

Champion Iron Limited

(ACN: 119 770 142)

Condensed Interim Consolidated Financial Statements For the Three-Month Period Ended June 30, 2020 and 2019

(Expressed in thousands of Canadian dollars - unaudited)

Champion Iron Limited

Interim Consolidated Statements of Financial Position

(Expressed in thousands of Canadian dollars - unaudited)

	Notes	As at June 30, 2020	As at March 31, 2020
Assets			
Current			
Cash and cash equivalents		330,215	281,363
Short-term investments		17,291	17,291
Receivables	3	84,458	31,249
Prepaid expenses and advances		10,400	13,035
Inventories	4	59,283	58,611
		501,647	401,549
Non-current			
Investments		4,013	1,546
Advance payments		31,706	32,438
Property, plant and equipment	5	389,340	371,540
Exploration and evaluation assets		75,601	75,525
Total assets		1,002,307	882,598
Liabilities			
Current			
Accounts payable and other		58,089	55,158
Income and mining taxes payable		101,203	57,761
Current portion of long-term debt	6	20,442	—
		179,734	112,919
Non-current			
Long-term debt	6	244,830	275,968
Lease liabilities		1,644	1,902
Rehabilitation obligation	7	46,972	42,836
Other long-term liabilities		4,350	4,410
Deferred tax liabilities		69,020	67,941
Total liabilities		546,550	505,976
Shareholders' equity			
Share capital	8	435,656	431,556
Contributed surplus		20,536	21,100
Warrants	8	75,336	75,336
Foreign currency translation reserve		424	381
Accumulated deficit		(76,195)	(151,751)
Total equity		455,757	376,622
Total liabilities and equity		1,002,307	882,598
Commitments	14		

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

Approved on July 29, 2020 on behalf of the directors

/s/ Michael O'Keeffe
Director

/s/ Andrew Love
Lead Director

Champion Iron Limited

Interim Consolidated Statements of Income

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

		Three Months Ended June 30,	
	Notes	2020	2019
Revenues	9	244,574	277,914
Cost of sales	10	(102,776)	(103,607)
Cost of sales - incremental costs related to COVID-19	2	(4,562)	—
Depreciation		(8,940)	(3,614)
Gross profit		128,296	170,693
Other expenses			
Share-based payments	8	(885)	(1,109)
General and administrative expenses		(5,184)	(4,186)
Sustainability and other community expenses		(3,472)	(2,076)
Operating income		118,755	163,322
Net finance income (costs)	11	1,322	(29,052)
Income before income and mining taxes		120,077	134,270
Current income and mining taxes		(43,442)	(53,362)
Deferred income and mining taxes		(1,079)	(6,667)
Net income		75,556	74,241
Attributable to:			
Champion shareholders		75,556	38,751
Non-controlling interest		—	35,490
Earnings per share			
Basic	12	0.16	0.09
Diluted	12	0.15	0.08
Weighted average number of common shares outstanding			
Basic		471,228,000	432,258,000
Diluted		489,764,000	484,130,000

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

Champion Iron Limited

Interim Consolidated Statements of Comprehensive Income

(Expressed in thousands of Canadian dollars - unaudited)

	Three Months Ended June 30,	
	2020	2019
Net income	75,556	74,241
Other comprehensive income		
Item that may be reclassified subsequently to the consolidated statement of income:		
Net movement in foreign currency translation reserve	43	3
Total other comprehensive income	43	3
Total comprehensive income	75,599	74,244
Attributable to:		
Champion shareholders	75,599	38,754
Non-controlling interest	—	35,490

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

Champion Iron Limited

Interim Consolidated Statements of Equity

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

	Attributable to Champion shareholders											
	Notes	Share Capital				Contributed Surplus	Warrants	Foreign Currency Translation	Accumulated Deficit	Total	Non-Controlling Interest	Total
		Ordinary Shares ⁽¹⁾	\$	Preferred Shares	\$							
Balance - March 31, 2020		467,689,000	272,049	185,000,000	159,507	21,100	75,336	381	(151,751)	376,622	—	376,622
Net income		—	—	—	—	—	—	—	75,556	75,556	—	75,556
Other comprehensive income		—	—	—	—	—	—	43	—	43	—	43
Total comprehensive income		—	—	—	—	—	—	43	75,556	75,599	—	75,599
Exercise of stock options	8	5,153,000	4,100	—	—	(1,449)	—	—	—	2,651	—	2,651
Share-based payments	8	—	—	—	—	885	—	—	—	885	—	885
Balance - June 30, 2020		472,842,000	276,149	185,000,000	159,507	20,536	75,336	424	(76,195)	455,757	—	455,757
Balance - March 31, 2019		430,470,000	237,969	—	—	21,404	17,730	420	(127,177)	150,346	65,376	215,722
Net income		—	—	—	—	—	—	—	38,751	38,751	35,490	74,241
Other comprehensive income		—	—	—	—	—	—	3	—	3	—	3
Total comprehensive income		—	—	—	—	—	—	3	38,751	38,754	35,490	74,244
Exercise of warrants	8	2,522,000	4,502	—	—	—	(1,664)	—	—	2,838	—	2,838
Share-based payments	8	—	—	—	—	1,109	—	—	—	1,109	—	1,109
Balance - June 30, 2019		432,992,000	242,471	—	—	22,513	16,066	423	(88,426)	193,047	100,866	293,913

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

¹ All issued ordinary shares are fully paid and have no par value.

Champion Iron Limited

Interim Consolidated Statements of Cash Flow

(Expressed in thousands of Canadian dollars - unaudited)

	Notes	Three Months Ended June 30,	
		2020	2019
Cash provided by (used in)			
Operating Activities			
Net income		75,556	74,241
Items not affecting cash			
Depreciation	5,15	8,940	3,614
Share-based payments	8	885	1,109
Accretion of borrowing costs and debt discount	11	484	1,321
Change in fair value of derivative liability	11	—	21,077
Accretion of the rehabilitation obligation	11	72	243
Change in fair value of non-current investments	11	(2,467)	25
Unrealized foreign exchange gain		(2,029)	(1,018)
Change in fair value of derivative assets	11	—	(1,907)
Deferred income and mining taxes		1,079	6,667
Interest		—	(3,987)
		82,520	101,385
Changes in non-cash operating working capital	15	(7,232)	(9,464)
Net cash flows from operating activities		75,288	91,921
Financing Activities			
Repayment of long-term debt	6	—	(7,492)
Exercise of warrants	8	—	2,838
Payment of lease liabilities		(233)	—
Exercise of stock options	8	2,651	—
Net cash flows from financing activities		2,418	(4,654)
Investing Activities			
Decrease in short-term investments		—	203
Purchase of property, plant and equipment	5,15	(23,621)	(26,477)
Investment in exploration and evaluation assets		(76)	(194)
Net cash flows from investing activities		(23,697)	(26,468)
Net increase in cash and cash equivalents		54,009	60,799
Cash and cash equivalent, beginning of the period		281,363	135,424
Effects of exchange rate changes on cash and cash equivalents		(5,157)	(3,247)
Cash and cash equivalent, end of the period		330,215	192,976
Interest paid		296	10,571
Mining tax 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]

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). The Company is domiciled in Australia and its principle administrative office is located on 1100 René-Lévesque Blvd. West, Suite 610, Montreal, QC, H3B 4N4, Canada.

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 Québec, approximately 300 km north of Sept-Îles and 13 km from the town of Fermont, Québec, Canada.

The Bloom Lake Mine assets are held through Québec Iron Ore Inc. ("QIO"), a wholly-owned subsidiary of Champion, further to the acquisition of Investissement Québec's 36.8% equity interest in QIO on August 16, 2019. Investissement Québec was formerly Ressources Québec Inc., at the time of the transaction.

2. Significant Accounting Policies and Future Accounting Changes

A. Basis of preparation

The Company's condensed interim consolidated financial statements ("financial statements") are for the group consisting of Champion Iron Limited and its subsidiaries.

These financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial assets and financial liabilities recorded at fair value.

The nature of the operations and principal activities of the Company are described in the Directors' Report for the year ended March 31, 2020.

B. Statement of compliance

These financial statements have been prepared for a for-profit enterprise in accordance with the requirements of the Corporations Act 2001 and AASB 134 (IAS 34), *Interim Financial Reporting*.

These financial statements do not include certain information and disclosures normally included in the audited annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") and should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended March 31, 2020.

The accounting policies used in these financial statements are consistent with those disclosed in the Company's audited consolidated financial statements for the year ended March 31, 2020, except for the new accounting standards issued and adopted by the Company described below.

These financial statements were approved and authorized for issue by the Board of Directors on July 29, 2020.

C. Significant accounting judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Uncertainty due to COVID-19

In March 2020, the World Health Organization declared a global pandemic related to COVID-19. To date there have been significant stock market declines and volatility, significant volatility in commodity and foreign exchange markets, restrictions on the conduct of business in many jurisdictions and the global movement of people and some goods has become restricted. The duration and full financial effect of the COVID-19 pandemic is unknown at this time, as are the measures taken by governments, the Company or others to attempt to reduce the spread of COVID-19.

Champion Iron Limited

Notes to the Condensed Interim Consolidated Financial Statements

[Expressed in thousands of Canadian dollars, except where otherwise indicated]

2. Significant Accounting Policies and Future Accounting Changes (continued)

C. Significant accounting judgments, estimates and assumptions (continued)

Uncertainty due to COVID-19 (continued)

On March 24, 2020, the Company announced the ramp down of operations at Bloom Lake, following a directive from the Government which required mining activities within the province to be reduced to a minimum. In line with the Government's directives, all discretionary work had been suspended and operations were restricted to a single production line, tailings management, water treatment and overall maintenance. On April 23, 2020, the Company announced it would gradually ramp up operations at Bloom Lake, following an announcement from the Government that effective April 15, 2020, mining activities were considered a "priority service" and the Company was allowed to resume normal operations, conditional on the implementation of guidelines aiming to contain the risks related to the COVID-19 pandemic. As the Company continues to focus on the health and safety of its workers, partners and communities, operations at the Bloom Lake mine gradually ramped up and reached nameplate capacity by June 2020.

In line with Government guidelines, Champion has deployed several measures in its efforts to mitigate risks related to the COVID-19 pandemic. The Company incurred direct, incremental and non-recurring operating costs of \$4,562,000 for the three-month period ended June 30, 2020 resulting from the COVID-19 safety measures, which are mainly comprised of premiums paid to employees from adjusted work schedules, incremental transportation costs and incremental costs for cleaning and disinfecting facilities. These costs were presented on a distinct line in the consolidated statements of income named "Cost of sales - incremental costs related to COVID-19".

As at June 30, 2020, the Company deferred the payment of the income tax related to the fiscal year ended March 31, 2020 amounting to \$57.8M as well as monthly installments for the period from April to June 2020 inclusively for income and mining taxes totalling \$14.2M. The Company will continue to monitor and adapt to the rapidly changing global economy impacted by the pandemic.

In the current environment, the judgments, estimates and assumptions are subject to greater variability than normal, which could in the future significantly affect judgments, estimates and assumptions made by management as they relate to potential impact of the COVID-19 on various financial accounts and note disclosures and could lead to a material adjustment to the carrying value of the assets or liabilities affected. The impact of current uncertainty on judgments, estimates and assumptions extends but is not limited to the Company's valuation of the long-term assets (including the assessment for impairment), estimation of rehabilitation obligations and estimation of mineral reserves and mineral resources. While the Company has considered the impact of COVID-19 on these financial accounts, actual results may differ materially from these estimates.

D. New accounting amendments issued and adopted by the Company

The following amendments to existing standards have been adopted by the Company on April 1, 2020:

IFRS 3, Business combinations ("IFRS 3")

Amendments to IFRS 3, clarify the definition of a business. The amendments help entities determine whether an acquisition made is of a business or a group of assets. The amended definition emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and other. The amendments also introduce an optional "concentration test" that can lead to a conclusion that the acquisition is not a business combination.

IAS 1, Presentation of financial statements ("IAS 1"), and IAS 8, Accounting policies, changes in accounting estimates and errors ("IAS 8")

Definition of Material (Amendments to IAS 1 and to IAS 8) is intended to make the definition of material in IAS 1 easier to understand and is not intended to alter the underlying concept of materiality in IFRS Standards. The concept of "obscuring" material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from "could influence" to "could reasonably be expected to influence". The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1.

The amendments listed above did not have a significant impact on the Company's financial statements.

Champion Iron Limited

Notes to the Condensed Interim Consolidated Financial Statements

[Expressed in thousands of Canadian dollars, except where otherwise indicated]

2. Significant Accounting Policies and Future Accounting Changes (continued)

E. New accounting amendments issued but not yet in effect

The following amendment to a standard has been issued and are applicable to the Company for its annual periods beginning on April 1, 2022 and thereafter, with an earlier application permitted:

Amendments to IAS 1

Amendments to IAS 1 clarify how to classify debt and other liabilities as current or non-current. The amendments help to determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments also include clarifying the classification requirements for debt an entity might settle by converting it into equity.

The Company is currently evaluating the impact of adopting the amendment on the financial statements.

3. Receivables

	As at June 30, 2020	As at March 31, 2020
Trade receivables	70,904	15,944
Sales tax	12,056	12,958
Other receivables	1,498	2,347
	84,458	31,249

For the three-month period ended June 30, 2020, no provision was recorded on any of the Company's receivables (March 31, 2020: nil). Receivables are generally settled within six months and are therefore, collectable. As at June 30, 2020, the trade receivables, subject to provisional pricing, amounts to a receivable balance of \$35,481,000 (March 31, 2020: payable balance of \$10,879,000). The Company has no receivables past due as at June 30, 2020 (March 31, 2020: nil) and holds no collateral for any receivable amounts outstanding as at June 30, 2020 (March 31, 2020: nil).

4. Inventories

	As at June 30, 2020	As at March 31, 2020
Stockpiled ore	11,910	13,630
Concentrate inventories	16,440	16,560
Supplies and spare parts	30,933	28,421
	59,283	58,611

The amount of inventories recognized as an expense totalled \$116,278,000 for the three-month period ended June 30, 2020 (\$107,221,000 for the three-month period ended June 30, 2019). For the three-month period ended June 30, 2020, no specific provision was recorded on any of the Company's inventories (June 30, 2019: nil).

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 ⁽¹⁾	Mining Development and Stripping Asset ⁽²⁾	Asset Rehabilitation Obligation and Other ⁽³⁾	Subtotal	Right-of-use assets	Total
Cost									
March 31, 2020	150,455	43,421	73,196	65,388	41,105	33,154	406,719	10,335	417,054
Additions	1,965	5,500	—	14,584	1,789	4,092	27,930	—	27,930
Transfers and disposals	657	—	—	(725)	—	—	(68)	—	(68)
Foreign exchange	—	(1,665)	—	—	—	—	(1,665)	—	(1,665)
June 30, 2020	153,077	47,256	73,196	79,247	42,894	37,246	432,916	10,335	443,251
Accumulated depreciation									
March 31, 2020	30,087	5,767	3,983	—	871	3,554	44,262	1,252	45,514
Depreciation	6,001	461	891	—	261	675	8,289	338	8,627
Transfers and disposals	—	—	—	—	—	—	—	—	—
Foreign exchange	—	(230)	—	—	—	—	(230)	—	(230)
June 30, 2020	36,088	5,998	4,874	—	1,132	4,229	52,321	1,590	53,911
Net book value -									
June 30, 2020	116,989	41,258	68,322	79,247	41,762	33,017	380,595	8,745	389,340
Cost									
March 31, 2019	116,573	47,766	18,005	24,700	19,864	16,640	243,548	—	243,548
Adoption of IFRS 16 ⁽⁴⁾	—	—	—	—	—	—	—	1,291	1,291
Additions	1,352	—	—	128,450	21,241	16,522	167,565	2,221	169,786
Transfers and disposals	32,530	(6,823)	55,191	(87,762)	—	(8)	(6,872)	6,823	(49)
Foreign exchange	—	2,478	—	—	—	—	2,478	—	2,478
March 31, 2020	150,455	43,421	73,196	65,388	41,105	33,154	406,719	10,335	417,054
Accumulated depreciation									
March 31, 2019	12,912	3,818	498	—	447	1,750	19,425	—	19,425
Depreciation	17,192	1,772	3,485	—	424	1,804	24,677	1,094	25,771
Transfers and disposals	(17)	(158)	—	—	—	—	(175)	158	(17)
Foreign exchange	—	335	—	—	—	—	335	—	335
March 31, 2020	30,087	5,767	3,983	—	871	3,554	44,262	1,252	45,514
Net book value -									
March 31, 2020	120,368	37,654	69,213	65,388	40,234	29,600	362,457	9,083	371,540

¹ During the development period of the Bloom Lake Phase II expansion project, the amount of borrowing costs capitalized for the three-month period ended June 30, 2020 was \$931,000 (three-month period ended June 30, 2019 and year ended March 31, 2020: nil and \$1,405,000, respectively). Borrowing costs consisted of interest expense on the long-term debt (note 6). The capitalization rate used to determine the amount of borrowing costs eligible for capitalization for the three-month period ended June 30, 2020 was 3.9% (three-month period ended June 30, 2019 and year ended March 31, 2020: nil and 5.9%, respectively).

² The addition to the stripping asset includes production expenses capitalized and allocated depreciation of property, plant and equipment amounting to \$1,175,000 and \$245,000, respectively (June 30, 2019: \$2,841,000 and \$428,000, respectively; March 31, 2020: \$10,700,000 and \$1,431,000, respectively).

³ Includes software with a cost and accumulated depreciation of \$4,136,000 and \$1,979,000, respectively, as at June 30, 2020 (\$4,136,000 and \$1,635,000, respectively, as at March 31, 2020).

⁴ Represents the initial recognition of right-of-use assets as at April 1, 2019 following the adoption of IFRS 16, *Leases*.

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

			As at June 30, 2020	As at March 31, 2020
	Term Facility	Revolving Facility	(three-month period)	(twelve-month period)
Opening balance	247,594	28,374	275,968	228,890
Advances	—	—	—	267,522
Capital repayment	—	—	—	(231,456)
Payment of capitalized interest	—	—	—	(19,517)
Transaction costs	—	—	—	(8,985)
Amortization of transaction costs	484	—	484	2,915
Unrealized foreign exchange	(10,062)	(1,118)	(11,180)	14,657
Non-cash loss on repayment of debt	—	—	—	21,942
	238,016	27,256	265,272	275,968
Less current portion	(20,442)	—	(20,442)	—
Ending balance	217,574	27,256	244,830	275,968

On August 16, 2019, QIO entered into a US\$200,000,000 lending arrangement with Bank of Nova Scotia and Société Générale as joint-lead arrangers as well as various lenders. The lending arrangement comprises of a US\$180,000,000 single draw non-revolving credit facility (the "Term Facility") and a US\$20,000,000 revolving credit facility (the "Revolving Facility") (collectively the "Credit Facilities"). The proceeds of the lending arrangement were primarily used to fully repay previously issued debt facilities held by QIO (the "Refinancing") with Sprott Private Resource Lending (Collector), LP ("Sprott") and CDP Investissements Inc. ("CDPI").

The maturity date for the Term Facility and the Revolving Facility are August 16, 2024 and August 16, 2022, respectively. The repayment of the Term Facility starts on June 30, 2021, and quarterly thereafter, for 1/12th of the principal balance outstanding.

The Credit Facilities are subject to interest based on LIBOR and a financial margin that fluctuates from 2.85% to 3.75% depending on whether the net debt to EBIDTA ratio is below 1.0 or greater than 2.5. As at June 30, 2020, the weighted average interest rate was 3.9%, which represented the LIBOR + 2.85%.

The Credit Facilities are subject to operational and financial covenants, all of which have been met as at June 30, 2020.

7. Rehabilitation Obligation

	As at June 30, 2020	As at March 31, 2020
	(three-month period)	(twelve-month period)
Opening balance	42,836	36,565
Increase due to reassessment of the rehabilitation obligation	698	6,643
Accretion expense	72	171
Effect of change in discount rate	3,366	(543)
Ending balance	46,972	42,836

The accretion of the rehabilitation obligation was evaluated as the amount of the expenditure required to settle the present obligation at the end of the reporting period, discounted by the number of years between the reporting date and the rehabilitation date using a discount rate of 0% (March 31, 2020: 0.43%). The future rehabilitation obligation was reassessed during the three-month period ended June 30, 2020 based on the reclamation plan approved by the Government in July 2019. The undiscounted amount related to the rehabilitation obligation is estimated at \$46,972,000 as at June 30, 2020 (March 31, 2020: \$46,274,000).

Champion Iron Limited

Notes to the Condensed Interim Consolidated Financial Statements

[Expressed in thousands of Canadian dollars, except where otherwise indicated]

8. Share Capital and Reserves

a) Authorized

The Company's share capital consists of authorized:

- Unlimited number of ordinary shares, without par value; and
- Unlimited number of preferred shares, without par value, issuable in series.

b) Ordinary share issuances

	Three Months Ended June 30,	
	2020	2019
	(in thousands)	(in thousands)
Shares		
Opening balance	467,689	430,470
Shares issued for exercise of warrants	—	2,522
Shares issued for exercise of options - incentive plan	5,153	—
Ending balance	472,842	432,992

c) Preferred share issuances

	Three Months Ended June 30,	
	2020	2019
	(in thousands)	(in thousands)
Shares		
Opening balance	185,000	—
Issuance of preferred shares	—	—
Ending balance	185,000	—

The Preferred Shares accumulate dividends, if and when declared by QIO. The dividend rate associated with the Preferred Shares is based on the gross realized iron ore price and fluctuates from 9.25% when the gross realized iron price for Bloom Lake 66.2% iron ore is greater than US\$85/t to 13.25% should the gross realized iron ore price decrease below US\$65/t. As at June 30, 2020, the Preferred Shares accumulated and undeclared dividends amounted to \$15,405,000, which is accrued only when declared by QIO.

The Preferred Shares are retractable at the option of CDPI upon i) liquidation, dissolution or windup of QIO or the Company, or certain events being within the control of the Company being ii) change of control of QIO or the Company, iii) sale of substantially all of the assets of QIO or iv) completion of an initial public offering by QIO. The Preferred Shares and accrued dividends can be repaid at parity after its second anniversary with no penalty.

At any time after the tenth (10th) anniversary, and provided that the Preferred Shares are not redeemed in full, CDPI shall have the right to notify QIO of its desire that QIO commence a sale transaction of QIO. As such a sale transaction would not result in the redemption in cash of the Preferred Shares unless the Company determines that a liquidation of assets would generate the highest sale proceeds, such decision remaining in the control of the Company. The Preferred Shares were accounted for as equity 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]

8. Share Capital and Reserves (continued)

d) Share-based payments

The Company has various share-based compensation plans for eligible employees and directors. 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, deferred share units ("DSU") awards, restricted share units ("RSU") awards and preferred share units ("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 payments expenses is detailed as follows:

	Three Months Ended June 30,	
	2020	2019
Stock option costs	74	467
DSU costs	61	—
RSU costs	512	524
PSU costs	238	118
	885	1,109

e) Stock options

As at June 30, 2020, the Company is authorized to issue 47,284,000 stock options and share rights (June 30, 2019: 43,299,000) equal to 10% (June 30, 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,	
	2020		2019	
	Number of Stock Options	Weighted Average Exercise Price	Number of Stock Options	Weighted Average Exercise Price
	(in thousands)		(in thousands)	
Opening balance	6,814	0.83	8,780	0.56
Granted	—	—	534	2.43
Exercised	(5,153)	0.56	—	—
Ending balance	1,661	1.65	9,314	0.66
Options exercisable - end of the period	1,139	1.62	7,905	0.51

During the three-month period ended June 30, 2020, no new stock options were granted. During the three-month period ended June 30, 2020, a total of 5,153,000 stock options were exercised (June 30, 2019: nil). The weighted average share price at the exercise date was \$1.93 (June 30, 2019: nil).

During the three-month period ended June 30, 2019, a total of 534,000 new stock options were granted to new employees of the Company. The weighted average share price at the grant date was \$2.43. The fair value of the outstanding stock options granted during the three-month period ended June 30, 2019 totalled \$753,000. The stock options granted will vest over a three-year period.

Champion Iron Limited

Notes to the Condensed Interim Consolidated Financial Statements

[Expressed in thousands of Canadian dollars, except where otherwise indicated]

8. Share Capital and Reserves (continued)

e) Stock options (continued)

A summary of the Company's outstanding and exercisable stock options as at June 30, 2020 is presented below:

Exercise Price Range	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number of Stock Options	
			Outstanding	Exercisable
			(in thousands)	(in thousands)
\$1.00 - \$2.00	0.89	\$1.27	1,126	783
\$2.01 - \$3.00	1.67	\$2.43	535	356
			1,661	1,139

f) Restricted share units

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

	Three Months Ended June 30, 2020		Three Months Ended June 30, 2019	
	Number of RSU	Weighted Average Exercise Price	Number of RSU	Weighted Average Exercise Price
	(in thousands)		(in thousands)	
Opening balance	598	2.18	—	—
Granted	412	2.33	598	2.18
Ending balance	1,010	2.24	598	2.18
Vested - end of the period	482	2.22	145	2.18

During the three-month period ended June 30, 2020, 412,000 RSUs were granted to key management personnel (June 30, 2019: 598,000). They will vest annually in three equal tranches from the date of grant.

g) Performance share units

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

	Three Months Ended June 30, 2020		Three Months Ended June 30, 2019	
	Number of PSU	Weighted Average Exercise Price	Number of PSU	Weighted Average Exercise Price
	(in thousands)		(in thousands)	
Opening balance	653	2.17	—	—
Granted	619	2.33	653	2.17
Ending balance	1,272	2.25	653	2.17
Vested - end of the period	—	—	—	—

During the three-month period ended June 30, 2020, 619,000 PSUs were granted to key management personnel (June 30, 2019: 653,000). The PSU awards vest at the end of three years from the date of grant according to performance indicators established by the Board of Directors.

Champion Iron Limited

Notes to the Condensed Interim Consolidated Financial Statements

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

8. Share Capital and Reserves (continued)

h) Compensation options

	Three Months Ended June 30,		Three Months Ended June 30,	
	2020		2019	
	Number of Compensation Options	Weighted Average Exercise Price	Number of Compensation Options	Weighted Average Exercise Price
	(in thousands)		(in thousands)	
Opening balance	—	—	21,000	0.25
Exercised	—	—	—	—
Ending balance	—	—	21,000	0.25

i) Warrants

	Three Months Ended June 30,		Three Months Ended June 30,	
	2020		2019	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
	(in thousands)		(in thousands)	
Opening balance	53,014	1.50	24,000	1.13
Exercised	—	—	(2,522)	1.13
Ending balance	53,014	1.50	21,478	1.13

All ordinary share warrants were accounted for as warrants in the consolidated statements of equity.

Long-term debt with Sprott and CDPI

In connection with the previous debt with Sprott and CDPI, the Company issued on October 16, 2017: (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, 2020, no warrants were exercised related to the previous debt with Sprott and CDPI. 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.

Glencore Debenture

On August 16, 2019, as the Company elected to prepay the unsecured subordinated convertible debenture ("Debenture") with Glencore International AG. ("Glencore"), the Debenture was not converted into ordinary shares of the Company by Glencore prior to the repayment. As a result, the Company granted 27,733,000 ordinary share purchase warrants to Glencore, entitling the holder to purchase 27,733,000 ordinary shares of the Company for \$1.125 until October 13, 2025.

During the three-month period ended June 30, 2020, no warrants were exercised related to the previous Debenture.

Preferred share offering with CDPI

On August 16, 2019, in connection with the preferred share offering with CDPI, the Company issued 15,000,000 ordinary share purchase warrants to CDPI, entitling the holder to purchase 15,000,000 ordinary shares of the Company for \$2.45 until August 16, 2026.

During the three-month period ended June 30, 2020, no warrants were exercised related to the preferred share offering with CDPI.

Champion Iron Limited

Notes to the Condensed Interim Consolidated Financial Statements

[Expressed in thousands of Canadian dollars, except where otherwise indicated]

8. Share Capital and Reserves (continued)

i) Warrants (continued)

A summary of the Company's outstanding and exercisable warrants as at June 30, 2020 is presented below:

Exercise Price	Holder	Expiry Date	Outstanding and Exercisable	
			As at June 30, 2020	As at June 30, 2019
			(in thousands)	(in thousands)
\$1.125	Sprott	October 16, 2022	281	478
\$1.125	CDPI	October 16, 2024	10,000	21,000
\$1.125	Glencore	October 13, 2025	27,733	—
\$2.45	CDPI	August 16, 2026	15,000	—
			53,014	21,478

9. Sales

	Three Months Ended June 30,	
	2020	2019
Iron ore revenue	221,439	253,541
Provisional pricing adjustments	23,135	24,373
Total iron ore revenue	244,574	277,914

Provisional pricing adjustments represent any difference between the revenue recognized at the end of the previous period and the final settlement price. As at June 30, 2020, Champion had 1.3 million tonnes of iron ore sales that remained subject to provisional pricing, with the final price to be determined in the following reporting periods (June 30, 2019: 1.4 million tonnes).

10. Cost of Sales

	Three Months Ended June 30,	
	2020	2019
Land transportation	40,142	37,786
Operating supplies and parts	22,054	26,000
Salaries, benefits and other employee expenses	20,807	17,706
Sub-contractors	17,240	22,029
Other production costs	2,428	4,234
Change in inventories	1,280	(1,307)
Production expenses capitalized as stripping asset	(1,175)	(2,841)
	102,776	103,607

For the three-month period ended June 30, 2020, the amount recognized as an expense for defined contribution plans was \$1,309,000 (June 30, 2019: \$1,015,000) and was included in salaries, benefits and other employee expenses.

Champion Iron Limited

Notes to the Condensed Interim Consolidated Financial Statements

[Expressed in thousands of Canadian dollars, except where otherwise indicated]

11. Net Finance (Income) Costs

	Three Months Ended June 30,	
	2020	2019
Change in fair value of non-current investments	(2,467)	25
Realized and unrealized foreign exchange (gain) loss	(1,774)	235
Interest on long-term debt and Debenture	1,802	7,007
Accretion of borrowing costs and debt discount	484	1,321
Accretion of the rehabilitation obligation	72	243
Interest expense on lease liabilities	34	—
Change in fair value of derivative liability	—	21,077
Change in fair value of derivative assets	—	(1,907)
Other interest and finance costs	527	1,051
	(1,322)	29,052

12. 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, 2020 by the weighted average number of shares outstanding during the period.

	Three Months Ended June 30,	
	2020	2019
Net income attributable to Champion shareholders	75,556	38,751
Weighted average number of common shares outstanding - Basic	471,228,000	432,258,000
Dilutive share options, warrants and equity settled awards	18,536,000	51,872,000
Weighted average number of outstanding shares - Diluted	489,764,000	484,130,000
Basic earnings per share	0.16	0.09
Diluted earnings per share	0.15	0.08

Champion Iron Limited

Notes to the Condensed Interim Consolidated Financial Statements

[Expressed in thousands of Canadian dollars, except where otherwise indicated]

13. 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 ("FVPL"), financial assets at amortized cost, and financial liabilities at amortized cost. The following tables show the carrying values and the fair value of assets and liabilities for each of these categories as at June 30, 2020 and March 31, 2020:

As at June 30, 2020		Fair Value Through Profit and Loss	Financial Assets at Amortized Cost	Financial Liabilities at Amortized Cost	Total Carrying Amount and Fair Value
Assets					
Current					
Cash and cash equivalents	Level 1	—	330,215	—	330,215
Short-term investments	Level 1	—	17,291	—	17,291
Trade receivables	Level 2	70,904	—	—	70,904
Other receivables (excluding sales tax)	Level 2	—	1,498	—	1,498
Non-current					
Investments	Level 1	4,013	—	—	4,013
		74,917	349,004	—	423,921
Liabilities					
Current					
Accounts payable and other (excluding current portion of lease liabilities)	Level 2	—	—	57,076	57,076
Current portion of long-term debt	Level 2	—	—	20,442	20,442
		—	—	77,518	77,518
Non-current					
Long-term debt	Level 2	—	—	244,830	244,830
		—	—	322,348	322,348

As at March 31, 2020		Fair Value Through Profit and Loss	Financial Assets at Amortized Cost	Financial Liabilities at Amortized Cost	Total Carrying Amount and Fair Value
Assets					
Current					
Cash and cash equivalents	Level 1	—	281,363	—	281,363
Short-term investments	Level 1	—	17,291	—	17,291
Trade receivables	Level 2	15,944	—	—	15,944
Other receivables (excluding sales tax)	Level 2	—	2,347	—	2,347
Non-current					
Investments	Level 1	1,546	—	—	1,546
		17,490	301,001	—	318,491
Liabilities					
Current					
Accounts payable and other (excluding the current portion of lease liabilities)	Level 2	—	—	54,170	54,170
		—	—	54,170	54,170
Non-current					
Long-term debt	Level 2	—	—	275,968	275,968
		—	—	330,138	330,138

Champion Iron Limited

Notes to the Condensed Interim Consolidated Financial Statements

[Expressed in thousands of Canadian dollars, except where otherwise indicated]

13. Financial Instruments (continued)

Measurement categories (continued)

Current financial assets and financial liabilities are valued at their carrying amounts, which are reasonable estimates of their fair value due to their near-term maturities; this includes cash and cash equivalents, short-term investments, other receivables and accounts payable and other (excluding current portion of lease liabilities). Long-term debt was accounted for at amortized cost using the effective interest method, and its fair value approximates its carrying value.

Fair value measurement hierarchy

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, 2020 (June 30, 2019: nil).

Financial instruments measured at fair value

Trade receivables

The trade receivables are classified as Level 2 in the fair value hierarchy. Their fair values are a recurring measurement. The measurement of the trade receivables is impacted by the Company's provisional pricing arrangements, where the final sales price is determined based on iron ore prices subsequent to a shipment arriving at the port of discharge. The Company initially recognizes sales trade receivables at the contracted provisional price on the shipment date and re-estimates the consideration to be received using forecast iron ore prices at the end of each reporting period. The impact of iron ore price movements until final settlement is recorded as an adjustment to sales trade receivables.

Non current - Investments

Non-current investments are equity instruments that are classified as a Level 1 in the fair value hierarchy. Their fair values are a recurring measurement and are estimated using the last closing share price observed on the relevant stock exchange, in accordance with the Company's policy. The equity investments are classified as financial assets at FVPL.

14. 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, 2020
Less than a year	46,340
1 to 5 years	58,545
More than 5 years	178,018
	282,903

Included in the above is \$17,697,000 of capital commitments relating to the purchase of property, plant and equipment as at June 30, 2020.

Champion Iron Limited

Notes to the Condensed Interim Consolidated Financial Statements

[Expressed in thousands of Canadian dollars, except where otherwise indicated]

15. Financial Information Included in the Consolidated Statement of Cash Flows

a) Changes in non-cash operating working capital

	Three Months Ended June 30,	
	2020	2019
Receivables	(55,656)	(55,972)
Prepaid expenses and advances	2,635	13,155
Inventories	(1,231)	(3,470)
Advance payments	732	1,078
Accounts payable and other	2,906	17,111
Income and mining taxes payable	43,442	19,303
Property taxes payable	—	(463)
Other long-term liabilities	(60)	(206)
	(7,232)	(9,464)

b) Reconciliation of additions presented in the property, plant and equipment schedule to the cash flow from investing activities

	Three Months Ended June 30,	
	2020	2019
Additions of property, plant and equipment as per note 5	27,930	26,905
Depreciation of property, plant and equipment allocated to stripping activity asset	(245)	(428)
Non-cash increase of the asset rehabilitation obligation	(4,064)	—
Cash flow from investing activities - purchase of property, plant and equipment	23,621	26,477

c) Reconciliation of depreciation presented in the property, plant and equipment schedule to the statement of income

	Three Months Ended June 30,	
	2020	2019
Depreciation of property, plant and equipment as per note 5	8,627	4,456
Depreciation of property, plant and equipment allocated to stripping activity asset	(245)	(428)
Net effect of depreciation of property, plant and equipment allocated to inventory	558	(414)
Depreciation of property, plant and equipment as per statement of income	8,940	3,614

Champion Iron Limited

Notes to the Condensed Interim Consolidated Financial Statements

[Expressed in thousands of Canadian dollars, except where otherwise indicated]

16. 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 evaluation and corporate were identified as separate segments due to their specific nature.

Three-Month Period Ended June 30, 2020	Mine Site	Exploration and Evaluation	Corporate	Total
Revenues	244,574	—	—	244,574
Cost of sales	(102,776)	—	—	(102,776)
Cost of sales - incremental costs related to COVID-19	(4,562)	—	—	(4,562)
Depreciation	(8,876)	—	(64)	(8,940)
Gross profit (loss)	128,360	—	(64)	128,296
Share-based payments	—	—	(885)	(885)
General and administrative expenses	—	—	(5,184)	(5,184)
Sustainability and other community expenses	(1,428)	—	(2,044)	(3,472)
Operating income (loss)	126,932	—	(8,177)	118,755
Net finance costs and taxes expenses				(43,199)
Net income				75,556
Segmented total assets	902,147	75,601	24,559	1,002,307
Segmented total liabilities	(536,954)	—	(9,596)	(546,550)
Segmented property, plant and equipment	387,389	—	1,951	389,340

Three-Month Period Ended June 30, 2019	Mine Site	Exploration and Evaluation	Corporate	Total
Revenues	277,914	—	—	277,914
Cost of sales	(103,607)	—	—	(103,607)
Depreciation	(3,605)	—	(9)	(3,614)
Gross profit (loss)	170,702	—	(9)	170,693
Share-based payments	—	—	(1,109)	(1,109)
General and administrative expenses	—	—	(4,186)	(4,186)
Sustainability and other community expenses	(809)	—	(1,267)	(2,076)
Operating income (loss)	169,893	—	(6,571)	163,322
Net finance costs and taxes expenses				(89,081)
Net income				74,241
Segmented total assets	710,648	75,251	12,715	798,614
Segmented total liabilities	(421,589)	—	(83,112)	(504,701)
Segmented property, plant and equipment	251,945	—	331	252,276