



# **Management's Discussion and Analysis**

For the three-month period ended June 30, 2019

**CHAMPION IRON** 

**TSX: CIA - ASX: CIA**

**As at July 30, 2019**

# Champion Iron Limited

## Management's Discussion and Analysis

(Expressed in Canadian dollars, except where otherwise indicated)

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The following Management Discussion and Analysis ("MD&A") of Champion Iron Limited ("Champion" or the "Company") has been prepared as of July 30, 2019. This MD&A is intended to supplement the condensed consolidated financial statements ("Financial Statements") for the three-month period ended June 30, 2019 and related notes thereto, which have been prepared in accordance with IAS 34, Interim Financial Reporting, and it should be read in conjunction with the Company's annual financial statements and MD&A for the year ended March 31, 2019.

Management is responsible for the preparation and integrity of its Financial Statements, including the maintenance of appropriate information systems, procedures and internal controls. Management is also responsible for ensuring that information disclosed externally, including the Financial Statements and MD&A, is complete and reliable.

All dollar figures stated herein are expressed in Canadian dollars, except for: (i) tabular amounts which are in thousands of Canadian dollars; (ii) per share or per tonne amounts; or (iii) unless otherwise specified. Certain non-IFRS financial performance measures are included in this MD&A. The following abbreviations are used throughout this document: USD or US\$ (United States dollar), CAD or CA\$ (Canadian dollar), AISC (all-in sustaining costs), wmt (wet metric tonnes), dmt (dry metric tonnes), M (Million), km (kilometres) and m (metres).

The Financial Statements and other information pertaining to the Company are available on SEDAR at [www.sedar.com](http://www.sedar.com) and on its website at [www.championiron.com](http://www.championiron.com).

This MD&A contains forward-looking statements. Particular attention should be given to the risk factors described in the "Risk Factors" section and to the "Cautionary Note Regarding Forward-Looking Statements" section of this document.

The utilization of the "Company" or "Champion", refers to Champion Iron Limited and/or one, or more, or all of its subsidiaries, as it may apply.

### Non-IFRS Financial Performance Measures

Champion believes that these measures, in addition to conventional measures prepared in accordance with IFRS, provide investors an improved ability to evaluate the underlying performance of the Company. These measures are intended to provide additional information and should not be considered in isolation, or as a substitute for, measures of performance prepared in accordance with IFRS. These measures do not have any standardized meaning prescribed under IFRS, and therefore may not be comparable to other issuers. The non-IFRS financial performance measures included in this document are: earnings before interest, tax, depreciation and amortization ("EBITDA"), total cash costs, all-in sustaining costs ("AISC"), average realized selling price and cash operating margin. For a detailed description of each of the non-IFRS measures used in this MD&A and a detailed reconciliation to the most directly comparable measure under International Financial Reporting Standards ("IFRS"), please refer to the "Non-IFRS Financial Performance Measures" section of this MD&A included in note 16.

## 1. Description of Business

Champion was incorporated under the laws of Australia in 2006 and is listed on the Toronto Stock Exchange (TSX: CIA) and Australian Securities Exchange (ASX: CIA). Champion is a high-grade iron ore producer with its flagship asset, the Bloom Lake iron ore mine ("Bloom Lake" or "Bloom Lake Mine"), a long-life, large-scale open pit operation located in northern Quebec, approximately 300 km north of Sept-Îles and 13 km by road from the town of Fermont. The Company declared commercial production at the Bloom Lake Mine as of June 30, 2018. As at June 30, 2019, Champion owned a 63.2% equity interest in its subsidiary, Quebec Iron Ore Inc. ("QIO"), while Ressources Québec ("RQ"), a subsidiary of governmental agency Investissement Québec, was the owner of the remaining 36.8% interest. The Bloom Lake Mine assets are held in QIO. On May 29, 2019, the Company announced a transaction to acquire RQ's 36.8% equity interest in QIO. The transaction is expected to close during the second quarter of the fiscal year ending March 31, 2020. For more information on the proposed transaction, please refer to the Company's press release dated May 29, 2019, available under the Company's filings on SEDAR at [www.sedar.com](http://www.sedar.com).

Through its wholly-owned subsidiary Champion Iron Mines Limited ("CIML"), the Company owns interests in 9 properties (each a "Property"), covering approximately 752 square kilometres (collectively, the "Fermont Holdings") located in the Fermont Iron Ore District of northeastern Quebec. The Company also owns 100% of the Gullbridge-Powderhorn property located in Northern Central Newfoundland.

The Company's near-term strategy is to continue with operational improvements at the Bloom Lake mining operation while applying cost and capital discipline. With the Bloom Lake Mine now generating positive cash flow from operations, the Company is in a position to focus on strengthening its financial position and pursuing growth opportunities.

# Champion Iron Limited

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### 2. Financial and Operating Highlights<sup>1</sup>

|   | Three Months Ended<br>June 30, |           |
|---|--------------------------------|-----------|
|   | 2019                           | 2018      |
| Iron ore concentrate produced (wmt)                                       | <b>1,989,400</b>               | 1,542,900 |
| Iron ore concentrate sold (dmt)   | <b>1,906,700</b>               | 1,740,400 |
| <b>Financial Data</b> (in thousands of dollars, except per share amounts) |                                |           |
| Revenue   | <b>277,914</b>                 | 150,741   |
| Gross profit  | <b>170,693</b>                 | 50,548    |
| EBITDA <sup>2</sup>   | <b>166,936</b>                 | 44,942    |
| EBITDA margin [%] <sup>2</sup>  | <b>60%</b>                     | 30%       |
| Net income  | <b>74,241</b>                  | 20,748    |
| Net income attributable to shareholders                                   | <b>38,751</b>                  | 11,018    |
| Basic earnings per share attributable to shareholders                     | <b>0.09</b>                    | 0.03      |
| Cash flow from operations   | <b>91,921</b>                  | 46,725    |
| Cash and cash equivalent  | <b>192,976</b>                 | 135,424   |
| Short-term investments  | <b>17,704</b>                  | 17,907    |
| Total assets  | <b>798,614</b>                 | 672,017   |
| <b>Statistics</b> (in dollars per dmt sold)                               |                                |           |
| Average realized selling price <sup>2</sup>                               | <b>145.7</b>                   | 86.6      |
| Total cash cost <sup>2</sup> (C1 cash cost)                               | <b>54.3</b>                    | 55.0      |
| All-in sustaining cost <sup>2</sup>                                       | <b>62.8</b>                    | 59.9      |
| Cash operating margin <sup>2</sup>  | <b>82.9</b>                    | 26.7      |

<sup>1</sup> The Company considers that pre-commercial production operations at the Bloom Lake mine commenced on April 1, 2018 with the first shipment of high-grade iron ore concentrate and that commercial production began on June 30, 2018.

<sup>2</sup> EBITDA, average realized selling price, total cash cost, AISC and cash operating margin are non-IFRS financial performance measures with no standard definition under IFRS. See the "Non-IFRS Financial Performance Measures" section of this MD&A included in note 16.

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### 3. Quarterly Highlights

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#### Financial

- Revenues of \$277.9 million for the quarter ended June 30, 2019, compared to \$150.7 million during the same period of the prior year;
- EBITDA<sup>1</sup> totalling \$166.9 million representing an EBITDA<sup>1</sup> margin of 60% for the quarter ended June 30, 2019, compared to an EBITDA<sup>1</sup> of \$44.9 million representing an EBITDA<sup>1</sup> margin of 30% in the same period of the prior year;
- Net income of \$74.2 million for the quarter ended June 30, 2019, compared to \$20.7 million in the same period of the prior year;
- Net cash flow from operations totalling \$91.9 million for the quarter ended June 30, 2019, compared to \$46.7 million for the same period of the prior year;
- Earnings per share ("EPS") of \$0.09 for the quarter ended June 30, 2019 compared to \$0.03 in the same period of the prior year. EPS was affected by non-cash derivative financial instruments revaluation. Excluding this item, EPS would have been at \$0.14; and,
- Cash on hand<sup>2</sup> of \$210.7 million on June 30, 2019, compared to \$153.3 million on March 31, 2019.

#### Operations

- Record quarterly production of 1,989,400 wmt of high-grade 66.2% Fe iron ore concentrate, compared to 1,542,900 wmt in the same period of the prior year;
- Total cash cost<sup>1</sup> of \$54.3/dmt sold (C1) and an AISC<sup>1</sup> of \$62.8/dmt sold during the first quarter, compared to \$55.0/dmt and \$59.9/dmt, respectively, in the same period of the prior year; and
- Strong cash operating margin<sup>1</sup> of \$82.9/dmt during the quarter, compared to \$26.7/dmt in the same period of the prior year.

#### Growth

- Signed binding letter of intent to acquire RQ's 36.8% equity interest in Q10 to increase the Company's stake in Q10 to 100% for total cash consideration of \$211 million. As a result of this transaction, the entire net income of Q10 will be allocated to Champion shareholders and there will no longer be a non-controlling interest ("NCI"). The transaction is expected to be closed during Q2 2020 without subsequent adjustment to working capital;
  - Entered into an agreement with Caisse de dépôt et placement du Québec for a preferred share offering for proceeds of \$185 million;
  - Signed a firm fully underwritten commitment for a US\$200 million credit facility with The Bank of Nova Scotia ("Scotiabank") and Societe Generale ("SocGen");
  - Released positive results of the Phase II Feasibility Study ("Feasibility Study" or "Study") which envisions doubling the Bloom Lake overall capacity from 7.4 Mtpa to 15 Mtpa of 66.2% Fe iron ore concentrate with an after-tax IRR of 33.4% and after-tax NPV of \$956 million; and
  - Approved an initial budget of \$68 million to fund and advance the Phase II expansion project during the remainder of 2019 in order to secure the timetable detailed in the Feasibility Study.
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<sup>1</sup> EBITDA, total cash cost, AISC and cash operating margin are non-IFRS financial performance measures with no standard definition under IFRS. See the "Non-IFRS Financial Performance Measures" section of this MD&A included in note 16.

<sup>2</sup> Cash on hand includes cash and cash equivalents and short-term investments.

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(Expressed in Canadian dollars, except where otherwise indicated)

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### 4. Bloom Lake Phase II Update

On June 20, 2019, Champion completed the Feasibility Study prepared pursuant to National Instrument 43-101 - Standards of Disclosure for Mineral Projects ("NI 43-101") (see press release dated June 20, 2019 available under the Company's filings on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.championiron.com](http://www.championiron.com)) that includes proven and probable mineral reserve estimates of 807 million tonnes at an average grade of 29.0% Fe. The Phase II project aims to double Bloom Lake production to 15 Mtpa of 66.2% Fe iron ore concentrate by completing the construction of the second plant which was partially completed by the mine's former owner. Based on the new optimized mine plan, the Bloom Lake mining rate would also be increased to accelerate the supply of ore to the expanded facilities, while maintaining a Life of Mine ("LoM") of 20 years.

The Feasibility Study proposes a 21-month construction period with estimated capital expenditures of \$633.4M, including \$44M in deposits. Project economics, based on US\$83.9/t IODEX 65% Fe CFR China Index ("P65" or "Platts 65") iron price CFR China, indicate an after-tax 8% net present value ("NPV") of \$2,384 million, combining Phase I & II, and an after-tax Internal Rate of Return ("IRR") of 33.4%. During the LoM, total cash costs<sup>1</sup> are projected to be \$46.6/t with an average all-in sustaining cost<sup>1</sup> of \$52.3/t.

The Company's board of directors has approved an initial budget of \$68 million to fund and advance the Phase II expansion project during 2019, which is expected to secure the timetable detailed in the Feasibility Study. During the first quarter, \$2.3M was spent on the project and the following milestones have been achieved:

- BBA selected as the EPCM contractor
- Commencement of required detailed engineering work
- Ongoing hiring of key personnel for the construction phase

# Champion Iron Limited

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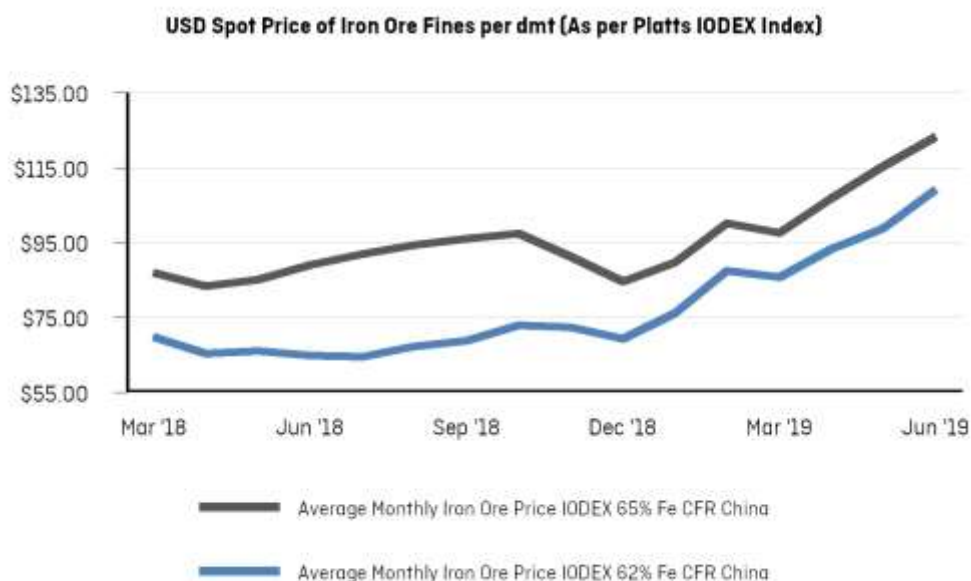
### 5. Key Drivers

#### A. Iron Ore Concentrate Price

The price of iron ore concentrate is one of the most significant factors determining the Company's financial results. As such, cash flow from operations and the Company's development may, in the future, be significantly adversely affected by a decline in the price of iron ore. The iron ore concentrate price fluctuates on a daily basis and is affected by a number of industry and macroeconomic factors beyond the control of the Company.

Due to the high-quality nature of its 66.2% iron ore concentrate, the Company's iron ore sales attract a premium over the IODEX 62% Fe CFR China Index ("P62") widely used as the reference price in the industry. The premium captured by the P65 is attributable to two main factors; steel mills recognizing that higher iron ore grades offer a benefit to optimize output while significantly decreasing CO2 emissions. Additionally, as some major producers continue to experience operational challenges, the shortages in the market for high-grade sinter feeds also contribute to the upward pressure on high-grade iron ore prices.

During the three-month period ended June 30, 2019, the price of high-grade iron ore based on the Platts 65 index fluctuated from a low of US\$99.6/dmt to a high of US\$130.6/dmt. The average P65 iron ore price was US\$114.8/dmt for the period, an increase of 20% from the previous quarter resulting in a premium of 14.8% over the P62 reference price. The Company's gross realized price for the quarter was US\$117.0/dmt (before adjustment related to pro-forma sales) before ocean freight. Deducting sea freight cost, the Company's net realized FOB price was CA\$145.7/dmt. Champion is well positioned to benefit from higher iron ore prices as it has no hedging contracts in place, and it is not subject to a net smelter royalty. Assuming a stable foreign exchange rate, a variation of US\$1.00 to the P65 price will impact Champion's gross revenues by approximately 1%.



# Champion Iron Limited

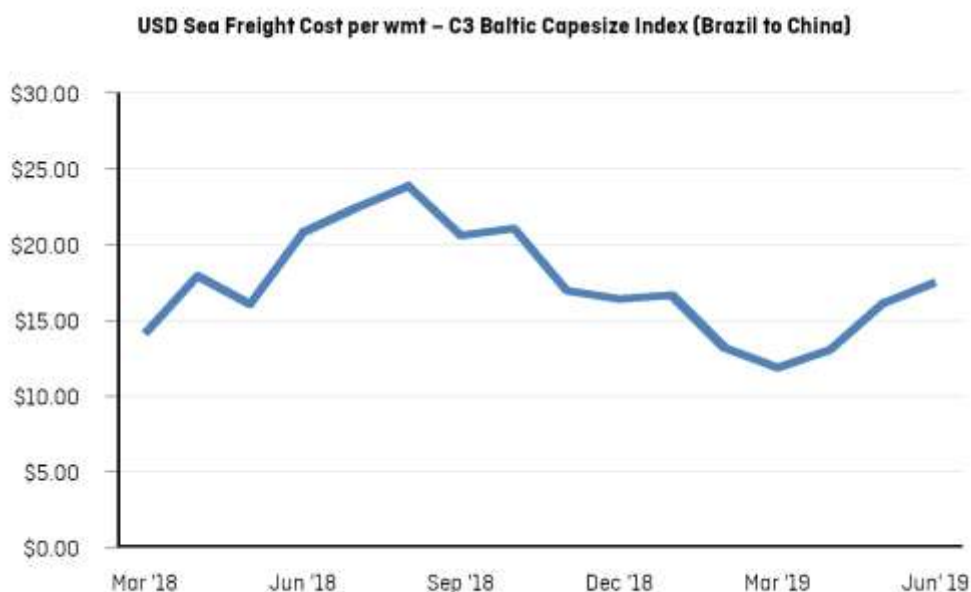
## Management's Discussion and Analysis

(Expressed in Canadian dollars, except where otherwise indicated)

### 5. Key Drivers (continued)

#### B. Sea Freight

Sea freight is an important component of the Company's cost structure as Champion ships most of its concentrate to China and Japan. The common reference route for dry bulk material from the Americas to Asia is the Brazil to China route which encompasses 11,000 miles. The freight cost per tonne associated with this route is captured in the C3 Baltic Capesize Index ("C3") which is considered the reference ocean freight cost for iron ore shipped from the Americas to Asia. There is no index for the route between the port of Sept-Iles, Canada and China. The route from Sept-Iles to China totals approximately 14,000 miles and is subject to different weather conditions during the winter season, therefore the freight cost per tonne associated with this voyage is generally higher than the C3 price.



In the past five years, the industry has identified a relationship between the iron ore price and the cost of freight for the Brazil to China route captured in the C3 rate. Based on this observed correlation, when the price of iron ore fluctuates, the ocean freight rate fluctuates as well. As the freight cost for the ocean transport between Sept-Iles and China is largely influenced by the C3 cost, a decrease in iron ore prices should result in a lower ocean freight costs for Champion Iron.

Recent events in Brazil have changed this dynamic as the second largest producer of iron ore globally, Vale, encountered production curtailment following the tragic events in January 2019 with the Brumadinho dam rupture. Such events impacted global iron prices positively, while reduced demand for vessels from one of the largest global bulk shippers reduced freight rates. Recently, in late June 2019, the Superior Court of Justice of Brazil cleared Vale to resume operations at the Brucutu mining complex, one of the largest operations impacted by the dam rupture. The resumption of operations at Brucutu increased the amount of iron ore shipped out of Brazil but iron ore prices remain elevated. In keeping with the historical relationship between iron ore prices, which remain elevated, freight rates have increased since the announcement of the resumption of operations at Brucutu.

# Champion Iron Limited

## Management's Discussion and Analysis

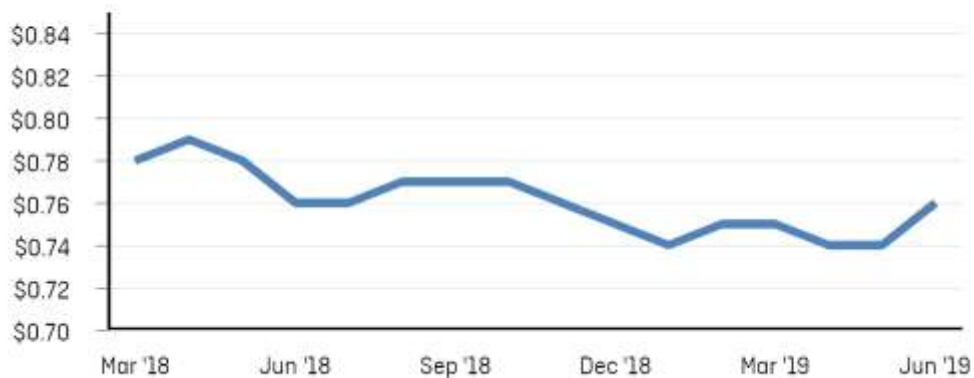
(Expressed in Canadian dollars, except where otherwise indicated)

### 5. Key Drivers (continued)

#### C. Currency

The Canadian dollar is the Company's reporting and functional currency. Consequently, the Company's operating results and cash flows are influenced by changes in the exchange rate for the Canadian dollar against the U.S. dollar. The Company's sales, sea freight and credit facilities' costs are denominated in U.S. dollars. As such, the Company benefits from a natural hedge between its revenues and its sea freight and credit facilities' costs. Despite such a natural hedge, the Company is exposed to foreign currency fluctuations as its mining operating expenses are mainly incurred in Canadian dollars. Currently, the Company has no hedging contracts in place and therefore has exposure to foreign exchange rate fluctuations. The strengthening of the U.S. dollar would positively impact the Company's net income and cash flow while the strengthening of the Canadian dollar would reduce its operating margin and cash flow. Assuming a stable selling price, a variation of CA\$0.01 against the U.S. dollar will impact Champion gross revenues by approximately 1%.

Monthly Exchange Rate – USD to CAD



Apart from these key drivers and the risk factors noted in the headings "Risk factors", management is not aware of any other trends, commitments, events or uncertainties that would have a material effect on the Company's business, financial condition or results of operations.



# Champion Iron Limited

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(Expressed in Canadian dollars, except where otherwise indicated)

### 6. Bloom Lake Mine Operating Activities<sup>1</sup>

|   | Three Months Ended<br>June 30, |           |
|---|--------------------------------|-----------|
|   | 2019                           | 2018      |
| <b>Operating Data</b>                           |                                |           |
| Waste mined (wmt)                               | 3,580,900                      | 3,372,900 |
| Ore mined (wmt)                                 | 5,105,100                      | 4,647,900 |
| Strip ratio                                     | 0.7                            | 0.7       |
| Ore milled (wmt)                                | 4,780,000                      | 4,244,000 |
| Head grade Fe (%)                               | 32.5                           | 31.1      |
| Recovery (%)                                    | 82.1                           | 77.1      |
| Product Fe (%)                                  | 66.2                           | 66.5      |
| Iron ore concentrate produced (wmt)             | 1,989,400                      | 1,542,900 |
| Iron ore concentrate sold (dmt)                 | 1,906,700                      | 1,740,400 |
| <b>Financial Data</b> (in thousands of dollars) |                                |           |
| Revenues  | 277,914                        | 150,741   |
| Cost of sales                                   | 103,607                        | 95,768    |
| Other expenses                                  | 7,371                          | 10,031    |
| Net finance cost                                | 29,052                         | 14,239    |
| Net income                                      | 74,241                         | 20,748    |
| EBITDA <sup>2</sup>                             | 166,936                        | 44,942    |
| <b>Statistics</b> (in dollars per dmt sold)     |                                |           |
| Average realized selling price <sup>2</sup>     | 145.7                          | 86.6      |
| Total cash cost (C1 cash cost) <sup>2</sup>     | 54.3                           | 55.0      |
| All-in sustaining cost <sup>2</sup>             | 62.8                           | 59.9      |
| Cash operating margin <sup>2</sup>              | 82.9                           | 26.7      |

#### Operational Performance

During the three-month period ended June 30, 2019, 8.7 million tonnes of material were mined, representing an increase of 8% compared to the same quarter of the prior year. This increase reflects higher mining equipment availability and a higher utilization rate, attributable to the Company's progress with its mining equipment rebuilding program.

The plant processed 4,780,000 tonnes of ore during the first quarter compared to 4,224,000 tonnes in the same quarter last year. The positive variation of 13% relates to higher average hourly mill throughput further to the implementation of operational improvements designed to increase plant capacity and reliability. The higher throughput was offset by the major planned shutdown during the period.

The Company achieved an average recovery rate over 82.1% during the first quarter compared to 77.1% in the same period of the prior year. The improvement relates to the continuous optimization of the recovery circuit which translated in a record monthly recovery of 84.6% in June 2019 from a 32.1% Fe head grade. The quarterly and monthly recovery rates achieved during the period set a new historical record since Bloom Lake was first commissioned in 2010.

Based on the foregoing, Champion produced 1,989,400 wmt of 66.2% Fe high-grade iron ore concentrate during the three-month period ended June 30, 2019 compared to 1,542,900 wmt in the same period of the prior year.

Production, hourly mill throughput and recovery rate reached record levels during the quarter, despite the second major planned shutdown since commercial production resumed.

<sup>1</sup> The Company considers that pre-commercial production operations at the Bloom Lake mine commenced on April 1, 2018 with the first shipment of high-grade iron ore concentrate and that commercial production began on June 30, 2018.

<sup>2</sup> EBITDA, average realized selling price, total cash cost, AISC and cash operating margin are non-IFRS financial performance measures with no standard definition under IFRS. See the "Non-IFRS Financial Performance Measures" section of this MD&A included in note 16.

# Champion Iron Limited

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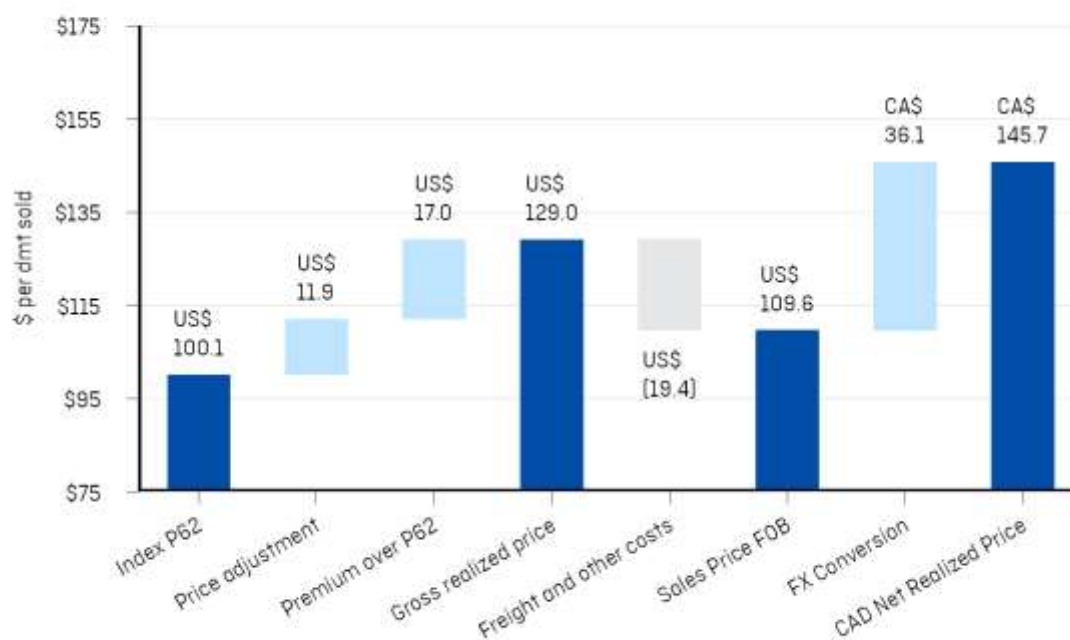
(Expressed in Canadian dollars, except where otherwise indicated)

### 7. Financial Performance

#### A. Revenues

During the three-month period ended June 30, 2019, a total of 1,906,700 tonnes of high-grade iron ore concentrate were sold at a CFR China gross realized price of US\$129.0/dmt before shipping. The gross sales price of US\$129.0/dmt represents a premium of 17% over the benchmark P62 price compared to a premium of 19% in the previous quarter as the P62 price strengthened by 21% during the quarter. Deducting sea freight costs of US\$19.4/dmt, the Company obtained an average net realized price of US\$109.6 per tonne (CA\$145.7 per tonne) for its high-grade iron ore delivered to the end customer, benefiting from an average foreign exchange rate of CA\$1.33 / US\$. As a result, revenues totalled \$277,914,000 for the period. The sales increase compared to the corresponding quarter of the prior year stems primarily from higher iron ore prices and volume.

**Q1 FY2020 Net Realized Selling Price from P62 to Average Realized Price**



|                                   | Three Months Ended<br>June 30, |        |
|-----------------------------------|--------------------------------|--------|
|                                   | 2019                           | 2018   |
| (in U.S. dollars per dmt sold)    |                                |        |
| Index P62                         | 100.1                          | 65.3   |
| Premium over P62                  | 28.9                           | 22.5   |
| <b>Gross realized price</b>       | <b>129.0</b>                   | 87.8   |
| Freight and other costs           | (19.4)                         | (20.5) |
| Net realized FOB price            | 109.6                          | 67.3   |
| <b>CAD Net Realized FOB Price</b> | <b>145.7</b>                   | 86.6   |

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(Expressed in Canadian dollars, except where otherwise indicated)

### 7. Financial Performance (continued)

#### B. Cost of sales

Cost of sales represent mining, processing, and mine site-related general and administrative expenses.

During the three-month period ended June 30, 2019, the total cash cost<sup>1</sup> or C1 cash cost<sup>1</sup> per tonne totalled \$54.3/dmt compared to \$55.0/dmt in the same period of the previous year. The C1 cash-cost<sup>1</sup> of the period reflects the impact of the major planned shutdown that occurred during the period as this scheduled shutdown included specific maintenance required after twelve months of operations. The Company also took advantage of the planned shutdown to complete additional initiatives aimed at improving plant reliability as Champion seeks to maximize operating cash flows during periods of elevated prices. The comparable C1 cash-cost<sup>1</sup> for the quarter ended June 30, 2018 represents the first period of production commissioning and ramp-up.

#### C. Gross profit

The gross profit for the three-month period ended June 30, 2019 totalled \$170,693,000 compared to \$50,548,000 for the same period of the prior year. The increase directly correlates to the net realized iron ore price improvement of 68% and to volume increases as the plant was in the commissioning phase during the same period the prior year.

#### D. Other Expenses

Other expenses comprise share-based payments, corporate expenses as well as sustainability and other community expenses ("CSR expenses"). CSR expenses are composed mainly of community taxes such as property and school taxes and expenditures related to the Impact and Benefits Agreement with the First Nations ("IBA").

The variation of the other expenses and income for the three-month period ended June 30, 2019 compared to the same period the previous year is essentially due to restart costs incurred in the first quarter of the prior year, as well as Champion's transition from a development stage company to an iron ore producer. The increase in share-based payments reflects the higher stock price period over period combined with the issuance of equity awards in relation to the performance achieved during the last fiscal year ended March 31, 2019.

#### E. Net Finance Costs

Net finance costs totalled \$29,052,000 for the three-month period ended June 30, 2019 compared to \$14,239,000 for the same period in the prior year. The increase is mainly attributable to the change in the fair market value of the derivative liability period over period slightly offset by a lower unrealized foreign exchange loss and by the recognition of a non-cash derivative asset.

The change in the fair value of the derivative liability is associated with the variation of the Company's ordinary share price, which appreciated by 43.4% during the period, and is a non-cash item. This variation in the derivative liability will cease upon the repayment of the Glencore debenture as part of the refinancing. In compliance with IFRS, the Company also recorded non-cash derivative assets in relation with the existing debt facility.

The Company reports in Canadian dollars and benefits from a natural hedge between its revenues generated in U.S. dollars and its U.S. denominated term facilities. Consequently, the unrealized foreign exchange loss included in net finance costs represents a non-cash expenditure associated with the conversion of the term facilities in Canadian dollars. The Company maintains sufficient U.S. dollars on hand to prevent foreign exchange loss upon interest or capital payments. Unrealized loss on investments and accretion costs are non-cash items.

#### F. Income Taxes

The Company's subsidiaries are subject to tax in Australia and Canada. As a result of accumulated losses before tax, there are no current or deferred income taxes related to the Australian activities. Q10, Champion's operating subsidiary, is subject to a Quebec mining tax at a progressive rate ranging from 16% to 28% depending on the mining profit margin as defined by tax regulations. The mining profit margin represents the mining profit divided by revenues and is taxable based on three segments as follow:

| Mining profit margin range                    | Tax rate |
|---|----------|
| Mining profit between 0% to 35%               | 16%      |
| Incremental mining profit over 35%, up to 50% | 22%      |
| Incremental mining profit over 50%            | 28%      |

In addition, Q10 is subject to an income tax in Canada where the statutory rate is 26.68%.

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(Expressed in Canadian dollars, except where otherwise indicated)

### 7. Financial Performance (continued)

#### F. Income Taxes (continued)

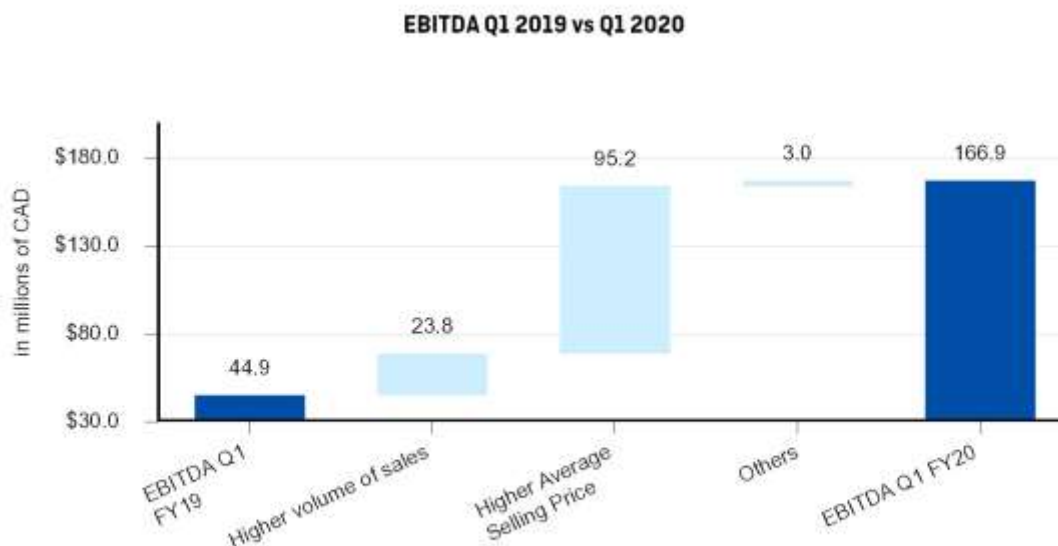
During the three-month period ended June 30, 2019, current income and mining taxes amounted to \$53,362,000 compared to \$5,530,000 in the same period of the prior period. The current income tax variation is attributable to the utilization of tax benefits such as carry-forward losses in the previous periods combined with a higher taxable profit. The higher mining tax period over period is due to higher mining taxable profit. Deferred income tax expenses of \$6,667,000, compared to nil in the same period of the prior year, relate mainly to the accelerated depreciation available under tax regulations that were not applied in the same period of the prior year.

During the period, in compliance with local regulations, the Company made a payment of \$34,059,000 in relation with the fiscal year-end 2019 mining tax payable. Mining taxes are now due through monthly installments based on the prior year amount payable. As the Company did not incur current income tax for the fiscal year ended March 31, 2019, the current income tax for the current fiscal year ending March 31, 2020 will solely be payable in May 2020.

#### G. Net Income (Loss) & EBITDA<sup>1</sup>

For the three-month period ended June 30, 2019, the Company generated net income of \$74,241,000, with the net income attributable to Champion shareholders for the period totalling \$38,751,000, representing earnings per share of \$0.09. A net income of \$11,018,000, representing earnings per share of \$0.03 per share was realized in the three-month period ended June 30, 2018. Since the plant was still in startup and commissioning in the first quarter of the fiscal year ended March 31, 2019, the variation is mainly due to the additional tonnage sold as a result of the successful ramp-up, combined with increased iron ore concentrate selling prices.

During the first quarter ended June 30, 2019, the Company generated an EBITDA<sup>1</sup> of \$166,936,000 or an EBITDA<sup>1</sup> margin of 60% compared to an EBITDA<sup>1</sup> of \$44,942,000 or an EBITDA<sup>1</sup> margin of 30% in the same period of the prior year.



<sup>1</sup> EBITDA, average realized selling price, total cash cost or C1 cash cost, AISC and cash operating margin are non-IFRS financial performance measures with no standard definition under IFRS. See the "Non-IFRS Financial Performance Measures" section of this MD&A included in note 16.

# Champion Iron Limited

## Management's Discussion and Analysis

(Expressed in Canadian dollars, except where otherwise indicated)

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### 7. Financial Performance (continued)

#### H. All-in sustaining cost<sup>1</sup> and cash operating margin<sup>1</sup>

The Company believes that the AISC<sup>1</sup> and cash operating margin<sup>1</sup> are measures reflecting the costs associated with producing iron ore and assessing the Company's ability to operate without reliance on additional borrowing or usage of existing cash. The Company defines AISC<sup>1</sup> as the total costs associated with producing iron ore concentrate. The Company's AISC<sup>1</sup> represents the sum of cost of sales, corporate expenditures and sustaining capital expenditures, including stripping activities, all divided by the iron ore concentrate per dmt sold to arrive at a per dmt figure.

During the three-month period ended June 30, 2019, the Company realized an AISC<sup>1</sup> of \$62.8/dmt compared to \$59.9/dmt in the same period of last year. The variation period over period is due to two main factors. First, the Company made the prudent decision to accelerate tailings containment dam rising construction work in order to ensure safe tailings deposition. Second, the Company made additional investments in the mining equipment rebuild program required to increase mining equipment fleet availability. The conservative decision made by the Company to bring forward the tailings investment does not modify the total amount that would have been invested on the tailings facility over the next few years, only the timing is modified. The remaining variation between periods reflects the fact that the first quarter of 2018 did not include intensive sustaining capital expenditures as the Company was still in the commissioning phase.

Deducting the AISC<sup>1</sup> of \$62.8/dmt from the realized average selling price<sup>1</sup> of \$145.7/dmt, the Company generated a cash operating margin<sup>1</sup> of \$82.9 for each tonne of high-grade iron ore concentrate sold during the first quarter ended June 30, 2019 compared to \$26.7/dmt in the same period of the last year.

#### I. Non-controlling interests

As of June 30, 2019, the Government of the province of Quebec, through RQ, held a 36.8% interest in QIO and as such, was considered Champion's non-controlling interest ("NCI"). The net income attributable to the NCI is based on the statutory financial statements of QIO. The variation period over period is associated with the commencement of operational commercialization on April 1, 2018 offset by the change in the fair value of derivative liabilities.

On May 29, 2019, the Company announced a transaction to acquire RQ's 36.8% equity interest in QIO for a total consideration of \$211 million, which is not subject to further working capital adjustment. For more information on the proposed transaction, please refer to the Company's press release dated May 29, 2019, available under the Company's filings on SEDAR at [www.sedar.com](http://www.sedar.com). When Champion closes the announced acquisition of the minority interest held by RQ, Champion will no longer have to attribute a portion of QIO's net income to a NCI.

### 8. Exploration Activities

During the three-month period ended June 30, 2019, the Company did not conduct any exploration work at Bloom Lake, nor on any of its other properties. Exploration activities will resume in July 2019 on the Bloom Lake property.

During the quarter, the Company maintained all its properties in good standing. The Company did not enter into farm-in/farm-out arrangements during the quarter.

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<sup>1</sup> EBITDA, average realized selling price, total cash cost or C1 cash cost, AISC and cash operating margin are non-IFRS financial performance measures with no standard definition under IFRS. See the "Non-IFRS Financial Performance Measures" section of this MD&A included in note 16.

# Champion Iron Limited

## Management's Discussion and Analysis

(Expressed in Canadian dollars, except where otherwise indicated)

### 9. Events subsequent to June 30, 2019

On May 29, 2019, the Company announced a transaction to acquire RQ's 36.8% equity interest in Q10, operator of the Bloom Lake Mining Complex, for a total cash consideration of C\$211 million. This acquisition would increase Champion's stake in Q10 to 100%. As a result of this transaction, the entire net income of Q10 will be allocated to Champion shareholders and there will no longer be a NCI. The closing of this transaction is expected to occur during the summer of 2019.

The Company also announced on May 29, 2019, that it has entered into an agreement with Caisse de dépôt et placement du Québec for a preferred share offering for proceeds of \$185 million (the "Investment") plus a commitment for a fully underwritten US\$200 million credit facility (the "New Credit Facility") with Scotiabank and SocGen. Proceeds from the Investment and the New Credit Facility will be used to fund current and future strategic initiatives and repay Champion's existing debt. After two years, the Company can buy back the Investment in whole or in part, at its discretion.

The dividend rate associated with the preferred shares will be based on the gross realized iron price and will fluctuate from 9.25% when the gross realized iron price for Bloom Lake 66.2% iron ore is greater than US\$85/dmt to 13.25% should the gross realized iron ore price decrease below US\$65/dmt. The closing of this facility is expected to occur in the second quarter ending September 30, 2019.

The New Credit Facility will be available by way of a US\$180 million senior secured fully amortizing non-revolving credit facility (the "Term Facility") in addition to a US\$20 million senior secured revolving credit facility (the "Revolving Facility"). The New Credit Facility will bear interest between LIBOR plus 2.85% if the net debt to EBITDA ratio is lower or equal to 1.00x to LIBOR plus 3.75% if the net debt to EBITDA ratio is greater than 2.50x.

The Term Facility will mature five years from the closing date while the Revolving Facility will mature three years from the closing date. The Term Facility shall be repaid in equal quarterly installments of principal and accrued interest starting on the second full year following the closing date and is not subject to prepayment penalties. The closing of this facility is expected to occur in the second quarter ending September 30, 2019.

For more information on the capital restructuring and the transaction, please refer to the Company's press release dated May 29, 2019, available under the Company's filings on SEDAR at [www.sedar.com](http://www.sedar.com).

### 10. Cash Flows

The following table summarizes cash flow activities:

|  | Three Months Ended<br>June 30, |               |
|--|--------------------------------|---------------|
|  | 2019                           | 2018          |
| (in thousands of dollars)                                    |                                |               |
| Operations   | 101,385                        | 40,983        |
| Changes in non-cash working capital                          | [9,464]                        | 5,742         |
| Operating activities   | <b>91,921</b>                  | <b>46,725</b> |
| Financing activities   | [4,654]                        | 28,048        |
| Investing activities   | [26,468]                       | [10,257]      |
| <b>Change in cash and cash equivalents during the period</b> | <b>60,799</b>                  | <b>64,516</b> |
| Effect of foreign exchange rates on cash                     | [3,247]                        | [732]         |
| <b>Cash and cash equivalents, beginning of period</b>        | <b>135,424</b>                 | <b>7,895</b>  |
| <b>Cash and cash equivalents, end of period</b>              | <b>192,976</b>                 | <b>71,679</b> |

# Champion Iron Limited

## Management's Discussion and Analysis

(Expressed in Canadian dollars, except where otherwise indicated)

### 10. Cash Flows (continued)

#### Operating

During the three-month period ended June 30, 2019, the Company generated operating cash flows of \$101,385,000 before working capital compared to \$40,983,000 in the same period of the last year. The improvement results from an EBITDA<sup>1</sup> margin of 60% for each dry metric tonne of high-grade concentrate sold compared to an EBITDA<sup>1</sup> margin of 30% for the same period of the last year. Increases over the comparable period are attributable to higher operating profits as the Company realized higher selling prices and higher volumes sold as the Company was still in the commissioning phase in 2018.

Changes in working capital were mainly impacted by the timing of customer receipts. During the period the Company made a mining tax payment of \$34,059,000 for the fiscal year ended March 31, 2019. The payment was offset by higher current mining and income taxes payable for the period. Since May 2019, the Company pays monthly installments for mining duties. The current income tax for the fiscal year 2020 will be payable in May 2020.

#### Financing

During the three-month period ended June 30, 2019, the Company made a second capital repayment of \$7,492,000 towards the US\$180,000,000 facility. Warrants related to debt facilities were also exercised for proceeds totaling \$2,838,000. In the comparative prior year period, the Company's financing activities consisted mainly of drawdowns of \$28,390,000 derived from the US\$180,000,000 credit facilities.

#### Investing

The Company investments relate to capital expenditures.

#### Purchase of property, plant and equipment

During the three-month period ended June 30, 2019, the Company invested \$26,477,000 in addition to property, plant and equipment compared to \$9,868,000 in the same period of the prior year. The following table summarizes the investments.

|  | Three Months Ended<br>June 30, |              |
|--|--------------------------------|--------------|
|  | 2019                           | 2018         |
| (in thousands of dollars)                            |                                |              |
| Tailings lifts                                       | 5,369                          | 765          |
| Stripping activities                                 | 3,267                          | 2,497        |
| Mining equipment rebuild                             | 3,314                          | —            |
| Other sustaining capital expenditures                | —                              | 2,657        |
| <b>Subtotal sustaining capital expenditures</b>      | <b>11,950</b>                  | <b>5,919</b> |
| Phase II   | 2,313                          | —            |
| Other capital development expenditures at Bloom Lake | 12,214                         | 3,949        |
| <b>Total</b>   | <b>26,477</b>                  | <b>9,868</b> |

The other capital development expenditures are mainly related to infrastructure upgrades at the mine and to service equipment capacity improvements.

#### Exploration and evaluation

For the three-month period ended June 30, 2019, \$194,000 was invested in exploration and evaluation compared to \$389,000 in the same period of last year.

<sup>1</sup> EBITDA, average realized selling price, total cash cost or C1 cash cost, AISC and cash operating margin are non-IFRS financial performance measures with no standard definition under IFRS. See the "Non-IFRS Financial Performance Measures" section of this MD&A included in note 16.

# Champion Iron Limited

## Management's Discussion and Analysis

(Expressed in Canadian dollars, except where otherwise indicated)

### 11. Financial Position

As at June 30, 2019, the Company held \$192,976,000 in cash and cash equivalents along with \$17,704,000 in short-term investments. With the existing cash balance and the forecasted cash flows from operations, the Company is well positioned to fund all of its cash requirements for the next twelve months, which relate primarily to the following activities:

- Mine operating costs
- Sustaining capital expenditures
- Reimbursement of long-term debt
- Payment of mining and income taxes
- Purchase of the minority interest held by Ressources Quebec
- Phase II initial capital expenditures of \$68 million

|  | As at June 30,<br>2019 | As at March 31,<br>2019 |
|--|------------------------|-------------------------|
| (in thousands of dollars)                  |                        |                         |
| Cash and cash equivalents                  | 192,976                | 135,424                 |
| Short-term investment                      | 17,704                 | 17,907                  |
| <b>Cash on hand</b>                        | <b>210,680</b>         | <b>153,331</b>          |
| Other current assets                       | 207,900                | 161,352                 |
| <b>Total Current Assets</b>                | <b>418,580</b>         | <b>314,683</b>          |
| Property, plant and equipment              | 252,276                | 224,123                 |
| Exploration and evaluation assets          | 75,251                 | 81,508                  |
| Other non-current assets                   | 52,507                 | 51,703                  |
| <b>Total Assets</b>                        | <b>798,614</b>         | <b>672,017</b>          |
| <b>Total Current Liabilities</b>           | <b>146,774</b>         | <b>114,608</b>          |
| Long-term debt                             | 181,769                | 193,038                 |
| Derivative financial instruments           | 64,896                 | 43,819                  |
| Rehabilitation obligation                  | 36,808                 | 36,565                  |
| Other non-current liabilities              | 74,454                 | 68,265                  |
| <b>Total Liabilities</b>                   | <b>504,701</b>         | <b>456,295</b>          |
| Equity attributable to equity shareholders | 193,047                | 150,346                 |
| Non-controlling interests                  | 100,866                | 65,376                  |
| <b>Total Equity</b>                        | <b>293,913</b>         | <b>215,722</b>          |
| <b>Total Liabilities and Equity</b>        | <b>798,614</b>         | <b>672,017</b>          |

The Company's total current assets as at June 30, 2019 increased by \$103,897,000 since March 31, 2018. This increase resulted from operational cash flow associated with the operations at Bloom Lake together with trade receivables that reflect higher selling prices. The long-term assets reflect investments made towards the start of the 2019 dikes project as well as the completion of the Feasibility Study.

Total short-term liabilities increased, reflecting the tax payable associated with income and mining taxes related to the profit realized since the start of the year and to the accounts payable related to quarterly major planned shutdown. The long-term liabilities variation reflects the derivative financial instruments revaluation and a higher deferred tax liability which was offset by the decrease of the long-term debt in relation with the capital reimbursement of the US\$ 180,000,000 credit facility.

The increase in equity is attributable to the Company's net income of \$74,241,000 for the first quarter ended June 30, 2019.



# Champion Iron Limited

## Management's Discussion and Analysis

(Expressed in Canadian dollars, except where otherwise indicated)

### 12. Financial Risk Factors

The Company's risk exposure and impact on the Company's financial instruments are summarized in note 14 of the audited consolidated financial statements for the year ended March 31, 2019 available on the Company's website at [www.championiron.com](http://www.championiron.com).

### 13. Commitments

The Company has various obligations related to take-or-pay features of its logistics contracts. The Company has also other commitments with the Innu community related to its IBA with the First Nations. Future minimum payments under these agreements are as follows:

|                   | As at June 30,<br>2019 |
|-------------------|------------------------|
| Less than a year  | 120,884                |
| 1 to 5 years      | 74,693                 |
| More than 5 years | 183,000                |
| <b>Total</b>      | <b>378,577</b>         |

### 14. Critical Accounting Estimates and Judgments

The Company's significant accounting judgments, estimates and assumptions are summarized in note 2 of the consolidated financial statements for the year ended March 31, 2019.

### 15. New Accounting Standards Issued and Adopted by the Company

The new accounting standards issued and adopted by the Company are disclosed in note 2 to the condensed interim consolidated financial statements for the three-month period ended June 30, 2019.

### 16. Non-IFRS Financial Performance Measures

The Company has included certain non-IFRS measures in this document. The Company believes that these measures, in addition to conventional measures prepared in accordance with IFRS, provide investors an improved ability to evaluate the underlying performance of the Company. The non-IFRS measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. These measures do not have any standardized meaning prescribed under IFRS, and therefore may not be comparable to other issuers.

#### A. Total Cash Cost

Total cash costs or C1 cost is a common financial performance measure in the iron ore mining industry but with no standard meaning under IFRS. Champion reports total cash costs on a sales basis. The Company believes that, in addition to conventional measures prepared in accordance with IFRS, such as sales, certain investors use this information to evaluate the Company's performance and ability to generate operating earnings and cash flow from its mining operations. This measure also enables investors to better understand the performance of the Company's iron ore operations in comparison to other iron ore producers who present results on a similar basis. Management uses this metric as an important tool to monitor operating cost performance. Total cash costs include production costs such as mining, processing, and site administration, and exclude depreciation to arrive at total cash costs per dmt sold. Other companies may calculate this measure differently.

# Champion Iron Limited

## Management's Discussion and Analysis

(Expressed in Canadian dollars, except where otherwise indicated)

### 16. Non-IFRS Financial Performance Measures (continued)

#### A. Total Cash Cost (continued)

|  | Three Months Ended<br>June 30, |           |
|--|--------------------------------|-----------|
|  | 2019                           | 2018      |
| <b>Per tonne sold</b>                      |                                |           |
| Iron ore concentrate sold (dmt)            | <b>1,906,700</b>               | 1,740,400 |
| (in thousands of dollars except per tonne) |                                |           |
| Cost of sales                              | 103,607                        | 95,768    |
| <b>Total cash cost (per dmt sold)</b>      | <b>54.3</b>                    | 55.0      |

#### B. All-in Sustaining Cost ("AISC")

The Company believes that AISC defines the total costs associated with producing iron ore concentrate more accurately as this measure reflects all of the sustaining expenditures incurred in order to produce high-grade iron ore concentrate. The Company calculates AISC as the sum of total cash costs (as described above), general and administrative expense and sustaining capital, including deferred stripping, divided by the iron ore concentrate dmt sold to arrive at a per dmt figure. Other companies may calculate this measure differently as a result of differences in underlying principles and policies applied. Differences may also arise due to a different definition of sustaining versus non-sustaining capital. The sustaining capital included in the AISC calculation excludes development capital expenditures such as capacity increase projects and studies for future expansion projects.

As this measure intends to represent the cost of selling iron ore concentrate from current operations, it does not include capital expenditures attributable to development projects or mine expansions including economic evaluations for such projects, non-cash share-based payments, exploration expenses that are not sustainable in nature, income tax expense, working capital defined as current assets less current liabilities (except for inventory adjustments) or interest costs.

The table below shows a reconciliation of AISC per tonne to costs as extracted from the consolidated financial statements:

|  | Three Months Ended<br>June 30, |           |
|--|--------------------------------|-----------|
|  | 2019                           | 2018      |
| Per tonne sold                             |                                |           |
| Iron ore concentrate sold (dmt)            | <b>1,906,700</b>               | 1,740,400 |
| (in thousands of dollars except per tonne) |                                |           |
| Cost of sales                              | <b>103,607</b>                 | 95,768    |
| Sustaining capital expenditure             | <b>11,950</b>                  | 5,919     |
| General and administrative expenses        | <b>4,186</b>                   | 2,580     |
|  | <b>119,743</b>                 | 104,267   |
| AISC (per dmt sold)                        | <b>62.8</b>                    | 59.9      |

# Champion Iron Limited

## Management's Discussion and Analysis

(Expressed in Canadian dollars, except where otherwise indicated)

### 16. Non-IFRS Financial Performance Measures (continued)

#### C. Average realized selling price and cash operating margin

Average realized price and cash operating margin per dmt sold are used by management to better understand the iron ore concentrate price and margin realized throughout a period. Average realized price is calculated as metal sales per the statement of comprehensive earnings. Cash operating margin represents average realized price per iron ore concentrate dmt sold less AISC per dmt sold.

|  | <b>Three Months Ended<br/>June 30,</b> |             |
|--|--|-------------|
|  | <b>2019</b>                            | <b>2018</b> |
| <b>Per tonne sold</b>                                |  |             |
| Iron ore concentrate sold (dmt)                      | <b>1,906,700</b>                       | 1,740,400   |
| (in thousands of dollars except per tonne)           |  |             |
| Revenues   | 277,914                                | 150,741     |
| <b>Average realized selling price (per dmt sold)</b> | <b>145.7</b>                           | 86.6        |
| AISC (per dmt sold)                                  | 62.8                                   | 59.9        |
| <b>Cash operating margin (per dmt sold)</b>          | <b>82.9</b>                            | 26.7        |

#### D. EBITDA

The following table sets forth the calculation of EBITDA, a non-IFRS measure which the Company believes to be relevant to assess the Company's ability to generate liquidity by producing operating cash flow to fund working capital needs, service debt obligation and fund capital expenditures.

EBITDA is intended to provide additional information to investors and does not have any standardized definition under IFRS. The measure excludes the impact of cash costs of financing activities, taxes and the change in non-cash working capital and is not necessarily indicative of operating profit or cash flow from operations as determined under IFRS. Other companies may calculate EBITDA differently.

|                                       | <b>Three Months Ended<br/>June 30,</b> |             |
|---------------------------------------|--|-------------|
|                                       | <b>2019</b>                            | <b>2018</b> |
| (in thousands of dollars)             |  |             |
| Income before income and mining taxes | <b>134,270</b>                         | 26,278      |
| Net finance costs                     | <b>(29,052)</b>                        | [14,239]    |
| Depreciation                          | <b>(3,614)</b>                         | [4,425]     |
| <b>EBITDA</b>                         | <b>166,936</b>                         | 44,942      |
| <b>EBITDA margin (%)</b>              | <b>60%</b>                             | 30%         |

# Champion Iron Limited

## Management's Discussion and Analysis

(Expressed in Canadian dollars, except where otherwise indicated)

### 17. Share Capital Information

The Company's authorized share capital is unlimited ordinary shares without par value. As of July 30, 2019, there are 433,179,122 ordinary shares outstanding. In addition, there are 30,155,353 ordinary shares issuable on the exercise of options, restricted share units and performance share units. In addition, 48,811,458 shares are issuable from derivatives instruments with dilutive impact.

### 18. Summary of Quarterly Results

The following information is derived from and should be read in conjunction with the unaudited condensed interim consolidated financial statements for each of the past eight quarters. The Company's fiscal year ends on March 31. All amounts are stated in millions of dollars except for the earnings (loss) per share.

|  | Q1 2020 | Q4 2019 | Q3 2019 | Q2 2019 | Q1 2019 | Q4 2018 | Q3 2018 | Q2 2018 |
|--|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>Financial Results (\$ millions)</b>         |         |         |         |         |         |         |         |         |
| Revenue  | 277.9   | 182.2   | 147.5   | 174.7   | 150.7   | —       | —       | —       |
| Operating profit (loss)                        | 163.3   | 83.1    | 62.8    | 77.2    | 40.5    | [21.8]  | [39.5]  | [14.8]  |
| EBITDA <sup>1</sup>                            | 166.9   | 86.5    | 65.4    | 81.3    | 45.0    | [20.9]  | [38.4]  | [13.7]  |
| Net profit (loss)                              | 74.2    | 28.2    | 31.2    | 67.5    | 20.7    | [30.9]  | [54.1]  | [14.5]  |
| Net profit (loss) attributable to shareholders | 38.8    | 8.8     | 21.7    | 41.5    | 11.0    | [21.9]  | [37.3]  | [9.9]   |
| Earnings (loss) per share - basic              | 0.09    | 0.02    | 0.05    | 0.10    | 0.03    | [0.05]  | [0.09]  | [0.03]  |
| Earnings (loss) per share - diluted            | 0.08    | 0.02    | 0.05    | 0.09    | 0.02    | [0.05]  | [0.09]  | [0.03]  |
| Cash flow from operations                      | 91.9    | 38.0    | 89.1    | 2.9     | 46.7    | [42.8]  | [72.6]  | [15.0]  |
| <b>Operating Data</b>                          |         |         |         |         |         |         |         |         |
| Waste mined (thousands of wmt)                 | 3,581   | 3,482   | 3,847   | 2,978   | 3,373   | 2,281   | 1,973   | —       |
| Ore mined (thousands of wmt)                   | 5,105   | 4,976   | 4,883   | 5,205   | 4,648   | 2,159   | 575     | —       |
| Strip ratio                                    | 0.7     | 0.7     | 0.8     | 0.6     | 0.7     | 1.1     | 3.4     | —       |
| Ore milled (thousands of wmt)                  | 4,780   | 4,754   | 4,531   | 4,964   | 4,244   | 1,754   | —       | —       |
| Head grade (%)                                 | 32.5    | 30.6    | 32.1    | 32.0    | 31.1    | 29.0    | —       | —       |
| Recovery (%)                                   | 82.1    | 80.4    | 80.7    | 79.6    | 77.1    | 76.3    | —       | —       |
| % Fe   | 66.2    | 66.3    | 66.4    | 66.6    | 66.5    | 66.5    | —       | —       |
| Iron ore concentrate produced (thousand wmt)   | 1,989   | 1,802   | 1,791   | 1,858   | 1,543   | 623     | —       | —       |
| Iron ore concentrate sold (thousands of dmt)   | 1,907   | 1,744   | 1,712   | 1,932   | 1,740   | —       | —       | —       |
| <b>Financial results per unit</b>              |         |         |         |         |         |         |         |         |
| Average realized selling price <sup>1</sup>    | 145.7   | 104.4   | 86.2    | 90.4    | 86.6    | —       | —       | —       |
| Total cash cost <sup>1</sup>                   | 54.3    | 48.4    | 49.4    | 45.2    | 55.0    | —       | —       | —       |
| All-in sustaining cost <sup>1</sup>            | 62.8    | 55.4    | 55.5    | 52.9    | 59.9    | —       | —       | —       |
| Cash operating margin <sup>1</sup>             | 82.9    | 49.0    | 30.7    | 37.5    | 26.7    | —       | —       | —       |

<sup>1</sup> EBITDA, average realized selling price, total cash cost, AISC and cash operating margin are non-IFRS financial performance measures with no standard definition under IFRS. See the "Non-IFRS Financial Performance Measures" section of this MD&A included in note 16.

# Champion Iron Limited

## Management's Discussion and Analysis

(Expressed in Canadian dollars, except where otherwise indicated)

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### 19. Risk Factors

Champion is subject to several risks and uncertainties which could have a material adverse impact on its operations, its financial condition and the trading price of its shares. This section presents information about the Company's exposure to each of the described risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

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.

Please refer to the 2019 annual information form available on SEDAR at [www.sedar.com](http://www.sedar.com) and on its website at [www.championiron.com](http://www.championiron.com) to see the principal risk factors that apply to the Company and that may have a material adverse effect on its financial condition and results of operations, or the trading price of the Company's Common Shares.

### 20. Management Responsibility for Financial Statements

#### Disclosure Controls and Procedures

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed disclosure controls and procedures ("DC&P"), or caused to be designed under their supervision to provide reasonable assurance that:

- i) Material information relating to the Company is made known to Management by others, particularly during the period in which the annual filings are being prepared; and
- ii) Information required to be disclosed by the Company in our annual filings, interim filings or other reports filed or submitted by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

#### Internal Control over Financial Reporting

The CEO and CFO are also responsible for establishing and maintaining adequate internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There have been no changes in our ICFR that occurred during the period beginning on April 1, 2019 and ended on June 30, 2019 which have materially affected or are reasonably likely to materially affect the Company's ICFR.

#### Limitations of DC&P and ICFR

All internal control systems have inherent limitations and may become ineffective because of changes in conditions. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to the financial statement preparation and presentation.

### 21. Approval

The Board of Directors oversees management's responsibility for financial reporting and internal control systems through an Audit Committee. This Committee meets quarterly with management and quarterly with the Company's independent auditors to review the scope and results of the annual audit and quarterly reviews, respectively, and to review the financial statements and related financial reporting and internal control matters before the financial statements are approved by the Board of Directors and submitted to the shareholders. The Board of Directors has approved the Financial Statements and the disclosure contained in this MD&A as of July 30, 2019. A copy of this MD&A will be provided to anyone who requests it.

# Champion Iron Limited

## Management's Discussion and Analysis

(Expressed in Canadian dollars, except where otherwise indicated)

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### 22. Nature of Securities

The purchase of the Company's securities involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks. The Company's securities should not be purchased by persons who cannot afford the possibility of the loss of their entire investment. Furthermore, an investment in the Company's securities should not constitute a major portion of an investor's portfolio.

### 23. Additional Information

Additional information related to the Company is available for viewing under the Company's filings on SEDAR at [www.sedar.com](http://www.sedar.com) and at the Company's website at [www.championiron.com](http://www.championiron.com).

### 24. Cautionary Note Regarding Forward-Looking Statements

This MD&A contains certain information and statements, which may be deemed "forward-looking statements" within the meaning of applicable securities laws (collectively referred to herein as "forward-looking statements"). All statements in this MD&A, other than statements of historical fact, that address future events, developments or performance that Champion expects to occur including management's expectations regarding (i) the recovery rates; (ii) the Company's growth; (iii) the closing of the transactions announced in the May 29, 2019 Press Release; (iv) the potential expansion of the operations at Champion's flagship asset the Bloom Lake mine; (v) the estimated future operation capacity of the Bloom Lake mine; (vi) the completion of the construction for a potential expansion of the Bloom Lake mine; (vii) the potential job creation related to the Bloom Lake mine; (viii) the estimated date of publication of the feasibility study for the expansion; (ix) the fluctuations of the ocean freight costs in connection with the fluctuations of the iron ore price; (x) the impact of exchange rate fluctuations; (xi) the impact of iron ore concentrate price fluctuation; (xii) the acquisition of RQ's equity interest in QIO, its expected closing date; (xiii) the preferred share offering with Caisse de dépôt et placement du Québec; (xiv) the credit facility with The Bank of Nova Scotia and Societe Generale; (xv) the Feasibility Study, its timetable, its after-tax IRR and NPV; (xvi) the doubling the Bloom Lake overall capacity; (xvii) the Company's growth; (xviii) the increase of the plan capacity and reliability; (xix) the repayment of the Glencore debenture; and (xx) the Company's exploration activities and programs are forward-looking statements. Forward-looking statements are statements that are not historical facts and are generally, but not always, identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates", "aims", "targets", or "believes", or variations of, or the negatives of, such words and phrases or state that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved including, without limitation, the results of the feasibility study with regards to the potential expansion of the Bloom Lake mine. Although Champion Iron believes the expectations expected in such forward-looking statements are based on reasonable assumptions, such forward-looking statements involve known and unknown risks, uncertainties and other factors, most of which are beyond the control of the Company, which may cause the Company's actual results, performance or achievements to differ materially from those expressed or implied by such forward-looking statements. Factors that could cause the actual results to differ materially from those in forward-looking statements include, without limitation: the results of feasibility studies; project delays; continued availability of capital and financing and general economic, market or business conditions; general economic, competitive, political and social uncertainties; future prices of Iron Ore; failure of plant, equipment or processes to operate as anticipated; delays in obtaining governmental approvals, necessary permitting or in the completion of development or construction activities, as well as those factors discussed in the section entitled "*Risk Factors*" of the Company's 2019 Annual Information Form and the risks and uncertainties discussed in the Company's MD&A for the year ended March 31, 2019, both available on SEDAR at [www.sedar.com](http://www.sedar.com).

The forward-looking statements in this MD&A are based on assumptions management believes to be reasonable and speak only as of the date of this MD&A or as of the date or dates specified in such statements. Champion cautions that the foregoing list of risks and uncertainties is not exhaustive. Investors and others should carefully consider the above factors as well as the uncertainties they represent and the risk they entail. Inherent in forward-looking statements are risks, uncertainties and other factors beyond the Company's ability to predict or control.

The forward-looking statements contained herein are made as of the date hereof, or such other date or dates specified in such statements. Champion Iron undertakes no obligation to update publicly or otherwise revise any forward-looking statements contained herein whether as a result of new information or future events or otherwise, except as may be required by law. If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements.