

# **Champion Iron Limited**

## **Management's Discussion and Analysis**

This Management's Discussion and Analysis ("MD&A") provides discussion and analysis of the financial condition and results of operations of Champion Iron Limited (the "Company") for the year ended March 31, 2017 and should be read in conjunction with the audited consolidated financial statements and the accompanying notes. The MD&A is the responsibility of management and is dated as of June 28, 2017.

All dollar amounts are stated in Canadian dollars unless otherwise indicated. Additional information relating to the Company, including its Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

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### **Forward-Looking Statements**

This MD&A may contain, without limitation, statements concerning possible or assumed future operations, performance or results preceded by, followed by or that include words such as "believes", "expects", "potential", "anticipates", "estimates", "intends", "plans", "will", "could" and words of similar connotation, which would constitute forward-looking statements. Forward-looking statements are not guarantees. The reader should not place undue reliance on forward-looking statements and information because they involve risks and uncertainties that may cause actual operations, performance or results to be materially different from those indicated in these forward-looking statements. The Company is under no obligation to update any forward-looking statements contained herein should material facts change due to new information, future events or other factors. These cautionary statements expressly qualify all forward-looking statements in this MD&A.

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### **The Company**

The Company, through its subsidiaries Champion Iron Mines Limited ("Champion") and Québec Iron Ore Inc. ("QIO"), is an iron ore exploration and development company with properties located in the heart of Canada's premier iron ore mining district, the Labrador Trough.

The Company is a reporting issuer in Ontario, Alberta, British Columbia, Saskatchewan, Manitoba, New Brunswick, Prince Edward Island, Newfoundland and Nova Scotia and its ordinary shares are listed for trading on the Australian Stock Exchange and the Toronto Stock Exchange under the symbol CIA.

### **Overall Performance**

#### **Acquisition of Bloom Lake and related rail assets**

On April 11, 2016, the Company, through its subsidiary, QIO, acquired the Bloom Lake mine and related rail assets ("Bloom Lake") from affiliates of Cliffs Natural Resources Inc. that were subject to restructuring proceedings under the *Companies' Creditors Arrangement Act* (Canada) ("CCAA").

The Bloom Lake mine is located approximately 13 km north of Fermont, Quebec, in the Labrador Trough and consists of Mining Lease BM877 and 114 mining claims. The Bloom Lake Mine is an open pit truck and shovel mine, a concentrator that utilizes single-stage crushing and an autogenous mill and gravity separation to produce iron concentrate. From the site, concentrate can be transported by rail, initially on the Bloom Lake Railway, to a ship loading port in Sept-Îles, Québec. The Bloom Lake mine is currently in a care and maintenance mode.

The Bloom Lake rail assets consist of the provincially regulated short-line railway comprising a 32 km rail spur contained wholly within Newfoundland and Labrador that connects the Bloom Lake mine to the railway owned by Northern Land Company.

Set out below is the preliminary purchase price equation for the acquisition of Bloom Lake:

|   |            |
|---|------------|
|   | \$         |
| <b>Consideration</b>                        |            |
| Cash  | 9,237,500  |
| Deposit                                     | 562,500    |
|   | 9,800,000  |
| <b>Fair value recognized on acquisition</b> |            |
| <i>Assets</i>                               |            |
| Property, plant and equipment               |            |
| Mobile equipment and parts                  | 26,573,000 |
| Rail  | 750,000    |
| Mine  | 1,500,000  |
| Mineral rights                              | 1,500,000  |
| Housing                                     | 4,000,000  |
|   | 34,323,000 |
| Deferred tax asset                          | 6,499,000  |
|   | 40,822,000 |
| <i>Liabilities</i>                          |            |
| Rehabilitation obligation                   | 24,523,000 |
| Deferred tax liability                      | 6,499,000  |
|   | 31,022,000 |
| Total identifiable net assets at fair value | 9,800,000  |

Subsequent to the acquisition of Bloom Lake, QIO is currently employing 54 workers in care and maintenance of the property.

#### **Acquisition of Quinto Claims**

On April 11, 2016, the Company, through its wholly-owned subsidiary, Champion Iron Mines Limited, acquired certain mineral claims ("Quinto Claims") from affiliates of Cliffs Natural Resources Inc. that were subject to restructuring proceedings under the *Companies' Creditors Arrangement Act* (Canada) ("CCAA").

The Quinto Claims (447 claims), which encompass the Peppler Property (118 claims), the Lamelee Property (236 claims) and the Hobdad Property (93 claims), are located approximately 50 km southwest of the Bloom Lake mine.

Set out below is the purchase price for the acquisition of Quinto Claims which was recorded as exploration and evaluation assets.

|                      |         |
|----------------------|---------|
|                      | \$      |
| <b>Consideration</b> |         |
| Cash                 | 739,318 |
| Deposit              | 37,500  |
|                      | 776,818 |

#### **Financing**

##### *Private placement by the Company*

On April 11, 2016, in order to fund the acquisition purchase price of Bloom Lake and to provide working capital, the Company completed a private placement of 187,500,000 ordinary shares at a price of \$0.16 per share for gross proceeds of \$30,000,000 ("Private Placement").

Subscribers to the financing included:

|   |                     |
|---|---------------------|
|   | <b>Subscription</b> |
| <b>Subscriber</b>   | <b>\$</b>           |
| Ressources Québec   | 6,000,000           |
| WC Strategic Opportunity, L.P. (a Wynnchurch Capital LLC portfolio company)("Wynnchurch") | 10,000,000          |
| Resource Capital Fund VI LP ("RCF")   | 6,453,000           |
| A company controlled by Michael O'Keeffe, the Company's Chairman and CEO                  | 3,500,000           |

In connection with the Private Placement, the Company received commitments from two parties ("Initial Subscribers") to backstop up to \$15,000,000 of the Private Placement. One of the Initial Subscribers was arm's length while the other was a company controlled by Michael O'Keeffe, the Company's Chairman and CEO. The Initial Subscribers each agreed to purchase 46,875,000 ordinary shares (the "Committed Shares") under the Private Placement, subject to their right to engage dealers to find substituted purchasers to purchase all or a portion of the Committed Shares. In connection with their commitment to subscribe for the Committed Shares, the Company granted 15,000,000 compensation options to the Initial Subscribers, entitling the holder to purchase one ordinary share for \$0.25 until February 1, 2020. For one year after the closing of the Private Placement, the Initial Subscribers were restricted from selling, pledging or granting any rights with respect to the acquired ordinary shares, except in certain limited circumstances.

In connection with the Private Placement, subject to certain terms and conditions, Wynncchurch and RCF were both granted the following rights for as long as they hold more than 10% of the issued and outstanding ordinary shares of the Company:

1. The Subscriber is entitled to designate one nominee for election or appointment to the board of directors of the Company and the Company agrees to include the Subscribers' nominee in the slate of directors presented at any meeting of shareholders at which directors are to be elected;
2. The Company undertakes that it will not grant any stock options unless such grant is unanimously approved by the board of directors of the Company.

#### *Private placement by QIO*

On April 11, 2016, QIO completed a private placement of 14,000,000 ordinary shares to Ressources Québec at a price of \$1 per share for gross proceeds of \$14,000,000.

In connection with the private placement by QIO, the Company granted 6,000,000 compensation options to Ressources Québec entitling the holder to purchase one ordinary share of the Company at a price of \$0.25 per share until February 1, 2020.

In addition, QIO issued 3,000,000 ordinary shares to the Company to settle an amount due to Company and issued another 6,000,000 ordinary shares to the Company for providing a guarantee of \$6,000,000, following which, the Company's interest in QIO was reduced from 100% to 63.2%.

#### **Feasibility study**

The Company completed a National Instrument 43-101 (NI43-101) Technical Report on the Bloom Lake Mine Re-Start dated March 17, 2017 ("Feasibility Study"). The Feasibility Study demonstrates that recommencing iron ore mining operations at Bloom Lake is financially viable and would be competitive in global iron ore markets with the potential to be one of the region's leading long-life iron ore mines. A production restart at Bloom Lake would be a major contributor to the provincial and national economy.

#### *Highlights (all quoted figures in C\$ unless stated otherwise)*

- Net after-tax cash flow of \$2.3 billion (including all forecasted CAPEX);
- After-tax net present value at 8% discount rate of \$984 million and an internal rate of return of 33.3% after tax;
- Total revenue over life-of-mine of \$15.1 billion;
- Total capital costs of \$326.8 million including mine upgrade capital cost of \$157.2 million;
- Mineral Reserves for the Bloom Lake Project are estimated at 411.7 million tonnes at an average grade of 30.0% Fe;
- Concentrate production averages 7.4 million tonnes per annum at an assumed steady state over the 21-year life-of-mine. The concentrate, at 66.2% Fe is obtained with an expected metallurgical recovery that averages 83.3% Fe relative to plant feed at the 30% Fe average feed grade;
- Plant and processing upgrades are expected to deliver improvements in Fe recovery. The upgraded recovery circuit flowsheet replaces the existing 3-stage spiral circuit with a new gravity circuit that limits the recirculating process streams and reduces the chance of losses of iron to the rougher stage tailings. The recovery of additional iron minerals will also be achieved by a magnetic scavenging circuit;
- Life-of-mine average operating cost of production of \$44.62 per dry metric tonne, FOB Sept-Iles;
- Life-of-mine average iron ore price at 66.2% Fe CFR China (62% Fe index plus premium for extra Fe content) of US\$78.40 provided by a market study by Metalytics, a specialist economics consultancy in the metals and mineral resources sector.

## Summary of Economic Parameters and Feasibility Results

|                                  |   |                    |
|----------------------------------|---|--------------------|
| <b>Mining Parameters</b>         | Reserve (Mt)                                      | 411.7              |
|                                  | Processed tonnage (Mtpa)                          | 20.0               |
|                                  | Average Fe processing recovery (%)                | 83.3%              |
|                                  | Average mining dilution (%)                       | 4.3%               |
|                                  | Average Recovered concentrate (Mtpa)              | 7.4                |
| <b>Cost Parameters</b>           | Mine Life (years)                                 | 21 years           |
|                                  | Initial CAPEX including Working Capital (CA\$M)   | 326.8              |
|                                  | LOM CAPEX (CA\$M)                                 | 329.5              |
|                                  | LOM OPEX (CA\$/t of ore)                          | 16.85              |
|                                  | LOM OPEX (CA\$/t dry concentrate)                 | 44.62              |
| <b>Revenue Parameters</b>        | Gross Revenue (CA\$M)                             | 15,116             |
|                                  | Shipping Costs (CA\$M)                            | 3,748              |
|                                  | Cash Operating Margin (CA\$M)                     | 4,432              |
|                                  | Operating Margin %                                | 29.3%              |
|                                  | After Tax Net Cash-Flow (CA\$M)                   | 2,335              |
| <b>Iron Ore Price Parameters</b> | LOM Av Iron Price at 66.2%Fe CFR China (US\$/ton) | 78.40              |
|                                  | Inflation   | Nil                |
|                                  | Average Exchange Rate                             | 0.79 US\$:1.0 CA\$ |
| <b>Valuation Parameters</b>      | NPV – 8% Pre-Tax (CA\$M)                          | 1,675              |
|                                  | IRR (pre-tax)                                     | 43.9%              |
|                                  | NPV – 8% After-Tax (CA\$M)                        | 984                |
|                                  | IRR (after-tax)                                   | 33.3%              |
|                                  | Pay-back (pre-tax) (years)                        | 2.5                |
|                                  | Pay-back (after-tax) (years)                      | 3.1                |

### Mineral Resource and Reserve Estimates

The JORC and Canadian NI 43-101 compliant Measured and Indicated resources adds to a total of 911 Mt while there is an additional 80 Mt of Inferred resources (table 2). The Bloom Lake Mine holds 411 Mt of ore reserves at 30.0% Fe and a dilution factor of 4.3%.

| March 2017 Bloom Lake Mineral Resource Estimate at Cut-off 15% Fe |                  |        |         |         |                                    |
|---|------------------|--------|---------|---------|------------------------------------|
| Category  | Dry Tonnage (Mt) | Fe (%) | CaO (%) | MgO (%) | Al <sub>2</sub> O <sub>3</sub> (%) |
| Measured  | 439.7            | 31.0   | 0.6     | 0.7     | 0.3                                |
| Indicated   | 471.9            | 28.5   | 2.5     | 2.3     | 0.4                                |
| M+I Total   | 911.6            | 29.7   | 1.6     | 1.5     | 0.4                                |
| Inferred  | 80.4             | 25.6   | 1.9     | 1.7     | 0.3                                |

*Includes ore reserves*

| March 2017 Bloom Lake Ore Reserves Estimate at Cut-off 15% Fe |                  |        |         |         |                                    |
|---|------------------|--------|---------|---------|------------------------------------|
| Category  | Dry Tonnage (Mt) | Fe (%) | CaO (%) | MgO (%) | Al <sub>2</sub> O <sub>3</sub> (%) |
| Proven  | 264.2            | 30.7   | 0.5     | 0.6     | 0.3                                |
| Probable  | 147.6            | 28.7   | 2.8     | 2.7     | 0.4                                |
| Total   | 411.7            | 30.0   | 1.3     | 1.3     | 0.4                                |

#### *Updated Mine Plan*

The restart of operations at Bloom Lake is based on different operating assumptions which include an upgrade to the concentrator plant and a mineral reserve and mining scenario updated for the current iron ore market.

The operation consists of a conventional surface mining method using an owner mining approach with electric hydraulic shovels and mine trucks. All major mine equipment required for the restart of Bloom Lake is present on-site as this equipment was among the assets purchased by the Company's subsidiary, QIO.

#### *Updated Concentrator Plant*

QIO intends to use Bloom Lake's existing crushing and storage facilities, along with the mill and the rail load-out facilities to produce 7.4 Mtpa of concentrate, with an expected recovery of 83.3% from the ore mined from the main pit.

The proposed concentrator plant upgrade was developed to improve the overall iron recovery previously achieved by the existing concentrator when Bloom Lake was in production from 2010 until 2014. The specific goal was to improve the recovery of both the coarser (+425 microns) and fine (-106 microns) iron minerals, while having no adverse effect on the recovery of other size fractions.

The concentrator upgrade development was based on proven technology for Labrador Trough iron ore deposits.

#### *Logistics*

The mine already has operational processing facilities and rail loop infrastructure, with access to end markets via port and rail. The rail access consists of three separate segments. The first is the 31.9 km rail spur on-site that is operational and connects to the Quebec North Shore & Labrador (QNS&L) railway at the Wabush Mines facilities in Wabush, Labrador. The second segment uses the QNS&L railway between Wabush to the Arnaud junction in Sept-Iles. The third segment is from Arnaud to Pointe-Noire port facilities (Sept-Iles) where the concentrate will be unloaded, stockpiled and then loaded onto vessels for export.

Bloom Lake benefits from excellent access to power, water, roads, rail, ports and a highly professional mining labour market, as well as a government that continues to be supportive of new investment and mining.

#### **Acquisition of railcars**

On March 10, 2017, the Company, through its wholly-owned subsidiary, Lac Bloom Railcars Corporation Inc. ("Lac Bloom Railcars"), entered into a Railcar Instalment Sale Agreement to acquire 735 specialized iron ore railcars for consideration of US\$30,077,570 plus Goods and Services Tax ("GST") of US\$1,503,879 and Quebec Sales Tax ("QST") of US\$3,000,238. The Company made a down payment of US\$1,818,100 with the balance of the consideration, including GST and QST being financed by a note owing to the vendor.

#### **Memorandum of Understanding for the Development of Pointe-Noire**

The Company, through QIO, Société du Plan Nord and Tata Steel Minerals Canada entered into a memorandum of understanding to work together, in a multi-user approach, to manage and develop the industrial facilities (rail lines, access to port facilities, rail yards, a pellet plant, administrative offices and other facilities) on a site of around 1,200 hectares at Pointe-Noire in Sept-Îles, Québec, via the limited partnership Société Ferroviaire et Portuaire de Pointe-Noire ("SFPPN"). SFPPN will develop an innovative business model that meets the needs of the private sector while also promoting maximum benefits for future projects in the region.

On March 23, 2017, the Company contributed \$1,000,000 to the capital of the limited partnership.

#### **Impact and Benefits Agreement**

The Company, through QIO, and the band council, Innu of Takuaikan Uashat mak Mani-utenam have entered into an Impact and Benefits Agreement (the "IBA") with respect to future operations at the Bloom Lake.

The IBA is a life-of-mine agreement and provides for real participation in Bloom Lake for the Uashaunnuat in the form of training, jobs and contract opportunities, and ensures that the Innu of Takuaikan Uashat mak Mani-utenam will receive fair and equitable financial and socio-economic benefits. The IBA also contains provisions which recognize and support the culture, traditions and values of the Innu of Takuaikan Uashat mak Mani-utenam, including recognition of their bond with the natural environment.

### **Off-take agreement**

On May 1, 2017, the Company signed a Framework Off-Take Agreement (the "Agreement") with Sojitz Corporation ("Sojitz"), a major trading company based in Tokyo, Japan, pursuant to which Sojitz would purchase up to 3,000,000 DMT per annum from QIO after the re-commencement of commercial operations at the Bloom Lake Iron Mine ("Bloom Lake") pursuant to the Agreement, Sojitz will purchase up to 3,000,000 DMT per annum from QIO, upon re-commencement of commercial operations at Bloom Lake. The Agreement is for an initial five-year term from the date that commercial operations commence at Bloom Lake and shall automatically extend for successive terms of five-years.

### **\$40,000,000 bridge financing**

On May 17, 2017, To finance required upgrades to the tailings management system, other process plant upgrades and long-lead items in connection with the recommencement of operations at Bloom Lake, the Company arranged, on behalf of QIO, a \$40,000,000 bridge financing, comprised of debt of \$26,000,000 and equity of \$14,000,000. The debt component consists of a one-year term loan secured against the Bloom Lake fixed assets and large-scale mining equipment. The equity component consists of a proportionate contribution of \$8,800,000 and \$5,200,000 from the shareholders of QIO, the Company and the Government of Québec, respectively.

In connection with its \$8,800,000 equity contribution into QIO, the Company completed the sale of a \$10,000,000 unsecured convertible debenture bearing interest at the rate of 8% payable quarterly and matures on June 1, 2018 ("Debenture"). The Debenture is convertible at the option of the holder at any time into ordinary shares of the Company ("Shares") at a conversion price of \$1.00 per Share. Should the Company not complete a master financing of a minimum of \$212,000,000 ("Master Financing") by November 30, 2017, the conversion price will be adjusted to the lesser of \$1.00 or the 5-day weighted average trading price of Shares on the TSX determined as of the date of conversion. The maximum number of Shares that may be issued upon conversion of the Debenture is 50,000,000 Shares, with the balance of the unconverted principal amount of the Debenture to be repaid in cash or converted into a proportion of the Royalty (as defined hereinafter) at the option of the Company. If the principal amount is not repaid in full on or before June 1, 2019, the holder will have the right to convert the entire outstanding principal amount into a 0.21% gross overriding royalty on Bloom Lake (the "Royalty").

Following completion of the Master Financing, the principal amount of the Debenture may be prepaid in whole or in part by the Company subject to a minimum payment representing 6 months of interest.

### **Financial assistance**

On June 5, 2017, the Company announced that QIO has been granted financial assistance of \$3,085,089 and \$2,131,656 from the Government of Québec's Green Fund in connection with two energy conversion projects at Bloom Lake.

### **Grant of stock options and share rights**

On May 25, 2017, the Company granted 1,650,000 stock options to employees entitling the holder to purchase one ordinary share for A\$1.00 until May 25, 2020. The stock options vest, as follows: 650,000 on May 25, 2017, 150,000 on May 25, 2018, 150,000 on May 25, 2019 and 700,000 on satisfaction of vesting conditions set by the Board.

On May 25, 2017, the Company granted 1,250,000 share rights convertible into ordinary shares. The share rights vest on the satisfaction of vesting conditions set by the Board.

### **Rail transportation contract**

On June 19, 2017, the Company entered into a transportation agreement with the Quebec North Shore & Labrador Railway Company Inc. ("QNS&L") for the transportation of iron ore from Bloom Lake by way of the QNS&L railway for approximately 400 kilometres from the Wabush Lake Junction in Labrador City, Newfoundland & Labrador to the Sept-Îles Junction in Sept-Îles, Québec.

### **Due from Cartier Iron Corporation**

At March 31, 2016, the principal amount of \$1,284,716 due from Cartier Iron Corporation ("Cartier") was a demand loan, which was unsecured, bore interest at the rate of LIBOR plus 2% and was due 6 months after the Company demanded repayment (the "Demand Loan"). The Company had the right to convert the Demand Loan, plus accrued but unpaid interest, into Cartier common shares at a conversion price equal to the lowest subscription price per Cartier common share paid for the most recent capital raising undertaken by Cartier at the time of the conversion, subject to the minimum pricing rules and stock exchange approval.

On May 17, 2016, the Company converted the Demand Loan to a term loan, which is unsecured, bears interest at the rate of LIBOR plus 2% and is due on September 30, 2017 ("Term Loan"). The Company has the right to convert the Term Loan, plus accrued but unpaid interest, into Cartier common shares at a conversion price equal to the lowest subscription

price per Cartier common share paid for the most recent capital raising undertaken by Cartier at the time of the conversion, subject to the minimum pricing rules and stock exchange approval.

On November 15, 2016, the Company received a repayment of \$1,000,000 of the Term Loan in the form of 2,000,000 common shares of Eloro Resources Ltd. ("Eloro") at a deemed price of \$0.50 per common share. The Company agreed to provide Eloro with 30 days written notice of its intention to sell common shares of Eloro, during which time, Eloro may identify purchasers and the Company shall sell to such identified purchasers at a mutually acceptable price. The Company also agreed to extend the due date of the repayment of the balance of the Term Loan from September 17, 2017 to December 31, 2017.

At March 31, 2017, the principal amount of the Term Loan and accrued interest was \$348,003 and for the year ended March 31, 2017, interest of \$22,500 was accrued.

One director of the Company is a director of Cartier.

### **Fermont Property Holdings**

Through its wholly-owned subsidiary Champion, the Company owns a 100% interest in 8 properties (each a "Property"), covering approximately 707 square kilometres (collectively, the "Fermont Holdings") located in the Fermont Iron Ore District of northeastern Quebec, which is 300 km north of the St. Lawrence River port town of Sept-Îles, and ranging from 6 to 80 kilometres southwest of Fermont.

The Fermont Holdings are subject to a 1.5% Royalty payable to an arm's length party.

The Fermont Holdings are grouped into three clusters from north to south, termed Clusters 1, 2 and 3, as outlined in Map 1 on page 4. The Fermont Holdings are located in proximity to and locally contiguous to an operating iron mine and a number of former operating iron mines and projects currently being developed for iron mining.

Table 1 sets out the current NI 43-101 compliant In-Pit Mineral Resource Estimates for the Fermont Holdings by Property<sup>1</sup>:

Table 1: In-Pit Mineral Resource Estimates – Fermont Holdings

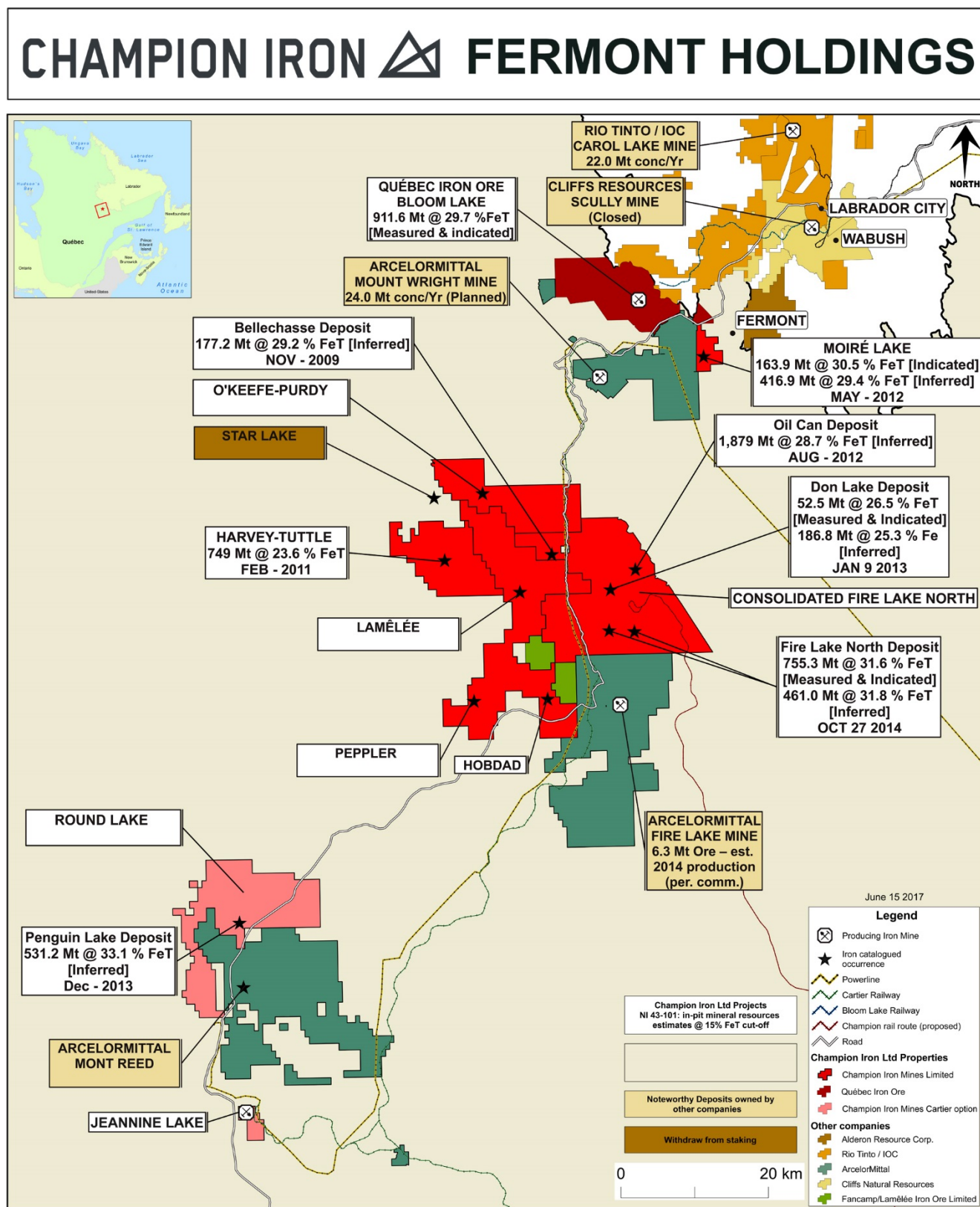
| Property                                       | Cluster | Deposit                         | Current Mineral Resources Estimates at 15% Iron Cut-Off |               |                    |               |                    |               |
|--|---------|---------------------------------|---|---------------|--------------------|---------------|--------------------|---------------|
|  |         |                                 | Measured  |               | Indicated          |               | Inferred           |               |
|  |         |                                 | tonnes<br>millions                                      | grade<br>FeT% | tonnes<br>millions | grade<br>FeT% | tonnes<br>millions | grade<br>FeT% |
| Moire Lake                                     | 1       | <b>Lac Moire</b>                | -   | -             | <b>163.9</b>       | <b>30.5</b>   | <b>416.9</b>       | <b>29.4</b>   |
| Consolidated Fire Lake North                   | 2       | Fire Lake North-West            | 28.4  | 35.5          | 441.5              | 32.2          | 307.9              | 32.7          |
|  |         | Fire Lake North-East            | 12.0  | 31.2          | 273.5              | 30.2          | 153.1              | 30.0          |
|  |         | Fire Lake North-Don Lake        | 0.4   | 21.4          | 52.1               | 26.5          | 186.8              | 25.3          |
|  |         | <b>Subtotal-Fire Lake North</b> | <b>40.8</b>   | <b>34.1</b>   | <b>767.1</b>       | <b>31.1</b>   | <b>647.8</b>       | <b>29.9</b>   |
|  |         | Oil Can (Oxide)                 | -   | -             | -                  | -             | 967.0              | 33.2          |
|  |         | Oil Can (Mixed)                 | -   | -             | -                  | -             | 912.0              | 24.1          |
|  |         | Bellechasse                     | -   | -             | -                  | -             | 177.2              | 29.2          |
|  |         | Midway                          | -   | -             | -                  | -             | -                  | -             |
|  |         | <b>Total -CFLN</b>              | <b>40.8</b>   | <b>34.1</b>   | <b>767.1</b>       | <b>31.1</b>   | <b>2,704.0</b>     | <b>29.1</b>   |
| Harvey-Tuttle                                  | 2       | <b>Harvey-Tuttle</b>            | -   | -             | -                  | -             | <b>749.0</b>       | <b>23.6</b>   |
| O'Keefe-Purdy                                  | 2       |                                 | -   | -             | -                  | -             | -                  | -             |
| Aubertin Tougard <sup>2</sup>                  | 3       |                                 | -   | -             | -                  | -             | -                  | -             |
| Jeannine Lake <sup>2</sup>                     | 3       |                                 | -   | -             | -                  | -             | -                  | -             |
| Round Lake <sup>2</sup>                        | 3       | <b>Penguin Lake</b>             | -   | -             | -                  | -             | <b>531.2</b>       | <b>33.1</b>   |
| Silicate Brutus <sup>2</sup>                   | 3       |                                 | -   | -             | -                  | -             | -                  | -             |
| <b>Fermont Holdings In-Pit Resource Totals</b> |         |                                 | <b>40.8</b>   | <b>34.1</b>   | <b>931.0</b>       | <b>31.0</b>   | <b>4,401.1</b>     | <b>28.7</b>   |

<sup>1</sup> The current Mineral Resource Estimate was calculated using the Canadian Institute of Mining, Metallurgy and Petroleum (CIM), CIM Standards on Mineral Resources and Reserves, Definitions and Guidelines prepared by the CIM Standing Committee on Reserve Definitions. Mineral resources, which are not mineral reserves, do not have demonstrated economic viability. The mineral resource estimate may be materially affected by environmental, permitting, legal, title, taxation, socio-political, marketing or other relevant issues. Furthermore, the quantity and grade of estimated Inferred Resource reported herein are uncertain and there has been insufficient exploration to categorize them

as an Indicated or Measured Resource. It is uncertain if further exploration will result in reclassification of Inferred Mineral Resources to the Indicated or Measured Mineral Resource categories. The tonnage numbers are rounded according to NI 43-101 standards.

<sup>2</sup> Currently under option to Cartier Iron Corporation. The Round Lake Property includes the Aubrey-Ernie, Black Dan, Penguin Lake and Round Lake project claims.

**Map 1 – Fermont Holdings**



Copies of the NI 43-101 Mineral Resource Estimate reports for Consolidated Fire Lake North, Moire Lake, Bellechasse and Harvey-Tuttle are available under Champion's filings on SEDAR at [www.sedar.com](http://www.sedar.com) and a copy of the NI 43-101 Mineral Resource Estimate report for Penguin Lake is available under Cartier Iron Corporation's filings on SEDAR.



### **Consolidated Fire Lake North**

Consolidated Fire Lake North ("CFLN") is located adjacent (to the north) of ArcelorMittal's operating Fire Lake Mine and is 60 km to the south of the Company's Bloom Lake Mine in northeastern Quebec. CFLN is situated at the southern end of the Labrador Trough, which is known to contain coarser grained iron deposits due to higher grade metamorphism nearer to the Grenville geological province. The Fermont-Wabush-Labrador City Iron Ore District is a world-renowned iron ore mining camp and is considered to be an optimal location to develop iron ore resource projects.

On February 7, 2013, Champion announced the results from its Prefeasibility Study ("PFS") for the Fire Lake North West and East deposits of the CFLN project that was performed by BBA Inc. of Montréal, Québec. A copy of the PFS is available under Champion's filings on SEDAR at [www.sedar.com](http://www.sedar.com).

With the completion of the exploration phase and the PFS, the Company dismantled the exploration camp in order to minimize costs has significantly curtailed exploration and development expenditures at CFLN. Expenditures in the current year were undertaken primarily to maintain current claim holdings.

During the year ended March 31, Champion made the following expenditures on CFLN:

|  | <b>2017</b>    | <b>2016</b>    |
|--|----------------|----------------|
|  | <b>\$</b>      | <b>\$</b>      |
| <b>Expenditure</b>                       |                |                |
| Data acquisition                         | 117,810        | 200,692        |
| Exploration facilities and supplies      | 91,203         | 169,782        |
| Exploration transportation               | –              | 10,200         |
| Exploration expenditures                 | 944            | 9,425          |
| Mineral processing tests                 | –              | 9,562          |
| Environmental                            | –              | 14,238         |
| Community, investor and public relations | 386,777        | (45,455)       |
| Rail study                               | 3,730          | –              |
| Project management                       | 241,634        | 303,251        |
| Other                                    | 7,700          | 10,653         |
|  | <b>849,798</b> | <b>682,348</b> |

Other CFLN deposits, such as Oil Can (see Table 1), are within a reasonable distance to the Fire Lake North deposits to enable potential development of satellite resources that might be conveyed to a centralized production complex developed at Fire Lake North. The Company is exploring the Cluster 2 properties in order to identify which of them have the potential for coarse-grained specular-hematite mineralization and prioritize the delineation of these more valued resources for sinter feed.

#### **Rail Solution**

The Company is the general partner and a limited partner in La Société ferroviaire du Nord québécois, société en commandite ("SFNQ"). The other limited partners in SFNQ are the Government of Québec and Lac Otnuk Mining Ltd., a joint arrangement between Adriana Resources Inc. and WISCO International Resources Development & Investment Limited. SFNQ was formed as a partnership of government and industry to complete a feasibility study for the construction of a new multi-user rail link giving mining projects in the Labrador Trough access to the port at Sept-Îles at the lowest possible cost. The Government of Québec has set aside a maximum of \$20,000,000 from its Plan Nord Fund to contribute to SFNQ, while the Company's contribution consisted of previously incurred costs of \$5,576,823.

SFNQ completed the tender process for a Feasibility study on the first phase of a new multi-user railway that would link the new Pointe Noire port facilities at the Port of Sept-Îles to Fire Lake North and other miners in the Fermont area. The contract was awarded to Canarail Consultants Inc. ("Canarail"). The contract was amended to include the phase 1B segment extending the proposed rail from Fire Lake North to Bloom Lake allowing access to a greater number of potential users in the Labrador Trough.

The deliver of the Feasibility Study for both Phase 1A and Phase 1B is pending the completion of the review by the Government of Québec.

### **Sept-Îles Port Authority**

On July 13, 2012, the Company signed an agreement ("Agreement") with the Port to reserve annual loading capacity of 10 million metric tons of iron ore for an initial term of 20 years with options to renew for 4 additional 5-year terms. Pursuant to the Agreement, the Company was to pay \$25,581,000 and take-or-pay payments as an advance on the Company's future shipping, wharfage and equipment fees. The Company provided the Port with irrevocable guarantees in the form of a deed of hypothec regarding its mining rights, title and interest over Moire Lake and Don Lake ("Mining Rights") to secure its obligations under the Agreement.

On June 28, 2013, the Company sent to the Port a notice of termination of the Agreement and requested the repayment of the \$6,000,000 that had already been advanced ("Advances"). The termination was made under the Renunciation provision of the Quebec Civil Code. The Renunciation provision allows cancellation of a contract if one party cannot perform under the contract. The Company terminated under this provision given that the Port could not provide access as contemplated in the Agreement at the time the payments were due. The Port subsequently issued the Company a notice of default with respect to the Company missing the payment due in July 2013.

The Port registered a notice of hypothecary recourse dated August 22, 2013 ("Notice") that requested the Company to surrender the Mining Rights and advised of its intention to have the Mining Rights sold under judicial authority. The Notice alleges that the Company is in default of a payment of \$19,581,000, accrued interest of \$4,522,182 up to August 22, 2013, and thereafter, *per diem* interest of \$10,729.

On May 9, 2016, the Port delivered a notice that they consider the port facilities have been delivered and are operational and in accordance with the Agreement and that the Company must pay take-or-pay payments as an advance on the Company's future shipping, wharfage and equipment fees.

The Port is disputing the Company's entitlement to terminate the Agreement and on June 21, 2016, the Port sent the Company a notice of arbitration to have the dispute between the Company and Port referred to arbitration pursuant to the terms of the Agreement. As part of this arbitration, it is expected that the Port will be seeking an order forcing the payment of the unpaid advances of \$19,581,000 plus interest, while the Company will contest this claim and ask for the reimbursement of the Advances paid plus interest. The Port has advised that take-or-pay payments were \$3,701,400 at March 31, 2017.

The arbitration process is involved and will take some months to complete. The actual hearing is not scheduled to take place until August/September 2017 and it will not be until then that the outcome of the process will be known. The arbitration process is at an early stage and it is not possible now to make any realistic prediction about the outcome of the arbitration proceedings. The outcome will be influenced by various things which may include matters or issues identified during the arbitration process of which the parties to the arbitration are unaware at this stage. Accordingly, no amount has been recorded as a liability in these consolidated financial statements.

### **Other Fermont Holdings**

#### **Cluster 1 - Moire Lake Property**

Moire Lake is located 4 kilometres southwest of the town of Fermont, adjoins the eastern boundary of the Mont Wright mine and concentrator operations owned by ArcelorMittal and is 8 kms south of existing railway and other infrastructure.

On March 29, 2012, Champion announced the results of an NI 43-101 Mineral Resource Estimate completed on its Moire Lake Project, based on the results from 21 diamond drill holes completed by the Company in 2011. Using a 15% cutoff grade, the current Mineral Resource Estimate calculated 164.0 million tonnes grading 30.5% Total Iron in the Indicated category with 417.1 million tonnes grading 29.4% Total Iron in the Inferred category. Geological and geophysical evidence indicates that the mineralization continues westward onto ArcelorMittal's Mont Wright property.

The Company is committed to exploration and evaluation, however, further exploration at Moire Lake has been deferred in order to better allocate available capital resources on the Company's higher priority projects.

#### **Cluster 2 - Harvey-Tuttle Property and Other Properties**

In addition to the NI 43-101 Mineral Resource Estimates at CFLN (including the Fire Lake North, Oil Can and Bellechasse deposits) the Company has additional compliant resources in Cluster 2. On February 28, 2011, Champion announced the results of an initial NI 43-101-compliant Mineral Resource Estimate for the Harvey-Tuttle Project. The Total Inferred Mineral Resources at Harvey-Tuttle are estimated at 717 million tonnes grading 25.0% Total Iron at a 20% cut-off or 947 million tonnes grading 23.2% Total Iron at a 15% cut-off.

The Company is committed to exploration and evaluation, however, further exploration at Harvey Tuttle has been deferred in order to better allocate available capital resources on the Company's higher priority projects.

### **Cluster 3- Cartier Iron Corporation Option**

On September 28, 2012, the Company granted an option to Cartier Iron Corporation ("Cartier") to acquire a 65% interest in Aubertin-Tougard, Audrey-Ernie, Black Dan, Jeannine Lake, Penguin Lake, Silicate-Brutus and Three Big Lakes ("Cluster 3 Properties").

In order to reduce land maintenance expenditure commitments, the Company and Cartier agreed to an approximate 40% reduction in the acreage of the original Cluster 3 Properties, abandoning Aubertin-Tougard, Silicate-Brutus and Three Big Lake properties within Cluster 3.

At March 31, 2016, the Company and Cartier were in discussions with respect to the unpaid option payment of \$200,000 that was due on December 10, 2015.

On May 17, 2016, the Company and Cartier amended the option for the Cluster 3 Properties. In order to earn a 55% interest (reduced from a 65% interest), Cartier must:

a) make option payments, issue common shares and incur exploration expenditures, as follows:

|   | Option<br>payments<br>\$ | Common shares<br>Number | Fair value<br>\$ | Exploration<br>expenditures<br>\$ |
|---|--------------------------|-------------------------|------------------|-----------------------------------|
| Upon execution of agreement (received)  | —                        | 1,000,000               | 250,000          | —                                 |
| Upon conditional approval from a stock exchange for the listing of the common shares of Cartier (received)  | 100,000                  | —                       | —                | —                                 |
| December 10, 2013 (paid, issued and incurred)   | 150,000                  | 500,000                 | 80,000           | 500,000                           |
| December 10, 2014 (issued and incurred)   | —                        | 500,000                 | 80,000           | 750,000                           |
| Extended from December 10, 2014 to the date that Cartier received its refundable tax credit on eligible expenditures incurred in Québec for the year ended December 31, 2013 (paid) | 250,000                  | —                       | —                | —                                 |
| December 10, 2015 (paid and issued)   | 50,000<br>(Note 1)       | 500,000                 | 12,500           | —                                 |
| December 10, 2016 (incurred)  | —                        | —                       | —                | 1,800,000<br>(note 3)             |
| December 10, 2017 (extended from December 10, 2017)   | 450,000<br>(Note 2)      | —                       | —                | —                                 |
|   | 1,000,000                | 2,500,000               | 422,500          | 3,050,000<br>(note 4)             |

Note 1: reduced to \$50,000 from \$250,000.

Note 2: increased from \$250,000 to \$450,000.

Note 3: reduced from \$4,750,000 to \$1,800,000.

Note 4: reduced from \$6,000,000 to \$3,050,000.

b) repay the Term Loan.

Upon Cartier earning its 55% interest, a joint venture will be formed to incur additional exploration expenditures. If the Company does not fund its proportionate interest in the joint venture, its interest will be diluted and, when its interest is reduced below 10%, its interest would be reduced solely to a 1% royalty. Cartier will have the option to reduce the royalty from 1% to 0.5% by making a payment of \$3,000,000.

In the event that the Company or Cartier proposes to acquire any property within 10 kilometres of the Cluster 3 Properties, the acquirer must offer the property at cost to the other party for inclusion in the Cluster 3 Properties.

At March 31, 2017, the Company held 11,519,970 common shares of Cartier, representing 34% of the issued and outstanding common shares of Cartier. The Company also held 6,176,470 warrants entitling the Company to purchase one common share of Cartier for \$0.22, which expired on April 17, 2016 with no financial impact on the Company.

The holdings of the Company in Cartier are subject to the terms of a pre-emptive rights agreement and an agreement respecting board representation rights and standstill obligations entered into on December 10, 2012.

Until December 31, 2017, the Company shall not sell common shares of Cartier without the prior written consent of Cartier, and thereafter, the Company shall not sell more than 2,000,000 common shares during any 30-day period.

Until December 31, 2017, provided that the Company owns at least 10% of the outstanding common shares of Cartier:

- a) Cartier shall take all commercially reasonable steps to have a nominee of the Company elected as a director ("Nominee") the board of directors of the Company ("Board").
- b) The Company shall not vote against any shareholder resolution recommended by the Board, except in the event that the Nominee dissented when the Board approved a shareholder resolution that proposes to: (i) reduce the voting or dividend rights of the common shares; (ii) issue shares which carry a number of votes proportionately greater than the capital to be represented thereby or which carry dividend rights at a rate which would substantially impair the dividends ordinarily payable on the common shares; and (iii) approve a transaction with an arm's length third party, which must be passed by at least two-thirds of the votes cast and in respect of which a shareholder has dissent rights.
- c) The Company shall not vote in favour of the election of nominees to the Board who are not proposed by the then Board.
- d) The Company shall not (i) participate in a take-over bid for any securities of Cartier; (ii) solicit proxies from any shareholder or attempt to influence the voting by any shareholders other than in support of initiatives recommended by the Board or (iii) seek to influence or control the management, Board or the policies or affairs of Cartier; or (iv) make any public or private announcement or disclosure with respect to the foregoing.

Cartier is currently evaluating further exploration programs at the Cluster 3 Properties while managing its capital resources to ensure it has sufficient capital to support its ongoing operations. Further exploration and development of the Cluster 3 Properties are contingent upon Cartier raising an adequate amount of financing.

One director of the Company is a director of Cartier.

## **Risks and Uncertainties**

The Company is exposed to financing risk as it is not in commercial production on any of its mineral resource properties and, accordingly, has no revenues. The Company finances its operations by raising capital in the equity markets. Although the Company has been successful in raising funds to date, there can be no assurance that additional funding will be available in the future, particularly in light of the volatility and uncertainties associated with current financial equity markets.

The Company is exposed to the inherent risks associated with mineral exploration and development, including the uncertainty of mineral resources and their development into mineable reserves; the uncertainty as to potential project delays from circumstances beyond the Company's control; and the timing of production; as well as title risks, risks associated with joint venture agreements and the possible failure to obtain mining licences.

The Company is exposed to commodity price risk with respect to iron ore prices. A significant decline in iron ore prices may affect the Company's ability to obtain capital for the exploration and development of its mineral resource properties.

## Results of Operations

|  | Years ended March 31, |             |
|--|-----------------------|-------------|
|  | 2017                  | 2016        |
|  | \$                    | \$          |
| <b>Other income</b>  |                       |             |
| Interest   | 246,980               | 123,163     |
| Other  | 50,979                | 602,444     |
|  | 297,959               | 725,607     |
| <b>Expenses</b>  |                       |             |
| Professional fees  | 301,436               | 223,811     |
| Salaries   | 441,987               | 438,457     |
| Consulting fees  | 701,563               | 347,761     |
| Share-based compensation   | 1,331,920             | 271,654     |
| General and administrative   | 904,980               | 574,585     |
| Investor relations   | 77,554                | 48,149      |
| Travel   | 443,687               | 197,158     |
| Exploration  | 80,619                | 25,875      |
| Care and maintenance of Bloom Lake                                   | 26,669,074            | —           |
| Depreciation   | 2,586,047             | —           |
| Foreign exchange loss  | (987)                 | 477,498     |
| Gain on sale of property, plant and equipment                        | (433,038)             | —           |
| Unrealized loss on investments                                       | (1,173,233)           | 683,800     |
| Impairment of investment in associate                                | —                     | 512,000     |
| Impairment of exploration and evaluation                             | —                     | 1,906,806   |
| Transaction costs  | 2,623,874             | 2,123,588   |
| Interest, accretion asset retirement obligation                      | 632,500               | —           |
| Interest   | 526,379               | —           |
|  | 35,714,363            | 7,831,142   |
| Loss before share of net loss of an associate                        | (35,416,404)          | (7,105,535) |
| Share of net loss of associate accounted for using the equity method | —                     | (663,403)   |
| Loss   | (35,416,404)          | (7,768,938) |

### Years ended March 31

The increase in the loss compared to the previous year was due to the following:

- an increase in stock-based compensation in respect of stock options issued to employees of the Company in connection with the acquisition of Bloom Lake.
- an increase in care and maintenance of Bloom Lake, depreciation, interest - accretion of rehabilitation obligation and transaction costs as a result of the acquisition of Bloom Lake on April 11, 2016.

### Summary of Quarterly Results

|              | Q1<br>2016<br>\$ | Q2<br>2016<br>\$ | Q3<br>2016<br>\$ | Q4<br>2016<br>\$ | Q1<br>2017<br>\$ | Q2<br>2017<br>\$ | Q3<br>2017<br>\$ | Q4<br>2017<br>\$ |
|--------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Other income | 217,682          | 149,288          | 159,369          | 199,328          | 66,073           | 129,333          | 51,971           | 50,582           |
| Loss         |                  |                  |                  |                  |                  |                  |                  |                  |
| - Total      | 801,837          | 1,485,496        | 866,743          | 4,273,161        | 6,742,516        | 7,731,624        | 7,246,312        | 13,695,954       |
| - Per share  | 0.004            | 0.007            | 0.004            | 0.022            | 0.019            | 0.02             | 0.019            | 0.035            |

The decrease in the loss for Q1 2016 reflects the Company's efforts to reduce expenditures to conserve cash.

The increase in the loss for Q1 2017 reflects care and maintenance of Bloom Lake, depreciation, accretion of rehabilitation obligation and transaction costs as a result of the acquisition of Bloom Lake on April 11, 2016.

In, addition, the variation in the total loss from quarter to quarter is primarily a result of variations in the following items:

|  | Q1<br>2016<br>\$ | Q2<br>2016<br>\$ | Q3<br>2016<br>\$ | Q4<br>2016<br>\$ | Q1<br>2017<br>\$ | Q2<br>2017<br>\$ | Q3<br>2017<br>\$ | Q4<br>2017<br>\$ |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Stock-based compensation                 | 65,397           | 66,385           | 69,711           | 69,711           | 1,106,730        | 56,730           | 56,730           | 111,730          |
| Unrealized loss (gain) on investments    | 333,900          | 219,600          | (37,400)         | 167,700          | (623,300)        | 412,300          | 96,767           | (1,059,000)      |
| Impairment of investment in associate    | —                | 512,000          | —                | —                | —                | —                | —                | —                |
| Impairment of exploration and evaluation | —                | —                | —                | 1,906,806        | —                | —                | —                | —                |
| Transaction costs                        | —                | —                | —                | 2,123,588        | 1,339,994        | 1,283,880        | —                | —                |

### Liquidity and Capital Resources

The Company is not in commercial production on any of its mineral resource properties and, accordingly, the Company has no revenues, other than relatively small amount of interest earned on its cash balances. The Company finances its operations by raising capital in the equity markets.

The Company's monthly "burn rate" is approximately \$450,000 for expenses, \$85,000 for exploration and evaluation and \$1,250,000 for care and maintenance costs related to Bloom Lake.

While the Company has sufficient funds to meet its current commitments, the Company will require additional funding to fund its operations and the exploration of its mineral resource properties. During the year, the Company will seek to raise the necessary capital to meet its future funding requirements. Although the Company has been successful in raising funds to date, there can be no assurance that additional funding will be available.

### Related Party Transactions

|   | Year ended<br>March 31, 2017<br>\$ | Outstanding<br>as at<br>March 31, 2017<br>\$ |
|---|------------------------------------|--|
| <b>General and administrative-office rent in Australia</b>          |                                    |  |
| Welcome Hotel, a company controlled by Michael O'Keeffe, a director | 54,540                             | —  |

See *Cluster 3* on page 7 for related party transactions with Cartier.

The Company recorded other income of \$nil for management services provided in its capacity of general partner of SFNQ.

As at March 31, 2017, \$102,166 was due from SFNQ.

## Remuneration of key management personnel

| Year ended<br>March 31, 2017 | Short term<br>\$ |                    |         |                  | Termination<br>payments<br>\$ | Post<br>employment<br>\$ | Equity settled<br>share based<br>\$ | Total<br>\$ | Performance<br>related | Consisting<br>of shares<br>and<br>options |
|------------------------------|------------------|--------------------|---------|------------------|-------------------------------|--------------------------|-------------------------------------|-------------|------------------------|---|
|                              | Salary           | Consulting<br>fees | Bonus   | Non-<br>monetary |                               |                          |                                     |             |                        |   |
| Michael O'Keeffe             | 252,804          | —                  | —       | 52,020           | —                             | (h) 17,641               | 514,584                             | 837,049     | —                      | 61.5%                                     |
| Gary Lawler                  | 75,000           | —                  | —       | —                | —                             | (h) 7,128                | —                                   | 82,128      | —                      | —   |
| Andrew Love                  | 75,000           | —                  | —       | —                | —                             | (h) 7,128                | —                                   | 82,128      | —                      | —   |
| Paul Ankcorn (a)             | 10,000           | —                  | —       | —                | —                             | (i) 495                  | —                                   | 10,495      | —                      | —   |
| Michelle Cormier (b)         | —                | 12,500             | —       | —                | —                             | —                        | —                                   | 12,500      | —                      | —   |
| Wayne Wouters (c)            | —                | 31,250             | —       | —                | —                             | —                        | 55,000                              | 86,250      | —                      | 63.8%                                     |
| Alexander Horvath (d)        | —                | 180,000            | —       | —                | —                             | —                        | 16,668                              | 196,668     | —                      | 8.5%                                      |
| David Cataford               | 253,333          | —                  | 75,000  | 10,296           | —                             | (i) 2,737                | 280,000                             | 622,458     | 12.0%                  | 45.0%                                     |
| Miles Nagamatsu (e)          | —                | 124,500            | —       | 7,410            | 90,000                        | —                        | —                                   | 221,910     | —                      | —   |
| Jorge Estepa (f)             | —                | 98,000             | —       | 7,410            | —                             | —                        | —                                   | 105,410     | —                      | —   |
| Pradip Devalia               | 80,004           | —                  | —       | —                | —                             | (h) 7,596                | —                                   | 87,600      | —                      | —   |
| Beat Frei (g)                | —                | 240,000            | 100,000 | 65,856           | —                             | —                        | 366,668                             | 772,524     | 12.9%                  | 47.5%                                     |
|                              | 746,141          | 686,250            | 175,000 | 144,084          | 90,000                        | 42,725                   | 1,232,920                           | 3,117,120   |                        |   |

### Notes:

- (a) Resigned on June 15, 2016.
- (b) Appointed on April 11, 2016, Consulting fees commenced on February 1, 2017.
- (c) Appointed on November 1, 2016. Consulting fees commenced on November 1, 2016 and are paid to 2468435 Ontario Inc., a company controlled by Wayne Wouters.
- (d) Paid to A.S. Horvath Engineering Inc., a company controlled by Alexander Horvath.
- (e) Paid to Marlborough Management Limited, a company controlled by Miles Nagamatsu.
- (f) Paid to J. Estepa Consulting Inc., a company controlled by Jorge Estepa.
- (g) Paid to Comforta GmbH, a company controlled by Beat Frei.
- (h) Amount relates to superannuation.
- (i) Amount relates to employer portion of contributions to the Canada Pension Plan/Quebec Pension Plan.

## Changes in Accounting Policies including Initial Adoption

### ***New standards and interpretations not yet adopted***

The following amendment to standards and interpretations is effective for periods beginning on or after January 1, 2018:

#### ***IFRS 9, Financial Instruments ("IFRS 9")***

IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments - Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

IFRS 9 is expected to have an effect on the financial statements of the Company. The Company has not determined the extent of the impact of this standard and does not plan to early adopt this new standard.

### **Critical Accounting Estimates**

The preparation of financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

## **Estimates**

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are as follows:

### *Estimates of mining tax credit receivables*

The Company estimates amounts to be received for unassessed claims for Refundable Tax Credits and Credits on Duties as a receivable and a reduction to exploration and evaluation assets when there is reasonable assurance that the Company has complied with all conditions needed to obtain the credits.

### *Estimates of mineral resources*

The amounts used in impairment calculations are based on estimates of mineral resources. Resource estimates are based on engineering data, estimated future prices, expected future rates of production and the timing of future capital expenditures, all of which are subject to many uncertainties and interpretations. The Company expects that, over time, its resource estimates will be revised upward or downward based on updated information such as the results of future drilling, testing and production levels, and may be affected by changes in iron ore prices.

### *Impairment of exploration and evaluation*

Exploration and evaluation assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable through future exploitation or sale. Such circumstances include the period for which the Company has the right to explore in a specific area, actual and planned expenditures, results of exploration, whether an economically-viable operation can be established and significant negative industry or economic trends. Management judgment is also applied in determining the lowest levels of exploration and evaluation assets grouping, for which there are separately identifiable cash flows [cash generating units], generally on the basis of areas of geological interest.

### *Estimate of royalty payable*

The Company used inputs that are not based on observable market data in determining the fair value of the royalty payable. The Company expects that, over time, royalty payable will be revised upward or downward based on updated information on production levels and changes in iron ore prices.

### *Estimate of rehabilitation obligation*

The rehabilitation obligation represents the present value of rehabilitation costs relating to Bloom Lake which are expected to be incurred when Bloom Lake is expected to cease operations. The rehabilitation obligation has been determined based on the Company's internal estimates. Assumptions based on the current economic environment have been made, which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual rehabilitation costs will ultimately depend upon future market prices for the necessary rehabilitation works required that will reflect market conditions at the time. Furthermore, the timing of rehabilitation is likely to depend on when the Bloom Lake ceases to produce at economically viable rates. This, in turn, will depend upon future iron ore prices, which are inherently uncertain. See note 14.

### *Share-based payments*

The Company uses the Black-Scholes option pricing model in determining share-based payments, which requires a number of assumptions to be made, including the risk-free interest rate, expected life, forfeiture rate and expected share price volatility. Consequently, actual share-based compensation may vary from the amounts estimated.

## **Financial instruments and risk management**

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

### *Cash and cash equivalents, short-term investments, receivables, due from Cartier, due from SNFQ and accounts payable and accrued liabilities*

The fair values of cash and cash equivalents, short-term investments, receivables, due from Cartier, due from SFNQ and accounts payable and accrued liabilities approximate their carrying value due to their short term to maturity.

### *Note payable*

The note payable is evaluated by the Company based on parameters such as interest rates and the risk characteristics of the financed assets. As at March 31, 2017, the carrying amount of the note payable was not materially different from its calculated fair value.



### *Investments*

The fair values of the investment in common shares of Fancamp, Lamêlée and Eloro are measured at the bid market price on the measurement date.

### *Stock options*

The fair value of stock options is measured using a Black-Scholes option pricing model. Measurement inputs include share price on grant date, exercise price, expected volatility (based on historical volatility or historical volatility of securities of comparable companies), weighted average expected life and forfeiture rate (both based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds).

### *Classification and fair values*

*As at March 31, 2017*

|  | <b>Fair value<br/>through<br/>profit and<br/>loss<br/>\$</b> | <b>Cash, loans<br/>and<br/>receivables<br/>\$</b> | <b>Other<br/>liabilities<br/>\$</b> | <b>Total<br/>carrying<br/>amount<br/>\$</b> | <b>Total fair<br/>value<br/>\$</b> |
|--|--|---|-------------------------------------|---|------------------------------------|
| <b>Assets</b>                            |  |   |                                     |   |                                    |
| Current                                  |  |   |                                     |   |                                    |
| Cash and cash equivalents                | –  | 1,863,387   | –                                   | 1,863,387                                   | 1,863,387                          |
| Short-term investments                   | –  | 11,465,697  | –                                   | 11,465,697                                  | 11,465,697                         |
| Receivables                              | –  | 6,541,921   | –                                   | 6,541,921                                   | 6,541,921                          |
| Due from Cartier                         | –  | 348,003   | –                                   | 348,003                                     | 348,003                            |
| Due from SFNQ                            | –  | 102,166   | –                                   | 102,166                                     | 102,166                            |
| Non-current                              |  |   |                                     |   |                                    |
| Receivables                              | –  | 3,351,692   | –                                   | 3,351,692                                   | 3,351,692                          |
| Investments                              | 2,794,000  | –   | –                                   | 2,794,000                                   | 2,794,000                          |
|  | 2,794,000  | 23,672,866  | –                                   | 26,466,866                                  | 26,466,866                         |
| <b>Liabilities</b>                       |  |   |                                     |   |                                    |
| Current                                  |  |   |                                     |   |                                    |
| Accounts payable and accrued liabilities | –  | –   | 1,667,504                           | 1,667,504                                   | 1,667,504                          |
| Note payable                             | –  | –   | 5,994,977                           | 5,994,977                                   | 5,994,977                          |
| Non-current                              |  |   |                                     |   |                                    |
| Note payable                             | –  | –   | 37,613,355                          | 37,613,355                                  | 37,613,355                         |
| Royalty payable                          | –  | –   | 300,000                             | 300,000                                     | 300,000                            |
|  | –  | –   | 45,757,836                          | 45,757,836                                  | 45,757,836                         |

As at March 31, 2016

|  | Fair value<br>through<br>profit and<br>loss<br>\$ | Cash, loans<br>and<br>receivables<br>\$ | Other<br>liabilities<br>\$ | Total<br>carrying<br>amount<br>\$ | Total fair<br>value<br>\$ |
|--|---|---|----------------------------|-----------------------------------|---------------------------|
| <b>Assets</b>                            |   |   |                            |                                   |                           |
| Current                                  |   |   |                            |                                   |                           |
| Cash and cash equivalents                | —   | 293,714                                 | —                          | 293,714                           | 293,714                   |
| Short-term investments                   | —   | 1,377,302                               | —                          | 1,377,302                         | 1,377,302                 |
| Receivables                              | —   | 277,822                                 | —                          | 277,822                           | 277,822                   |
| Due from Cartier                         | —   | —                                       | —                          | —                                 | —                         |
| Due from SFNQ                            | —   | 125,050                                 | —                          | 125,050                           | 125,050                   |
| Non-current                              |   |   |                            |                                   |                           |
| Receivables                              | —   | 4,883,659                               | —                          | 4,883,659                         | 4,883,659                 |
| Due from Cartier                         | —   | 1,325,504                               | —                          | 1,325,504                         | 1,325,504                 |
| Investments                              | 944,500   | —                                       | —                          | 944,500                           | 944,500                   |
|  | 944,500   | 8,283,051                               | —                          | 9,227,551                         | 9,227,551                 |
| <b>Liabilities</b>                       |   |   |                            |                                   |                           |
| Current                                  |   |   |                            |                                   |                           |
| Accounts payable and accrued liabilities | —   | —                                       | 878,777                    | 878,777                           | 878,777                   |
| Non-current                              |   |   |                            |                                   |                           |
| Royalty payable                          | —   | —                                       | 300,000                    | 300,000                           | 300,000                   |
|  | —   | —                                       | 1,178,777                  | 1,178,777                         | 1,178,777                 |

*Fair value measurements recognized in the consolidated statement of loss and comprehensive loss*

Subsequent to initial recognition, the Company measures financial instruments at fair value grouped into the following levels based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at March 31, 2017

|  | Level 1<br>\$ | Level 2<br>\$ | Level 3<br>\$ | Total<br>\$ |
|--|---------------|---------------|---------------|-------------|
| <b>Financial asset at fair value through profit and loss</b> |               |               |               |             |
| Cash and cash equivalents and short-term investments         | 13,329,084    | —             | —             | 13,329,084  |
| Investments  |               |               |               |             |
| Common shares  | 2,794,000     | —             | —             | 2,794,000   |
| <b>Financial liability</b>                                   |               |               |               |             |
| Note payable   | —             | 43,608,332    | —             | 43,608,332  |

As at March 31, 2016

|  | Level 1<br>\$ | Level 2<br>\$ | Level 3<br>\$ | Total<br>\$ |
|--|---------------|---------------|---------------|-------------|
| <b>Financial asset at fair value through profit and loss</b> |               |               |               |             |
| Cash and cash equivalents and short-term investments         | 1,671,016     | —             | —             | 1,671,016   |
| Investments  |               |               |               |             |
| Common shares  | 944,500       | —             | —             | 944,500     |

## **Financial risk management**

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development and financing activities, including credit risk, liquidity risk and market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors oversees management's establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

### ***Credit risk***

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Company's cash and cash equivalents, short-term investments and amount due from Cartier. The Company limits its exposure to credit risk on its cash and cash equivalents by holding its cash and cash equivalents and short-term investments in deposits with high credit quality Australian and Canadian chartered banks. The Company is able to limit the credit risk on the amount due from Cartier by settling the amount in common shares of Cartier.

### ***Liquidity risk***

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial liabilities that are settled in cash or other financial assets. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities as they come due. The amounts for accounts payable and accrued liabilities are subject to normal trade terms.

### ***Market risk***

Market risk is the risk that changes in market prices, such as equity prices, foreign exchange rates and interest rates will affect the Company's income or the value of its financial instruments. The Company is exposed to equity price risk with respect to investments. The Company estimates that if the fair value of its investment as at March 31, 2017 had changed by 10%, with all other variables held constant, the loss would have decreased or increased by approximately \$279,400.

### ***Interest rate risk***

The Company's exposure to interest rate risk is limited due to the short-term nature of its financial instruments. The Company has no interest-bearing debt.

### ***Capital management***

Capital of the Company consists of capital stock, options, warrants, contributed surplus and deficit. The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern so that it can acquire, explore and develop mineral resource properties for the benefit of its shareholders. The Company manages its capital structure and makes adjustments based on the funds available to the Company in light of changes in economic conditions. The Board of Directors has not established quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain the future development of the Company. In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that consider various factors, including successful capital deployment and general industry conditions. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company's principal source of capital is from the issue of ordinary shares. In order to achieve its objectives, the Company intends to raise additional funds as required.

The Company is not subject to externally imposed capital requirements and there were no changes to the Company's approach to capital management during the year.

### **Controls and Procedures**

The Chief Executive Officer and Chief Financial Officer have designed disclosure controls and procedures ("DC&P") to provide reasonable assurance that material information relating to the Company is made known to them by others within the Company, particularly during the period in which the interim filings are being prepared. The Chief Executive Officer and Chief Financial Officer have also designed internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and preparation of the financial statements in accordance with Canadian generally accepted accounting principles.

The Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's DC&P and ICFR and concluded that they are ineffective due to the weakness discussed below. As the Company has a limited number of personnel, management has concluded that a weakness exists in the design of internal controls over financial reporting caused by a lack of adequate segregation of duties. This weakness has the potential to result in material misstatements in the Company's financial statements and should also be considered a weakness in its disclosure controls and procedures. Management has concluded that, taking into account the present stage of the Company's development and the best interests of its shareholders, the Company does not have sufficient size and scale to warrant the hiring of additional personnel to correct this weakness at this time. To help mitigate the impact of this weakness and to ensure quality financial reporting, interim financial statements are reviewed by the Company's auditors and there are additional supervisory controls exercised by management and audit committee oversight.

## **Shares Outstanding at June 28, 2017**

### **Ordinary Shares**

Authorized: The Company does not have an authorized share capital as the requirement for a company to state an authorized share capital was repealed in Australia in 1998. Subject to compliance with the Corporations Act and the ASX Listing Rules, the legal ability of the Company to raise capital and the number of Ordinary Shares that it may issue is unlimited. The rights attaching to Ordinary Shares in the Company are set out in the Constitution of the Company and are regulated by the Corporations Act, ASX Listing Rules, ASX Settlement Operating Rules and laws of general application.

Outstanding: 387,084,339 Ordinary Shares.

### **Exchangeable Shares**

All exchangeable shares in existence were automatically converted into ordinary shares on or about January 31, 2017.

### **Share Incentive Plan**

*Authorized:*

The Company is authorized to issue stock options and share rights equal to 20% of the issued and outstanding ordinary shares (77,185,986 shares as of the date of this MD&A) for issuance to participants under the Share Incentive Plan. The ordinary shares issuable under the Replacement Plan are not counted towards the number of ordinary shares issuable under the Share Incentive Plan.

*Share Incentive Plan - Outstanding:*

| <b>Exercise price</b> | <b>Expiry date</b> | <b>Options<br/>outstanding</b> | <b>Options<br/>exercisable</b> |
|-----------------------|--------------------|--------------------------------|--------------------------------|
| A\$0.30               | October 31, 2017   | 1,000,000                      | 660,000                        |
| A\$0.30               | December 11, 2017  | 2,000,000                      | 2,000,000                      |
| A\$0.30               | August 20, 2018    | 1,000,000                      | 330,000                        |
| A\$0.50               | November 29, 2018  | 2,300,000                      | 1,550,000                      |
| A\$0.30               | November 4, 2019   | 500,000                        | 500,000                        |
| A\$0.20               | April 11, 2020     | 7,500,000                      | 7,500,000                      |
| A\$1.00               | May 25, 2020       | 1,650,000                      | 650,000                        |
|                       |                    | <b>15,950,000</b>              | <b>13,190,000</b>              |

### **Share rights**

On May 25, 2017, the Company issued 1,250,000 share rights vesting on the satisfaction of vesting condition set by the Board.

### **Stock options**

On September 1, 2014, 1,000,000 options were granted outside of the Company's Share Incentive Plan, each exercisable to purchase one ordinary share at an exercise price of \$0.45 expiring on September 1, 2018.

### **Compensation options**

On April 11, 2016, 15,000,000 Compensation Options were issued in connection with the Private Placement, each exercisable to purchase one ordinary share at an exercise price of \$0.25 expiring on February 1, 2020.

On April 11, 2016, 6,000,000 Compensation Options were issued to Ressources Québec Inc. in connection with the private placement completed by QIO, each exercisable to purchase one ordinary share at an exercise price of \$0.25 expiring on February 1, 2020.