

Champion Iron Limited

Condensed Interim Consolidated Financial Statements

December 31, 2016

(expressed in Canadian dollars)

(unaudited)

Champion Iron Limited

Consolidated Statements of Financial Position

(expressed in Canadian dollars)
(unaudited)

	Notes	As at December 31, 2016 \$	As at March 31, 2016 \$
Assets			
Current			
Cash and cash equivalents		123,227	293,714
Short-term investments	4	20,949,980	1,377,302
Receivables	5	1,073,184	277,822
Due from Cartier Iron Corporation	6	346,267	-
Due from SFNQ	7	58,299	125,050
Prepaid expenses		527,474	436,456
Deposits	8	1,000,000	1,600,000
		24,078,431	4,110,344
Non-current			
Receivables	5	3,221,692	4,883,659
Due from Cartier Iron Corporation	6	-	1,325,504
Investments	9	1,735,000	944,500
Long-term advance	10	6,000,000	6,000,000
Property, plant and equipment	11	29,932,124	21,926
Exploration and evaluation	12	69,555,582	68,208,370
		134,522,829	85,494,303
Liabilities			
Current			
Accounts payable and accrued liabilities		1,533,951	878,777
Non-current			
Royalty payable	13	300,000	300,000
Rehabilitation obligation	14	24,990,500	-
		26,824,451	1,178,777
Shareholders' equity			
Capital stock	15	201,989,902	174,509,902
Contributed surplus		20,008,764	16,268,574
Foreign currency translation reserve		(75,699)	41,189
Non-controlling interest		7,364,675	-
Accumulated deficit		(121,589,264)	(106,504,139)
		107,698,378	84,315,526
		134,522,829	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 December 31,		9 months ended December 31,	
		2016 \$	2015 \$	2016 \$	2015 \$
Other income					
Interest		51,971	27,369	199,575	103,456
Other		-	132,000	47,801	422,824
		51,971	159,369	247,376	526,280
Expenses					
Professional fees		50,113	135,626	171,606	284,038
Salaries		82,003	118,026	257,030	313,528
Consulting fees		178,015	134,131	465,207	411,498
Share-based compensation		56,730	69,711	1,220,190	201,943
General and administrative		386,607	217,681	967,788	630,841
Investor relations		18,966	13,709	32,435	42,777
Travel		28,530	119,214	226,240	272,022
Exploration		53,996	10,225	78,219	24,375
Care and maintenance of Bloom Lake		5,931,001	-	14,139,183	-
Depreciation		639,663	-	1,854,440	-
Interest expense		165,000	-	467,500	-
Foreign exchange loss (gain)		3,540	118,684	8,497	135,115
Gain on sale of property, plant and equipment		(392,650)	-	(430,150)	-
Unrealized (gain) loss on investments	9	96,767	(37,400)	(114,233)	516,100
Impairment of investment in associate		-	-	-	512,000
Transaction costs		-	-	2,623,874	-
		7,298,281	899,607	21,967,826	3,344,236
Loss before share of net loss of an associate		(7,246,310)	(740,238)	(21,720,450)	(2,817,957)
Share of net loss of associate accounted for using the equity method		-	(126,505)	-	(336,120)
Loss		(7,246,310)	(866,743)	(21,720,450)	(3,154,077)
Item that may be reclassified in future periods to the statement of loss					
Net movement in foreign currency		(31,551)	118,647	(116,888)	128,587
Total comprehensive loss		(7,277,861)	(748,096)	(21,837,338)	(3,025,490)
Loss attributable to:					
Equity holders of Champion		(4,921,163)	(866,743)	(15,085,125)	(3,154,077)
Non-controlling interest		(2,325,148)	-	(6,635,325)	-
Loss		(7,246,311)	(866,743)	(21,720,450)	(3,154,077)
Loss per share - basic and diluted		(0.019)	(0.004)	(0.057)	(0.016)
Weighted average number of shares outstanding - basic and diluted		385,882,105	198,319,784	378,340,709	197,767,221

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 \$	Accumulated deficit \$	Total \$
Balance, March 31, 2016	174,509,902	-	16,268,574	41,189	-	(106,504,139)	84,315,526
Loss	-	-	-	-	(6,635,325)	(15,085,125)	(21,720,450)
Other comprehensive loss	-	-	-	(116,888)	-	-	(116,888)
Total comprehensive loss	-	-	-	(116,888)	(6,635,325)	(15,085,125)	(21,837,338)
Private placement of ordinary shares	30,000,000	-	-	-	-	-	30,000,000
Private placement	-	-	-	-	14,000,000	-	14,000,000
Share-based compensation	-	-	1,220,190	-	-	-	1,220,190
Fair value of compensation options	(2,520,000)	-	2,520,000	-	-	-	-
Balance, December 31, 2016	201,989,902	-	20,008,764	(75,699)	7,364,675	(121,589,264)	107,698,378
Balance, March 31, 2015	171,420,382	3,089,520	15,996,920	(429,098)	-	(98,735,201)	91,342,524
Loss	-	-	-	-	-	(3,154,077)	(3,154,077)
Other comprehensive loss	-	-	-	128,587	-	-	128,587
Total comprehensive loss	-	-	-	128,587	-	(3,154,077)	(3,025,490)
Share-based compensation	-	-	201,943	-	-	-	201,943
Fair value of expired warrants	3,089,520	(3,089,520)	-	-	-	-	-
Balance, December 31, 2015	174,509,902	-	16,198,863	(300,511)	-	(101,889,278)	88,518,977

Champion Iron Limited

Consolidated Statements of Cash Flows

(expressed in Canadian dollars)
(unaudited)

		9 months ended December 31,	
		2016	2015
	Notes	\$	\$
Cash provided by (used in)			
Operating activities			
Loss		(21,720,450)	(3,154,077)
Non-operating transaction costs		2,623,874	-
Items not affecting cash			
Interest not received		(20,764)	(19,833)
Share-based compensation		1,220,190	201,943
Depreciation		1,854,440	20,325
Accretion of rehabilitation obligation		467,500	-
Gain on sale of equipment		(430,150)	-
Unrealized (gain) loss on investments	9	(114,233)	516,100
Impairment of investment in associate		-	512,000
Share of net loss of associate accounted for using the equity method		-	336,120
		(16,119,593)	(1,587,421)
Changes in non-cash operating working capital			
Receivables		(896,931)	(174,707)
Due from SFNQ		66,751	(62,228)
Prepaid expenses		(91,018)	(192,931)
Deposit		600,000	(600,000)
Accounts payable and accrued liabilities		656,035	(829,458)
		(15,784,756)	(3,446,746)
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	5	209,142	3,736,138
Investment in term deposits	4	(19,572,678)	(1,600,000)
Acquisition of Bloom Lake	3	(9,800,000)	-
Purchase of Quinto claims		(776,818)	-
Purchase of leasehold improvements		(405,000)	-
Proceeds on sale of investments	9	323,733	-
Proceeds on sale of equipment	12	3,392,650	-
Option payment from Cartier		-	50,000
Exploration and evaluation		(779,534)	(819,356)
Acquisition of royalty		-	(300,000)
Transaction costs		(2,623,874)	-
		(28,268,843)	2,202,321
Net decrease in cash and cash equivalents		(53,599)	(1,244,425)
Cash and cash equivalents, beginning of period		293,714	1,346,685
Effects of exchange rate changes		(116,888)	128,587
Cash and cash equivalents, end of period		123,227	230,847
Non-cash transactions			
Receipt of Cartier common shares			
Option payment from Cartier		15,000	-
Receipt of Eloro common shares			
Repayment of Term Loan		1,000,000	-

Champion Iron Limited

Notes to Condensed Interim Consolidated Financial Statements

December 31, 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 January 26, 2017.

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-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 <hr/>
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 <hr/>
Deferred tax asset	6,499,000
	<hr/> 40,822,000 <hr/>
<i>Liabilities</i>	
Rehabilitation obligation	24,523,000
Deferred tax liability	6,499,000
	<hr/> 31,022,000 <hr/>
Total identifiable net assets at fair value	<hr/> 9,800,000 <hr/>

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%	8,061,720
On demand	0.80%	11,248,958
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
		20,949,980

Short-term investments of \$1,077,302 have been pledged as security for letters of credit of \$1,077,302, \$150,000 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	December 31, 2016	March 31, 2016
Refundable Tax Credits						
As filed	238,821	1,697,062	1,410,115	7,555,705		
Receivable						
Current	–	–	–	–	–	101,567
Non-current	191,000	1,357,650	–	1,673,042	3,221,692	4,883,659
	191,000	1,357,650	–	1,673,042	3,221,692	4,985,226
Credit on Duties						
As filed	33,726	329,731	209,515	1,122,562		
Receivable						
Current	–	–	–	–	–	–
Harmonized and Quebec sales taxes and other						
Receivable						
Current					1,073,060	176,255
Total					4,294,752	5,161,481
Current					1,073,060	277,822
Non-current					3,221,692	4,883,659
					4,294,752	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 in respect of its claim for the Refundable Tax Credit related to the year ended March 31, 2013;
- \$328,178 in respect of its claim for the Refundable Tax Credit related to the year ended March 31, 2014;
- \$209,142 in respect of its claim for Credits on Duties related to the year ended March 31, 2014.

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.

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

At December 31, 2016, the principal amount of the Term Loan and accrued interest was \$346,267 and for the 9 months ended December 31, 2016, interest of \$20,764 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 by the Company in its capacity as general partner of SFNQ. As at December 31, 2016, \$58,299 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 December 31, 2016 \$	As at March 31, 2016 \$
Investment in common shares		
Fancamp Exploration Ltd. (“Fancamp”)	880,000	506,000
Century Global Commodities Corporation (“Century”)	–	418,500
Lamêlée Iron Ore Ltd. (“Lamêlée”)	35,000	20,000
Eloro Resources Ltd. (refer to Note 6)	820,000	–
	<u>1,735,000</u>	<u>944,500</u>

Investments in common shares are classified as financial assets at fair value through profit or loss. For the 9 months ended December 31, 2016, the net increase in the fair value of investments in common shares of \$114,233 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

During the period, the Company sold its holdings in the common shares of Century for proceeds of \$323,733.

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

Exercise price	Exercise period
\$2.00	November 30, 2016 to November 29, 2017
\$2.50	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	–	–	–	–	–	114,064	114,064
Additions	26,573,000	750,000	1,500,000	1,500,000	4,000,000	405,000	34,728,000
Disposals	(3,000,000)	–	–	–	–	–	(3,000,000)
Balance, December 31, 2016	23,573,000	750,000	1,500,000	1,500,000	4,000,000	519,064	31,842,064
Accumulated depreciation							
Balance, March 31, 2016	–	–	–	–	–	92,999	92,999
Depreciation	1,707,254	22,135	–	–	118,056	9,223	1,854,441
Disposals	(37,500)	–	–	–	–	–	(37,500)
Balance, December 31, 2016	1,669,754	22,135	–	–	118,056	102,222	1,909,940
Net book value, December 31, 2016	21,903,246	727,865	1,500,000	1,500,000	3,881,944	417,703	29,932,124

12. Exploration and evaluation assets

	March 31, 2016 \$	Acquisition costs \$	Exploration \$	Mining tax credits \$	December 31, 2016 \$
Fermont					
Consolidated Fire Lake North	54,199,921	10,506	654,806	(209,142)	54,656,093
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	–	863,670	–	–	863,670
	68,208,370	890,072	666,280	(209,142)	69,555,582

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 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 31, 2017 (extended from 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 December 31, 2016.

14. Rehabilitation obligation

	\$
Balance, March 31, 2016	–
Addition (Note 3)	24,523,000
Accretion of rehabilitation obligation	467,000
Balance, December 31, 2016	24,990,500

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	110,148	–
Balance, December 31, 2016	385,929,932	201,989,902

Exchangeable shares of the Company

Balance, March 31, 2016	114,555
Conversion to ordinary shares	(110,148)
Balance, December 31, 2016	4,407

On November 30, 2016, the Company announced its intention to exchange each of the remaining outstanding exchangeable shares into an ordinary share on January 30, 2017.

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	(2,550,166)	1.28
Balance, December 31, 2016	36,950,000	0.27

A summary of the Company's outstanding and exercisable stock options at December 31, 2016 is presented below:

Exercise price	Expiry date	Number of stock options	
		Outstanding	Exercisable
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	660,000
A\$0.30	December 11, 2017	2,000,000	2,000,000
A\$0.30	August 20, 2018	1,000,000	330,000
\$0.45	September 1, 2018	1,000,000	1,000,000
A\$0.50	November 29, 2018	2,300,000	1,550,000
\$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
		36,950,000	35,190,000

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, Lam  e and Eoro 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 December 31, 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	20,474,580	–	–	20,474,580
Investments				
Common shares	1,735,000	–	–	1,735,000

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 December 31, 2016 had changed by 10%, with all other variables held constant, the loss would have decreased or increased by approximately \$173,500.

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

	9 months ended December 31,		Outstanding at	
	2016	2015	December 31,	March 31,
	\$	\$	2016	2016
			\$	\$
General and administrative				
Paid on market terms for rent to a company controlled by a director	40,905	40,905	—	—

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:

	9 months ended December 31,	
	2016	2015
	\$	\$
Salaries	512,506	506,160
Consulting fees	505,500	481,500
Bonus	175,000	—
Non-monetary benefits	96,795	18,180
Post-employment benefits	30,753	32,040
Share-based payments	1,160,132	102,942
	2,480,686	1,140,822

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 December 31, 2016 that has significantly affected the Company's operations or state of affairs.