

# **Champion Iron Limited**

**{ACN: 119 770 142}**

## **Condensed Interim Consolidated Financial Statements For the Three-Month Period Ended June 30, 2019 and 2018**

(Expressed in thousands of Canadian dollars - unaudited)

# Champion Iron Limited

## Interim Consolidated Statement of Financial Position

(Expressed in thousands of Canadian dollars - unaudited)

		As at June 30, 2019	As at March 31, 2019
	Notes		
<b>Assets</b>			
Current			
Cash and cash equivalents		192,976	135,424
Short-term investments		17,704	17,907
Receivables	3	148,831	93,012
Prepaid expenses and advances		11,031	24,186
Inventories	4	48,038	44,154
		418,580	314,683
Non-current			
Investments		2,628	2,653
Advance payments		37,172	38,250
Property, plant and equipment	5	252,276	224,123
Exploration and evaluation assets		75,251	81,508
Derivative assets	8	12,707	10,800
<b>Total assets</b>		<b>798,614</b>	<b>672,017</b>
<b>Liabilities</b>			
Current			
Accounts payable and accrued liabilities		61,808	44,697
Income and mining taxes payable	12	53,362	34,059
Current portion of long-term debt	6	31,604	35,852
		146,774	114,608
Non-current			
Property taxes payable		13,477	13,940
Long-term debt	6	181,769	193,038
Convertible debenture	7	12,258	12,067
Derivative liability	7	64,896	43,819
Rehabilitation obligation		36,808	36,565
Other long-term liability		4,592	4,798
Deferred tax liabilities	12	44,127	37,460
<b>Total liabilities</b>		<b>504,701</b>	<b>456,295</b>
<b>Shareholders' equity</b>			
Share capital		242,471	237,969
Contributed surplus		22,513	21,404
Warrants		16,066	17,730
Foreign currency translation reserve		423	420
Non-controlling interest		100,866	65,376
Accumulated deficit		(88,426)	(127,177)
<b>Total equity</b>		<b>293,913</b>	<b>215,722</b>
<b>Total liabilities and equity</b>		<b>798,614</b>	<b>672,017</b>
Commitments	15		
Subsequent events	18		

Should be read in conjunction with the notes to the condensed interim consolidated financial statements

Approved on July 30, 2019 on behalf of the directors

/s/ Michael O'Keeffe  
Director

/s/ Andrew Love  
Director

# Champion Iron Limited

## Interim Consolidated Statement of Income

(Expressed in thousands of Canadian dollars, except per share amounts - unaudited)

		Three Months Ended June 30,	
	Notes	2019	2018
<b>Revenues</b>		<b>277,914</b>	150,741
Cost of sales	<b>10</b>	<b>(103,607)</b>	[95,768]
Depreciation		<b>(3,614)</b>	[4,425]
<b>Gross profit</b>		<b>170,693</b>	50,548
<b>Other expenses</b>			
Share-based payments	<b>9</b>	<b>(1,109)</b>	[323]
General and administrative expenses		<b>(4,186)</b>	[2,580]
Restart costs		—	[4,497]
Sustainability and other community expenses		<b>(2,076)</b>	[2,631]
<b>Operating income</b>		<b>163,322</b>	40,517
Net finance costs	<b>11</b>	<b>(29,052)</b>	[14,239]
<b>Income before income and mining taxes</b>		<b>134,270</b>	26,278
Current income and mining taxes	<b>12</b>	<b>(53,362)</b>	[5,530]
Deferred income and mining taxes	<b>12</b>	<b>(6,667)</b>	—
<b>Net income</b>		<b>74,241</b>	20,748
<b>Attributable to:</b>			
Champion shareholders		<b>38,751</b>	11,018
Non-controlling interest		<b>35,490</b>	9,730
<b>Earnings per share</b>	<b>13</b>		
Basic		<b>0.09</b>	0.03
Diluted		<b>0.08</b>	0.02
Weighted average number of common shares outstanding - Basic		<b>432,258,000</b>	414,961,000
Weighted average number of common shares outstanding - Diluted		<b>484,130,000</b>	454,427,000

Should be read in conjunction with the notes to the condensed interim consolidated financial statements

# Champion Iron Limited

## Interim Consolidated Statement of Comprehensive Income

(Expressed in thousands of Canadian dollars - unaudited)

	Three Months Ended June 30,	
	2019	2018
<b>Net income</b>	<b>74,241</b>	20,748
<b>Item that may be reclassified subsequently to the consolidated statement of income</b>		
Net movement in foreign currency translation reserve	3	[679]
<b>Comprehensive income</b>	<b>74,244</b>	20,069
<b>Attributable to:</b>		
Champion shareholders	<b>38,754</b>	10,339
Non-controlling interest	<b>35,490</b>	9,730

Should be read in conjunction with the notes to the condensed interim consolidated financial statements

# Champion Iron Limited

## Interim Consolidated Statement of Equity

(Expressed in thousands of Canadian dollars - unaudited)

	Ordinary Shares								
	Notes	Shares <sup>(1)</sup>	\$	Contributed Surplus	Warrants	Foreign Currency Translation	Non-Controlling Interest	Accumulated Deficit	Total
Balance - March 31, 2019		430,470,000	237,969	21,404	17,730	420	65,376	(127,177)	215,722
Net income		—	—	—	—	—	35,490	38,751	74,241
Other comprehensive income		—	—	—	—	3	—	—	3
Total comprehensive income		—	—	—	—	3	35,490	38,751	74,244
Exercise of purchase warrants	9	2,522,000	4,502	—	(1,664)	—	—	—	2,838
Share-based payments	9	—	—	1,109	—	—	—	—	1,109
<b>Balance - June 30, 2019</b>		<b>432,992,000</b>	<b>242,471</b>	<b>22,513</b>	<b>16,066</b>	<b>423</b>	<b>100,866</b>	<b>(88,426)</b>	<b>293,913</b>
Balance - March 31, 2018		414,618,000	224,336	21,204	17,730	578	823	(210,223)	54,448
Net income		—	—	—	—	—	9,730	11,018	20,748
Other comprehensive (loss)		—	—	—	—	(679)	—	—	(679)
Total comprehensive (loss) income		—	—	—	—	(679)	9,730	11,018	20,069
Exercise of stock-options	9	1,250,000	250	—	—	—	—	—	250
Fair value of share rights exercised		—	175	(175)	—	—	—	—	—
Share-based payments	9	—	—	190	—	—	—	—	190
<b>Balance - June 30, 2018</b>		<b>415,868,000</b>	<b>224,761</b>	<b>21,219</b>	<b>17,730</b>	<b>(101)</b>	<b>10,553</b>	<b>(199,205)</b>	<b>74,957</b>

Should be read in conjunction with the notes to the condensed interim consolidated financial statements

<sup>1</sup> All issued ordinary shares are fully paid and have no par value.

# Champion Iron Limited

## Interim Consolidated Statement of Cash Flow

(Expressed in thousands of Canadian dollars - unaudited)

		Three Months Ended June 30,	
	Notes	2019	2018
<b>Cash provided by (used in)</b>			
<b>Operating Activities</b>			
Net income		74,241	20,748
Items not affecting cash			
Depreciation	5,16	3,614	4,425
Share-based payments	9	1,109	323
Change in fair value of derivative liability	11	21,077	3,050
Accretion of borrowing costs and debt discount	11	1,321	1,210
Accretion of the rehabilitation obligation	11	243	48
Unrealized foreign exchange (gain) loss		(1,018)	3,344
Unrealized loss on investments	11	25	445
Change in fair value of derivative assets	8,11	(1,907)	—
Deferred income and mining taxes	12	6,667	—
Interest		(3,987)	7,390
		101,385	40,983
Changes in non-cash operating working capital	16	(9,464)	5,742
<b>Net cash flow from operating activities</b>		<b>91,921</b>	<b>46,725</b>
<b>Financing Activities</b>			
Proceeds of long-term debt		—	28,390
Repayment of long-term debt		(7,492)	—
Borrowing costs		—	(342)
Exercise of warrants		2,838	—
<b>Net cash flow from financing activities</b>		<b>(4,654)</b>	<b>28,048</b>
<b>Investing Activities</b>			
Investment in short-term investments		203	—
Purchase of property, plant and equipment		(26,477)	(9,868)
Exploration and evaluation		(194)	(389)
<b>Net cash flow from investing activities</b>		<b>(26,468)</b>	<b>(10,257)</b>
<b>Net increase in cash and cash equivalents</b>		<b>60,799</b>	<b>64,516</b>
Cash and cash equivalents, beginning of year		135,424	7,895
Effects of exchange rate changes on cash		(3,247)	(732)
<b>Cash and cash equivalents, end of period</b>		<b>192,976</b>	<b>71,679</b>
Interest paid		10,571	740
Income and mining taxes paid		34,059	—

Should be read in conjunction with the notes to the condensed interim consolidated financial statements

# Champion Iron Limited

## Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, except where otherwise indicated)

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### 1. Nature of Operations

Champion Iron Limited ("Champion" or the "Company") was incorporated under the laws of Australia in 2006 and is listed on the Toronto Stock Exchange (TSX: CIA) and Australian Securities Exchange (ASX: CIA). Champion is an iron ore mining company with its key asset, the Bloom Lake Mine, a long-life, large-scale open pit operation located in northern Quebec, approximately 300 km north of Sept-Îles and 13 km from the town of Fermont, Quebec, Canada. The Company declared commercial production at the Bloom Lake Mine as of June 30, 2018. Champion owns a 63.2% interest in its subsidiary, Quebec Iron Ore Inc. ("QIO"). Ressources Québec ("RQ"), a subsidiary of governmental agency Investissement Québec, is the owner of the remaining 36.8% share. The Bloom Lake Mine assets are held through QIO. On May 29, 2019, the Company announced a transaction to acquire RQ's 36.8% equity interest in QIO. For more information, refer to Note 18 - Subsequent Events.

### 2. Summary of Significant Accounting Policies

#### A. Basis of preparation

These condensed interim consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial assets and financial liabilities to fair value.

The financial report is a general purpose financial report which has been prepared for a for-profit enterprise in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis, except for investments and derivative financial instruments which have been measured at fair value.

#### B. 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 consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") and should be read in conjunction with the Company's annual consolidated financial statements for the year ended March 31, 2019, 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 July 30, 2019.

The accounting policies used in these condensed interim consolidated financial statements are consistent with those disclosed in the Company's audited consolidated financial statements for the year ended March 31, 2019 except for the new accounting standards issued and adopted by the Company described below.

#### C. Accounting policy for share-based compensation

For equity settled awards, share-based compensation costs are measured at fair value and the awards expected to vest are accrued on a straight-line basis over the vesting period with a corresponding increase in contributed surplus. The grant date fair value of performance share unit ("PSU") awards, restricted share unit ("RSU") awards and deferred share unit ("DSU") awards is determined using the stock price of the Company on the Toronto Stock Exchange at the grant date. The grant date fair value of stock option awards is determined using the Black-Scholes option pricing model. Any consideration by the plan participants on the exercise of the stock options is credited to share capital.

#### D. New accounting standards issued and adopted by the Company

New standards became applicable for the current reporting period and the Company had to change its accounting policies as a result of adopting the following standards.

##### *IFRS 16, Leases ("IFRS 16")*

In January 2016, the IASB released IFRS 16, Leases, to replace the previous leases Standard, IAS 17, Leases, and related Interpretations. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, the customer (lessee) and the supplier (lessor). IFRS 16 eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. IFRS 16 also substantially carries forward the lessor accounting requirements.

# Champion Iron Limited

## Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, except where otherwise indicated)

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### 2. Summary of Significant Accounting Policies (continued)

#### D. New accounting standards issued and adopted by the Company (continued)

IFRS 16 was adopted for the Company's fiscal year beginning on April 1, 2019, and the Company elected to use the modified retrospective approach. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.

The Company applied the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application and did not reassess contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. In addition, the Company elected to use the exemptions proposed by the standard on lease contracts for which the lease terms end within 12 months as of the date of initial application or lease commencement date, and lease contracts for which the underlying asset is of low value.

Where the Company is a lessee, IFRS 16 results in the on-balance sheet recognition of its leases that are considered operating leases under IAS 17. This results in the gross-up of the balance sheet through the recognition of a right-of-use asset and a liability for the present value of the future lease payments. Depreciation expense on the right-of-use asset and interest expense on the lease liability replace the operating lease expense.

This change in policy did not result in the recognition of a right-of-use asset and lease liability on April 1, 2019. The undiscounted commitments of the Company as of March 31, 2019 amounted to \$398,352,000, as presented in the annual consolidated financial statements and notes thereto included for the fiscal year ended March 31, 2019. The difference is due to the commitments of the Company being composed of take-or-pay logistic contracts or the commitment related to the Impact and Benefit Agreement, which do not qualify as a lease under IFRS 16.

#### *IFRIC 23, Income taxes ("IFRIC 23")*

In June 2017, the IASB released IFRIC 23, Uncertainty over income tax treatments. IFRIC 23 clarifies the application of recognition and measurement requirements in IAS 12, Income Taxes, when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers each tax treatment independently or collectively, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and how an entity considers changes in facts and circumstances. IFRIC 23 was adopted effective April 1, 2019 and did not result in any adjustment.



# Champion Iron Limited

## Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, except where otherwise indicated)

### 3. Receivables

	As at June 30, 2019	As at March 31, 2019
Trade receivables	129,713	79,464
Sales tax	18,313	12,705
Other receivables	805	843
	148,831	93,012

For the three-month period ended June 30, 2019, no specific provision was recorded on any of the Company's receivables (March 31, 2019: nil). They are generally settled within six months and are therefore, collectable. As at June 30, 2019, the trade receivables, subject to provisional pricing, amounts to \$92,832,000 (March 31 2019: \$29,475,000).

### 4. Inventories

	As at June 30, 2019	As at March 31, 2019
Stockpiled ore	14,375	14,572
Concentrate inventories	12,048	10,196
Supplies and spare parts	21,615	19,386
	48,038	44,154

The amount of inventories recognized as an expense totalled \$107,221,000 for the three-month period ended June 30, 2019 (\$100,193,000 for the three-month period ended June 30, 2018).

# Champion Iron Limited

## Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, except where otherwise indicated)

### 5. Property, Plant and Equipment

	Mining and Processing Equipment	Locomotives, Railcars and Rails	Tailings Dykes	Assets under Construction	Stripping Activity Asset	Other	Total
<b>Cost</b>							
March 31, 2019	116,573	47,766	28,048	24,700	19,864	6,597	243,548
Additions	6,353	—	7,996	8,999	3,269	288	26,905
Transfers, disposals and others	20,235	—	2,864	(17,469)	—	821	6,451
Foreign exchange	—	(830)	—	—	—	—	(830)
<b>June 30, 2019</b>	<b>143,161</b>	<b>46,936</b>	<b>38,908</b>	<b>16,230</b>	<b>23,133</b>	<b>7,706</b>	<b>276,074</b>
<b>Accumulated depreciation</b>							
March 31, 2019	12,912	3,818	951	—	447	1,297	19,425
Depreciation	3,111	527	370	—	166	282	4,456
Disposals and others	—	—	—	—	—	—	—
Foreign exchange	—	(83)	—	—	—	—	(83)
<b>June 30, 2019</b>	<b>16,023</b>	<b>4,262</b>	<b>1,321</b>	<b>—</b>	<b>613</b>	<b>1,579</b>	<b>23,798</b>
<b>Net book value - June 30, 2019</b>	<b>127,138</b>	<b>42,674</b>	<b>37,587</b>	<b>16,230</b>	<b>22,520</b>	<b>6,127</b>	<b>252,276</b>

	Mining Equipment	Locomotives, Railcars and Rails	Tailings Dykes	Assets under Construction	Stripping Activity Asset	Other	Total
<b>Cost</b>							
March 31, 2018	23,766	39,532	3,000	107,894	—	5,412	179,604
Additions	6,552	6,823	14,941	21,795	11,740	1,291	63,142
Transfers, disposals and others	86,255	—	10,107	(104,989)	8,124	(101)	(604)
Foreign exchange	—	1,411	—	—	—	(5)	1,406
March 31, 2019	116,573	47,766	28,048	24,700	19,864	6,597	243,548
<b>Accumulated depreciation</b>							
March 31, 2018	4,576	1,818	13	—	—	478	6,885
Depreciation	8,837	2,194	938	—	447	927	13,343
Disposals and others	(501)	—	—	—	—	(101)	(602)
Foreign exchange	—	(194)	—	—	—	(7)	(201)
March 31, 2019	12,912	3,818	951	—	447	1,297	19,425
<b>Net book value - March 31, 2019</b>	<b>103,661</b>	<b>43,948</b>	<b>27,097</b>	<b>24,700</b>	<b>19,417</b>	<b>5,300</b>	<b>224,123</b>

As at June 30, 2019, cost balance of Mining and Processing Equipment, Tailing Dykes, and Other include assets for which amortization has not yet started as follows: \$12,370,000, \$10,044,000 and \$125,000 (March 31, 2019: nil).

# Champion Iron Limited

## Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, except where otherwise indicated)

### 6. Long-Term Debt

	Sprott	CDPI	As at June 30, 2019	As at March 31, 2019
<b>Opening balance</b>	<b>97,986</b>	<b>130,904</b>	<b>228,890</b>	141,225
Advances	—	—	—	74,195
Capital repayment	(7,492)	—	(7,492)	[7,636]
Capitalized interest	—	—	—	15,147
Payment of capitalized interest	(424)	(3,563)	(3,987)	[432]
Transaction costs	181	145	326	[1,618]
Termination fees PPA	292	—	292	[4,564]
Accretion	149	363	512	3,945
Unrealized foreign exchange	(2,152)	(3,016)	(5,168)	8,628
	<b>88,540</b>	<b>124,833</b>	<b>213,373</b>	228,890
Less current portion	(31,604)	—	(31,604)	[35,852]
<b>Ending balance</b>	<b>56,936</b>	<b>124,833</b>	<b>181,769</b>	193,038

#### Derivative

A prepayment option derivative asset exists in respect with the option to prepay the debt with Sprott Private Resource Lending (Collector), LP ("Sprott"). The fair value of the prepayment option derivative asset was calculated to be \$5,768,000 (March 31, 2019: \$5,879,000). The Company does not expect the execution of any of the mandatory conversion events. Refer to Note 8 - Derivative Assets and Note 18 - Subsequent Events.

A variable interest derivative asset exists on the CDP Investissements Inc. ("CDPI") debt in respect of variable interest based on price of iron ore and the fair value was calculated to be \$5,603,000 (March 31, 2019: \$3,904,000). The Company does not expect to take advantage of this asset. Refer to Note 8 - Derivative Assets and Note 18 - Subsequent Events.

#### Warrants

In connection with the debt financing, the Company issued: (a) 3,000,000 ordinary share purchase warrants to Sprott, entitling the holder to purchase 3,000,000 ordinary shares of the Company for \$1.125 until October 16, 2022 and (b) 21,000,000 ordinary share purchase warrants to CDPI, entitling the holder to purchase 21,000,000 ordinary shares of the Company for \$1.125 after October 16, 2018 until October 16, 2024. During the three-month period ended June 30, 2019, Sprott exercised their right to purchase 2,522,000 ordinary shares at \$1.125 per share for total proceeds of \$2,838,000. As at June 30, 2019, Sprott still owns 478,000 ordinary share purchase warrants.

The fair value of the ordinary share purchase warrants was calculated using the Black-Scholes option pricing model. The fair values attributed to Sprott and CDPI warrants were respectively \$1,980,000 and \$15,750,000 at issuance. As at June 30, 2019, the fair value attributed to the remaining 478,000 Sprott warrants was \$316,000. The ordinary share warrants were accounted for as warrants in the consolidated statements of equity.

# Champion Iron Limited

## Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, except where otherwise indicated)

### 7. Convertible Debenture

	As at June 30, 2019		As at March 31, 2019	
	Convertible Debenture	Conversion Option	Convertible Debenture	Conversion Option
<b>Opening balance</b>	<b>12,067</b>	<b>43,819</b>	14,016	24,683
Change in fair value	—	<b>21,077</b>	—	19,136
Accretion of debt discount	<b>191</b>	—	(215)	—
Capitalized interest	—	—	2,695	—
Payment of capitalized interest	—	—	(4,429)	—
<b>Ending balance</b>	<b>12,258</b>	<b>64,896</b>	12,067	43,819

As of June 30, 2019, the Company does not expect the execution of any of the mandatory conversion events.

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

#### Derivative

A prepayment option derivative asset exists in respect with the option to prepay the debt with Glencore. The fair value of the prepayment option derivative asset was calculated to be nil (March 31, 2019: nil).

A variable interest derivative asset exists in respect of variable interest based on price of iron ore and the fair value was calculated to be \$1,336,000 (March 31, 2019: \$1,017,000). Refer to Note 8 - Derivative Assets. The Company does not expect to take advantage of this asset.

A conversion option derivative liability exists in respect to the option of Glencore to convert and the option of Sprott and CDPI to require Glencore to convert the convertible debenture into ordinary shares of the Company.

The equity conversion feature is accounted for as a derivative liability on the consolidated statements of financial position.

The fair value of the conversion option derivative liability was calculated using the Black-Scholes option pricing model with the following assumptions:

	As at June 30, 2019	As at March 31, 2019
Conversion options granted	<b>27,733,333</b>	27,733,333
Exercise price	<b>\$1.125</b>	\$1.125
Share price	<b>\$2.81</b>	\$1.96
Risk-free interest rate	<b>1.41%</b>	1.6%
Expected volatility based on historical volatility	<b>84%</b>	86%
Valuation date	<b>June 30, 2019</b>	March 31, 2019
Expected life of conversion option	<b>6.25 years</b>	6.5 years
Expected dividend yield	<b>0%</b>	0%
Forfeiture rate	<b>0%</b>	0%
<b>Fair value</b>	<b>\$64,896,000</b>	\$43,819,000

# Champion Iron Limited

## Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, except where otherwise indicated)

### 8. Derivative Assets

	Notes	As at June 30, 2019	As at March 31, 2019
Prepayment option - Sprott	6	5,768	5,879
Variable interest - CDPI	6	5,603	3,904
Variable interest - Glencore	7	1,336	1,017
		<b>12,707</b>	<b>10,800</b>

### 9. Share Capital and Reserves

#### a) Share issuances

	Three Months Ended June 30, 2019 (in thousands)	2018 (in thousands)
<b>Shares</b>		
<b>Opening balance</b>	<b>430,470</b>	414,618
Shares issued for exercise of options - incentive plan	—	1,250
Shares issued for exercise of purchase warrants	<b>2,522</b>	—
<b>Ending balance</b>	<b>432,992</b>	415,868

During the three-month period ended June 30, 2019, the Company issued 2,522,000 ordinary shares. Refer to Note 6 - Long-Term Debt for further details.

#### b) Share-based payments

The Company has various share-based compensation plans for eligible employees. The objective of the Omnibus Incentive Plan is to enhance the Company's ability to attract and retain talented employees and to provide alignment of interests between such employees and the shareholders of the Company. Under the Omnibus Incentive Plan, the Company grants stock option awards, DSU awards, RSU awards and PSU awards.

Stock option awards and RSU awards vest annually in three equal tranches from the date of grant. DSU awards vest at the date of the grant. PSU awards vest at the end of three years from the date of grant and vesting is subject to key performance indicators established by the Board of Directors.

A summary of the share-based expenses is detailed as follows:

	Three Months Ended June 30, 2019	2018
Stock option costs	<b>467</b>	323
RSU costs	<b>524</b>	—
PSU costs	<b>118</b>	—
<b>Total share-based payments expensed</b>	<b>1,109</b>	<b>323</b>

# Champion Iron Limited

## Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, except where otherwise indicated)

### 9. Share Capital and Reserves (continued)

#### c) Stock options

The Company is authorized to issue 43,299,000 stock options and share rights (March 31, 2019: 43,047,000) equal to 10% (March 31, 2019: 10%) of the issued and outstanding ordinary shares for issuance under the Omnibus incentive plan.

The following table details the stock options activities of the share incentive plan:

	Three Months Ended June 30,		Three Months Ended June 30,	
	2019		2018	
	Number of Stock Options (in thousands)	Weighted- Average Exercise Price	Number of Stock Options (in thousands)	Weighted- Average Exercise Price
<b>Opening balance</b>	<b>8,780</b>	<b>0.56</b>	12,800	0.44
Granted	534	2.43	1,200	1.28
Exercised	—	—	(1,250)	0.20
<b>Ending balance</b>	<b>9,314</b>	<b>0.66</b>	12,750	0.54
<b>Options exercisable - end of period</b>	<b>7,905</b>	<b>0.51</b>	10,833	0.46

A total of 534,000 new options were issued to new employees of the Company during the three-month period ended June 30, 2019. The fair market value of the outstanding options granted during the three-month period ended June 30, 2019 totalled \$753,000. The options granted will mainly vest over a three-year period.

The exercise price of outstanding stock options ranges from \$0.20 to \$2.53 and the weighted-average remaining contractual life of outstanding stock options is 1.10 years.

The share-based payment cost was calculated according to the fair value of options issued based on the Black-Scholes option pricing model using the following weighted average:

	Three Months Ended June 30,	
	2019	2018
Risk-free interest rate	1.80%	2.5%
Expected volatility based on historical volatility	86%	80%
Expected life of stock options	3 years	3 years
Expected dividend yield	0%	0%
Forfeiture rate	0%	0%
Fair value per stock option - weighted average of options issued	\$1.41	\$0.69

# Champion Iron Limited

## Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, except where otherwise indicated)

### 9. Share Capital and Reserves (continued)

#### d) Restricted Share Units ("RSU")

The following table details the RSU activities of the share incentive plan:

	Three Months Ended June 30,		Three Months Ended June 30,	
	2019		2018	
	Number of RSU (in thousands)	Weighted- Average Exercise Price	Number of RSU (in thousands)	Weighted- Average Exercise Price
<b>Opening balance</b>	—	—	—	—
Granted	598	2.18	—	—
<b>Ending balance</b>	598	2.18	—	—
<b>Vested - end of period</b>	145	2.18	—	—

During the three-month period ended June 30, 2019, 597,500 RSUs were granted to key management personnel.

#### e) Performance Share Units ("PSU")

The following table details the PSU activities of the share incentive plan:

	Three Months Ended June 30,		Three Months Ended June 30,	
	2019		2018	
	Number of PSU (in thousands)	Weighted- Average Exercise Price	Number of PSU (in thousands)	Weighted- Average Exercise Price
<b>Opening balance</b>	—	—	—	—
Granted	653	2.17	—	—
<b>Ending balance</b>	653	2.17	—	—
<b>Vested - end of period</b>	—	—	—	—

During the three-month period ended June 30, 2019, 653,000 PSUs were granted to key management personnel.

#### f) Compensation options

Exercise Price	Expiry Date	Outstanding and exercisable
\$0.250	February 1, 2020	21,000,000
<b>Balance - March 31, 2019 and June 30, 2019</b>		<b>21,000,000</b>

# Champion Iron Limited

## Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, except where otherwise indicated)

### 9. Share Capital and Reserves (continued)

#### g) Warrants

Exercise Price	Notes	Expiry Date	Outstanding and exercisable	
			As at June 30, 2019	As at March 31, 2019
\$1.125	6	October 16, 2022	478,000	3,000,000
\$1.125	6	October 16, 2024	21,000,000	21,000,000
			<b>21,478,000</b>	24,000,000

During the three-month period ended June 30, 2019, Sprott exercised 2,522,000 warrants. Refer to Note 6 - Long-Term Debt for further details.

### 10. Cost of Sales

	Three Months Ended June 30,	
	2019	2018
Land transportation	40,154	29,910
Operating supplies and parts	26,000	17,996
Sub-contractors	22,029	18,427
Salaries, benefits and other employee expenses	17,706	13,391
Other production costs	1,894	1,721
Change in inventories	(4,176)	14,323
	<b>103,607</b>	95,768

### 11. Net Finance Costs

	Three Months Ended June 30,	
	2019	2018
Change in fair value of derivative liability	21,077	3,050
Interest on long-term debts and convertible debenture	7,007	6,838
Accretion of borrowing costs and debt discount	1,321	1,210
Accretion of the rehabilitation obligation	243	48
Realized and unrealized foreign exchange loss	235	1,485
Unrealized loss on investments	25	445
Change in fair value of derivative assets	(1,907)	—
Other interest and finance costs	1,051	1,163
	<b>29,052</b>	14,239



# Champion Iron Limited

## Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, except where otherwise indicated)

### 12. Income and Mining Taxes

#### a) Tax expense:

The tax expense is applicable as follows:

	Three Months Ended June 30,	
	2019	2018
<b>Current income and mining taxes</b>		
Current income tax on profits for the period	28,245	—
Current mining tax on profits for the period	25,117	5,530
<b>Total current income and mining taxes</b>	<b>53,362</b>	<b>5,530</b>
<b>Deferred income and mining taxes</b>		
Deferred income tax for the period	4,285	—
Deferred mining tax for the period	2,382	—
<b>Total deferred income and mining taxes</b>	<b>6,667</b>	<b>—</b>
<b>Income and mining taxes expense</b>	<b>60,029</b>	<b>5,530</b>

#### b) Deferred tax assets and liabilities as represented on the Consolidated Statement of Financial Position:

	As at June 30, 2019	As at March 31, 2019
<b>Deferred tax asset</b>	<b>16,394</b>	15,549
Deferred income tax liabilities	(45,249)	(40,224)
Deferred mining tax liability	(15,272)	(12,785)
	<b>(60,521)</b>	(53,009)
<b>Net deferred tax liabilities</b>	<b>(44,127)</b>	(37,460)

# Champion Iron Limited

## Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, except where otherwise indicated)

### 13. Earnings per Share

Earnings per share amounts are calculated by dividing the net income attributable to shareholders for the three-month period ended June 30, 2019 by the weighted-average number of shares outstanding during the period.

	Three Months Ended June 30,	
	2019	2018
Net income attributable to Champion shareholders	38,751	11,018
Weighted-average number of common shares outstanding	432,258,000	414,961,000
Dilutive share options and convertible financial liabilities	51,872,000	39,466,000
Weighted average number of outstanding shares for diluted earnings per share	484,130,000	454,427,000
Basic earnings per share	0.09	0.03
Diluted earnings per share	0.08	0.02

### 14. Financial Instruments

#### Measurement Categories

Financial assets and financial liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the profit or loss or in other comprehensive income. These categories are financial assets at fair value through profit and loss, financial assets at amortized cost, and financial liabilities at amortized cost. The following table shows the carrying values of assets and liabilities for each of these categories as at June 30, 2019 and March 31, 2019.

As at June 30, 2019	Fair Value Through Profit and Loss	Financial Assets at Amortized Cost	Financial Liabilities at Amortized Cost	Total Carrying Amount and Fair Value
<b>Assets</b>				
Current				
Cash and cash equivalents	—	192,976	—	192,976
Short-term investments	—	17,704	—	17,704
Receivables (excluding sales tax)	130,518	—	—	130,518
Non-current				
Investments	2,628	—	—	2,628
Derivative assets	12,707	—	—	12,707
	145,853	210,680	—	356,533
<b>Liabilities</b>				
Current				
Accounts payable and accrued liabilities	—	—	61,808	61,808
Current portion of long-term debt	—	—	31,604	31,604
	—	—	93,412	93,412
Non-current				
Property taxes payable	—	—	13,477	13,477
Long-term debt	—	—	181,769	181,769
Convertible debenture	—	—	12,258	12,258
Derivative liability	64,896	—	—	64,896
	64,896	—	300,916	365,812

# Champion Iron Limited

## Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, except where otherwise indicated)

### 14. Financial Instruments (continued)

As at March 31, 2019	Fair Value Through Profit and Loss	Financial Assets at Amortized Cost	Financial Liabilities at Amortized Cost	Total Carrying Amount and Fair Value
<b>Assets</b>				
Current				
Cash and cash equivalents	—	135,424	—	135,424
Short-term investments	—	17,907	—	17,907
Receivables (excluding sales tax)	80,307	—	—	80,307
Non-current				
Investments	2,653	—	—	2,653
Derivative assets	10,800	—	—	10,800
	93,760	153,331	—	247,091
<b>Liabilities</b>				
Current				
Accounts payable and accrued liabilities	—	—	44,697	44,697
Current portion of long-term debt	—	—	35,852	35,852
	—	—	80,549	80,549
Non-current				
Property taxes payable	—	—	13,940	13,940
Long-term debt	—	—	193,038	193,038
Convertible debenture	—	—	12,067	12,067
Derivative liability	43,819	—	—	43,819
	43,819	—	299,594	343,413

#### Fair value measurements recognized in the consolidated statement of income and comprehensive income

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

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

There are no transfers between Level 1, Level 2 and Level 3 during the three-month period ended June 30, 2019.

# Champion Iron Limited

## Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, except where otherwise indicated)

### 15. Commitments and Contingencies

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

	As at June 30, 2019
Less than a year	120,884
1 to 5 years	74,693
More than 5 years	183,000
	378,577

### 16. Financial Information Included in the Consolidated Statement of Cash Flows

#### a) Changes in non-cash operating working capital

	Three Months Ended June 30,	
	2019	2018
Receivables	(55,972)	(17,313)
Prepaid expenses and advances	13,155	(4,358)
Inventories	(3,470)	14,550
Advance payments	1,078	2,447
Accounts payable and accrued liabilities	17,111	3,080
Income and mining taxes payable	19,303	5,530
Property taxes not paid	(463)	1,806
Other long-term liability	(206)	—
	(9,464)	5,742

#### b) Supplementary cash flow information

	Three Months Ended June 30,	
	2019	2018
Depreciation of property, plant and equipment allocated to stripping activity asset	(428)	—
Net effect of depreciation of property, plant and equipment allocated to inventory	(414)	1,368

# Champion Iron Limited

## Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, except where otherwise indicated)

### 17. Segmented Information

The Company is conducting exploration and evaluation and mining operations activities in Canada. The business segments presented reflect the management structure of the Company and the way in which the Company's chief operating decision maker reviews business performance. The Company evaluates the performance of its operating segments primarily based on segment operating income, as defined below. Since the Company has started production at the mine site which represents all the mining operation, it was identified as a segment. Exploration and corporate were identified as separate segments due to their specific nature.

Three-Month Period Ended June 30, 2019	Mine Site	Exploration and Evaluation	Corporate	Total
<b>Revenues</b>	<b>277,914</b>	—	—	<b>277,914</b>
Cost of sales	(103,607)	—	—	(103,607)
Depreciation	(3,605)	—	(9)	(3,614)
<b>Gross profit (loss)</b>	<b>170,702</b>	—	(9)	<b>170,693</b>
Share-based payments	—	—	(1,109)	(1,109)
General and administrative expenses	(1,791)	—	(2,395)	(4,186)
Sustainability and other community expenses	(2,058)	—	(18)	(2,076)
<b>Operating income (loss)</b>	<b>166,853</b>	—	(3,531)	<b>163,322</b>
Non-operating expenses	(67,232)	—	(21,849)	(89,081)
<b>Net income (loss)</b>	<b>99,621</b>	—	(25,380)	<b>74,241</b>
<b>Segmented total assets</b>	<b>710,648</b>	<b>75,251</b>	<b>12,715</b>	<b>798,614</b>
<b>Segmented total liabilities</b>	<b>(421,589)</b>	—	(83,112)	<b>(504,701)</b>
<b>Segmented capital expenditures</b>	<b>251,945</b>	—	331	<b>252,276</b>

Three-Month Period Ended June 30, 2018	Mine Site	Exploration and Evaluation	Corporate	Total
<b>Revenues</b>	150,741	—	—	150,741
Cost of sales	(95,768)	—	—	(95,768)
Depreciation	(4,415)	—	(10)	(4,425)
<b>Gross profit (loss)</b>	<b>50,558</b>	—	(10)	<b>50,548</b>
Share-based payments	—	—	(323)	(323)
General and administrative expenses	(1,078)	—	(1,502)	(2,580)
Restart costs	(4,497)	—	—	(4,497)
Sustainability and other community expenses	(2,631)	—	—	(2,631)
<b>Operating income (loss)</b>	<b>42,352</b>	—	(1,835)	<b>40,517</b>
Non-operating expenses	(15,041)	—	(4,728)	(19,769)
<b>Net income (loss)</b>	<b>27,311</b>	—	(6,563)	<b>20,748</b>
<b>Segmented total assets</b>	<b>393,053</b>	<b>72,526</b>	<b>11,934</b>	<b>477,513</b>
<b>Segmented total liabilities</b>	<b>(340,673)</b>	—	(61,882)	<b>(402,555)</b>
<b>Segmented capital expenditures</b>	<b>179,181</b>	—	349	<b>179,530</b>

# Champion Iron Limited

## Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, except where otherwise indicated)

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### 18. Subsequent Events

#### Acquisition of Ressources Quebec equity interest

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

#### Capital restructuring

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

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

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

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

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

### 19. Comparative Figures

Certain of the prior quarter's comparative figures have been reclassified to conform to the current quarter's presentation.