(A Development-Stage Company)

Consolidated Financial Statements
As of and for the years ended December 31, 2013 and 2012
(in Canadian dollars)

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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, 2013 and December 31, 2012, the consolidated statements of changes in equity, comprehensive loss and cash flows for the years then ended, 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 audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. 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 audit 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, 2013 and December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

KPMG LLP*

March 27, 2014

Montréal, Canada

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

Alderon Iron Ore Corp.

Consolidated Statements of Financial Position

(in Canadian dollars)

	As of December 31, 2013	As of December 31, 2012
	$	$
ASSETS		
Current assets		
Cash and cash equivalents	95,366,039	34,312,316
Restricted cash equivalents (note 8)	-	10,232,508
Receivables (note 5)	3,760,730	2,746,064
Prepaid expenses and other current assets (note 6)	1,322,204	703,692
Total current assets	100,448,973	47,994,580
Non-current assets		
Mineral properties (note 7)	138,645,822	88,668,710
Long-term advances (note 8)	20,465,016	10,232,508
Property, plant and equipment (note 9)	4,265,204	445,483
Total non-current assets	163,376,042	99,346,701
Total assets	263,825,015	147,341,281
LIABILITIES		
Current liabilities		
Payables and accrued liabilities (note 10)	14,179,526	6,541,122
Due to related parties (note 12)	221,029	309,224
Total current liabilities	14,400,555	6,850,346
EQUITY		
Share capital and warrants (notes 13 and 14)	259,143,095	259,143,095
Other capital (note 15)	24,206,055	21,619,782
Deficit	(90,639,603)	(140,271,942)
Equity attributable to owners of the parent	192,709,547	140,490,935
Non-controlling interest (note 16)	56,714,913	-
Total equity	249,424,460	140,490,935
Total liabilities and equity	263,825,015	147,341,281

Basis of preparation and nature of operations (note 1)
Commitments and contingencies (note 24)
Subsequent events (note 25)

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

Approved by the Board of Directors

"Lenard Boggio"	*"David Porter"*
Lenard Boggio	David Porter
Director	Director

Alderon Iron Ore Corp.

Consolidated Statements of Changes in Equity

For the years ended December 31, 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 and warrants	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 13)	-	-	-	-	119,926,293	119,926,293
Reallocation of non-controlling interest between partners of The Kami LP (note 16)	-	-	-	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 15)	-	-	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

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, 2013 and 2012
(in Canadian dollars, except share and per share data)

	Years ended December 31, 2013	2012
	$	$
Operating expenses		
General and administrative expenses	13,838,902	27,884,718
Environmental, aboriginal, government and community expenses	887,175	7,448,157
Exploration and evaluation expenses	503,981	36,446,047
	15,230,058	71,778,922
Loss from operations	(15,230,058)	(71,778,922)
Finance income	1,651,017	437,504
Finance costs (note 11)	-	(356,157)
Net finance income	1,651,017	81,347
Loss before income taxes	(13,579,041)	(71,697,575)
Income tax recovery (note 18)	-	216,460
Net loss and comprehensive loss	(13,579,041)	(71,481,115)
Attributable to:		
Owners of the parent	(11,871,038)	(71,481,115)
Non-controlling interest	(1,708,003)	-
	(13,579,041)	(71,481,115)
Net loss per share (note 19)		
Basic and diluted	(0.09)	(0.65)
Weighted average number of shares outstanding (note 19)		
Basic and diluted	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, 2013 and 2012
(in Canadian dollars)

	Years ended December 31, 2013	2012
	$	$
Cash flows from operating activities		
Net loss	(13,579,041)	(71,481,115)
Adjustments for:		
Share-based compensation costs (note 15)	2,199,315	9,019,475
Depreciation (notes 7 and 9)	147,940	103,345
Finance income	(1,651,017)	(437,504)
Interest expense	-	119,907
Loss on disposal of property, plant and equipment	-	24,713
Income tax recovery (note 18)	-	(216,460)
Changes in operating assets and liabilities (note 20)	(14,993,522)	(9,406,398)
Interest received	1,810,538	305,705
Interest paid	-	(119,907)
Net cash used in operating activities	(26,065,787)	(72,088,239)
Cash flows from investing activities		
Additions to mineral properties (note 7)	(39,057,956)	-
Deposits on equipment (note 9)	(3,605,576)	-
Purchases of property, plant and equipment, net of disposals (note 9)	(375,759)	(200,132)
Decrease (increase) in restricted cash equivalents (note 8)	10,232,508	(10,232,508)
Net cash used in investing activities	(32,806,783)	(10,432,640)
Cash flows from financing activities		
Proceeds received following the issuance of units of The Kami LP to Hebei (note 13)	119,926,293	-
Proceeds from private placement issuance of common shares, net of cash transaction costs (note 13)	-	107,418,488
Proceeds from the issuance of debt (note 11)	-	10,500,000
Repayment of debt (note 11)	-	(10,500,000)
Proceeds from the exercise of warrants (note 14)	-	1,070,683
Proceeds from the exercise of stock options (note 15)	-	584,091
Net cash provided by financing activities	119,926,293	109,073,262
Net change in cash and cash equivalents	61,053,723	26,552,383
Cash and cash equivalents at the beginning of the year	34,312,316	7,759,933
Cash and cash equivalents at the end of the year	95,366,039	34,312,316
Cash and cash equivalents components:		
Cash	87,606,502	1,138,310
Cash equivalents	7,759,537	33,174,006
	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 and nature of operations

Summary of business

Alderon Iron Ore Corp. ("Alderon" or the "Company") is a development-stage company conducting iron ore evaluation activities related entirely to its Canadian properties located in western Labrador in the province of Newfoundland & 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: 0860132 BC Ltd.; 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. On August 23, 2013, 0860132 BC Ltd. was dissolved.

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

Basis of preparation and nature of operations

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, 2013. These consolidated financial statements were approved by the Company's Board of Directors on March 27, 2014.

Nature of operations

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 (see also note 21). 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. Management is actively engaged in the review and due diligence on opportunities of merit in the mining sector and is seeking to raise the necessary capital to meet its funding requirements. There can be no assurance that management's plan will be successful. If the Company is unable to secure additional sources of financing, ongoing development work will be postponed to ensure that the Company has sufficient resources to discharge its existing liabilities and commitments, and to fund care and maintenance costs until such time that financing becomes available at acceptable terms.

If the going concern assumption were not appropriate for these financial statements, 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

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates and the exercise of management's judgment in applying the Company's accounting policies. Areas where assumptions and estimates are significant to the Company's consolidated financial statements are discussed in note 3.

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.

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.

2 Significant accounting policies (continued)

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.

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. The Company has started to capitalize directly attributable pre-production expenditures that give rise to future economic benefits as of February 1, 2013 (see note 7).

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.

2 Significant accounting policies (continued)

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.

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.

2 Significant accounting policies (continued)

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 cash equivalents and receivables.

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.

2 Significant accounting policies (continued)

(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.

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 any provision 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.

2 Significant accounting policies (continued)

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.

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.

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 cash equivalents.

Finance costs

Finance costs comprise of interest and other costs incurred in connection with the borrowing of funds.

2 Significant accounting policies (continued)

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.

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

The preparation of the Company's consolidated financial statements in accordance with IFRS requires management to make estimates about and apply assumptions to future events and other matters that affect the reported amounts of the Company's assets, liabilities, expenses and related disclosures. Assumptions and estimates are based on historical experience, expectations, current trends and other factors that management believes to be relevant at the time at which the Company's 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.

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.

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.

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.

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.

Fair value of stock options

Determining the fair value of stock options (see note 15) 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.

3 Critical accounting estimates (continued)

Recovery of deferred tax assets

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development and commercialization of mineral reserves. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and future income tax provisions or recoveries could be affected. Refer to note 18 for further information.

4 New standards and interpretations not yet adopted

The following new standards, and amendments to standards and interpretations, are effective for annual periods beginning on or after January 1, 2013 and have been applied in preparing these consolidated financial statements. The accounting policies have been applied consistently by all subsidiaries of the Company.

a) IFRS 10, *Consolidated Financial Statements* ("IFRS 10"), which builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of a parent company. IFRS 10 also provides additional guidance to assist in the determination of control where this is difficult to assess.

b) IFRS 11, *Joint Arrangements* ("IFRS 11"), which enhances accounting for joint arrangements, particularly by focusing on the rights and obligations of the arrangement, rather than the arrangement's legal form. IFRS 11 also addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities and prohibits proportionate consolidation.

c) IFRS 12, *Disclosure of Interests in Other Entities*, which is a comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles.

d) IFRS 13, *Fair Value Measurement* ("IFRS 13"), which defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions).

The impact of the adoption of these standards is not significant.

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

a) 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.

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

4 New standards and interpretations not yet adopted (continued)

b) 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 mandatory effective date of IFRS 9 will be determined once the classification and measurement and impairment phases of IFRS 9 are finalized. The Company does not intend to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2014.

The impact of the adoption of these standards has yet to be determined.

5 Receivables

	As of December 31, 2013	As of December 31, 2012
	$	$
Sales tax credits receivable	3,489,901	2,384,036
Deposits receivable	258,750	143,750
Interest receivable	12,079	171,600
Other	-	46,678
	3,760,730	2,746,064

6 Prepaid expenses and other current assets

	As of December 31, 2013	As of December 31, 2012
	$	$
Deferred transaction costs	896,005	-
Deposits on Kami Project activities	403,600	661,252
Other	22,599	42,440
	1,322,204	703,692

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

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

7 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.

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, 2012	88,668,710	-	-	-	88,668,710
Additions during the period	-	-	-	-	-
Balance – December 31, 2012	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 to mineral properties in the consolidated statement of cash flows are presented on a cash basis. During the year ended December 31, 2013, cash expenditures totaled $39,057,956, the increase in accrued expenditures totaled $10,518,524 and increase in other non-cash items totaled $400,632.

8 Long-term advance

On July 13, 2012, the Company entered into an agreement with the Sept-Îles Port Authority (the "Port") to secure usage of a new multi-user deep water dock facility that the Port is constructing (the "Port Agreement").

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 is 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. As security for the second installment of the Buy-in Payment, Alderon issued a letter of credit for $10,232,508. The letter of credit was returned to Alderon subsequent to the payment of the second instalment. 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.

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

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	Total
	$	$	$	$	$	$	$
Historical cost – January 1, 2012	180,000	136,696	10,058	32,781	35,561	57,792	452,888
Additions	-	26,297	25,758	2,795	63,607	92,106	210,563
Disposals	-	(61,223)	-	-	-	-	(61,223)
Historical cost – December 31, 2012	180,000	101,770	35,816	35,576	99,168	149,898	602,228
Accumulated depreciation – January 1, 2012	11,200	39,450	4,274	18,074	6,481	-	79,479
Depreciation expense	6,400	23,955	11,939	11,857	18,459	30,735	103,345
Disposals	-	(26,079)	-	-	-	-	(26,079)
Accumulated depreciation – December 31, 2012	17,600	37,326	16,213	29,931	24,940	30,735	156,745
Carrying value – December 31, 2012	162,400	64,444	19,603	5,645	74,228	119,163	445,483

	Land and building	Exploration equipment	Computer and office equipment	Computer software	Furniture and fixtures	Leasehold improve-ments	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	375,759
Construction in progress	-	3,605,576	-	-	-	-	3,605,576
Disposals	-	-	-	-	-	-	-
Historical cost – December 31, 2013	180,000	3,707,346	189,116	87,163	158,163	261,775	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	3,655,516	122,156	42,990	107,102	180,872	4,265,204

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

10 Payables and accrued liabilities

	As of December 31, 2013	2012
	$	$
Accrued development costs	9,159,018	-
Accrued salaries and benefits	2,101,783	2,399,260
Accrued finder's fee (note 24)	1,198,875	-
Trade accounts payable	807,884	988,807
Accrued legal and professional expenses	441,619	952,540
Accrued environmental, aboriginal, government and community expenses	240,595	391,015
Sales tax credits payable	148,063	-
Accrued evaluation and exploration costs	-	1,686,420
Other accrued liabilities	81,689	123,080
	14,179,526	6,541,122

11 Bridge financing

On July 13, 2012, Liberty Metals & Mining Holdings, LLC ("Liberty"), a subsidiary of Liberty Mutual Insurance and a significant shareholder of Alderon, 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 13), 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.

12 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.

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

12 Related party disclosures (continued)

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

	Years ended December 31, 2013	2012
	$	$
Share-based compensation	1,986,535	6,411,959
Short-term benefits*	3,462,913	1,959,607
Incentive compensation other than share-based compensation	1,402,737	2,557,813
	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, tax, corporate development, information technology support and investor relations services to the Company.

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

Cassels Brock & Blackwell LLP ("Cassels"): A Director of the Company is the Deputy Managing Partner of Cassels, which acts as lead external counsel for the Company.

Liberty: Liberty is a significant shareholder of the Company and has a representative on Alderon's Board of Directors. During the year ended December 31, 2012 (note 11), Liberty provided the Company with bridge financing.

HBIS International Holding (Canada) Co., Ltd ("HBIS"): HBIS is a subsidiary of Hebei Iron & Steel Group Co. Ltd ("Hebei"), a significant shareholder of the Company. HBIS provides certain management services to the Company.

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 provides 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 acts 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.

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

12 Related party disclosures (continued)

Transactions entered into with related parties other than key management personnel include the following:

	Years ended December 31, 2013	2012
	$	$
Cassels	1,708,821	2,139,726
King & Bay	1,558,066	2,008,486
HBIS	144,007	-
Ottenheimer	11,315	18,717
Image Air*	-	606,262
F&M*	-	480,000
Liberty	-	349,017
Ontario*	-	79,736
	3,422,209	5,681,944

*These entities are no longer related parties in 2013.

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

	As of December 31, 2013	As of December 31, 2012
	$	$
Cassels	128,606	135,729
King & Bay	92,423	78,271
Ontario*	-	50,824
Image Air*	-	44,400
	221,029	309,224

*These entities are no longer related parties in 2013.

13 Share capital

The Company has authorized for issue an unlimited number of common shares (being voting and participating shares) without par value, and all shares issued and outstanding as of December 31, 2013 and December 31, 2012 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.

13 Share capital (continued)

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.

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 also note 24).

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.

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

14 Warrants

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

	Year ended December 31, 2013		Year ended December 31, 2012	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Balance, beginning of period	-	-	4,877,897	2.76
Granted	-	-	-	-
Exercised	-	-	(384,010)	2.79
Expired	-	-	(4,493,887)	2.76
Balance, end of period	-	-	-	-

15 Stock options

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

Previously, the Plan allowed a maximum of 10% of the issued shares to be reserved for issuance under the Plan. On June 6, 2012, 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 15,000,000. 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.

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

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

15 Stock options (continued)

	Options outstanding as of December 31, 2013		
Exercise price	Number	Weighted average remaining contractual life (years)	Weighted average exercise price ($)
0.97 – 1.70	3,950,000	2.53	1.44
1.71 - 2.40	2,575,000	3.35	1.98
2.41 - 3.10	4,515,000	2.70	2.77
3.11 - 3.80	3,790,000	2.35	3.48
	14,830,000	2.68	2.46

	Options exercisable as of December 31, 2013		
Exercise price	Number	Weighted average remaining contractual life (years)	Weighted average exercise price ($)
0.97 – 1.70	2,857,500	1.75	1.51
1.71 - 2.40	1,500,000	3.04	2.02
2.41 - 3.10	4,240,000	2.67	2.75
3.11 - 3.80	3,717,500	2.34	3.48
	12,315,000	2.40	2.60

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

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

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

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

15 Stock options (continued)

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

16 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, 2013
	$
Loss from operations	(8,105,889)
Finance income	1,273,876
Net loss and comprehensive loss	(6,832,013)
Net loss and comprehensive loss attributable to non-controlling interest	(1,708,003)
Current assets	86,122,508
Non-current assets	162,985,131
Current liabilities	(22,247,988)
Net assets	226,859,651
Net assets attributable to non-controlling interest	56,714,913
Cash flows used in operating activities	(11,651,429)
Cash flows used in investing activities	(26,709,242)
Cash flows from financing activities	119,926,293
Net increase in cash	81,565,622

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

16 Non-controlling interest (continued)

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. As a result, the carrying amount of non-controlling interest was adjusted by $61,503,377 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.

17 Operating expenses

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

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

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

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

18 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, 2013	2012
	$	$
Loss before income taxes	(13,579,041)	(71,697,575)
Income tax recovery at combined federal and provincial income tax rate of 27.2% (2012-27.0%)	3,693,499	19,358,345
Change in unrecognized deferred income tax assets	(2,769,750)	(17,716,455)
Share-based compensation costs	(597,449)	(2,433,815)
Income tax attributable to non-controlling interest	(496,250)	-
Change in renounced expenditures pursuant to flow-through share agreements	-	(77,790)
Impact of future income tax rates applied versus current statutory rate	207,632	1,242,542
Non-deductible expenditures and other	(37,682)	(156,367)
	-	216,460

The deferred tax recovery is comprised of the following components:

	Years ended December 31, 2013	2012
	$	$
Origination and reversal of temporary differences	(2,769,750)	(17,716,455)
Changes in unrecognized deductible temporary differences	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, 2013	2012
	$	$
Temporary differences attributable to:		
Mineral properties	16,075,500	16,655,000
Non-capital losses	15,134,000	11,486,000
Share-issue expenses	862,000	1,228,000
Allowable capital losses	136,000	136,000
Property, plant and equipment	102,250	35,000
	32,309,750	29,540,000

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

18 Income taxes (continued)

As of December 31, 2013, the Company's unrecognized non-capital loss carryforwards expire as follows:

	$
2014	215,827
2015	271,231
2027	289,664
2028	385,975
2029	33,808
2030	2,955,817
2031	7,672,546
2032	29,359,621
2033	11,000,029
	52,184,518

The Company currently has unrecognized investment tax credits related to qualifying expenditures. These investment tax credits, which as of December 31, 2013 totaled $6,900,600, are not refundable and expire as follows:

	$
2030	209,155
2031	1,395,974
2032	3,453,682
2033	1,841,789
	6,900,600

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.

19 Net loss per share

For the years ended December 31, 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 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)

20 Supplemental disclosure of cash flow information

	Years ended December 31, 2013	2012
	$	$
Changes in operating assets and liabilities		
Receivables	(1,174,187)	162,569
Prepaid expenses and other current assets	(618,512)	1,346,789
Long-term advances (note 8)	(10,232,508)	(10,232,508)
Payables and accrued liabilities	(2,880,120)	(835,609)
Due to related parties	(88,195)	152,361
	(14,993,522)	(9,406,398)

21 Capital disclosures

The Company's objective in managing capital, consisting of equity, with cash and cash equivalents and restricted cash equivalents being its primary components, is to ensure sufficient liquidity to fund: development and other Kami Project activities; general and administrative expenses; environmental, aboriginal, government and community 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.

$81.6 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 Alderon. Currently this restriction does not have an effect on Alderon's ability to meet its short- to medium-term obligations as Alderon held $13.8 million of cash.

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

22 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 21, 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. 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 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, 2013 (see note 13).

The following are the contractual maturities of the financial liabilities as of December 31, 2013:

	Carrying Amount	Contractual Cash Flows	Less than 1 year	1-2 years	3-4 years	More than 5 years
	$	$	$	$	$	$
Payables and accrued liabilities	14,031,463	14,031,463	14,031,463	-	-	-
Due to related parties	221,029	221,029	221,029	-	-	-
	14,252,492	14,252,492	14,252,492	-	-	-

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 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 to be minimal.

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

22 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 Partnership's financial results since the Partnership's does not have debt at December 31, 2013.

Fair value

The carrying values of the Company's cash and cash equivalents, restricted cash equivalents, 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 carrying amounts and fair values of financial assets (liabilities) as of December 31, 2013 and 2012 are presented below.

December 31, 2013	Loans and receivables	Other financial liabilities	Total
	$	$	$
Cash and cash equivalents	95,366,039	-	95,366,039
Receivables (note 5)	270,829	-	270,829
Payables and accrued liabilities (note 10)	-	(14,031,463)	(14,031,463)
Due to related parties (note 12)	-	(221,029)	(221,029)
	95,636,868	(14,252,492)	81,384,376

December 31, 2012	Loans and receivables	Other financial liabilities	Total
	$	$	$
Cash and cash equivalents	34,312,316	-	34,312,316
Restricted cash equivalents (note 8)	10,232,508	-	10,232,508
Receivables (note 5)	362,028	-	362,028
Payables and accrued liabilities (note 10)	-	(6,541,122)	(6,541,122)
Due to related parties (note 12)	-	(309,224)	(309,224)
	44,906,852	(6,850,346)	38,056,506

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

23 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.

24 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 $689,000 in 2014, $524,000 in 2015 and $246,000 in 2016 with regards to various operating leases for its premises.

In connection with Hebei's contribution of the Initial Investment, the Company has agreed that in the event that the environmental assessment and related approvals for the Kami Project are not obtained by March 31, 2014, Alderon will be required to pay to Hebei $3,000,000 per month for each whole month until such approvals are obtained. As noted below (see note 25), the Company has received the required approvals, and therefore, a payment under this arrangement is not probable, and no amount has been provided for.

In connection with the closing of the Subscription Transaction (see note 13), 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, which is to be paid to the Finder in installments. Payments totaling $599,625 were made during the year ended December 31, 2013. The remaining balance of $1,198,875 will be paid in three equal installment of $399,625 every three months commencing February 28, 2014. All payments will also include 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. 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.

The Company has negotiated a contract with a supplier in relation to the purchase of equipment (see also note 9), which is due for delivery during the fourth quarter of 2014. As at December 31, 2013, payments of US$13,884,000 ($14,717,000 based on the closing rate on December 31, 2013) remain to be paid on the equipment and are due in 2014.

In the normal course of operations, the Company may become involved in various claims and legal proceedings. No contingent liabilities have been accrued as of December 31, 2013 or 2012, nor are there, in management's view, any known disputes pending against the Company that could significantly impact the Company's consolidated financial statements.

25 Subsequent events

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 February 18, 2014, the Federal Government of Canada issued the Notice of the Minister of Environment’s Environmental Assessment Decision Statement for the Kami Project (the “Decision Statement”). The Decision Statement sets out the Minister of Environment’s conclusion that the Kami Project is “not likely to cause significant adverse environmental effects”. As a result, the Kami Project has approval to proceed, subject to the terms and conditions included in any federal permits or authorizations. On January 10, 2014 the Cabinet of Newfoundland and Labrador (the “Provincial Cabinet”) determined that the Kami Project met the requirements of Part X of the Newfoundland and Labrador Environmental Protection Act and was released from the provincial environmental assessment process. On March 17, 2014, the Company received the federal *Navigable Waters Protection Act* Approval and on March 25, 2014, the Company received the federal *Fisheries Act* Authorization. Combined with the decisions by the Federal Minister of Environment and the Provincial Cabinet, Alderon is now in a position to move ahead with plans to commence construction.

On February 19, 2014, the Company entered into a Power Purchase Agreement (“PPA”) with Nalcor pursuant to which Nalcor 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 will 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 Security Agreement with Nalcor (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 $21.0 million was due on the signing of the Security Agreement. The remaining $44.0 million in security deposits will be provided to Nalcor at such time as Nalcor can reasonably demonstrate that it has additional existing and pending commitments for such amount to construct the new transmission line. Nalcor is required to provide sufficient advance notice of the timing and amounts of additional security deposits and may not request the next security deposit until after August 31, 2014.

25 Subsequent events (continued)

On February 24, 2014, Liberty provided a loan to the Company in the amount of $22,000,000. $21,000,000 of the gross proceeds of the loan will be used to fund the first security deposit that is required by Nalcor in connection with the construction of the new transmission line. The remaining $1.0 million will be used for working capital purposes, including for the payment of the establishment fee and transaction costs. Commencing 12 months after the issuance of the loan, the principal amount of the 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 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 loan. Subject to prepayment in accordance with the terms of the loan, the maturity date of the loan is December 31, 2018.

In February 2014, the Company signed contracts with suppliers in relation to the purchase of equipment for $34,900,000, which are due for delivery during the third quarter of 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, 2015.

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.

(A Development-Stage Company)
Management's Discussion and Analysis of Financial Condition and Results of Operations
For the year ended December 31, 2013

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, 2013. 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 and for the years ended December 31, 2013 and 2012 (the "Financial Statements"). This MD&A is prepared as of March 27, 2014.

The Company has prepared this MD&A with reference to National Instrument 51-102 "Continuous Disclosure Obligations" of the Canadian Securities Administrators. Under the U.S./Canada Multijurisdictional Disclosure System, the Company is permitted to prepare this MD&A in accordance with the disclosure requirements of Canada, which are different from those of the United States.

All amounts in this MD&A are presented in Canadian dollars (which is the Company's presentation and functional currency), except for share and option data and 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, as issued by the International Accounting Standards Board ("IFRS"). 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 2014" 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 and initiatives to secure a second off-take partner.

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 Information Form ("AIF") for the year ended December 31, 2013:

- 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 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 a single customer for 60% 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 its partner (Hebei) 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;
- 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 AIF.

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 its Canadian iron ore properties towards production, 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, under the symbol "ADV", and on the NYSE MKT LLC, under the symbol "AXX".

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 four 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, 2013. Information related to prior periods is included where contextualization for 2013 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). Additional and more detailed information can be found in the Feasibility Study, as well as in the Company's AIF for the year ended December 31, 2013.

Exploration initiatives

Alderon's exploration activities from fiscal 2010 to fiscal 2012 were focused on the Rose Lake and Mills Lake areas. The principal basin, named the Wabush Basin, contains the majority of the known iron oxide deposits on the Kami Property. Its trend continues north, northeast from the Rose Lake area, nine kilometers to the nearby Wabush Mine and beyond the town of Wabush. The second basin, called the Mills Lake Basin, lies south of the Elfie Lake Thrust Fault and extends southward, parallel with the west shore of Mills Lake.

During 2011, Alderon completed mineral resource estimates on the Rose North, Rose Central and Mills Lake deposits of the Kami Property, and in September 2011, Alderon announced the results of a Preliminary Economic Assessment on the Rose Central deposit of the Kami Property.

During 2012, the Company continued exploration activities on the Kami Property, with such activities most notably centering on the completion of Alderon's drilling campaigns. Alderon's 2011-2012 exploration program started in June 2011 and continued to April 30, 2012 with a break for freeze-up. Drilling comprised infill holes on both the Rose Lake and Mills Lake areas, plus geotechnical drillholes and holes for collection of sample for metallurgical testwork. Geological reconnaissance mapping was done in several areas south and east of the Rose Deposit (as defined below), principally for condemnation study around the areas proposed for the mine site civil works.

Alderon's 2012 winter drilling program was a four-month program, which commenced on January 10, 2012 and concluded on April 30, 2012, and focused predominantly on Rose North deposit, with a total of 32 holes, totaling 12,300 metres. As with the earlier drill program, this program concentrated on infill drilling with the goal of upgrading the mineral resource into the Measured and Indicated categories in preparation for completion of the Feasibility Study, the results of which are discussed below. The Rose Central and Rose North deposits are collectively referred to as the "Rose Deposit".

Through December 31, 2013, the Company has incurred a cumulative total of approximately $65.5 million on exploration and evaluation expenditures, and $50.0 million in development costs related to the Kami Project. These expenditures have been incurred since January 1, 2010. A description of the nature of the development costs is detailed in the discussion on the Company's consolidated statement of financial position 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 (defined below) agreement terms Year 1-5 (2016-2020) 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 plant start-up and commissioning	Q4, 2015
Projected commencement of revenue generation	Q1, 2016
Projected years to payback, at 8% discount rate	3.8

The level of accuracy of the Feasibility Study is considered by the authors to be +/-15% and a foreign exchange rate of US$1.00=$1.00 was used. The projected dates in the table above were developed at the time the Feasibility Study was completed. Subsequently the Company has made some revisions to the expected timing of certain key project milestones. Please refer to the heading "Outlook for 2014" in this MD&A.

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, loadout 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 the Town of Wabush.
- Power provided by Nalcor Energy ("Nalcor") directly to the Kami site main substation by means of a 315 kV transmission line.

Facilities at the Port of Sept-Îles 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").

The proposed project will produce 8.0 million tonnes of iron ore concentrate per year and will ship concentrate to market via the Port of Sept-Îles 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 of Sept-Îles 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.

Environmental, aboriginal, government and community initiatives

Environment

The Kami Project is subject to the environmental assessment provisions of the Newfoundland and Labrador *Environmental Protection Act* and the *Canadian Environmental Assessment Act* (together, the "Acts"). A schedule for the environmental assessment of the Kami Project was developed and put in place and significant work on this initiative commenced in 2011. On September 25, 2012, the Company achieved a major milestone in the process with the submission of its Environmental Impact Statement ("EIS") for the Kami Project to the federal and provincial governments. The EIS document consists of more than 5,000 pages of technical analysis and provides a full and thorough assessment of the predicted project effects on the biophysical and human environments.

On October 1, 2012, the federal and provincial governments posted the complete EIS and provided notification of the commencement of the public review period. Governments, stakeholders, aboriginal groups and the general public reviewed the information contained in the EIS, and provided comments back to the government. In December 2012, the federal and provincial governments provided Alderon with a series of additional information requests ("IR") resulting from the EIS review process. As part of this process, Alderon received 419 IRs from regulatory agencies, 62 IRs from aboriginal groups and 14 submissions from the public. On February 14, 2013, Alderon submitted an amendment to the EIS, which included its official response to the IRs to the federal and provincial governments.

The federal and provincial governments posted the amendment to the EIS for a public review period. Governments, stakeholders, aboriginal groups and the general public reviewed the information contained in the amendment to the EIS and provided relevant comments back to the government. Alderon provided responses to the comments received during the second public review of the EIS and following this the Kami Project moved to the final stages of the Environmental Assessment Process. On September 30, 2013, the Provincial Government announced that the EIS and amendments comply with the legislation and the EIS Guidelines and that no further work under the provincial environmental assessment 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 Provincial Environmental Assessment process. This marks the end of the Provincial Environmental Assessment process.

At the Federal level, the Canadian Environmental Assessment Agency ("CEAA") prepared its Comprehensive Study Report ("CSR") which presents CEAA's analysis of the Project to determine whether the Project is likely to cause significant adverse environmental effects. The CSR report was submitted for a thirty-day public review period on October 28, 2013. On February 18, 2014, the Minister of Environment released the Environmental Assessment Decision which determined that the project is not likely to result in any significant negative environmental effects. This decision marks 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*. Alderon has now satisfied its obligation to Hebei Iron & Steel Group Co., Ltd ("Hebei") to receive the environmental assessment and related approvals for the Kami Project prior to March 31, 2014, as discussed below under the heading "Corporative activities".

At the municipal level, Labrador City and Wabush (defined below) 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 Labrador City and Wabush (collectively, 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.

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, as well as to ensure an efficient and timely completion of the environmental assessment process.

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 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 Labrador City and Wabush.

The Pointe-Noire 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.

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.

In January 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, 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.

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. During the year ended December 31, 2013, Alderon continued to conduct a wide range of public consultation initiatives to ensure that stakeholders are apprised of the progress of the Kami Project and are afforded an opportunity to express any concerns.

In addition, on March 26, 2013, the Company announced that it had signed a memorandum of understanding ("MOU") with each of the towns of Labrador City and Wabush. In the MOUs, Alderon and both towns agree to formalize their working relationship and to facilitate community consultation and input.

On January 21, 2014, the Company entered into an agreement (the "LC Agreement") with Labrador City 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 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 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 that will be located within the boundaries of Wabush. The Company will also provide a capital projects disbursement to the Town, with the funds going towards required infrastructure needs. Payments under the Wabush Agreement will commence after initial production occurs at the Kami Project.

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 "Pointe-Noire Terminal").

On July 13, 2012, the Company entered into an agreement with the Port to secure usage of a new multi-user deep water dock facility that the Port 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.

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 is 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 once Alderon's usage of the multi-user facility commences.

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 in 2014 and 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.

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 of Sept-Îles. Tariffs are expected to be within industry norms. In July 2013, the Company re-established discussions with QNS&L and CFA in order to negotiate rail transportation tariffs, which are on-going. No agreement has been concluded to date.

In August 2012, the Company committed to work with Canadian National Railway Company ("CN") on a feasibility study (the "Rail Feasibility Study") for a proposed rail line and terminal handling facility to connect the Labrador Trough to the Port of Sept-Îles, Quebec. This proposed multi-user rail line was expected to include a fully operational and continuous railroad network, as well as a multi-user material handling facility linking the railway and the shiploading operations with the Port of Sept-Îles. In connection with this agreement, in September 2012, Alderon contributed $1.5 million towards the completion of the Rail Feasibility Study and to secure capacity on the new rail line.

On February 18, 2013, the Company was advised that CN was terminating the Rail Feasibility Study. On March 4, 2013, the Company was refunded the $1.5 million Rail Feasibility Study contribution.

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. Alderon has made the required requests to Nalcor for the supply of power for the project, and Nalcor has already initiated the process by undertaking the required studies.

Nalcor has established a formal process in advance of Nalcor's or Newfoundland and Labrador Hydro's being able to supply power to an industrial customer in Labrador. The technical process involves three stages: Stage I – Pre-Project Phase; Stage II – Concept Selection; and Stage III – Front End Engineering Design. Alderon and Nalcor have completed Stages I, II and III of the process. Stage III engineering and assessment related to providing transmission and electrical plant and services associated with supplying electrical power for the Kami Project was completed in September 2013, and the cost of $3.8 million was funded completely by Alderon.

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. There can be no assurance that the New Transmission Line will be completed in time for the initial production from the Kami Project.

On February 19, 2014, the Company entered into a Power Purchase Agreement ("PPA") with Newfoundland and Labrador Hydro ("NLH"), a subsidiary company of Nalcor, 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 Nalcor at such time as Nalcor can reasonably demonstrate that it has additional existing and pending commitments for such amount to construct the New Transmission Line. Nalcor is required to provide sufficient advance notice of the timing and amounts of additional security deposits and may not request the next security deposit until after August 31, 2014.

Site Infrastructure and Equipment

On August 15, 2013, Alderon announced that it has placed orders for the autogenous ("AG") and ball mills for the Kami Project. The AG mill and ball mill are the key processing equipment in the proposed concentrator as described in the Feasibility Study. Specifically, an order has been placed with Metso Minerals Canada ("Metso") for the supply of AG milling and ball milling systems, which are due for delivery in Q4 2014, in line with the overall project construction and commissioning schedule. 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.

In February 2014, Alderon finalized orders for two critical pieces of its material handling system for the Pointe-Noire ore shipping terminal. An order has been placed with Metso for the supply of the rotary car dumper which is due for delivery in Q1 2015. In addition, the stacker-reclaimer will be acquired from Sandvik AB and the delivery is scheduled for Q2 2015. Additionally the Autogenous mill and ball mill drive systems were awarded to General Electric which complement the mills that were ordered in August 2013.

Corporate activities

Strategic investment from Hebei

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. These transaction costs include a financial advisory commission and legal and listing fees that were directly attributable to the issuance of common shares to Hebei.

On closing of the Subscription Transaction, Hebei and Alderon also entered into an arrangement pursuant to which Hebei would invest an additional $119.9 million (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 $220.0 million.

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 proceeds of the Initial Investment. Further, the Company has agreed that in the event that the environmental assessment and related approvals for the Kami Project are not obtained by March 31, 2014, Alderon will be required to pay to Hebei $3.0 million per month for each whole month until such approvals are obtained. As of March 2014, Alderon has received the required approvals, and therefore, no payment under this arrangement is probable

In connection with the closing of the Subscription Transaction, 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 and which will be paid to the Finder in installments. Payments totaling $0.6 million were made during the year ended December 31, 2013. The remaining balance of $1.2 million are payable in three equal installments of $0.4 million every three months commencing February 28, 2014. All payments will also include 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.

Interim Engineering and Planning ("EPCM") Services Agreement

On August 22, 2012, Alderon entered into the Interim EPCM Agreement, as amended on November 23, 2012 and March 25, 2013 *(*together the "Interim EPCM Agreement*")*, with WorleyParsons Canada Services Ltd. ("WorleyParsons"). Under the Interim EPCM Agreement, WorleyParsons performed engineering and planning services for the Kami Project during the negotiation of a formal, comprehensive EPCM agreement between Alderon and WorleyParsons. A formal, comprehensive EPCM agreement was executed between Alderon, through The Kami Mine Limited Partnership ("The Kami LP"), and WorleyParsons, effective April 30, 2013. This EPCM agreement supersedes and incorporates the services performed pursuant to the Interim EPCM Agreement.

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.

Debt Financing

On September 12, 2013, Alderon announced that it has signed an engagement letter (the "BNP Paribas Engagement Letter") under which it has given BNP Paribas an exclusive mandate to act as lead arranger of an up to US$1 billion senior debt financing facility (the "Senior Debt Facility") to complete the construction and start-up of the Kami Project. The BNP Paribas Engagement Letter sets forth the required steps, including agreement on final terms and conditions and requisite documentation for the Senior Debt Facility, completion of due diligence, and procurement of credit approvals, among other things. The BNP Paribas Engagement letter does not constitute a commitment to provide financing.

Alderon is pursuing a financing strategy for the Kami Project based on a combination of the Senior Debt Facility, other debt options, equipment financing, equity and off-take partner contributions. 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 US$1 billion. There can be no assurance that the Company will enter into a definitive agreement with BNP Paribas.

Bridge financing

On July 13, 2012, in connection with Alderon's commitment to advance the Buy-in Payment, discussed above, Liberty provided a bridge loan (the "Note") to Alderon in the amount of $10.5 million. Liberty also had agreed to provide a further $10.5 million (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"), as discussed below, Alderon was required to reimburse the entire principal amount of the Note then outstanding, together with all accrued and unpaid interest thereon. The Company paid 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.

Convertible Debt

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. $21.0 million of the gross proceeds of the Liberty Loan was used to fund the first security deposit that is required by Nalcor in connection with the construction of the New Transmission Line. The remaining $1.0 million will be 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. Subject to prepayment in accordance with the terms of the Liberty Loan, the maturity date of the loan is December 31, 2018.

Results of operations

Consolidated statements of comprehensive loss information

	Years ended December 31,		
	2013	2012	2011
	$	$	$
Operating expenses			
General and administrative expenses	13,838,902	27,884,718	15,182,005
Environmental, aboriginal, government and community expenses	887,175	7,448,157	1,356,780
Exploration and evaluation expenses	503,981	36,446,047	21,201,210
	15,230,058	71,778,922	37,739,995
Loss from operations	(15,230,058)	(71,778,922)	(37,739,995)
Finance income	1,651,017	437,504	233,377
Finance costs	-	(356,157)	-
Net finance income	1,651,017	81,347	233,377
Loss before income taxes	(13,579,041)	(71,697,575)	(37,506,618)
Income tax recovery	-	216,460	1,063,540
Net loss and comprehensive loss	(13,579,041)	(71,481,115)	(36,443,078)
Attributable to:			
Owners of the parent	(11,871,038)	(71,481,115)	(36,443,078)
Non-controlling interest	(1,708,003)	-	-
	(13,579,041)	(71,481,115)	(36,443,078)
Net loss per share			
Basic and diluted	(0.09)	(0.65)	(0.44)
Weighted average number of shares outstanding			
Basic and diluted	130,144,167	109,493,640	82,615,947

General and administrative expenses

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

	Twelve months ended December 31, 2013	Twelve months ended December 31, 2012
	$	$
Legal, professional and consulting costs	6,040,838	14,407,218
Salaries, wages and benefits	2,454,737	2,635,686
Share-based compensation	2,133,407	7,391,856
Travel costs	1,032,387	1,059,020
Investor relations costs	983,265	1,352,807
Rent and facilities	454,511	333,390
Other costs	739,757	704,741
	13,838,902	27,884,718

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 with Hebei (the "Strategic Investment") in September 2012, as discussed above. Specifically, we expensed $4.1 million in financial advisory costs, $4.9 million in finder's fees and $0.8 million in other professional costs (such as legal and tax advisory fees) in relation to this transaction for the year ended December 31, 2012, as compared to the same period in 2013. 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, 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, total general and administrative expenses are expected to be at similar levels for the year ending December 31, 2014, as compared to the year ended December 31, 2013.

Environmental, aboriginal, government and community expenses

Environmental, aboriginal, government and community ("EAGC") expenses represent any non-general or administrative (i.e. corporate and strategic) activities that have been deemed necessary by management 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.

EAGC expenses have decreased by $6.6 million for the year ended December 31, 2013 as compared to the same period in 2012. This decrease is 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 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 environmental, aboriginal, government and community expenses.

Comparative exploration and evaluation expenses, by nature of expenditure, are summarized below:

	Years ended December 31, 2013	2012
	$	$
Engineering study costs	464,069	21,504,998
Share-based compensation	39,912	934,570
Drilling costs	-	10,973,741
Metallurgy costs	-	1,037,450
Geological costs	-	838,983
Geophysical costs	-	778,352
Other costs	-	377,953
	503,981	36,446,047

As noted above, we began 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 in the consolidated statement of financial position information discussion below.

Net finance income

During the year ended December 31, 2013, our net finance income has increased by $1.6, as compared to the same period in 2012. The increase is primarily related to interest earned on the increase in cash and cash equivalents on hand throughout the year due to the Initial Investment ($1.2 million). In addition the finance costs that were incurred during the year-ended December 31, 2012 on the Note discussed above did not re-occur ($0.4 million).

Income tax recovery

The income tax recovery during the year ended December 31, 2012 was recorded in connection with the renunciation of qualifying expenditures incurred pursuant to our entering into a non-brokered private placement on November 30, 2011, which resulted in the issuances of flow-through shares. The Company recognized $1.1 million during the three-month period ended December 31, 2011, and the $0.2 million was recognized in March 2012. The Company did not issue additional flow-through shares during the year-ended December 31, 2013.

Operating results for the year ended December 31, 2011

Loss from operations and net loss and comprehensive loss for the year ended December 31, 2011, as per our consolidated statement of comprehensive loss for that period, amounted to approximately $37.7 million and $36.4 million, respectively. This operating loss resulted predominantly from the expenditure of exploration and evaluation expenses of $21.2 million and general and administrative expenses of $15.2 million. During the year ended December 31, 2012, our exploration and evaluation activities increased by $15.2 million, as compared to the same period in 2011, as we continued our geological investigation of and pre-feasibility initiatives on the Kami Property. During the year ended December 31, 2012, our general and administrative expenses increased by approximately $12.7 million, as compared to the same period in 2011. As noted above, this increase primarily related to transaction costs incurred in connection with the Strategic Investment.

Quarterly consolidated results of operations information

As shown below, our loss from operations for the three-month period ended December 31, 2013 amounted to approximately $2.4 million, as compared to approximately $13.8 million for the three-month period ended December 31, 2012. The quarter-over-quarter decrease is largely attributable to a significant net decrease in exploration and evaluation expenses ($7.8 million) and in environmental, aboriginal, government and community expenses ($1.3 million), for which the related expenditures are being capitalized to mineral properties as of February 1, 2013, as discussed above. In addition, there has been a significant decrease in general and administrative expenses ($2.3 million), primarily due to a decrease in stock based compensation ($1.4 million) incurred during this period, as well a decrease in professional fees due to the closing of the Strategic Investment with Hebei, discussed above.

The net operating expenditure decreases discussed above largely explain the reduction in net loss and comprehensive loss attributable to owners of the parent, which decreased to approximately $1.6 million for the three-month period ended December 31, 2013 from approximately $13.6 million for the three-month period ended December 31, 2012.

Selected quarterly consolidated results of operations information include the following:

	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)

	Quarters ended			
	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
	$	$	$	$
Loss from operations	(13,759,453)	(25,707,262)	(16,218,281)	(16,093,926)
Net loss and comprehensive loss attributable to owners of the parent	(13,582,893)	(25,975,130)	(16,203,835)	(15,719,257)
Net loss per share Basic and diluted	(0.10)	(0.24)	(0.16)	(0.16)

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. The variations in reported quarterly information, in both our loss from operations and net loss and comprehensive loss are explained predominantly by the overall and progressive 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. The quarterly increases in our operating loss and net loss also have been impacted by the progressive increase in general and administrative expenses that have been incurred as we continued to expand our corporate activities and personnel to support both our operations and our public company obligations more generally. As such, quarterly results cannot be interpreted as being indicative of future expectations, results of operations or net loss per share.

Consolidated statement of financial position information

	As of December 31		
	2013	2012	2011
	$	$	$
Cash and cash equivalents	95,366,039	34,312,316	7,759,933
Restricted cash equivalents	-	10,232,508	-
Receivables and other current assets	5,082,934	3,449,756	4,827,315
Mineral properties	138,645,822	88,668,710	88,668,710
Long-term advance	20,465,016	10,232,508	-
Property, plant and equipment	4,265,204	445,483	373,409
Total assets	263,825,015	147,341,281	101,629,367
Total liabilities	14,400,555	6,850,346	7,750,054
Equity attributable to owners of the parent	192,709,547	140,490,935	93,879,313
Non-controlling interest	56,714,913	-	-
Total liabilities and equity	263,825,015	147,341,281	101,629,367

Cash and cash equivalents

As noted below, cash and cash equivalents increased by $61.1 million, due largely to the completion of the $119.9 million investment in The Kami LP by Hebei which was required to maintain its 25% interest in The Kami LP, partially offset by the cash used in operating activities, as discussed below.

Mineral properties

	Acquisition costs	Development costs	Share-based compensation costs capitalized	Depreciation capitalized	Total
	$	$	$	$	$
Balance – January 1, 2012	88,668,710	-	-	-	88,668,710
Additions during the period	-	-	-	-	-
Balance – December 31, 2012	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

As discussed above, Alderon has started to capitalize development costs incurred in relation to the Kami Project as of February 1, 2013. Components of the additions to development costs from February 1, 2013 up to December 31, 2013 include the following:

	$
Consulting and professional costs	42,313,176
Salaries, employment taxes and short-term benefits	3,406,295
Environmental, aboriginal, government and community consulting and professional costs	1,507,573
Travel costs	1,266,244
Information technology and telecom costs	718,919
Share-based compensation costs	386,958
Other costs	377,947
	49,977,112

During the year ended December 31, 2013 the Company incurred $50.0 million in development costs that are directly attributable to the Kami Project. Specifically, a total of $43.8 million was incurred on consulting and professional costs. These costs primarily reflect the detailed engineering, planning and procurement services rendered by WorleyParsons in order to transition the Project from the feasibility stage to the development stage, in preparation for the Project's construction ($27.8 million). These costs also include additional services provided by Stantec ($4.9million) for geotechnical and hydrological investigation, to supplement WorleyParson's detailed engineering discussed above. In addition, as noted above, 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). These costs also include $1.5 million in professional services required to support and complete the environmental, aboriginal, government and community initiatives as discussed under the headings "Environmental, aboriginal, government and community initiatives- Environment" and "Aboriginal groups" above.

The results of this work has allowed the Company to advance its procurement of long-lead items and pre-construction activities such that it will be able to commence and complete the construction of the Kami Project in accordance with the project schedule described in this MD&A under the heading "Outlook for 2014".

Development costs will continue to increase significantly throughout 2014 as we commence construction of the Kami Project.

Long-term advance

As discussed above, 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.

Property, plant and equipment

The increase in property, plant and equipment relates primarily to the Company's advance of $3.6 million to a supplier for AG milling and ball milling systems, as discussed above.

Liabilities

Liabilities, comprised of trade accounts payable, accrued development costs and other costs, increased by $7.6 million since December 31, 2012. This increase is 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 is no longer completing exploration and evaluation activities on the Kami Project as at December 31, 2013, and accrued salaries and benefits ($0.3 million).

Equity attributable to owners of the parent

Equity attributable to owners of the parent has increased by $52.2 million since December 31, 2012. 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, 2013, 2012 and 2011.

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. As a result, the carrying amount of non-controlling interest was adjusted by $61.5 million 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, 2013, the Company had cash and cash equivalents of $95.4 million, as compared to $34.3 million as of December 31, 2012, and a working capital surplus (total current assets less total current liabilities) of $86.0 million, as compared to $41.1 million as of December 31, 2012.

Changes in cash and cash equivalents during each of the years ended December 31, 2013 and 2012 were impacted largely by the completion of the $119.9 million investment in The Kami LP by Hebei, which was offset by the operational expenditures incurred, as discussed above, and by increased development costs incurred. The impacts of all the activities noted above are summarized below.

	Years ended December 31, 2013	2012
	$	$
Cash and cash equivalents – beginning of the year	34,312,316	7,759,933
Net cash used in operating activities	(26,065,787)	(72,088,239)
Cash flows from financing activities:		
Proceeds received following the issuance of units of The Kami LP to Hebei	119,926,293	-
Net proceeds from private placement issuances of common shares	-	107,418,488
Proceeds from the exercise of warrants and stock options	-	1,654,774
Net cash provided by financing activities	119,926,293	109,073,262
Net cash used in investing activities	(32,806,783)	(10,432,640)
Cash and cash equivalents – end of the year	95,366,039	34,312,316

Cash used in operating activities represents our net loss, long-term advance to the Port, and excludes the impact of any non-cash transactions, such as the recording of share-based compensation costs (which amounted to approximately $2.2 million and approximately $9.0 million during the years ended December 31, 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 and advances made to a supplier of equipment, as discussed above. These costs are directly attributable and give rise to future economic benefits for the Kami Project.

$81.6 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 $13.8 million of cash; 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" and previously under the heading "Debt Financing".

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 $95.4 million in cash and cash equivalents and therefore, has financial resources sufficient to cover its current liabilities ($14.4 million) and commitments ($16.2 million) as at December 31, 2013, including necessary general and administrative costs through 2015 and commitments incurred to date, based upon present plans. General and administrative costs are projected at approximately $8.0 million annually, additional commitments entered into from January 1, 2014 to March 27, 2014 totaled $34.9 million, and the Liberty Loan was used to pay the Company's first security deposit to NLH, as discussed above.

While the Company has sufficient funds to cover its estimated working capital requirements, as discussed in the "Outlook for 2014" section below, the Company intends to commence construction of the Kami Project in the second quarter of 2014. 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 2014

During 2014, the Company will focus on completing the financing for the construction of the Kami Project, including concluding 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 (including additional proceeds following the finalization of additional off-take arrangements, regarding which discussions are ongoing).

Once financing is in place, Alderon intends to commence construction of the Kami Project. Construction is expected to commence at the end of the second quarter of 2014, contingent on the successful completion of the Company's financing plan, including the closing of the Senior Debt Facility. Following commencement of full-scale construction, it is currently estimated 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 2014, Alderon will continue to work towards the conclusion of railway transportation agreements for the production from the Kami Project.

Alderon will 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 Naskapi Nation of Kawawachikamach. Alderon will also continue to pursue initiatives to secure a second off-take partner for the remaining annual iron ore concentrate production not reserved by Hebei.

Outstanding share data

As of March 27, 2014, there were 130,144,167 common shares issued and outstanding, 14,730,000 stock options outstanding, 9,259,259 common shares issuable on the conversion of the principal amount of the Liberty Loan and 62,912 common shares issuable on the conversion of the accrued interest owing on the Liberty Loan as of March 27, 2014.

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,	
	2013	2012
	$	$
Share-based compensation	1,986,535	6,411,959
Short-term benefits*	3,462,913	1,959,607
Incentive compensation other than share-based compensation	1,402,737	2,557,813
	6,852,185	10,929,379

* includes 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 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 investor relations 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.

Ottenheimer Baker Barristers & Solicitors ("Ottenheimer"): John Baker, a Director of the Company, is a partner at Ottenheimer, which provides certain legal services to the Company with respect to local matters in Newfoundland and Labrador including regulatory and mineral law matters. Effective January 2, 2014, Ottenheimer joined together with the law firm McInnes Cooper and the combined firm carries on business under the name McInnes Cooper.

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

Liberty: Liberty is a significant shareholder of the Company and has a representative on Alderon's Board of Directors. During the year ended December 31, 2012, Liberty provided the Company with $10.5 million in bridge financing that was used to fund the first installment of the Buy-in Payment to the Port. The bridge financing had an interest rate of 8% per annum and an establishment fee and the amounts paid to Liberty in respect of these obligations are set forth in the table below. The bridge financing was repaid on September 4, 2012. 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 Buy-in Payment to the Port and because the Subscription Transaction with Hebei had not yet closed.

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 provided 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.

Forbes & Manhattan, Inc. ("F&M"): F&M is an entity that is wholly owned by the spouse of Stan Bharti, the former Vice Chairman of the Company's Board of Directors. F&M provides 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 acts 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. Stan Bharti, 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 include the following:

	Years ended December 31, 2013	2012
	$	$
Cassels	1,708,821	2,139,726
King & Bay	1,558,066	2,008,486
HBIS	144,007	-
Ottenheimer	11,315	18,717
Image Air*	-	606,262
F&M*	-	480,000
Liberty	-	349,017
Ontario*	-	79,736
	3,422,209	5,681,944

*These entities are no longer related parties in 2013.

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.

In connection with Hebei's contribution of the Initial Investment, the Company has agreed that in the event that the environmental assessment and related approvals for the Kami Project are not obtained by March 31, 2014, Alderon will be required to pay to Hebei $3.0 million per month for each whole month until such approvals are obtained. As noted above, the Company [has received] the required approvals, and therefore, a payment under this arrangement is not probable and no amount has been provided for.

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 a contract with a supplier in relation to the purchase of AG milling and ball milling systems, which are due for delivery during the fourth quarter of 2014. As at December 31, 2013, payments of US$13.9 million ($14.7 million based on the closing rate on December 31, 2013) remain to be made on the equipment, which are due in 2014. In the event that this contract is cancelled, the Company will be subject to cancellation charges based on an actual incurred basis.

Including the commitments and contractual obligations discussed above, the Company has the following known commitments as at December 31, 2013:

		Payments due in:			
	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
	$	$	$	$	$
Equipment	14,717,000	14,717,000	-	-	-
Operating lease obligations	1,459,000	689,000	770,000	-	-
Totals	16,176,000	15,406,000	770,000	-	-

Subsequent to December 31, 2013, the Company entered into new commitments and contractual obligations. For example, refer to headings "Power Supply", "Site Infrastructure and Equipment" and "Convertible Debt" in this MD&A.

Off-balance sheet arrangements

As of December 31, 2013, we did not have any off-balance sheet arrangements.

Significant accounting policies and critical estimates and judgments

A complete summary of our significant accounting policies is provided in note 2 to our consolidated financial statements as of and for the years ended December 31, 2013 and 2012.

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

Critical accounting estimates and judgments 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, we caution that future events often vary from forecasts and expectations and that estimates routinely require adjustment.

We consider the following areas to be those where critical accounting policies affect the significant estimates and judgments used in the preparation of our 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 may be realized, which are based on assumptions about future events and circumstances.

Carrying value and recoverability of mineral properties

The carrying amount of 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.

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.

Fair value of stock options

Determining the fair value of 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 or on other components of equity.

Income taxes

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of our ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. We assess whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development and commercialization of mineral reserves. To the extent that our assessment of the ability to utilize future tax deductions changes, we would be required to recognize more or fewer deferred tax assets, and income tax provisions or recoveries in future periods could be affected. The Company has not recognized any deferred income tax assets as of December 31, 2013.

New standards and interpretations not yet adopted

The following new standards, and amendments to standards and interpretations, are effective for annual periods beginning on or after January 1, 2013 and have been applied in preparing these consolidated financial statements. The accounting policies have been applied consistently by all subsidiaries of the Company.

a) IFRS 10, *Consolidated Financial Statements* ("IFRS 10"), which builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of a parent company. IFRS 10 also provides additional guidance to assist in the determination of control where this is difficult to assess.

b) IFRS 11, *Joint Arrangements* ("IFRS 11"), which enhances accounting for joint arrangements, particularly by focusing on the rights and obligations of the arrangement, rather than the arrangement's legal form. IFRS 11 also addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities and prohibits proportionate consolidation.

c) IFRS 12, *Disclosure of Interests in Other Entities*, which is a comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles.

d) IFRS 13, *Fair Value Measurement* ("IFRS 13"), which defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions).

The impact of the adoption of these standards is not significant.

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

a) 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.

b) 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 mandatory effective date of IFRS 9 will be determined once the classification and measurement and impairment phases of IFRS 9 are finalized. The Company does not intend to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2014.

The impact of the adoption of these standards has yet to be determined.

Capital disclosures

The Company's objective in managing capital, consisting of equity, with cash and cash equivalents and restricted cash equivalents being its primary components, is to ensure sufficient liquidity to fund: development and other Kami Project activities; general and administrative expenses; environmental, aboriginal, government and community 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, 2013, our financial instruments are comprised of cash and cash equivalents, receivables, payables and accrued liabilities and amounts due to related parties.

The carrying values of our cash and cash equivalents, 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.

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. 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 or expected capital-raising activities prior to December 31, 2013, as discussed above.

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.

Our receivables consist primarily of sales tax credits, which are due from Canadian federal and provincial tax agencies. Additionally, our cash and cash equivalents are held in deposit at high-credit quality Canadian financial institutions. As a result, we consider the risk of non-performance related to accounts receivable and cash and cash equivalents to be minimal.

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 AIF for the year ended December 31, 2013, 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 a single customer for 60% of its expected iron ore concentrate production.

Alderon currently relies on one significant customer that represents 60% 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.

As a result of reliance on this single customer for the majority of Alderon's iron ore production, Alderon could be subject to adverse consequences if Hebei breaches its purchase commitments. In addition, there is no assurance that Alderon will secure a customer for the remaining 40% of its expected iron ore concentrate production.

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.

Alderon will require additional capital in the future, and no assurance can be given that such capital will be available at all or available on terms acceptable to Alderon.

Alderon currently has limited financial resources and no cash flow from production. 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 has signed an engagement letter with BNP Paribas under which BNP Paribas has an exclusive mandate to act as lead arranger of the Senior Debt Facility to complete the construction and start-up of the Kami Project There can be no assurance that Alderon will be able to negotiate binding agreements with the BNP Paribas that are satisfactory to Alderon, that Alderon will be able to satisfy the conditions set forth in the engagement letter necessary for BNP Paribas to enter into and fund the Senior Debt Facility or that BNP Paribas will not otherwise determine not to proceed with the transaction. The failure of Alderon to enter into a new credit facility on reasonable terms, or at all, could delay construction and start-up of the Kami Project, which would have a material adverse effect on Alderon's business, financial position, results of operations and cash flows.

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, 2013, 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, 2013, based on the criteria set forth in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management believes that, as of December 31, 2013, Alderon's internal control over financial reporting is effective.

During the fiscal year ended December 31, 2013, 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 AIF for the year ended December 31, 2013 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.