



FINANCIAL REPORT

For the half year ended
30 September 2016

COMPANY DIRECTORY

DIRECTORS

Michael O'Keeffe (Executive Chairman and Chief Executive Officer)
Gary Lawler (Non-Executive Director)
Andrew Love (Non-Executive Director)
Michelle Cormier (Non-Executive Director)
Wayne Wouters (Non-Executive Director) appointed on November 1, 2016

COMPANY SECRETARIES

Jorge Estepa and Pradip Devalia

REGISTERED & PRINCIPAL OFFICE

Level 1, 91 Evans Street
Rozelle NSW 2039
Telephone: +61 2 9810 7816
Facsimile: +61 2 8065 5017
Website: <http://www.championiron.com>
ACN 119 770 142

AUDITORS

Ernst & Young
200 George Street
Sydney 2000 NSW

SHARE REGISTRIES

Security Transfer Registrars Pty Ltd
Suite 1, Alexandria House
770 Canning Highway
Applecross WA 6153
Telephone: +61 8 9315 2333
Facsimile: +61 8 9315 2233

TSX Trust Company
200 University Avenue, Suite 300
Toronto, ON, Canada M5H 4H1
Telephone: (416) 361-0930
Facsimile: (416) 361-0470

STOCK EXCHANGES

The Company's shares are listed on the Australian Stock Exchange (ASX) and Toronto Stock Exchange (TSX)

ASX CODE AND TSX SYMBOL

CIA (Fully Paid Ordinary Shares)

DIRECTORS' REPORT

Your directors present their report on Champion Iron Limited and its controlled entities (collectively, the "Company") for the 6 months ended September 30, 2016.

Acquisition of Bloom Lake and related rail assets

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

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

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

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

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

Subsequent to the acquisition of Bloom Lake, QIO is currently employing 44 workers in care and maintenance of the property.

In June of 2016, QIO has begun a feasibility study ("Feasibility Study") to investigate the potential re-start of the Bloom Lake mine and concentrator. To date, three engineering firms have been selected to complete the Feasibility Study. In connection with the commission and completion of the Feasibility Study, Australian-based Mineral Technologies has been mandated to complete a pilot plant to confirm the iron recovery from a new proposed production flowsheet. Iron ore samples from the Bloom Lake mine have been sent to Australia to the Mineral Technologies facilities to be processed in the pilot plant. The completion of the Feasibility Study is anticipated to occur in Q1 of 2017.

As at September 30, 2016, \$8,208,183 has been expended on care and maintenance at the Bloom Lake project.

Acquisition of Quinto Claims

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

The Quinto Claims, which encompass the Pepler Property (264 claims) and the Lamelee Property (194 claims), are located 50 km southwest of the Bloom Lake mine and 10 km from each other.

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

	\$
Consideration	
Cash	739,318
Deposit	37,500
	<hr/> 776,818

Financings

Private placement by the Company

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

Subscribers to the financing included:

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

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

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

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

Private placement by QIO

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

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

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

Consolidated Fire Lake North Project ("CFLN")

The Company continued exploration activity on the CFLN and spent \$500,222 in the 6 months ended September 30, 2016.

The Company holds 100% of CFLN, which is located adjacent (to the north) of ArcelorMittal's operating Fire Lake Mine and is 60 km to the south of the Company's Bloom Lake Mine in northeastern Quebec. CFLN is situated at the southern end of the Labrador Trough, which is known to contain coarser grained iron deposits due to higher grade metamorphism nearer to the Grenville geological province. The Fermont-Wabush-Labrador City Iron Ore District is a world-renowned iron ore mining camp and is considered to be an optimal location to develop iron ore resource projects.

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

Subsequent to the release of the PFS, on June 28, 2013, Champion terminated the July 2012 agreement related to the multi-user port facilities proposed at Pointe Noire, Sept-Îles, Quebec. The Company remains committed to developing the CFLN Project and securing transportation and port handling services that will permit the Company to place among the lowest cost iron producers in the Labrador Trough.

Exploration and Development Activity

The Company is planning on completing a full feasibility study ("CFLN Feasibility Study") for the development of a long-life, low-cost operation at the Consolidated Fire Lake North Property ("Consolidated Fire Lake North" or "CFLN") yielding 9.3Mtpa of concentrate at 66% Fe. The Company continued work on reviewing and preparing the CFLN Feasibility Study. The major improvements targeted are the increase in iron recovery with a better recovery circuit and the decrease in stripping ratio resulting from the data from the 2014 geotechnical drill hole campaign. Champion has also had discussions with major equipment suppliers to develop a long term partnership from the Feasibility Study to the start-up/ramp-up phases of the CFLN project.

With the completion of the PFS in early 2013 (see Consolidated Fire Lake North Property – Preliminary Feasibility Study above) and the exploration phase of CFLN, the Company has significantly curtailed exploration and development expenditures at CFLN. Expenditures in the current year were undertaken primarily to maintain current claim holdings. The exploration camp was been dismantled in order to minimize costs.

The Company intends to finance its CFLN Feasibility Study from its working capital resources.

Previously, on October 27, 2014, the Company announced that P&E Mining Consultants completed an independent audit of the CFLN project database and produced an updated Mineral Resource Estimate of over 1.2 billion tonnes, including 755 million tonnes of Measured and Indicated metallurgical coarse grained hematite mineralization for CFLN in compliance with Joint Ore Reserves Committee ("JORC")¹ and National Instrument 43-101 ("NI 43-101") guidelines.

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.

¹ The Company is not aware of any new information or data that materially affects the information included in the JORC report and confirms that all material assumptions and technical parameters underpinning the estimates in the JORC Resource & Reserve statement continue to apply and have not materially changed.

Rail Solution

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

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

Remaining geotechnical investigations along the Phase 1A alignment approaching the Port are in progress and Phase 1B investigations will be completed when all permits have been received in the coming weeks. The proposed phase 1B portion would extend the rail line from Fire Lake North to Bloom Lake.

Sept-Îles Port Authority

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

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

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

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

The Port is disputing the Company’s entitlement to terminate the Agreement and on June 21, 2016, the Port sent the Company a notice of arbitration to have the dispute between the Company and Port referred to arbitration pursuant to the terms of the Agreement. As part of this arbitration, it is expected that the Port will be seeking an order forcing the payment of the unpaid advances of \$19,581,000 plus interest, while the Company will contest this claim and ask for the reimbursement of the Advances paid plus interest.

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

Cluster 3 Properties

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

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

At March 31, 2016, the Company and Cartier were in discussions with respect to the unpaid option payment of \$200,000 that was due on December 10, 2015. The Company did not record a receivable for the option payment.

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

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

	Option payments \$	Common shares Number	Fair value \$	Exploration expenditures \$
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 (Note 1)	500,000	12,500	–
December 10, 2016 (incurred)	–	–	–	1,800,000 (note 3)
December 10, 2016	450,000 (Note 2)	–	–	–
	1,000,000	2,500,000	422,500	3,050,000 (note 4)

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

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

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

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

b) repay the Term Loan.

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

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

Snelgrove Lake

At March 31, 2016, the Company had an option to acquire a 100% interest in 4 licenses covering 106 square kilometres located approximately 55 kilometres southeast of Schefferville, Newfoundland. Snelgrove Lake is encumbered with a 3% gross sales royalty. In order to earn its interest, the Company must issue Performance Shares, grant options, make option payments and incur exploration expenditures, as follows:

	Issue Performance shares	Grant options	Option payments A\$	Option payments \$	Exploration expenditures \$
October 2012 (issued and paid)	32,000,000	17,000,000	425,000	410,000	–
March 11, 2014 (incurred)	–	–	–	–	3,250,000
August 1, 2018	–	–	–	5,750,000	3,250,000
	32,000,000	17,000,000	425,000	6,160,000	6,500,000

Up to March 31, 2016, the Company had incurred exploration expenditures of approximately \$6,400,000.

During the year ended March 31, 2014, as the Company had not budgeted nor planned any substantive expenditure on further exploration for and evaluation of mineral resources for Snelgrove Lake, the Company recorded an impairment loss to write off Snelgrove Lake.

On May 17, 2016, the Company terminated the option to acquire Snelgrove Lake.

Due from Cartier Iron Corporation

The principal amount of \$1,284,716 due from Cartier was, prior to May 17, 2016, a demand loan, which was unsecured, bore interest at the rate of LIBOR plus 2% and was due 6 months after the Company demanded repayment (the "Demand Loan"). The Company had the right to convert the Demand Loan, plus accrued but unpaid interest, into Cartier common shares at a conversion price equal to the lowest subscription price per Cartier common share paid for the most recent capital raising undertaken by Cartier at the time of the conversion, subject to the minimum pricing rules and stock exchange approval.

On May 17, 2016, the Company converted the Demand Loan to a term loan, which is unsecured, bears interest at the rate of LIBOR plus 2% and is due on September 30, 2017 ("Term Loan"). The Company has the right to convert the Term Loan, plus accrued but unpaid interest, into Cartier common shares at a conversion price equal to the lowest subscription price per Cartier common share paid for the most recent capital raising undertaken by Cartier at the time of the conversion, subject to the minimum pricing rules and stock exchange approval.

Investment in Cartier

At September 30, 2015, the Company compared the carrying value of investment in Cartier to the fair value less costs to sell the common shares of Cartier as indicated by the trading price on the Canadian Securities Exchange. As the carrying value exceeded the fair value, the Company recorded an impairment loss of \$512,000.

For the year ended March 31, 2016, the Company's share of Cartier's net loss exceeded its remaining investment in Cartier. Accordingly, the investment in Cartier was written down to nil.

At March 31, 2016, the Company held 11,519,970 common shares of Cartier, representing 34% of the issued and outstanding common shares of Cartier and 6,176,470 warrants entitling the Company to purchase one common share of Cartier for \$0.22 until April 17, 2016. If the average closing price of common shares of Cartier is greater than \$0.40 for 20 consecutive business days, the warrants must be exercised within 10 calendar days of Cartier providing written notice (or such longer period as Cartier may provide), or they will be cancelled. The warrants expired on April 17, 2016 and there was no financial impact on the Company.

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

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

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

- a) Cartier shall take all commercially reasonable steps to have a nominee of the Company elected as a director ("Nominee") the board of directors of the Company ("Board").

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

Grant of stock options

On April 11, 2016, the Company granted 7,500,000 to employees of the Company, entitling the holder to purchase one ordinary share at the price of A\$0.20 until April 11, 2020.

Operational Update

Annual General Meeting

The Company held its Annual General Meeting of Shareholders on August 18, 2016 at which all resolutions put before the shareholders were passed.

Securities

At September 30, 2016, the Company had the following securities on issue:

- Ordinary shares
- Exchangeable shares
- unlisted stock options

PRESENTATION OF HALF-YEARLY FINANCIAL REPORT

The Board of Directors of Champion Iron Limited present herewith the consolidated financial report of the entity for the half year ended September 30, 2016. In order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

Directors

The Directors of the Company at any time during or since the end of the half year are:

Director	Position	Note
Michael O'Keeffe	Executive Chairman and Chief Executive Officer	
Gary Lawler	Non-executive Director	Independent director
Andrew Love	Non-executive Director	Independent director
Paul Ankcorn	Non-executive Director	Independent director resigned on June 15, 2016
Michelle Cormier	Non-executive Director	Director appointed on April 11, 2016
Wayne Wouters	Non-executive Director	Independent director appointed on November 1, 2016

Company Secretaries

Pradip Devalia	Company Secretary-Australia
Jorge Estepa	Company Secretary-Canada

Principal Activity

The Company's principal activity is the exploration and development of iron ore properties in Québec, Canada.

Results of Operation

The Company incurred an after tax operating loss for the half year ended September 30, 2016 of \$14,474,138 (2015: \$2,287,333).

Consolidation

The Company has prepared the financial report as a consolidated entity.

Auditor's Independence Declaration

Ernst & Young are the auditors of the Company. A copy of their auditor's independence declaration for the half-year ended September 30, 2016 as required under section 307C of the *Corporations Act 2001* is set out on page 5 and forms part of this Directors' Report.

Signed in accordance with a resolution of the Directors made pursuant to section 306(3) of the *Corporations Act 2001*.



Michael O'Keeffe
Executive Chairman
Sydney, New South Wales
November 15, 2016

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Champion Iron Limited, I state that:

In the Opinion of the Directors:

- a) the financial statements and notes of the Company are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position as at September 30, 2016 and the performance for the half year ended on that date, and
 - (ii) complying with Accounting Standard AASB 134: "*Interim Financial Reporting*".
- b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors



Michael O'Keeffe, Executive Chairman



Andrew Love, Non-Executive Director

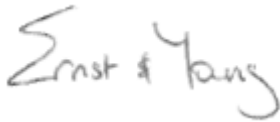
Sydney, New South Wales
November 15, 2016

Auditor's Independence Declaration to the Directors of Champion Iron Limited

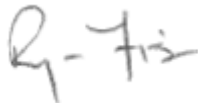
As lead auditor for the review of Champion Iron Limited for the half-year ended 30 September 2016, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Champion Iron Limited and the entities it controlled during the financial period.



Ernst & Young



Ryan Fisk
Partner
Sydney
14 November 2016

To the members of Champion Iron Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Champion Iron Limited, which comprises the consolidated statement of financial position as at 30 September 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 September 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Champion Iron Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

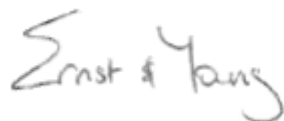
Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

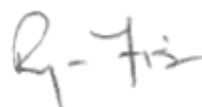
Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Champion Iron Limited is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated entity's financial position as at 30 September 2016 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



Ryan Fisk
Partner
Sydney
14 November 2016

Champion Iron Limited

Condensed Interim Consolidated Financial Statements

September 30, 2016

(expressed in Canadian dollars)

(unaudited)

Champion Iron Limited

Consolidated Statements of Financial Position

(expressed in Canadian dollars)
(unaudited)

	Notes	As at September 30, 2016 \$	As at March 31, 2016 \$
Assets			
Current			
Cash and cash equivalents		773,520	293,714
Short-term investments	4	26,594,115	1,377,302
Receivables	5	819,163	277,822
Due from Cartier Iron Corporation	6	1,341,430	-
Due from SFNQ	7	51,708	125,050
Prepaid expenses		750,837	436,456
Deposits	8	1,000,000	1,600,000
		31,330,773	4,110,344
Non-current			
Receivables	5	3,221,692	4,883,659
Due from Cartier Iron Corporation	6	-	1,325,504
Investments	9	1,155,500	944,500
Long-term advance	10	6,000,000	6,000,000
Property, plant and equipment	11	30,165,031	21,926
Exploration and evaluation	12	69,487,106	68,208,370
		141,360,102	85,494,303
Liabilities			
Current			
Accounts payable and accrued liabilities		1,315,099	878,777
Non-current			
Royalty payable	13	300,000	300,000
Rehabilitation obligation	14	24,825,500	-
		26,440,599	1,178,777
Shareholders' equity			
Capital stock	15	201,989,902	174,509,902
Contributed surplus		19,952,026	16,268,574
Foreign currency translation reserve		(44,148)	41,189
Non-controlling interest		9,689,823	-
Accumulated deficit		(116,668,100)	(106,504,139)
		114,919,503	84,315,526
		141,360,102	85,494,303

On behalf of the Board:



Director



Director

Champion Iron Limited

Consolidated Statements of Loss and Comprehensive Loss

(expressed in Canadian dollars)
(unaudited)

	Notes	3 months ended September 30,		6 months ended September 30,	
		2016 \$	2015 \$	2016 \$	2015 \$
Other income					
Interest		82,732	8,223	147,604	76,087
Other		46,601	141,005	47,801	290,824
		129,333	149,228	195,405	366,911
Expenses					
Professional fees		12,640	132,162	121,493	148,412
Salaries		81,950	95,670	175,026	195,502
Consulting fees		150,901	140,420	287,192	277,367
Share-based compensation		56,730	66,835	1,163,460	132,232
General and administrative		258,170	203,452	581,181	413,159
Investor relations		8,618	15,747	13,468	29,068
Travel		62,575	94,077	197,711	152,808
Exploration		11,548	13,250	24,223	14,150
Care and maintenance of Bloom Lake		4,855,858	-	8,208,183	-
Depreciation		545,489	-	1,214,777	-
Interest expense		165,000	-	302,500	-
Foreign exchange loss (gain)		(44,705)	11,570	4,957	16,431
Gain on sale of property, plant and equipment		-	-	(37,500)	-
Unrealized (gain) loss on investments	9	412,300	219,600	(211,000)	553,500
Impairment of investment in associate		-	512,000	-	512,000
Transaction costs		1,283,880	-	2,623,874	-
		7,860,955	1,504,784	14,669,544	2,444,628
Loss before share of net loss of an associate		(7,731,622)	(1,355,556)	(14,474,138)	(2,077,718)
Share of net loss of associate accounted for using the equity method		-	(129,941)	-	(209,615)
Loss		(7,731,622)	(1,485,497)	(14,474,138)	(2,287,333)
Item that may be reclassified in future periods to the statement of loss					
Net movement in foreign currency		(51,585)	8,155	(85,337)	9,940
Total comprehensive loss		(7,783,207)	(1,477,341)	(14,559,475)	(2,277,393)
Loss attributable to:					
Equity holders of Champion		(5,428,616)	(1,485,497)	(10,163,961)	(2,287,333)
Non-controlling interest		(2,303,006)	-	(4,310,177)	-
Loss		(7,731,622)	(1,485,497)	(14,474,138)	(2,287,333)
Loss per share - basic and diluted		(0.020)	(0.007)	(0.039)	(0.012)
Weighted average number of shares outstanding - basic and diluted		385,819,930	198,311,833	374,549,292	197,489,430

Champion Iron Limited

Consolidated Statements of Changes in Equity

(expressed in Canadian dollars)
(unaudited)

	Capital stock \$	Warrants \$	Contributed surplus \$	Foreign currency translation reserve \$	Non- controlling interest \$	Deficit \$	Total \$
Balance, March 31, 2016	174,509,902	-	16,268,574	41,189	-	(106,504,139)	84,315,526
Loss	-	-	-	-	(4,310,177)	(10,163,961)	(14,474,138)
Other comprehensive loss	-	-	-	(85,337)	-	-	(85,337)
Total comprehensive loss	-	-	-	(85,337)	(4,310,177)	(10,163,961)	(14,559,475)
Private placement of ordinary shares	30,000,000	-	-	-	-	-	30,000,000
Private placement	-	-	-	-	14,000,000	-	14,000,000
Share-based compensation	-	-	1,163,452	-	-	-	1,163,452
Fair value of compensation options	(2,520,000)	-	2,520,000	-	-	-	-
Balance, September 30, 2016	201,989,902	-	19,952,026	(44,148)	9,689,823	(116,668,100)	114,919,503
Balance, March 31, 2015	171,420,382	3,089,520	15,996,920	(429,098)	-	(98,735,201)	91,342,524
Loss	-	-	-	-	-	(2,287,333)	(2,287,333)
Other comprehensive loss	-	-	-	9,940	-	-	9,940
Total comprehensive loss	-	-	-	9,940	-	(2,287,333)	(2,277,393)
Share-based compensation	-	-	132,232	-	-	-	132,232
Fair value of expired warrants	3,089,520	(3,089,520)	-	-	-	-	-
Balance, September 30, 2015	174,509,902	-	16,129,152	(419,158)	-	(101,022,534)	89,197,363

Champion Iron Limited

Consolidated Statements of Cash Flows

(expressed in Canadian dollars)
(unaudited)

	6 months ended September 30,	
	2016	2015
Notes	\$	\$
Cash provided by (used in)		
Operating activities		
Loss	(14,474,138)	(2,287,333)
Non-operating transaction costs	2,623,874	-
Items not affecting cash		
Interest not received	(15,926)	(13,288)
Share-based compensation	1,163,460	132,232
Depreciation	1,214,777	15,698
Accretion of rehabilitation obligation	302,500	-
Gain on sale of equipment	(37,500)	-
Unrealized (gain) loss on investments	9 (211,000)	553,500
Impairment of investment in associate	-	512,000
Share of net loss of associate accounted for using the equity method	-	209,615
	(9,433,953)	(877,576)
Changes in non-cash operating working capital		
Receivables	(642,909)	(167,209)
Due from SFNQ	73,342	(28,319)
Prepaid expenses	(314,381)	(99,954)
Deposit	600,000	(600,000)
Accounts payable and accrued liabilities	438,933	(627,550)
	(9,278,968)	(2,400,608)
Financing activities		
Private placement of ordinary shares	30,000,000	-
Private placement of common shares of Quebec Iron	14,000,000	-
	44,000,000	-
Investing activities		
Receipt of refundable tax credit on exploration	5 1,763,536	1,135,539
Receipt of credit on duties	-	2,936,222
Investment in term deposits	4 (25,216,813)	(1,800,000)
Acquisition of Bloom Lake	(9,800,000)	-
Purchase of Quinto claims	(776,818)	-
Proceeds on sale of equipment	12 3,000,000	-
Exploration and evaluation	(501,919)	(460,334)
Acquisition of royalty	-	(50,000)
Transaction costs	(2,623,874)	-
	(34,155,888)	1,761,427
Net decrease in cash and cash equivalents	565,144	(639,181)
Cash and cash equivalents, beginning of period	293,714	1,346,685
Effects of exchange rate changes	(85,337)	9,940
Cash and cash equivalents, end of period	773,521	717,444

Champion Iron Limited

Notes to Condensed Interim Consolidated Financial Statements

September 30, 2016

(unaudited)

1. Basis of presentation

Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*.

These condensed interim consolidated financial statements do not include certain information and disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") and should be read in conjunction with the Company's annual financial statements for the year ended March 31, 2016, which were prepared in accordance with IFRS as issued by the International Accounting Standards Board.

These condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors on November 14, 2016.

2. Significant accounting policies and future accounting changes

The accounting policies used in these condensed interim consolidated financial statements are consistent with those disclosed in the Company's audited financial statements for the year ended March 31, 2016.

In the preparation of the condensed interim consolidated financial statements, the Company adopted the following accounting policies:

Property, plant and equipment

Property, plant and equipment are carried at historical cost less any accumulated depreciation and impairment losses.

Depreciation is calculated on following basis over the estimated useful lives of property, plant and equipment:

Mobile equipment and parts	Straight-line over 10 years
Rail	Straight-line over 24 years
Mine	Unit-of-production over life of mine
Mineral rights	Unit-of-production over life of mine
Housing	Straight-line over 24 years

Rehabilitation obligation

The Company records a rehabilitation obligation for legal and constructive asset retirement obligations. Rehabilitation obligation is recorded for restoration in the financial period upon business combination or when the related environmental disturbance occurs, based on the estimated future costs and timing of expenditures using information available at year end. The obligation is discounted using a pre-tax rate that reflects the risk specific to the rehabilitation liabilities and the unwinding of the discount is recognized in the pro forma statement of loss and comprehensive loss as accretion of rehabilitation obligation.

Subsequent changes in the estimated costs are recognized within property, plant and equipment. The estimated future costs of rehabilitation are reviewed on a regular basis for changes to obligations, timing of expenditures, legislation or discount rates that impact estimated costs. The cost of the related asset is adjusted for changes in the provision resulting from changes in the estimated cash flows or discount rate and the adjusted cost of the asset is depreciated prospectively unless the corresponding asset is fully depreciated in which case the change is recognized immediately in the consolidated statements of loss and comprehensive loss.

Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if, and only if, the Company has all of the following:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary.

All intra-group assets and liabilities, revenues, expenses and cash flows relating to intra-group transactions are eliminated.

Non-controlling interest

Non-controlling interest represents the minority shareholder's portion of the profit or loss and net assets of subsidiaries and is presented separately in the statement of financial position and statement of loss and comprehensive loss. Losses within a subsidiary are attributable to the non-controlling interests even if that results in a deficit balance.

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. The Company has not determined the extent of the impact of these standards and does not plan to early adopt these new standards.

3. Acquisitions and private placement

On April 11, 2016, the Company, through its wholly-owned subsidiary, Québec Iron Ore Inc. ("QIO"), acquired Bloom Lake from affiliates of Cliffs Natural Resources Inc. that were subject to restructuring proceedings under the *Companies' Creditors Arrangement Act (Canada)* ("CCAA").

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

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

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

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

The Company has determined the fair value of its rehabilitation liabilities by using a discount rate of 2.5%. The liabilities accrete to their future value until the obligations are completed. The estimated rehabilitation expenditures may vary based on changes in operations, cost of rehabilitation activities, and legislative or regulatory requirements. Although the ultimate amount to be incurred is uncertain, the liability for rehabilitation on an undiscounted basis is estimated to be approximately \$41,700,000. The cash flows required to settle the liability are expected to be incurred primarily in 2037.

Acquisition of Quinto Claims

In addition, on April 11, 2016, the Company, through its wholly-owned subsidiary, Champion Iron Mines Limited, acquired the Quinto Claims from affiliates of Cliffs Natural Resources Inc. that were subject to restructuring proceedings under the CCAA.

The Quinto Claims, which encompass the Pepler Property (264 claims) and the Lamelee Property (194 claims), are an exploration project with no proven or estimated reserves located 50 km southwest of the Bloom Lake mine and 10 km from each other.

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

	\$
Consideration	
Cash	739,318
Deposit	37,500
	776,818

Private placement

On April 11, 2016, in order to fund the Acquisitions and to provide for working capital requirements, the Company completed a private placement of 187,500,000 ordinary shares at a price of \$0.16 per share for gross proceeds of \$30,000,000 ("Private Placement"). In connection with the Private Placement, the Company received commitments from two parties ("Initial Subscribers") to backstop up to \$15,000,000 of the Private Placement. One of the Initial Subscribers was arm's length while the other was a company controlled by a director and officer of the Company. The Initial Subscribers each agreed to purchase 46,875,000 ordinary shares (the "Committed Shares") under the Private Placement, subject to their right to engage dealers to find substituted purchasers to purchase all or a portion of the Committed Shares. In connection with their commitment to subscribe for the Committed Shares, the Company granted 15,000,000 compensation options to the Initial Subscribers, entitling the holder to purchase one ordinary share for \$0.25 until February 1, 2020. For one year after the closing of the Private Placement, the Initial Subscribers are restricted from selling, pledging or granting any rights with respect to the acquired ordinary shares, except in certain limited circumstances.

A summary of the assumptions for the calculation of the fair value of those compensation options using the Black-Scholes option pricing model is presented below:

Date of grant	April 11, 2016
Expiry date	February 1, 2020
Options granted	15,000,000
Exercise price	\$0.25
Share price	\$0.21
Risk-free interest rate	2.5%
Expected volatility based on historical volatility	80%
Expected life of stock options	4 years
Expected dividend yield	0%
Forfeiture rate	0%
Vesting	On date of grant
Fair value	\$1,800,000

In connection with the Private Placement, subject to certain terms and conditions, 2 subscribers were both granted the following rights for as long as they hold more than 10% of the issued and outstanding ordinary shares of the Company:

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

Private placement by QIO

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

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

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

A summary of the assumptions for the calculation of the fair value of those compensation options using the Black-Scholes option pricing model is presented below:

Date of grant	April 11, 2016
Expiry date	February 1, 2020
Options granted	6,000,000
Exercise price	\$0.25
Share price	\$0.21
Risk-free interest rate	2.5%
Expected volatility based on historical volatility	80%
Expected life of stock options	4 years
Expected dividend yield	0%
Forfeiture rate	0%
Vesting	On date of grant
Fair value	\$720,000

Grant of stock options

On April 12, 2016, in connection with the Acquisitions, the Company granted 7,500,000 to employees of the Company, entitling the holder to purchase one ordinary share at the price of Australian \$0.20 until April 12, 2020.

A summary of the assumptions for the calculation of the fair value of those stock options using the Black-Scholes option pricing model is presented below:

Date of grant	April 12, 2016
Expiry date	April 12, 2020
Options granted	7,500,000
Exercise price	A\$0.20
Share price	A\$0.22
Risk-free interest rate	2.5%
Expected volatility based on historical volatility	80%
Expected life of stock options	4 years
Expected dividend yield	0%
Forfeiture rate	0%
Vesting	On date of grant
Fair value	\$1,050,000
Fair value per stock option	\$0.14

4. Short-term investments

Maturity	Interest rate	\$
On demand	0.80%	11,820,495
On demand	0.80%	13,034,318
October 13, 2016	1.00%	100,000
March 31, 2017	1.00%	500,000
March 31, 2017	1.00%	577,302
April 15, 2017	0.85%	250,000
April 21, 2017	0.85%	100,000
August 9, 2017	0.95%	212,000
		26,594,115

Short-term investments of \$1,077,302 have been pledged as security for letters of credit of \$1,077,302, \$350,000 have been pledged as security for credit card obligations and \$212,000 have been pledged as security for obligations under a lease agreement for office premises.

5. Receivables

The Company files a Québec Corporation Income Tax Return claiming a refundable tax credit on eligible exploration expenditures incurred in Québec ("Refundable Tax Credits") and a Québec Mining Duties Return claiming a credit on duties refundable for losses ("Credit on Duties").

	Claims for years ended March 31,				Receivable as at	
	2016	2015	2014	2013	September 30, 2016	March 31, 2016
Refundable Tax Credits						
As filed (2016-to be filed)	238,821	1,697,062	1,410,115	7,555,705		
Receivable						
Current	–	–	–	–	–	101,568
Non-current	191,000	1,357,650	–	1,637,042	3,221,692	4,883,659
	191,000	1,357,650	–	1,637,042	3,221,692	4,985,227
Credit on Duties						
As filed	–	329,731	209,515	1,122,562		
Receivable						
Current	–	–	–	–	–	1,135,539
Harmonized and Quebec sales taxes and other						
Receivable						
Current					819,163	176,255
Total					4,040,854	5,161,481
Current					819,163	277,822
Non-current					3,221,692	4,883,659
					4,040,854	5,161,481

It is the Company's policy to record an estimate of amounts to be received for unassessed claims for Refundable Tax Credits and Credits on Duties as a receivable and a reduction to exploration and evaluation assets when there is reasonable assurance that the Company has complied with all conditions needed to obtain the credits. Due to the assessment process and the length of time involved, the Company estimates the amount of the receivables that it does not expect to receive in the next 12 months and classifies the amount as a non-current receivable.

During the year, the Company received \$1,435,358 and \$328,178 in respect of its claims for the Refundable Tax Credit related to the years ended March 31, 2013 and 2014, respectively.

The amount of the unassessed and uncollected claims is subject to audit by Revenu Québec and Ressources naturelles et Faune Québec.

6. Due from Cartier Iron Corporation

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

On May 17, 2016, the Company converted the Demand Loan to a term loan, which is unsecured, bears interest at the rate of LIBOR plus 2% and is due on September 30, 2017 (“Term Loan”). The Company has the right to convert the Term Loan, plus accrued but unpaid interest, into Cartier common shares at a conversion price equal to the lowest subscription price per Cartier common share paid for the most recent capital raising undertaken by Cartier at the time of the conversion, subject to the minimum pricing rules and stock exchange approval.

At September 30, 2016, the principal amount of the Term Loan and accrued interest was \$1,341,430 and or the 6 months ended September 30, 2016, interest of \$15,927 was accrued.

One director of the Company is a director of Cartier.

7. Due from SFNQ

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

Other income includes nil (2015 - \$132,000) for management services provided the Company in its capacity of general partner of SFNQ. As at September 30, 2016, \$51,708 was due from SFNQ.

8. Deposit

Acquisition of an interest in rail and port infrastructure at Sept-Îles

The Government of Québec, through Investissement Québec, will invest \$68,000,000 in a limited partnership with other industry partners (“Limited Partnership”) to acquire, hold and operate land, equipment and rights related to railway operations, warehousing, pelletizing and transshipment owned by Wabush Mines Joint Venture and Cliffs Quebec Iron Mining located in the Pointe-Noire sector in Sept-Îles.

The Company has expressed its interest in participating in the Limited Partnership and made a deposit of \$1,000,000, representing its contribution to the capital of the Limited Partnership.

9. Investments

The fair values of the Company’s investments are as follows:

	As at September 30, 2016 \$	As at March 31, 2016 \$
Investment in common shares		
Fancamp Exploration Ltd. (“Fancamp”)	770,000	506,000
Century Global Commodities Corporation (“Century”)	325,500	418,500
Lamêlée Iron Ore Ltd. (“Lamêlée”)	60,000	20,000
	1,155,500	944,500

Investments in common shares are classified as financial assets at fair value through profit or loss. For the 6 months ended September 30, 2016, the increase in the fair value of investments in common shares of \$211,000 has been recorded as an unrealized gain on investments in the consolidated statement of loss and comprehensive loss.

Fancamp

The Company and Fancamp have entered into a reciprocal rights agreement governing certain investor rights and obligations as between them. The Company and Fancamp will each be restricted from transferring securities of the other until May 17, 2018, after which time, transfers will be permitted subject to certain restrictions.

Century

The Century common shares were subject to a hold period which ended on November 29, 2015, after which, in the event that the Company seeks to sell Century common shares, Century will have a right of first refusal to arrange sales.

The Company holds 930,000 warrants entitling it to purchase one common share of Century for:

Exercise price

\$1.50
\$2.00
\$2.50

Exercise period

November 30, 2015 to November 29, 2016
November 30, 2016 to November 29, 2017
November 30, 2017 to November 29, 2018

10. Long-term advance to Sept-Îles Port Authority (“Port”)

On July 13, 2012, the Company 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, the Company was to pay \$25,581,000 and take-or-pay payments as an advance on the Company’s future shipping, wharfage and equipment fees. The Company provided the Port with irrevocable guarantees in the form of a deed of hypothec regarding its mining rights, title and interest over Moire Lake and Don Lake (“Mining Rights”) to secure its obligations under the Agreement.

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

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

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

The Port is disputing the Company’s entitlement to terminate the Agreement and on June 21, 2016, the Port sent the Company a notice of arbitration to have the dispute between the Company and Port referred to arbitration pursuant to the terms of the Agreement. As part of this arbitration, it is expected that the Port will be seeking an order forcing the payment of the unpaid advances of \$19,581,000 plus interest, while the Company will contest this claim and ask for the reimbursement of the Advances paid plus interest.

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

11. Property, plant and equipment

	Mobile equipment and parts \$	Rail \$	Mine \$	Mineral rights \$	Housing \$	Other \$	Total \$
Cost							
Balance, March 31, 2016	–	–	–	–	–	114,925	114,925
Additions	26,573,000	750,000	1,500,000	1,500,000	4,000,000	–	34,323,000
Disposals	(3,000,000)	–	–	–	–	–	(3,000,000)
Balance, September 30, 2016	23,573,000	750,000	1,500,000	1,500,000	4,000,000	114,925	31,437,925
Accumulated depreciation							
Balance, March 31, 2016	–	–	–	–	–	92,999	92,999
Depreciation	1,117,929	14,323	–	–	76,389	8,754	1,217,395
Disposals	(37,500)	–	–	–	–	–	(37,500)
Balance, September 30, 2016	1,080,429	14,323	–	–	76,389	101,753	1,272,894
Net book value, September 30, 2016	22,492,571	735,677	1,500,000	1,500,000	3,923,611	13,172	30,165,031

12. Exploration and evaluation assets

	March 31, 2016 \$	Acquisition costs \$	Exploration \$	Mining tax credits \$	September 30, 2016 \$
Fermont					
Consolidated Fire Lake North	54,199,921	10,506	500,222	(36,182)	54,674,469
Harvey-Tuttle	6,584,301	3,871	11,474	–	6,599,646
Moire Lake	2,930,272	1,229	–	–	2,931,501
O'Keefe Purdy	3,217,816	4,562	–	–	3,222,378
Other	1,276,060	6,234	–	–	1,282,294
Quinto	–	776,818	–	–	776,818
	68,208,370	803,220	511,696	(36,182)	69,487,106

Fermont

The Company owns a 100% interest in Fermont consisting of 11 mineral concessions covering an area of 787 square kilometres situated in northeastern Quebec ("Fermont"), subject to a net smelter return royalty of 1.5% (1.5% NSR). For reporting purposes, Fire Lake North, Oil Can, Bellechasse and Midway properties were consolidated into one property known as Consolidated Fire Lake North.

Other properties include Audrey-Ernie, Black Dan, Jeannine Lake and Penguin properties.

Grant of option for Cluster 3 Properties to Cartier Iron Corporation

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

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

At March 31, 2016, the Company and Cartier were in discussions with respect to the unpaid option payment of \$200,000 that was due on December 10, 2015. The Company did not record a receivable for the option payment.

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

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

	Option 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 (Note 1)	500,000	12,500	–
December 10, 2016 (incurred)	–	–	–	1,800,000 (note 3)
December 10, 2016	450,000 (Note 2)	–	–	–
	1,000,000	2,500,000	422,500	3,050,000 (note 4)

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

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

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

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

b) repay the Term Loan.

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

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

13. Royalty payable

On March 31, 2014, the Company recorded an estimate of the fair value of the 3% NSR as an acquisition cost of exploration and evaluation of Fermont and an offsetting royalty payable. On June 25, 2015, the Company completed an arrangement to reduce the 3% NSR to 1.5% NSR by paying \$50,000 on closing and \$250,000 on October 25, 2015 ("Arrangement"), and therefore, the fair value of the 3% NSR was estimated to be \$600,000 as at March 31, 2015. The Arrangement remains the best indicator of the fair value of the 1.5% NSR, and therefore, the fair value of the 1.5% NSR has been estimated to be \$300,000 as at September 30, 2016.

14. Rehabilitation obligation

	\$
Balance, March 31, 2016	–
Addition (Note 3)	24,523,000
Accretion of rehabilitation obligation	302,500
Balance, September 30, 2016	24,825,500

The accretion in rehabilitation obligation arises from the unwinding of the discount rate used to record the liability as if the liability were incurred in the current period.

15. Capital stock

The Company is authorized to issue ordinary shares, performance shares, exchangeable shares and special voting shares.

Each Exchangeable Share will be exchangeable into an ordinary share at no cost to the holder from January 1, 2015 or earlier on the occurrence of certain specified events. Upon conversion, application for the quotation of these ordinary shares will be made. All exchangeable shares in existence on March 31, 2017 will be automatically converted into ordinary shares on that date.

The Company has issued 1 special voting share (SVS) to a trustee which will hold the SVS on behalf of all holders of exchangeable shares in order that holders of exchangeable shares will be able to vote at the Company's shareholder meetings. The SVS will carry as many votes at shareholder meetings of the Company as there are exchangeable shares on issue at the voting eligibility cut-off time of the meeting. The SVS is not transferable, will not be listed and will cease to have any voting rights at meetings of the Company's shareholders once all exchangeable shares have been converted to ordinary shares.

Issued

	Number of shares	\$
Ordinary shares		
Balance, March 31, 2016	198,319,784	174,509,902
Private placement (note 3)	187,500,000	30,000,000
Fair value of compensation warrants granted (note 3)	–	(2,520,000)
Conversion of exchangeable shares	146	–
Balance, September 30, 2016	385,819,930	201,989,902

Exchangeable shares of the Company

Balance, March 31, 2016	114,555
Conversion to ordinary shares	(146)
Balance, September 30, 2016	114,409

Stock options

	Number of stock options	Weighted- average exercise price \$
Balance, March 31, 2016	11,000,166	0.60
Granted	28,500,000	0.24
Expired	(715,000)	2.05
Balance, September 30, 2016	38,785,166	0.31

A summary of the Company's outstanding and exercisable stock options at September 30, 2016 is presented below:

Exercise price	Expiry date	Number of stock options	
		Outstanding	Exercisable
\$0.5455	December 20, 2016	1,173,333	1,173,333
\$1.7728	December 23, 2016	661,833	661,833
A\$0.50	April 8, 2017	1,000,000	1,000,000
A\$0.50	June 18, 2017	150,000	150,000
A\$0.30	October 31, 2017	1,000,000	333,333
A\$0.30	December 11, 2017	2,000,000	2,000,000
A\$0.30	August 20, 2018	1,000,000	–
\$0.45	September 1, 2018	1,000,000	1,000,000
A\$0.50	November 29, 2018	2,300,000	800,000
\$0.25	February 1, 2020 (Note 3)	21,000,000	21,000,000
A\$0.20	April 11, 2020 (Note 3)	7,500,000	7,500,000
		38,785,166	35,948,499

16. Determination of fair values

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, Century and Lamêlée are measured at the bid market price on the measurement date.

Stock options

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

Classification of fair value of financial instruments

The Company classified the fair value of its financial instruments measured at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument:

- Level 1 - quoted prices in active markets for identical assets and liabilities;
- Level 2 - inputs, other than the quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly;
- Level 3 - inputs for the asset or liability that are not based on observable market data.

As at September 30, 2016

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial asset at fair value through profit and loss				
Cash and cash equivalents and short-term investments	27,367,817	—	—	27,367,817
Investments				
Common shares	1,155,500	—	—	1,155,500

17. Financial risk management

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

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

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

Credit risk

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

Liquidity risk

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

Market risk

Market risk is the risk that changes in market prices, such as equity prices, foreign exchange rates and interest rates will affect the Company's income or the value of its financial instruments. The Company is exposed to equity price risk with respect to investments. The Company estimates that if the fair value of its investments as at September 30, 2016 had changed by 10%, with all other variables held constant, the loss would have decreased or increased by approximately \$115,550.

Capital management

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

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

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

18. Related party transactions

	6 months ended September 30,		Outstanding at	
	2016	2015	September 30,	March 31,
	\$	\$	2016	2016
			\$	\$
General and administrative				
Paid on market terms for rent to a company controlled by a director	27,270	27,270	—	—

See note 7 for related party transactions with SFNQ and notes 6 and 11 for related party transactions with Cartier.

Compensation of key management personnel

The Company considers its directors and officers to be key management personnel. Transactions with key management personnel are set out as follows:

	6 months ended September 30,	
	2016	2015
	\$	\$
Salaries	345,004	337,438
Consulting fees	321,000	321,000
Bonus	175,000	—
Non-monetary benefits	58,470	12,120
Post-employment benefits	21,564	22,257
Share-based payments	1,123,421	66,231
	2,044,459	759,046

19. Segment information

The Company operates in one business segment being mineral exploration in Canada. As the Company is focused on exploration, the Board monitors the Company based on actual versus budgeted exploration expenditure incurred by project. The internal reporting framework is the most relevant to assist the Board with making decisions regarding this Company and its ongoing exploration activities, while also taking into consideration the results of exploration work that has been performed to date.

20. Subsequent events

No material matter or transaction has arisen since September 30, 2016 that has significantly affected the Company's operations or state of affairs.