

# **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, 2018 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 29, 2018.

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 ("CIML") and Québec Iron Ore Inc. ("QIO"), is an iron ore production, exploration and development company with properties located in the heart of Canada's premier iron ore mining district, the Labrador Trough.

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).

The Bloom Lake mine is located approximately 13 km north of Fermont, Quebec, in the Labrador Trough and consists of Mining Lease BM877 and 69 mining claims. The Bloom Lake Mine is an open pit truck and shovel mine, with 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 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.

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**

During the year ended March 31, 2018, the Company completed its transition from an exploration company to a producing company. On February 16, 2018, the Company commenced production at Bloom Lake and made its first shipment of high grade 66% iron ore concentrate on April 1, 2018. As of May 31, 2018, the Company has sold 1,295,713 wet metric tonnes of iron ore concentrate.

The following milestones were achieved as part of this transition:

#### **Bloom Lake - Plant Commissioning**

All of the mining equipment required for mining operations was operational ahead of schedule and within budget. The main crusher and conveyor to plant crushed ore stockpile were commissioned and tested in December 2017. The AG mill was refurbished by METSO and work undertaken by Mineral Technologies in connection with the recovery circuit replacement was completed.

### **Bloom Lake - Environmental Work and Tailings Dam**

All the work required was completed in Q3 2017.

### **Bloom Lake - Construction Work**

The construction work defined in the Bloom Lake March 2017 feasibility study (see Bloom Lake Feasibility Study section) was completed on time.

### **Impact and Benefits Agreement**

On April 12, 2017, QIO and the band council, Innu of Takuaikan Uashat mak Mani-utenam 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, QIO signed a Framework Off-Take Agreement (the "Off-Take 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. The Off-Take 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 financing, comprised of bridge loan of \$26,000,000 and equity of \$14,000,000. The debt component of \$26,000,000 was committed with Sojitz providing \$20,000,000 and Ressources Québec Inc. ("RQ") providing \$6,000,000. The equity component comprised a proportionate contribution of \$8,848,000 and \$5,152,000 from the shareholders of QIO, the Company and RQ, respectively.

The Bridge Loan bears interest at the rate of 12% per annum on the outstanding principal amount of the Bridge Loan and a standby fee of 2% per annum on the undrawn portion of the Bridge Loan; is secured by a \$26,000,000 hypothec over all of QIO's property, plant and equipment (excluding mining claims) and matures on July 15, 2018. Advances under the Bridge Loan are available in up to 4 instalments until November 30, 2017.

Principal advances of \$16,000,000 were drawn down and on October 16, 2017, the Bridge Loan was repaid.

### **Convertible debenture**

On June 1, 2017, 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. 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"). The Company's option to extend the debenture has been exercised and the new maturity date is December 31, 2018.

The principal amount of the Debenture may be prepaid in whole or in part by the Company subject to a minimum payment representing 9 months of interest.

### **Financial assistance from Québec's Green Fund for Bloom Lake energy conversion projects**

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. \$1,304,185 was received on March 31, 2018.

### **Rail transportation contract**

On June 8, 2017, QIO entered into a rail transportation agreement with Quebec North Shore and Labrador Railway Company, Inc. ("QNS&L") for the transportation of iron ore concentrate from Bloom Lake by rail from the Wabush Lake Junction in Labrador City, Newfoundland & Labrador to the Sept-Îles Junction in Sept-Îles, Quebec.

In connection with the agreement, QIO made an advance payment of \$15,000,000 which is recovered monthly as a credit on rail transportation costs as per the agreement.

On February 22, 2018, the first train to Sept-Îles left the mine and the advance reimbursement mechanism has started to be applied.

### **Settlement agreement with the Port**

On July 13, 2012, the Company's subsidiary company, CIML signed an agreement ("Agreement") with the Sept-Îles Port Authority ("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, CIML was to pay \$25,581,000 and take-or-pay payments as an advance on its future shipping, wharfage and equipment fees. CIML 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 July 15, 2017, CIML and the Port entered into a conditional settlement agreement, providing for the settlement, without admission, of the dispute with the Port. The settlement agreement provided for payments by CIML or QIO to settle in full the remaining advance payment of \$19,581,000 and interest by December 1, 2017. Upon signing of the conditional settlement agreement, CIML made an advance payment of \$2,400,000

On October 16, 2017, the conditions of the settlement agreement were met and QIO paid the remaining advance payments of \$17,181,000 and interest of \$2,807,116 by December 1, 2017.

On March 25, 2018, the Port started the loading of the first ship and the advance payment is being reimbursed monthly as a credit as per the agreement.

### **Public offering of subscription receipts**

On September 29, 2017, the Company completed a public offering of 21,033,508 subscription receipts at a price of \$0.90 per subscription receipt for gross proceeds of \$18,930,157 which was placed in escrow pending the satisfaction of the certain escrow release conditions. On October 16, 2017, the escrow release conditions were satisfied and the proceeds of the subscription receipts were released to the Company and holders of the subscription receipts received one ordinary share of Company for each subscription receipt held.

### **Rail transportation and port-facilities access agreement**

On March 23, 2017, QIO entered into a memorandum of understanding to become a limited partner in Société Ferroviaire et Portuaire de Pointe-Noire, S.E.C. ("SFPPN"). SFPPN was formed to manage and develop the industrial facilities (rail lines, access to port facilities, rail yards, a pellet plant, administrative offices and other facilities) at Pointe-Noire in Sept-Îles, Québec. QIO advanced \$1,000,000 as a contribution to the capital of SFPPN pending the completion of a limited partnership agreement.

On October 12, 2017, QIO entered into a railway and port facilities access agreement with SFPPN for the transportation, unloading, stockpiling and loading of iron ore concentrate from Sept-Îles to Pointe-Noire, Québec. In connection with the agreement, QIO made an advance payment of \$5,000,000 which will be recovered as a credit to future costs owing under the agreement. QIO has secured an annual 8 million tons capacity with associated storage capacity at Pointe-Noire adjacent to the port of Sept-Îles.

QIO and Tata Steel Minerals Canada ("TSM"), another limited partner in SFPPN, will make their expertise available to help manage operations at Pointe-Noire. Through SFPPN, the Quebec government will continue its active involvement to maintain and assure a multi-user approach and increase benefits for current and future projects in the area covered by the Plan Nord. All three parties agree that they will endeavor to ensure that the Pointe-Noire infrastructures are developed to match anticipated needs while continuing to provide services at the lowest possible cost for all potential users. A phased capacity enhancement plan will be drawn up as quickly as possible. The first action from this plan was to build a conveyer to connect to the multi-user quay in the port of Sept-Îles. The conveyer was constructed and delivered on March 21, 2018.

### **Unsecured subordinated convertible debenture and off-take agreement with Glencore International AG**

On October 13, 2017, the Company completed a non-brokered private placement of a \$31,200,000 unsecured subordinated convertible debenture ("Debenture") to Glencore International AG ("Glencore"). The Debenture is unsecured; bears interest at the rate of 12% for the first year, and thereafter, an interest rate linked to the price of iron ore; convertible into ordinary shares of the Company at a conversion price of \$1.125 per ordinary share; mandatory conversion into ordinary shares of the Company at a conversion price of \$0.85 per ordinary share upon (a) the occurrence of a mandatory conversion event or (b) Sprott or Caisse, lenders for the debt financing of US\$180,000,000 for QIO, exercising their respective option to require a mandatory conversion.

In connection with the closing of the Debenture, QIO entered into an off-take agreement with Glencore to grant global off-take rights for life-of-mine of Bloom Lake with fixed commercial terms for a 10-year period for all tonnes of future iron ore production at Bloom Lake not sold in Japan under the existing off-take agreement with Sojitz. In the event of a Mandatory Conversion, the off-take terms will apply for the life-of-mine of Phase 1 of Bloom Lake and Glencore will have the option to convert the marketing fees under the off-take terms into a FOB-based royalty under certain circumstances. In addition, Glencore has been granted a right of first refusal in connection with the financing and off-take rights for iron ore production of Phase II of Bloom Lake not allocated to certain strategic investors.

### **Debt financing of US\$180,000,000 for QIO**

On October 10, 2017, QIO entered into definitive agreements for debt financing of US\$180,000,000 from Sprott Private Resource Lending (Collector), LP ("Sprott") and CDP Investissements Inc. ("CDP"), a wholly-owned subsidiary of Caisse de dépôt et placement du Québec to finance the restart of Bloom Lake.

Sprott provided US\$80,000,000 by way of a 5-year senior secured loan bearing interest at 7.5% per annum plus the greater of US dollar 3-month LIBOR and 1% per annum. CDP provided US\$100,000,000 by way of a 7-year subordinated loan bearing interest at 12% for the first year, and thereafter, at an interest rate linked to the price of iron ore.

In connection with the debt financing, the Company issued: (a) 3,000,000 common share purchase warrants to Sprott, entitling the holder to purchase 3,000,000 ordinary shares of the Company for \$1.125 until October 16, 2022 and (b) 21,000,000 common share purchase warrants to CDP, entitling the holder to purchase 21,000,000 ordinary shares of the Company for \$1.125 after October 16, 2018 until October 16, 2024. Ressources Québec ("RQ") will provide compensation commensurate with their 36.8% interest in QIO to the Company for issuing the common share purchase warrants.

See note 19 to the audited Consolidated Financial Statements of the Company at March 31, 2018 for the terms and conditions of the Sprott and CDP debt facilities.

### **Grant of stock options**

On May 25, 2017, the Company granted 1,650,000 stock options to eligible individuals pursuant to the Company's share incentive plan 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.

After receiving shareholder approval on July 10, 2017, the Company granted 600,000 stock options to directors entitling the holder to purchase one ordinary share for A\$1.08 until July 11, 2020. The stock options vest, as follows: 200,000 on July 11, 2017, 200,000 on July 11, 2018 and 200,000 on July 11, 2019.

On August 21, 2017, the Company granted 500,000 stock options to a director entitling the holder to purchase one ordinary share for A\$1.00 until August 21, 2020. The stock options vest, as follows: 166,667 on August 21, 2017, 166,666 on August 21, 2018 and 166,666 on August 21, 2019.

### **Grant of share rights**

On May 25, 2017, the Company granted 1,250,000 share rights to employees entitling the holder to receive one ordinary share upon vesting. The share rights vest on the satisfaction of the key performance measures including the completion of the total financing package required to facilitate the recommissioning of the plant at the Bloom Lake at a rated capacity of 7 million tonnes per annum ("Financing KPM") and the actual recommissioning of the plant at Bloom Lake at a capacity of 7 million tonnes per annum ("Recommissioning KPM").

After receiving shareholder approval on July 10, 2017, the Company granted 1,000,000 share rights to a director entitling the holder to receive one ordinary share upon vesting. The share rights vest on the satisfaction of the Financing KPM and Recommissioning KPM.

The Financing KPM was satisfied on October 16, 2017 when the Company raised the last tranche of a \$326,000,000 financing package consisting of debt and equity and the Recommissioning KPM was satisfied when the Company commenced first production of iron ore on 16 February 2018. As a result, the share rights vested and the holders received one ordinary share for each share right.

### Bloom Lake 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
<b>Revenue Parameters</b>	LOM OPEX (CA\$/t dry concentrate)	44.62
	Gross Revenue (CA\$M)	15,116
	Shipping Costs (CA\$M)	3,748
	Cash Operating Margin (CA\$M)	4,432
<b>Iron Ore Price Parameters</b>	Operating Margin %	29.3%
	After Tax Net Cash-Flow (CA\$M)	2,335
	LOM Av Iron Price at 66.2%Fe CFR China (US\$/ton)	78.40
	Inflation	Nil
<b>Valuation Parameters</b>	Average Exchange Rate	0.79US\$:1.0CA\$
	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					
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> (%)
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 labor market, as well as a government that continues to be supportive of new investment and mining.

### Fermont Property Holdings

Through its wholly-owned subsidiary CIML, the Company owns interests 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 Company owns a 100% interest in Cluster 1 and Cluster 2 and a 45% interest in Cluster 3. 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

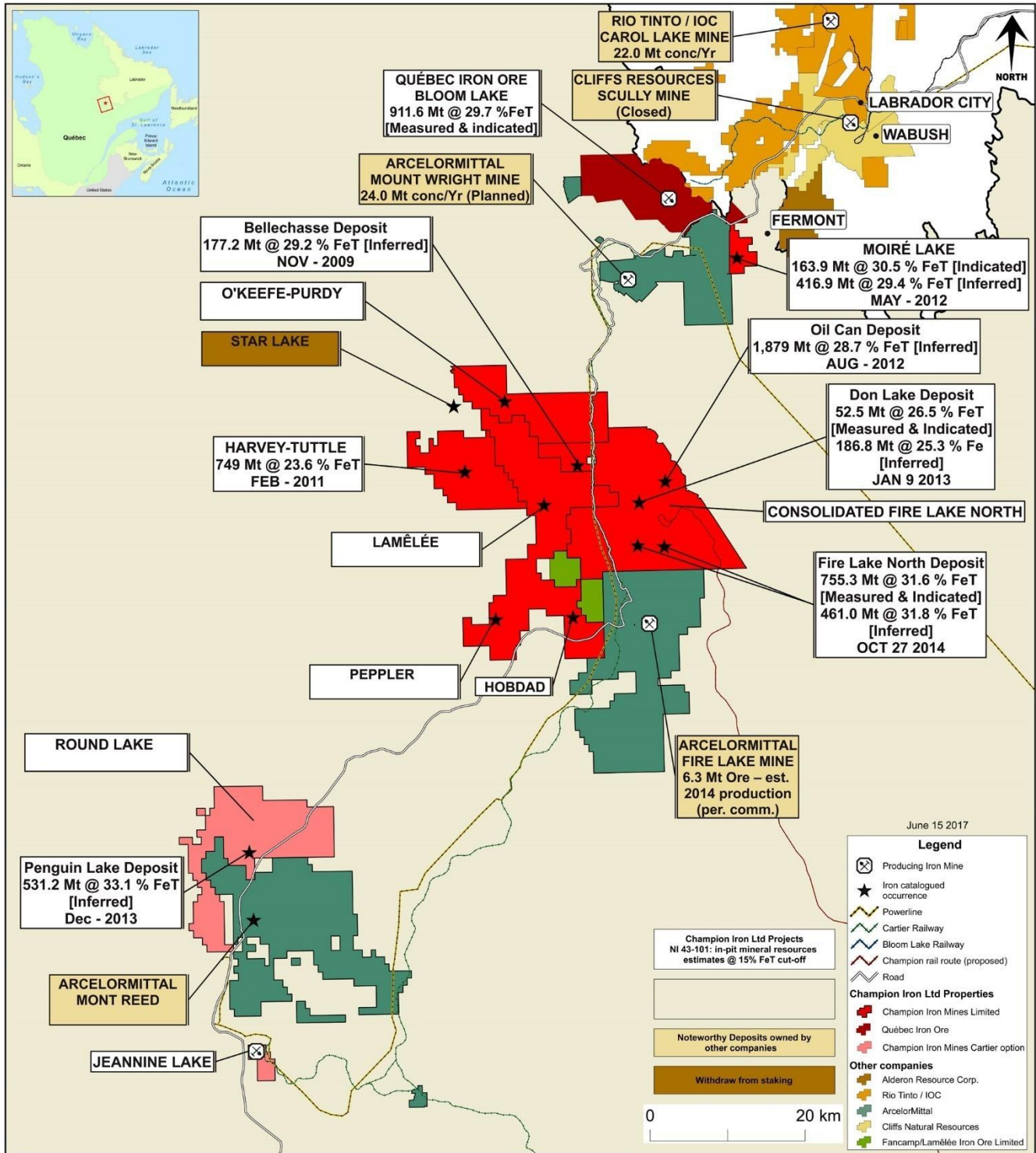
Property	Cluster	Deposit	Current Mineral Resources Estimates at 15% Iron Cut-Off					
			Measured		Indicated		Inferred	
			tonnes millions	grade FeT%	tonnes millions	grade FeT%	tonnes millions	grade FeT%
Moire Lake	1	<b>Lac Moire</b>	-	-	<b>163.9</b>	<b>30.5</b>	<b>416.9</b>	<b>29.4</b>
Consolidated 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

# CHAMPION IRON 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 the Company'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, CIML 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 the Company'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. The Company is committed to ongoing exploration and evaluation at CLFN.

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 continues to participate with the Québec government in the advancement of a multi-user railway solution to connect mine developers and producers in the Labrador Trough with the Port of Sept-Ile's new multi-user ship loading facilities at Pointe Noire. The Government of Québec has granted \$20 million for the feasibility study which has been managed by the Company.

This remains the Company's preferred railway and port solution following evaluation and consideration of alternatives including several independent rail options to Pointe Noire and alternatives to access Baie-Comeau.

The Quebec Government published the results of the multi-user railway feasibility in September 2017.

## **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, CIML 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, CIML 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**

The Company granted an option to Cartier Iron Corporation (“Cartier”) to acquire a 55% interest in Audrey-Ernie, Black Dan, Jeannine Lake and Penguin Lake (“Cluster 3 Properties”). On December 22, 2017, Cartier earned its 55% interest in the Cluster 3 Properties. In order to earn its 55% interest, Cartier made option payments, issued common shares and incurred exploration expenditures, as follows:

	Option payments \$	Common shares		Exploration expenditures \$
		Number	Fair value \$	
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	500,000	12,500	–
December 10, 2016 (incurred)	–	–	–	1,800,000
December 31, 2017 (paid)	450,000	–	–	–
	1,000,000	2,500,000	422,500	3,050,000

In respect of the option payment of \$450,000 due on December 31, 2017, the Company accepted a cash payment of \$50,000 and 500,000 common shares of Eloro Resources Ltd at a deemed value of \$0.80 per share.

Upon Cartier earning its 55% interest, a joint venture was 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 has an 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.

### **Investment in Cartier**

At March 31, 2018, the Company held 11,519,970 common shares of Cartier, representing 24.4% of the issued and outstanding common shares of Cartier.

The holdings of the Company in Cartier were subject to the terms of a pre-emptive rights agreement and an agreement respecting board representation rights and standstill obligations which expired on December 31, 2017.

### **Risks and Uncertainties**

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 licenses.

The Company is exposed to commodity price risk with respect to iron ore prices. A significant decline in iron ore prices may affect the financial performance of the Bloom Lake mine operations.

## Selected Annual Information

	Years ended March 31		
	2018	2017 Restated	2016
Total revenue	392,789	297,959	725,607
Loss from continuing operations attributable to the owners of the parent			
Total	74,474,977	23,779,223	7,768,983
Per share – basic and diluted	0.18	0.06	0.04
Total assets	401,716,122	173,222,387	85,494,303
Total non-current financial liabilities	345,268,168	83,909,047	1,178,777
Dividends declared per ordinary share	–	–	–

The loss increase is mainly related to non-capital restart costs at Bloom Lake mine. The increase in assets is associated with the mine development and plant upgrades projects at Bloom Lake mine and the increase in non-current financial liabilities is attributable to the long-term debt addition.

## Results of Operations

	3 months ended March 31,		Years ended March 31,	
	2018	2017	2018	2017
	\$	\$	\$	\$
<b>Other income</b>				
Interest	96,205	47,405	171,036	246,980
Other	110,822	3,178	221,753	50,979
	207,027	50,583	392,789	297,959
<b>Expenses</b>				
Professional fees	539,457	129,830	1,648,338	301,436
Salaries	4,586,987	184,958	5,046,061	441,988
Consulting fees	39,260	236,356	1,731,392	701,563
Share-based compensation	584,614	111,730	3,179,273	1,331,920
General and administrative	1,095,411	(62,808)	1,803,402	904,980
Investor relations	251,382	45,119	332,112	77,554
Travel	(40,093)	217,447	287,012	443,687
Exploration	(343,759)	2,400	200,692	80,619
Care, maintenance and restart costs of Bloom Lake	14,000,402	12,529,891	66,993,531	26,669,074
Depreciation	972,440	731,607	4,244,149	2,586,047
Gain on sale of property, plant and equipment	180,042	(2,888)	(994,173)	(433,038)
Foreign exchange (gain) loss	3,527,248	(9,484)	2,585,027	(987)
Unrealized loss on investments	103,000	(1,059,000)	(1,056,000)	(1,173,233)
Change in fair value of derivative liability	(2,901,000)	-	3,590,000	-
Accretion of borrowing costs and debt discount	1,796,743	-	4,206,818	-
Accretion of retirement obligation	182,000	165,000	695,000	632,500
Transaction costs	-	-	-	2,623,874
Interest expense	4,938,317	526,379	13,231,056	526,379
	29,512,451	13,746,537	107,723,690	35,714,363
Loss	(29,305,424)	(13,695,954)	(107,330,903)	(35,416,404)

### Year ended March 31

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

- a) Increase in professional fees related to the restart of Bloom Lake and associated contracts awarding and collective agreement renewal.
- b) Increase in salaries related to bonus payout.
- c) Increase in consulting fees reflects a bonus payout.
- d) Increase in stock-based compensation as a result of stock options and share rights issued.
- e) Increase in general & administration related to additional support from head office for Bloom Lake restart.
- f) Increase in care, maintenance and restart costs of Bloom Lake related to the restart of Bloom Lake.
- g) Increase in depreciation reflects incremental depreciation recorded for railcars acquired on March 10, 2017.
- h) Increase in gain on sale of property, plant and equipment reflects gains on the sale of spare tires.
- i) Increase in foreign exchange loss related to reassessment of debt nominated in US dollars.
- j) Increase in change in fair value of derivative liability is primarily related to conversion option for the Glencore convertible debt completed on October 13, 2017.
- k) Increase in accretion of borrowing costs and debt discount is related to long-term debt and convertible debenture completed in October 2017.
- l) Increase in interest expense reflects interest on deferred property taxes payable, note payable advanced on March 10, 2017, bridge loan advances from May 17, 2017 until repaid on October 16, 2017, Altius convertible debt advanced on June 1, 2017, Glencore convertible debt advanced on October 13, 2017 and Sprott and CDP long-term debt advanced since October 23, 2017.

### 3 months ended March 31

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

- a) Increase in professional fees related to the restart of Bloom Lake and associated contracts awarding and collective agreement renewal.
- b) Increase in salaries related to bonus payout.
- c) Increase in stock-based compensation as a result of stock options and share rights issued.
- d) Increase in general & administration related to additional support from head office for Bloom Lake restart.
- e) Increase in care, maintenance and restart costs of Bloom Lake related to the restart of Bloom Lake.
- f) Increase in depreciation reflects incremental depreciation recorded for railcars acquired on March 10, 2017.
- g) Increase in foreign exchange gain related to reassessment of debt nominated in US dollars.
- h) Increase in change in fair value of derivative liability is primarily related to conversion option for the Glencore convertible debt completed on October 13, 2017.
- i) Increase in accretion of borrowing costs and debt discount is related to long-term debt and convertible debenture completed in October 2017.
- j) Increase in interest expense reflects interest on deferred property taxes payable, note payable advanced on March 10, 2017, bridge loan advances from May 17, 2017 until repaid on October 16, 2017, Altius convertible debt advanced on June 1, 2017, Glencore convertible debt advanced on October 13, 2017 and Sprott and CDP long-term debt advanced since October 23, 2017.

### Summary of Quarterly Results

Years ended March 31	2017				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	\$	\$	\$	\$	\$	\$	\$	\$
Other income	66,073	129,333	51,971	3,178	25,844	145,990	13,927	110,822
Loss - total	6,742,516	7,731,624	7,246,312	13,695,952	7,794,332	16,215,811	54,015,336	29,305,424
Loss - per share	0.02	0.02	0.02	0.04	0.01	0.03	0.09	0.05

Changes in the quarterly loss compared to the previous quarter were due to the following factors:

- a) Increase in loss for Q4 2016 reflects an impairment of exploration and evaluation of \$1,906,806 and transaction costs of \$2,123,588.
- b) Increase in loss for Q1 2017 reflects transaction costs \$1,339,994 and 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.
- c) Increase loss for Q2 2017 reflects transaction costs of \$1,283,880.
- d) Increase in loss for Q4 2017 reflects property taxes payable for Bloom Lake for the year ended March 31, 2017.
- e) Increase in loss for Q2 2018 reflects costs related to the restart of Bloom Lake.
- f) Increase in loss for Q3 2018 reflects costs related to the restart of Bloom Lake.
- g) Decrease in loss for Q4 2018 reflects the start of operations at Bloom Lake and associated inventoried costs.

## Liquidity and Capital Resources

At March 31, 2018, the Company had cash of \$25,185,234 and undrawn lines of credit of US\$34,740,000 and with the recommencement of production at Bloom Lake, based on results to date and forecast production and sales for the remainder of the financial year, the Company expects that it will have positive cash flows and sufficient funds to continue funding monthly production cash costs of approximately \$28,200,000 and current year sustaining capital expenditures of \$21,700,000.

## Related Party Transactions

	Year ended March 31, 2018	Outstanding as at March 31, 2018
	\$	\$
<b>General and administrative</b>		
Rent to a company controlled by a director and with two members of key management personnel	102,136	—

See *Cluster 3* on page 10 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, 2018, \$48,000 was due from SFNQ.

## Changes in Accounting Policies including Initial Adoption

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

Australian Accounting Standards and International Financial Reporting Standards that have been issued but are not yet effective have not been adopted by the Company for the year ended March 31, 2018.

#### ***IFRS 9, Financial Instruments (“IFRS 9”)***

In July 2014, the International Accounting Standards Board (“IASB”) issued IFRS 9, which represents the final version of this standard and completes the IASB’s project to replace International Accounting Standard (“IAS”) 39, Financial Instruments: Recognition and Measurement. This standard includes updated guidance on the classification and measurement of financial assets and liabilities. This standard also introduces a new, expected loss impairment model that will require more timely recognition of expected credit losses. IFRS 9 also introduces a substantially-reformed model for hedge accounting with enhanced disclosures about risk management activity and aligns hedge accounting. This standard is effective for annual periods beginning on or after January 1, 2018. For the Group, IFRS 9 will be applied from 1 April 2018. The adoption of IFRS 9 is expected to have a profit or loss impact for an amount estimated between \$6M to \$9M on the Company’s separate financial statements, which represents write-downs or remeasurement of intercompany loans. There is no impact for the Group as intercompany loans eliminate on consolidation.

#### ***IFRS 15, Revenue from contracts with customers (“IFRS 15”)***

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18, Revenue, IAS 11, Construction Contracts, and several revenue-related interpretations. This standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRS, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities. The Company did not have any revenues in the current financial year. The company will adopt and apply IFRS 15 as of April 1, 2018.

#### ***IFRS 16, Leases (“IFRS 16”)***

IFRS 16 will replace IAS 17 ‘Leases’ and three related Interpretations. It completes the IASB’s long-running project to overhaul lease accounting. Leases will be recorded in the statement of financial position in the form of a right-of-use asset and a lease liability. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. The Company is yet to fully assess the impact of the Standard and therefore is unable to provide quantified information. However, in order to determine the impact, the Company is in the process of:

- performing a full review of all agreements to assess whether any additional contracts will become lease contracts under IFRS 16’s new definition of a lease;
- deciding which transitional provision to adopt; either full retrospective application or partial retrospective application (which means comparatives do not need to be restated). The partial application method also provides optional relief from reassessing whether contracts in place are, or contain, a lease, as well as other reliefs. Deciding which of these practical expedients to adopt is important as they are one-off choices;

- determining which optional accounting simplifications are available and whether to apply them and assessing the additional disclosures that will be required.

### **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 follow:

#### *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. See note 15.

#### *Units of production depreciation*

The units of production used in the depreciation calculation is based on the ore feed of the mill compared to life a mine feed.

#### *Stripping costs*

Stripping costs are estimated based on additional volume mined due to higher stripping ratio. A standard unit cost is applied to the volume. The unit cost is revalued on a quarterly basis.

#### *Impairment of exploration and evaluation assets*

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 cash generating units, the lowest levels of exploration and evaluation assets grouping, for which there are separately identifiable cash flows, generally on the basis of areas of geological interest.

#### *Foreign currency transactions*

Foreign currency transactions are translated into the functional currency of the Company's entities using the exchange rates prevailing at the dates of the transactions or an appropriate average exchange rate. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than the Company's functional currency are recognized in the statement of loss.

#### *Functional and presentation currency*

Items included in the financial statements of each consolidated entity of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements of entities that have a functional currency different from the Company are translated into Canadian dollars as follows: assets and liabilities are translated at the closing rate at the date of the statement of financial position, and income and expenses are translated at the average rate during an appropriate year. Equity transactions are translated using the exchange rate at the date of the transaction and all resulting changes are recognized in other comprehensive income as cumulative translation adjustments

#### *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 is based on the best estimate of the expenditures required to settle the present obligation at the end of the reporting period. The best estimate of the expenditure required to settle the present obligation is the amount that the company would rationally pay to settle obligation at the end of the reporting period or to transfer it to a third party. 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.

#### *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 and accounts payable and accrued liabilities*

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

#### *Investments*

The fair values of the investment in common shares of Fancamp, Lam  e and Eoro are measured at the bid market price on the measurement date.

#### *Convertible debenture*

The convertible debentures are evaluated by the Company based on parameters such as interest rates and the risk characteristics of the financial assets. As at March 31, 2018, the carrying amount of the convertible debentures was not materially different from its calculated value.

#### *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, 2018, the carrying amount of the note payable was not materially different from its calculated fair value.

#### *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 behavior), expected dividends, and the risk-free interest rate (based on government bonds).

Classification and fair values as at March 31, 2018

	Fair value through profit and loss \$	Loans and receivables \$	Other liabilities \$	Total carrying amount \$	Total fair value \$
<b>Assets</b>					
Current					
Cash and cash equivalents	7,894,505	–	–	7,894,505	7,894,505
Short-term investments	17,290,729	–	–	17,290,729	17,290,729
Receivables	–	25,839,669	–	25,839,669	25,839,669
Non-current					
Receivables	–	–	–	–	–
Investments	4,250,000	–	–	4,250,000	4,250,000
	29,435,234	25,839,669	–	55,274,903	55,274,903
<b>Liabilities</b>					
Current					
Accounts payable and accrued liabilities	–	–	61,180,892	61,180,892	61,180,892
Convertible debenture, Altius	–	–	9,790,999	9,790,999	9,790,999
Note Payable	–	–	36,437,761	36,437,761	36,437,761
Non-current					
Note payable	–	–	36,437,761	36,437,761	36,437,761
Property taxes payable	–	–	16,275,960	16,275,960	16,275,960
Long-term debt	–	–	141,225,222	141,225,222	141,225,222
Convertible debenture, Glencore	–	–	14,016,128	14,016,128	14,016,128
Royalty payable	–	–	300,000	300,000	300,000
	–	–	279,226,961	279,226,961	279,226,961

*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, 2018

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Financial asset at fair value through profit and loss</b>				
Cash and cash equivalents and short-term investments	25,185,234	–	–	25,185,234
Investments				
Common shares	4,250,000	–	–	4,250,000
<b>Financial liability</b>				
Convertible debenture, Altius	–	9,790,998	–	9,790,999
Note payable	–	36,437,761	–	36,437,761
Long-term debt	–	141,225,222	–	141,225,222
Convertible debenture, Glencore	–	14,016,128	–	14,016,128



## **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 section 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, receivables 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.

### ***Foreign currency risk***

Foreign currency risk is the risk that the Company financial performance will be affected by fluctuations in the exchange rates between currencies. The Company is subject to foreign exchange risk as some costs are denominated in United States dollar and Australian dollar. Therefore, the Company is subject to gains and losses due to fluctuations of those currencies. The Company does not use derivatives to manage the exposure to foreign exchange risk.

### ***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 investments as at March 31, 2018 had changed by 10%, with all other variables held constant, the loss would have decreased or increased by approximately \$425,000.

### ***Capital management***

Capital of the Company consists the components of shareholders' equity and debt facilities. 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 or new loans and borrowings. In order to achieve its objectives, the Company intends to raise additional funds as required.

Certain debt facilities contain operating and financial covenants that could restrict the ability of the Company and its subsidiaries to, among other things, incur additional indebtedness need to fund its respective operations. There are no other restrictions or externally imposed capital requirements to the Company.

## **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 International Financial Reporting Standards (“IFRS”). 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 effective.

### *Changes during the quarter*

The MD&A for the 9 months ended December 31, 2017 included the following disclosure:

“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.”

In the recently completed quarter, the Company continued its transition from an exploration and development company to a production company. In order to accommodate the increased level of activity associated with a production company, the Company hired 9 personnel, including a Corporate Controller, Financial Reporting Manager and staff of 4 to handle financial reporting, accounts payable and payroll and Financial Planning & Analysis Manager and a staff of 2 to handle financial planning and analysis. In addition, the Company installed an SAP ERP solution.

The hiring of additional personnel and the installation has provided the opportunity to design internal controls to address the DC&P and ICFR weaknesses caused by a lack of segregation of duties. With the segregation of duties and the implementation of the SAP ERP, the Company designed internal controls through policies and procedures to mitigate the risk over financial reporting. The internal controls include the segregation of duties and are preventive or detective in nature and encompass a range of manual and automated activities such as authorizations and approvals, verifications, reconciliations, and business performance reviews. Furthermore, the Company engaged an independent third-party consultant to perform appropriate internal control testing. Based on management’s own assessment combined with conclusion of the independent third-party consultant that the controls embedded in the Company processes or adequate compensating controls functioned as expected, management has concluded that the internal controls over financial reporting provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements in accordance with IFRS.

## **Shares Outstanding at June 29, 2018**

### **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:*

415,867,847 Ordinary Shares.

### **Stock Options Granted under the 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 (83,173,569 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.

*Outstanding:*

Exercise price	Expiry date	Number of stock options	
		Outstanding	Exercisable
A\$0.30	August 20, 2018	1,000,000	666,667
A\$0.50	November 29, 2018	2,300,000	2,300,000
A\$0.30	November 4, 2019	500,000	500,000
A\$0.20	April 11, 2020	6,250,000	6,250,000
A\$1.00	May 25, 2020	1,650,000	1,650,000
A\$1.08	July 11, 2020	600,000	200,000
A\$1.00	August 21, 2020	500,000	166,667
A\$1.24	April 26, 2021	200,000	200,000
C\$1.33	June 24, 2021	1,000,000	-
		14,000,000	11,933,334

On May 25, 2017, the Company granted 1,650,000 stock options to eligible individuals pursuant to the Company's share incentive plan entitling the holder to purchase one ordinary share for A\$1.00 until May 25, 2020. On the satisfaction of the Recommissioning KPM, 700,000 stock options vested and the remaining stock options vest, as follows: 650,000 on May 25, 2017, 150,000 on May 25, 2018, 150,000 on May 25, 2019.

After receiving shareholder approval on July 10, 2017, the Company granted 600,000 stock options to directors entitling the holder to purchase one ordinary share for A\$1.08 until July 11, 2020. The stock options vest, as follows: 200,000 on July 11, 2017, 200,000 on July 11, 2018 and 200,000 on July 11, 2019.

On August 21, 2017, the Company granted 500,000 stock options to a director entitling the holder to purchase one ordinary share for A\$1.00 until August 21, 2020. The stock options vest, as follows: 166,667 on August 21, 2017, 166,666 on August 21, 2018 and 166,666 on August 21, 2019.

On April 26, 2018, the Company granted 200,000 stock options to an employee entitling the holder to purchase one ordinary share for A\$1.24 until April 26, 2021. On the satisfaction of the Recommissioning KPM, 200,000 stock options were vested.

On June 24, 2018, the Company granted 1,000,000 stock options to two employees entitling the holder to purchase one ordinary share for C\$1.33 until June 24, 2021. The stock options vest, as follows: 166,666 on June 24, 2019, 166,666 on June 24, 2020 and 166,668 on June 24, 2021.

***Stock options granted outside of the Share Incentive Plan***

	Exercise price	Expiry date	Number of options outstanding and exercisable	Weighted-average exercise price
Balance, March 31, 2017 and March 31, 2018	\$0.45	September 1, 2018	1,000,000	\$0.45

**Compensation options**

	Exercise price	Expiry date	Number of options outstanding and exercisable	Weighted-average exercise price
Balance, March 31, 2017 and March 31, 2018	\$0.25	February 1, 2020	21,000,000	\$0.25

**Share rights**

	<b>Number of share rights</b>
Balance, March 31, 2017	—
Granted	2,250,000
Exercised	(2,250,000)
Balance, March 31, 2018	-

On May 25, 2017, the Company granted 1,250,000 share rights to employees entitling the holder to receive one ordinary share per share rights upon vesting. The share rights vested on the satisfaction of the Financing KPM and Recommissioning KPM.

After receiving shareholder approval on July 10, 2017, the Company granted 1,000,000 share rights to a director entitling the holder to receive one ordinary share per share rights upon vesting. The share rights vested on the satisfaction of the Financing KPM and Recommissioning KPM.

**Warrants**

<b>Exercise price</b>	<b>Expiry date</b>	<b>Warrants outstanding and exercisable</b>
\$1.125	October 16, 2022	3,000,000
\$1.125 (exercisable after October 16, 2018)	October 16, 2024	21,000,000
		24,000,000