September 12, 2019

NEWSLETTER

CHAMPION IRON

TIER 1 MINING & DEVELOPMENT

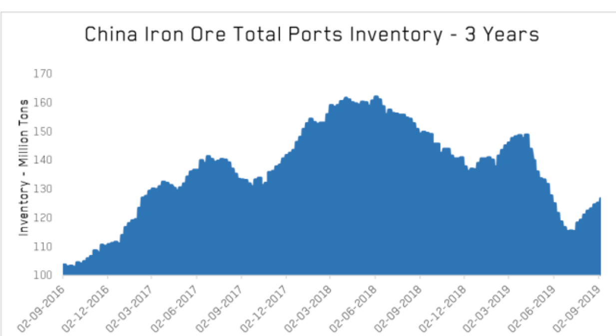
CHAMPION IRON NEWSLETTER

Since our last newsletter on June 4, 2019, our company has closed the previously announced acquisition of the minority stake in our flagship asset, Bloom Lake, from Ressources Québec for C$211 million. Additionally, our company refinanced its long-term debt for US$200 million, concluded a preferred share offering with Caisse de dépôt et placement du Québec for C$185 million and announced the strong economics of the Phase II feasibility study which proposes to double Bloom Lake's production capacity. On July 30, 2019, Champion reported its Q1/2020 results where new historical production records were set at Bloom Lake and some of the best financial metrics in the company's history, including EBITDA, operating cash flows and net income, were also reported. Despite the positive structural repositioning and operational momentum, our share price has declined by nearly 20% since our last newsletter, which we generally attribute to equity market weakness following increasing global trade tensions.

INDUSTRY VIEWS – SUMMARY

Iron ore prices have proven to be volatile since the January 2019 events in Brazil. Most recently, the US/China trade dispute has pressured most commodity prices, including iron ore. Some of the operations impacted by Vale's events earlier this year have resumed production, which occurred in tandem with lower profitability at steel mills globally, resulting in reduced steel output in many regions. The largest global steel producer, China, has also temporarily reduced steel production, targeting air quality control ahead of the celebration of the 70th anniversary of the founding of the Communist Party in October[1]. Despite resumptions in such supply and recently lower steel production, iron ore inventories in the most important market, China, remain near multi-year lows (Figure 1). Despite this dynamic, Champion's high-grade iron ore concentrate continues to attract prices above US$90 per tonne, providing the company with healthy operating margins.

FIGURE 1



MARKET FACING ACTIVITIES

Throughout the summer, our team continued to build relationships with prospective investors as we completed selective trips across North America. We also completed a trip to Australia to visit current shareholders and prospective investors where our company benefits from a growing shareholder base. Our company continues to attract interest from research providers, with a second Canadian bank now providing research on our company. Our company currently has active research coverage from twelve analysts based in Canada, USA and Australia, improving awareness of our development to investors globally. On September 29, 2019, Champion was admitted to the ASX-300 composite index, a benchmark often used by superannuation portfolios and managed funds in Australia (www.marketindex.com.au/asx300).

Our activities are also attracting media interest with three recent articles published by "La Presse", a well-known Quebec newspaper, commenting on our successful operations at Bloom Lake. In addition to bringing home a recent award from the Global S&P PLATTS event in London, we are currently among the finalists for an award to be presented by Ernst & Young and were also nominated for an award by MNN. Receiving recognition for our efforts is extremely motivating and fuels our appetite for further success, but primarily it highlights the combined effort of our operating team and partners aligned to continue to advance Bloom Lake.

RECENT MACROECONOMIC EVENTS

We are not economic experts and this section merely reflects our view of the macroeconomic situation. We deem it important to highlight recent events that we believe have triggered negative sentiments impacting both equity markets and iron ore prices. The "US-China trade war" has brushed the equity market with negative sentiment in the summer and created uncertainty, in particular with China's economic growth. Given that China is the largest consumer of iron ore in the world, in addition to some of the previously curtailed production in Brazil coming back online, the potential impact of the "US-China trade war" to China's growth outlook likely contributed to recent declines in iron ore prices. It is important to note that the bulk of the Chinese steel demand is related to property and infrastructure, and thus unlikely to be directly impacted by any potential slowdowns from trade disputes[1]. Despite such a pullback, iron ore prices remain ~10% above the 5-year average which provides a strong operational margin for our company.

Experts have commented that any further impacts on the Chinese economy from the "US-China trade war" could trigger a wave of economic stimulus in the form of sizeable infrastructure projects[3]. Reinforcing this view was a communiqué issued by Chinese officials following the mid-year State Council in early August which indicated that the People's Bank of China should continue to ease more aggressively in the coming months, and this could likely trigger more infrastructure investments[4]. In early September, China's Vice Premier Liu vowed to maintain ample liquidity and reasonable growth in aggregate financing as it implements a prudent monetary policy[5]. Some recent signals from Chinese authorities regarding intensive steel industries are encouraging. The CPCA (China Passenger Car Association) commented that despite weak auto sales data, a recovery is imminent, while China's State Grid commented on the expectation to accelerate investment through the remainder of 2019[6].

SUPPLY IS BACK – INDUSTRY REMAINS FRAGILE

In recent weeks, Vale resumed production from some of its previously curtailed operations which were impacted by events related to the dam failure in January 2019. From the initial ~90 Mtpa of impacted production, ~50 Mtpa remains currently curbed. Vale commented in their most recent quarterly results that ~20 Mtpa of dry processing production will be gradually resumed starting by the end of this year and the remaining 30 Mtpa, which includes wet processing, is estimated to return in another two to three years[7]. Another operator in Brazil, Samarco, is also expected to receive a mining license in the second half of the year, according to a statement from the Minas Gerais state agency[8]. This prospective additional supply contributed to the recent cooling in iron ore price momentum; however, the resumption of other affected operations still lacks clarity.

Although most investors appear to focus on global production supply volumes to assess the outlook for iron ore prices, we believe product quality to be an increasingly significant issue in the industry. This is reinforced by our industry's largest producers where BHP recently reduced their Jimblebar average Fe grade from 61% to 59.5%, while Rio Tinto reduced its long-term deliveries of PBF product on quality issues in June[9]. Product quality issues are also becoming obvious factors in the marketplace as contaminants such as alumina saw penalties increase materially in recent months[10]. Champion's product is not only high grade in nature but has yet to receive any penalties regarding contaminants. Given these factors, we are confident with the view that a high-grade product with low contaminants will continue to attract a growing demand in the industry.

We also find that little emphasis is currently being placed on other potential supply disruptions in the global iron ore industry. According to experts, India could see a quarter of their iron ore mine capacity (50 of 200 Mtpa) at risk of temporary closure early next year if the ongoing auction process of mining leases experiences delays[11]. This auction process adds to prospective supply disruptions already in India, as the country recently faced a water crisis and creates an additional risk to the mining industry[12]. Moreover, analysts have commented that prospective maintenance issues with major producers in Australia relating to car dumpers and railway operations could further impact supply in the months ahead[13].

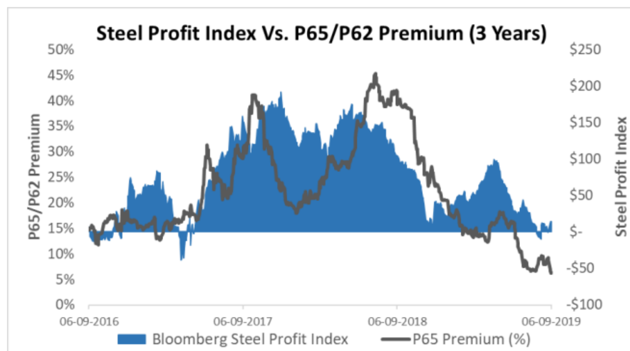
Other interesting comments regarding Chinese production were issued by Wood Mackenzie, who see about 20% of the country's domestic iron ore production generating negative cash margins at current iron ore prices, which could result in some operations being shut down, even though they were recently brought back online following the Vale events in January, 2019[14].

DEMAND PULLBACK – RECOVERY AHEAD?

While Chinese steel output hit an all-time high earlier this summer, the world's largest steel maker has recently pulled back on production[15]. This recent pullback appears to be caused by lower margins in the steelmaking process, along with more aggressive production restrictions implemented in key regions of China ahead of the country's 70th anniversary of Communist Party rule in October[16].

According to Wood Mackenzie, despite strong underlying demand, Chinese steel mills have been unable to fully pass through cost increases from higher iron ore prices earlier this year, resulting in a significant margin compression. This has impacted the choice of ore type by steel mills, as opting for lower grade ore being less productive in the steelmaking process[17]. We continue to believe that steel mill operating margins, which currently sit at multi-year lows, is a leading contributor to the premium that high-grade iron ore products receive, compared to the P62 (Platts TSI IODEX 62% Fe CFR China) iron ore benchmark often quoted in the industry (Figure 2). In addition, the recent decline in the RMB currency, following increasing US/China tensions, added extra pressure to prices for Chinese Rebar and HRC, further pressuring steel mills' operating margins[18].

FIGURE 2



Wood Mackenzie further commented that the underlying long-term story in favour of productivity and increasingly stringent environmental compliance has not changed and continues to forecast a strong premium for high-grade products such as the one produced at Bloom Lake[19]. Such views are reinforced by a recent speech by China's Vice Minister of Environment, who commented that the government is determined to "inspect inaction, slow action, and careless action" to emissions restriction measures implemented by the government[20]. Champion's high-grade concentrate stands to benefit from such announcements, as its product contributes to efforts to reduce emissions in the steelmaking process.

Regarding recently imposed severe restrictions to China's top steelmaking hub, Tangshan, authorities are planning to loosen restrictions on steelmakers in September, relative to those seen in August and July, which may provide some support for iron ore prices[21].

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FORWARD-LOOKING INFORMATION

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Certain of the information in this newsletter has been obtained from external sources, studies or reports. While the Company believes this information to be reliable it has not independently verified such information and disclaims any liability pursuant to such information.

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