 31, 2014 (in relation to the interest on the Liberty Loan and operating lease obligations).

The Company could be required to advance up to $44.0 million to NLH as of a date to be determined to support continued construction of the New Transmission Line by the utility. However, as discussed under the "Infrastructure-Power supply" heading, NLH has halted construction of the New Transmission Line. Construction of the remaining portion of the New Transmission Line will proceed once the Company secures its project financing for the Kami Project.

Despite the actions taken by the Company, these conditions and events indicate material uncertainties that cast doubt upon the Company's ability to continue as a going concern. The Company has plans in place and is seeking to arrange the necessary funds in order to cover these obligations. While the Company has been successful in the past in obtaining necessary funds on terms acceptable to the Company, there is no assurance that such funds will be available in the future. If management is unable to obtain new funding, the Company may be unable to continue its operations, and amounts realized for assets might be less than amounts reflected in the consolidated financial statements.

The following events occurring during the quarter ended December 31, 2014 will affect the Company's financial condition and cash flows:

1. On October 2, 2014, NLH communicated that it has halted construction of the New Transmission Line to align its construction timetable to that of the Kami Project. This is expected to delay the period of time prior to which NLH will request additional security deposits from Alderon.
2. On December 8, 2014, Liberty agreed to defer the payments of the interest that are due on December 31, 2014 and June 30, 2015.
3. On December 9, 2014, the Company announced that the Program was implemented, including voluntary payment deferrals and workforce reductions.

The events noted above were the result of the Company's cash conservation program as noted under the "Corporate activities-Cash conservation program" heading above and will substantially reduce the Company's cash burn until such time that the Senior Debt Facility is obtained and the Company's financing plan is completed.

As discussed in the "Outlook for 2015" section below, the Company does not currently have sufficient resources to fund the construction of the Kami Project. In order to obtain the necessary funds the Company plans to conclude the Senior Debt Facility and issue equity instruments as discussed further in the section below. The Company will not be able to commence the construction of the Kami Project until the funds are obtained.

Outlook for 2015

As noted above, the Company has completed the required pre-construction engineering on the Kami Project and is ready for construction. As such, during 2015, the Company will focus on completing the financing for the construction of the Kami Project, including moving forward with the process of securing the Senior Debt Facility and issuing equity instruments. As discussed above, the overall project financing strategy likely will take the form of a combination of debt and equity instruments.

As previously disclosed, Alderon intends to commence construction of the Kami Project when the Company's financing plan is successfully completed, including the closing of the Senior Debt Facility. The completion of the financing plan has taken longer than anticipated and this has resulted in the delay of the commencement of construction from the Company's prior forecasts. Once the Company has successfully completed its financing plan and following tree clearing, full-scale construction will commence and is expected to take 26 months for completion, including pre-operational verifications, hot commissioning and handover to mine operations team.

Alderon has already concluded agreements for key infrastructure requirements of port access and power supply. During the 2015, Alderon will also continue to advance discussions with QNS&L and CFA towards an agreement on rail transportation tariffs, however, as noted above under the heading "Infrastructure-Rail infrastructure", the railways are common carriers and therefore, they are obligated by law to haul third party shipments.

Alderon will continue to implement the provisions of the agreements agreed to with the Innu Nation and the NunatuKavut and will continue its ongoing consultation efforts with the Québec communities of Uashat mak Mani-Utenam, Matimekush-Lac John and the Naskapi Nation.

Outstanding share data

As of March 26, 2015, there were 132,134,061 common shares issued and outstanding, 11,810,000 stock options outstanding, 9,809,031 common shares issuable on the conversion of the principal amount of the Liberty Loan and 1,987,083 warrants outstanding.

Related party transactions

A related party is any person, including close members of that person's family, or entity that has significant influence over the Company. Related parties also include members of our key management personnel—namely, those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company. Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies. Significant influence may be gained by share ownership, statute or agreement.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

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 ("CEO"), Chief Operating Officer ("COO") and Chief Financial Officer ("CFO"), 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:

	Years ended December 31, 2014	2013
	$	$
Short-term benefits*	3,472,390	3,462,913
Share-based compensation	658,166	1,986,535
Incentive compensation other than share-based compensation	130,000	1,402,737
	4,260,556	6,852,185

* includes base salaries, pursuant to contractual employment or consultancy arrangements, Directors' fees, applicable payroll taxes and other non-post-retirement benefits.

Other related parties

<u>King & Bay West Management Corp. ("King & Bay")</u>: King & Bay is an entity that is owned by Mark Morabito, the Executive Chairman of the Company's Board of Directors. King & Bay provides certain administrative, management, geological, legal and regulatory, corporate development, information technology support and corporate communications services to the Company. These services are provided to the Company on an as-needed basis and are billed based on the cost or value of the services provided to the Company. The amount set out in the table below represents amounts paid to King & Bay for the services of King & Bay personnel and for overhead and third party costs incurred by King & Bay on behalf of the Company.

<u>McInnes Cooper ("McInnes")</u>: John Baker, a Director of the Company, was a former partner at McInnes, which provides certain legal services to the Company with respect to local matters in Newfoundland and Labrador including regulatory and mineral law matters.

<u>Cassels Brock & Blackwell LLP ("Cassels")</u>: John Vettese, a former Director of the Company, is the Deputy Managing Partner of Cassels, which acted as lead external counsel for the Company. Cassels advised the Company with respect to corporate, securities, infrastructure, finance and regulatory matters.

<u>Liberty</u>: Liberty is a significant shareholder of the Company and is entitled to a representative on Alderon's Board of Directors. During the year ended December 31, 2014, Liberty provided the Company with the Liberty Loan that was used to fund the first security deposit that is required by Nalcor in connection with the construction of the New Transmission Line. The Liberty Loan has an interest rate of 8% per annum and an establishment fee and the amounts paid to Liberty in respect of these obligations and the subsequent amendments made to the Liberty Loan are discussed under the "Corporate activities-Convertible debt" heading. The Company entered into this related

party transaction because alternate sources of financing were unavailable at the time due to the short time period that Company had to fund the first security deposit that is required by NLH.

HBIS International Holding (Canada) Co., Ltd ("HBIS"): HBIS is a subsidiary of Hebei, a significant shareholder of the Company. Under the terms of the definitive agreements governing the strategic partnership between Hebei, HBIS and the Company, HBIS has the right to appoint two people to the management of the Kami LP. HBIS has nominated two individuals to act as Vice President, Finance & Procurement (China) and Vice President, Strategy & Development. These individuals provide management services to the Kami LP in these roles and HBIS is paid a fee for the provision of these individuals to provide these services. The fees for these services are consistent with the Company's compensation policies for other management personnel.

Transactions entered into with related parties other than key management personnel and the Liberty Loan discussed under the "Corporative activities- Convertible debt" heading include the following:

	Years ended December 31,	
	2014	2013
	$	$
King & Bay	1,018,373	1,558,066
Cassels	807,002	1,708,821
HBIS	381,266	144,007
McInnes	45,947	11,315
	2,252,588	3,422,209

Transactions with related parties, are described above, were for services rendered to the Company in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. All services were made on terms equivalent to those that prevail with arm's length transactions.

Commitments and contingencies

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.

As discussed above, as part of Alderon's strategy to source the long-lead mining and processing equipment in sufficient time to adhere to the Kami Project's schedule, the Company has negotiated contracts with suppliers in relation to the purchase of equipment. As at December 31, 2014, payments of $31.6 million remain to be paid on the equipment for contracts entered into and approximately $30.2 million of this amount is contingent on confirmation by the Company of notice to proceed with fabrication of this equipment, as noted above under the heading "Infrastructure-Site infrastructure and equipment".

Including the commitments and contractual obligations discussed above, the Company has the following known commitments as at December 31, 2014:

		Payments due in:			
	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
	$	$	$	$	$
Equipment	31,560,000[1]	9,000,000	22,560,000	-	-
Convertible debt [2]	30,450,000	985,000	3,800,000	25,665,000	-
Operating lease obligations	790,000	510,000	280,000	-	-
Totals	62,800,000	10,495,000	26,640,000	25,665,000	-

(1) Approximately $30.2 million of this amount is contingent on confirmation by the Company of notice to proceed with fabrication of this equipment.

(2) The convertible debt is convertible as of February 23, 2015. The principal amount and any accrued but unpaid interest, become convertible at Liberty's option into the Company's common shares at a conversion price equal to $2.376 per common share.

As noted above under the heading "Infrastructure- Power supply", under the terms of the NLH Security Agreement, the Company has provided $21.0 million in security deposits to NLH and has agreed to provide an additional $44.0 million in security deposits in the future. At this point, the Company does not know the timing of these security deposits.

Off-balance sheet arrangements

As of December 31, 2014, we did not have any off-balance sheet arrangements.

Significant accounting policies and critical estimates and judgments

Significant accounting policies

A complete summary of our significant accounting policies is provided in note 2 to our consolidated financial statements as of December 31, 2014 and 2013 and for the three year period ended December 31, 2014.

Critical estimates and judgments

The preparation of the Company's consolidated financial statements in accordance with IFRS requires management to make estimates and judgments 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 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 consolidated financial statements are presented fairly and in accordance with IFRS.

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.

Judgments:

Management considers the following areas to be those where critical accounting policies affect the significant judgments used in the preparation of the Company's consolidated financial statements.

Capitalization of development costs

The application of the Company's accounting policy for development costs requires judgment in determining the timing at which to begin capitalizing development costs and whether future economic benefits, which are based on assumptions about future events and circumstances, may be realized. In general the Company has stopped capitalizing development costs as of November 15, 2014, as the Company has implemented a cash preservation program designed to allow it to maintain sufficient liquidity during the advancement of its financing plan.

Carrying value and recoverability of mineral properties

The carrying amount of the Company's mineral properties does not necessarily represent present or future values, and the Company's mineral properties have been accounted for under the assumption that the carrying amount 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.

Mineral properties 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 amount 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.

Management has determined that an indication that the capitalized mineral properties may not be recoverable has occurred in 2014. The Company determined the recoverable amount of the mineral properties using the value in use calculation which was assessed using cash flow projections, which take into account the capital costs to be incurred to complete the Kami Project over the expected construction timeline, as well as the cash generated from subsequent sales of the Kami Project's iron ore production. The key assumptions used in this calculation include the Kami Project's capital cost, estimated production volume, the long-term iron ore sales price established by independent sources, 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 the best information available as of the date of the impairment test. The pre-tax discount rate applied to the cash flow projections was 8%. The Company determined that the recoverable amount exceeded the carrying amounts and therefore, no impairment was recorded.

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.

Capitalization of borrowing cost

The Company must apply its judgment when determining if a constructed asset, such as a manufacturing plant, is considered a qualifying asset under International Accounting Standard ("IAS") 23, *Borrowing costs*. To make this determination, management must consider whether the entity has incurred significant borrowing costs that are attributable to the construction of the asset. In addition to the application of judgment regarding which borrowing costs are eligible for capitalization and when capitalization of borrowing costs should commence, management must also apply its judgment in determining on an ongoing basis if capitalization should continue, for example, if the Company reduces or suspends during an extended period, the activities necessary to prepare an asset for its intended use. This requires an evaluation of the level of substantial technical and administrative activities being carried out during a given period. Based on its assessment of the facts at each reporting period, borrowing costs will either be capitalized or expensed during a given period. The Company determined that borrowing costs attributable to the Kami Project should be capitalized and consequently commenced capitalizing those costs in the first quarter of 2014. Based on its assessment, management had determined that capitalization of interest should cease effective November 15, 2014, as a result of its ongoing review of such estimates and judgments, and considering that the Company has implemented a cash preservation program designed to allow it to maintain sufficient liquidity during the advancement of its financing plan.

Deferred transaction costs

The Company has capitalized professional fees in connection with a future financing transaction that Management has judged to be realizable on the basis that the future financing transaction is probable of occurrence, although the attainment of the financing has taken longer than expected. Such costs will be written off to the statement of comprehensive loss in a future period if the future financing transaction was no longer expected to be completed.

<u>Estimates:</u>

Management considers the following areas to be those where critical accounting policies affect the significant estimates used in the preparation of the Company's consolidated financial statements.

Fair value of warrants and stock options

Determining the fair value of warrants and stock options requires the estimation of stock price volatility, the expected forfeiture rate and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could result in a significant impact on the Company's future operating results.

Fair value estimates of financial liabilities

The determination of the fair value of the liability component of the convertible debt requires management to make estimates of the interest rate that the Company would have obtained for a similar secured loan without a conversion feature.

New standards and interpretations not yet adopted

International Financial Reporting Interpretations Committee ("IFRIC") 21, *Levies,* provides guidance on accounting for levies in accordance with the requirements of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014, and is to be applied retrospectively. The accounting policy has been applied consistently by all subsidiaries of the Company. The impact of the adoption of this standard is not significant.

The standard that is considered to be relevant to the Company's operations that is issued, but not yet effective, up to the date of issuance of the Company's financial statements is disclosed below:

IFRS 9, *Financial Instruments* ("IFRS 9"), which represents the completion of the first part of a three-part project to replace IAS 39, *Financial Instruments: Recognition and Measurement*, with a new standard. IFRS 9 introduces new requirements for the classification and measurement of financial assets and introduces additional changes relating to financial liabilities. In addition IFRS 9 includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. The Company intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The impact of the adoption of this standard has yet to be determined.

Capital disclosures

The Company's objective in managing capital, consisting of equity, with cash and cash equivalents 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 confirmation to Hebei with respect to the use of the Initial Investment proceeds.

Financial instruments and risk management

At December 31, 2014, our financial instruments are comprised of cash and cash equivalents, restricted short-term investments, receivables, payables and accrued liabilities, amounts due to related parties and convertible debt.

The carrying values of the Company's cash and cash equivalents, restricted short-term investments, receivables, payables and accrued liabilities and amounts due to related parties 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 as at December 31, 2014 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 balance sheet, as of December 31, 2014 are presented below.

December 31, 2014	Carrying value	Fair value
	$	$
Financial assets		
Cash and cash equivalents	21,442,903	21,442,903
Restricted short-term investments	22,202,011	22,202,011
Receivables	582,951	582,951
Financial liabilities		
Payables and accrued liabilities	(8,602,481)	(8,602,481)
Due to related parties	(614,561)	(614,561)
Convertible debt	(18,852,378)	(16,955,000)
	16,158,445	18,055,523

As noted above under the heading "Corporative activities-Letters of credit", restricted short-term investments represent short-term investments deposited with the Company's bank to guarantee letters of credit issued in the course of the Company's development activities. In order to issue the restricted short-term investments, the Company issued convertible debt, as discussed above under the "Corporate activities- Convertible debt" heading.

We are exposed in varying degrees to certain risks arising from financial instruments, as discussed below.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

As discussed above, our capital management objectives include working to ensure that we have sufficient liquidity to fund Company activities that are directly and indirectly related to the advancement of the Kami Project.

The Company endeavours to ensure that it will have sufficient liquidity in order to meet short- to medium-term business requirements and all financial obligations as those obligations become due. Historically, sufficient liquidity has been provided predominantly through external financing initiatives, including strategic, traditional and flow-through private placements to investors and institutions. Alderon is actively engaged in discussions to raise the necessary capital to meet its funding requirements for the Kami Project, including debt and equity. The Company will continue to rely upon sources of external financing in future periods until such time as commercial production commences, notwithstanding the Company's successful capital-raising activities prior to December 31, 2014, as discussed above under the "Corporate activities" section of this MD&A.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Company's receivables consist primarily of sales tax credits, which are due from Canadian federal and provincial tax agencies. Additionally, the Company's cash and cash equivalents and restricted short-term investments are held in deposit at high-credit quality Canadian financial institutions. As a result, management considers the risk of non-performance related to accounts receivable and cash and cash equivalents and restricted short-term investments to be minimal.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Fluctuations of market interest rates have little impact on the Company's financial results since the Company does not have variable rate debt at December 31, 2014. Changes in market interest rates do not have an impact on interest expense related to the Liberty Loan because the rate of the Liberty Loan is fixed.

Risk factors

The exploration of mineral deposits involves significant risks and uncertainties, which even a combination of careful evaluation, experience and knowledge may not eliminate. A comprehensive list of risk factors relating to our business is provided under the heading, "Risk factors", in the Company's Annual report for the year ended December 31, 2014, which is available on SEDAR, at www.sedar.com. Certain of the more prominent risk factors that may materially affect the Company's future performance, in addition to those referred to above, are listed hereunder.

Alderon depends on a single mineral project.

The Kami Property accounts for all of Alderon's mineral resources and mineral reserves and exclusively represents the current potential for the future generation of revenue. Mineral exploration and development involves a high degree of risk that even a combination of careful evaluation, experience and knowledge cannot eliminate and few properties that are explored are ultimately developed into producing mines. Any adverse development affecting the Kami Property will have a material adverse effect on our business, prospects, financial position, results of operations and cash flows.

The successful start of mining operations at, and the development of, the Kami Project into a commercially viable mine cannot be assured.

Development of mineral properties involves a high degree of risk and few properties that are explored are ultimately developed into producing mines. The commercial viability of a mineral deposit is dependent upon a number of factors which are beyond Alderon's control, including the attributes of the deposit, commodity prices, government policies and regulation and environmental protection. Fluctuations in the market prices of minerals may render resources and deposits containing relatively lower grades of mineralization uneconomic.

There are numerous activities that need to be completed in order to successfully commence development and production at the Kami Project, including, without limitation: optimizing the mine plan; recruiting and training personnel; having available funds to finance construction and development activities; avoiding potential increases in costs; negotiating contracts for railway transportation, port loading and handling and for the sale of iron ore; updating, renewing and obtaining, as required, all necessary permits, including, without limitation, environmental permits; and handling any other infrastructure issues. There is no certainty that we will be able to successfully complete these activities, since most of these activities require significant lead times, and we will be required to manage and advance these activities concurrently in order to begin production. A failure or delay in the completion of any one of these activities may delay production, possibly indefinitely, at the Kami Project and would have a material adverse effect on our business, prospects, financial position, results of operations and cash flows.

As such, there can be no assurance that Alderon will be able to complete development of the Kami Project at all, on time or in accordance with any budgets due to, among other things, the delivery and installation of plant and equipment and cost overruns, or that the current personnel, systems, procedures and controls will be adequate to support operations. Failure to successfully complete these events as expected would have a material adverse effect on our business, prospects, financial position, results of operations and cash flows.

There is no assurance that Alderon will ever achieve production or that the Company will ever be profitable if production is achieved.

Alderon currently relies on only two customers for 100% of its expected iron ore concentrate production.

Alderon currently relies on two significant customers for 100% of the Alderon expected output of 8 Mt of iron ore concentrate annually once the commencement of commercial production occurs. Alderon has entered into the Off-Take Agreement with Hebei, a related party who owns 25% of The Kami LP and 19.9% of the Company's common shares. As part of this agreement, upon the commencement of commercial production, Hebei is obligated to purchase 60% of the actual annual production from the Kami Property, up to a maximum of 4.8 Mt of the first 8.0 Mt of iron ore concentrate produced annually at the Kami Property. In addition, the Company entered into the Glencore Agreement 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 Hebei. As noted above, 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 3.2 million tonnes of the first 8.0 million tonnes of iron ore concentrate produced annually at the Kami Project.

As a result of reliance on these two customers for the entirety of Alderon's iron ore production, Alderon could be subject to adverse consequences if Hebei or Glencore breach their purchase commitments.

Titles and other rights to the Kami Property cannot be guaranteed and may be subject to prior unregistered agreements, transfers or claims and other defects.

Alderon cannot guarantee that title to the Kami Property will not be challenged. Alderon may not have, or may not be able to obtain, all necessary surface rights to develop the Kami Property. Title insurance generally is not available for mineral properties, and our ability to ensure that we have obtained secure claim to individual mineral properties or mining concessions comprising the Kami Property may be severely constrained. The Kami Property may be subject to prior unregistered agreements, transfers or claims, and title may be affected by, among other things, undetected defects. We have not conducted surveys of all of the claims in which we hold direct or indirect interests. A successful challenge to the precise area and location of these claims could result in our being unable to operate on all or part of the Kami Property as permitted or being unable to enforce our rights with respect to all or part of the Kami Property. This could result in Alderon not being compensated for its prior expenditures relating to the property. In addition, Alderon's ability to continue to explore and develop the property may be subject to agreements with other third parties including agreements with aboriginal groups. For instance, Alderon has concluded agreements with the Innu Nation of Labrador and the NunatuKavut pursuant to which these groups will provide their support for the Kami Project in return for certain benefits.

Alderon needs to enter into contracts with external service providers.

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. In order to develop a mine at the Kami Project, we will need to negotiate and conclude various agreements with external service providers for rail transportation and port loading and handling, and these are important determinants that affect capital and operating costs. The inability to conclude any such agreements could have a material adverse effect on the Company's financial position, results of operations and cash flows and render the development of a mine on the Kami Project unviable.

Alderon's activities are subject to environmental laws and regulations that may increase Alderon's costs of doing business and restrict the Company's operations.

All of our exploration, potential development and production activities in Canada are subject to regulation by governmental agencies under various environmental laws, including with respect to air emissions, discharges into water, management of waste, management of hazardous substances, protection of natural resources, antiquities and endangered species and reclamation of lands disturbed by mining operations. Compliance with environmental laws and regulations may require significant capital outlays on behalf of Alderon and may cause material changes or delays in our intended activities. There can be no assurance that future changes in environmental regulations will not adversely affect our business, and it is possible that future changes in these laws or regulations could have a significant adverse impact on some portion of our business, causing us to re-evaluate those activities at that time. Failure to comply with applicable environmental laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulator or judicial authorities, causing operations to cease or to be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions.

Alderon may experience difficulty attracting and retaining qualified management and technical personnel to meet the needs of its anticipated growth.

We are dependent on the services of key executives, including our Executive Chairman, Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and other highly skilled and experienced executives and personnel focused on managing Alderon's interests and the advancement of the Kami Property and on identifying new opportunities for growth and funding. Due to our relatively small size, the loss of these persons or our inability to attract and retain additional highly skilled employees, on a timely basis or at all, required for the development of our activities may have a material adverse effect on our business or future operations.

We also anticipate that, as we bring the Kami Project into production and, where appropriate, acquire additional mineral rights, we will experience significant growth in our operations. We expect this growth to create new positions and responsibilities for management and technical personnel and to increase demands on our operating and financial systems. There can be no assurance that we will successfully meet these demands and effectively attract and retain additional qualified personnel to manage our anticipated growth. The failure to attract such qualified personnel to manage growth would have a material adverse effect on our business, financial position, results of operations and cash flows.

The Company does not have financial resources sufficient to cover all of its commitments for the coming year, therefore, material uncertainties exist that cast substantial doubt upon the Company's ability to continue as a going concern.

Alderon currently has limited financial resources, no cash inflows from production and negative operating cash flows. Although Alderon has completed the engineering work required to commence construction at the Kami Project, the commencement of construction of the Kami Project is subject to the completion of the Company's financing plan.

The Company does not have financial resources sufficient to cover all of its commitments for the coming year and must secure sufficient funding to meet its existing commitments. In addition, further development and exploration of the Kami Property depends upon Alderon's ability to obtain financing through strategic partnerships, equity or debt financings, production-sharing arrangements or other dilutive or non-dilutive means. There is no assurance that Alderon will be successful in obtaining required financing on acceptable terms, or at all. If Alderon is unable to obtain additional financing it may consider other options, such as (i) selling assets, (ii) selling equity, or (iii) selling interests in the Kami Property. If Alderon raises additional funding by issuing additional equity securities or other securities that are convertible into equity securities, such financings may substantially dilute the interest of existing or future shareholders. Sales or issuances of a substantial number of securities, or the perception that such sales could occur, may adversely affect the prevailing market price of Alderon's common shares. With any additional sale or issuance of equity securities, investors will suffer dilution of their voting power and may experience dilution in earnings per share. Failure to obtain additional financing could result in an indefinite postponement of further exploration and development of the Kami Property and will have a material adverse effect on Alderon's business, prospects, financial position, results of operations and cash flows.

Alderon is pursuing a financing strategy for the Kami Project that includes obtaining the Senior Debt Facility to complete the construction and start-up of the Kami Project. The completion of the financing plan has taken longer than anticipated. There can be no assurance that Alderon will receive commitments from lenders for the Senior Debt Facility or that Alderon will be able to negotiate binding agreements with respect to the Senior Debt Facility. There can be no assurance that the Company will successfully conclude the Senior Debt Facility or any of its financing strategy. These conditions and events indicate material uncertainties that cast substantial doubt upon the Company's ability to continue as a going concern. The failure of Alderon to enter into the Senior Debt Facility on reasonable terms, or at all, could delay construction and start-up of the Kami Project. The Company may be unable to continue its operations, which would have a material adverse effect on Alderon's business, financial position, results of operations and cash flows.

If the going concern assumption were not appropriate, adjustments to the carrying value of assets and liabilities, reported expenses and consolidated statement of financial position classifications would be necessary. Such adjustments could be material.

Alderon has a history of losses and expects to incur losses for the foreseeable future.

Alderon has incurred losses since its inception and expects to incur losses for the foreseeable future. We expect to continue to incur losses unless and until such time as the Kami Project enters into commercial production and generates sufficient revenues to fund continuing operations. The development of the Kami Project will require the commitment of substantial financial resources. The amount and timing of expenditures will depend on a number of factors, including the progress of ongoing exploration, evaluation and development, the results of consultant analysis and recommendations, the rate at which operating losses are incurred, the execution of any agreements with strategic partners and our acquisition of additional properties. Some of these factors are beyond our control. There can be no assurance that Alderon will ever achieve profitability.

Our securities are subject to price volatility.

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations that have not been necessarily related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that fluctuations in our share price will not occur. It may be anticipated that any quoted market for our common shares will be subject to market trends generally, notwithstanding any potential success in creating revenues, cash flows or earnings. The value of our common shares will be affected by such volatility.

Disclosure controls and procedures

Disclosure controls and procedures are defined in the rules of the SEC and Canadian Securities Administrators. For the fiscal year ended December 31, 2014, an evaluation was carried out under the supervision of the Company’s CEO and CFO, with the participation of the Company’s management, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures. Based upon that evaluation, as of the end of the period covered by this report, the Company’s CEO and CFO have concluded that the disclosure controls and procedures were effective to give reasonable assurance that the information required to be disclosed by the Company in reports that it files under the rules of the SEC or Canadian Securities Administrators is (i) recorded, processed, summarized and reported, within the appropriate time periods and (ii) accumulated and communicated to the Company’s management, including its principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Notwithstanding the foregoing, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that the Company’s disclosure controls and procedures will detect or uncover every situation involving the failure of persons within the Company to disclose material information otherwise required to be set forth in its periodic reports. The Company’s disclosure controls and procedures are designed to provide reasonable assurance of achieving their objective of ensuring that information required to be disclosed in the reports that the Company files or submits under the rules of the SEC or Canadian Securities Administrators, is communicated to management to allow timely decisions regarding required disclosure.

Internal control over financial reporting

Management of Alderon is responsible for establishing and maintaining an adequate system of internal control, including internal controls over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the President and Chief Executive Officer and the Chief Financial Officer and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. It includes those policies and procedures that:

a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of Alderon,
b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of Alderon are being made only in accordance with authorizations of management and Alderon’s directors, and
c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Alderon’s assets that could have a material effect on the annual financial statements or interim financial reports.

Alderon’s management, including its President and Chief Executive Officer and Chief Financial Officer, believe that due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of Alderon's internal control over financial reporting as of December 31, 2014, based on the criteria set forth in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management believes that, as of December 31, 2014, Alderon's internal control over financial reporting is effective.

During the year ended December 31, 2014, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Additional information

Additional information relating to the Company, including the Company's Annual Report for the year ended December 31, 2014 is available on SEDAR at www.sedar.com.

Approval

The Board of Directors of Alderon Iron Ore Corp. has approved the information and disclosures contained in this MD&A.