Champion Iron Limited

(ACN: 119 770 142)

Condensed Interim Consolidated Financial Statements
For the Three and Nine-Month Periods Ended December 31, 2018 and 2017

(Expressed in thousands of Canadian dollars - unaudited)

Champion Iron Limited

Consolidated Statements of Financial Position

(Expressed in thousands of Canadian dollars - unaudited)

	Notes	**As at December 31, 2018**	As at March 31, 2018
Assets			
Current			
Cash and cash equivalents	**3**	**167,821**	7,895
Short-term investments		**17,627**	17,291
Receivables	**4**	**50,370**	25,838
Prepaid expenses and advances		**20,906**	15,898
Inventories	**5**	**37,233**	48,171
		293,957	115,093
Non-current			
Investments		**2,275**	4,250
Advance payments	**6**	**38,852**	37,517
Property, plant and equipment ("PPE")	**7**	**204,561**	172,719
Exploration and evaluation assets		**77,402**	72,137
Total assets		**617,047**	**401,716**
Liabilities			
Current			
Accounts payable and accrued liabilities		**37,157**	63,481
Income tax payable	**16**	**25,731**	—
Convertible debenture, Altius	**8**	**—**	9,791
Current portion of long-term debt	**9**	**32,945**	—
Note payable	**12**	**38,552**	36,438
		134,385	109,710
Non-current			
Property taxes payable	**10**	**11,116**	16,276
Long-term debt	**9**	**204,675**	141,225
Convertible debenture, Glencore	**11**	**11,940**	14,016
Derivative liabilities	**11**	**21,384**	24,683
Rehabilitation obligation		**36,038**	35,893
Deferred tax liability	**16**	**10,235**	5,465
Total liabilities		**429,773**	**347,268**
Shareholders' Equity			
Capital stock	**13**	**237,969**	224,336
Contributed surplus		**21,134**	21,204
Warrants		**17,730**	17,730
Foreign currency translation reserve		**397**	578
Non-controlling interest		**46,041**	823
Accumulated deficit		**(135,997)**	(210,223)
Total equity		**187,274**	**54,448**
Total liabilities and equity		**617,047**	**401,716**
Commitments	**18**		

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

Champion Iron Limited

Condensed Consolidated Statements of Income (Loss)

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

		Three Months Ended December 31,		Nine Months Ended December 31,	
	Notes	**2018**	2017	**2018**	2017
Revenues		**147,546**	—	**472,965**	—
Cost of sales	**14**	**(84,482)**	—	**(267,515)**	—
Depreciation		**(2,593)**	(1,091)	**(11,102)**	(3,272)
Gross profit (loss)		**60,471**	**(1,091)**	**194,348**	**(3,272)**
Other Expenses					
Share-based payments	**13**	**(471)**	(758)	**(1,538)**	(2,595)
General and administrative expenses		**(3,805)**	(2,634)	**(8,311)**	(4,190)
Restart costs		**—**	(34,936)	**(4,497)**	(51,819)
Sustainability and other community expenses		**(938)**	—	**(6,991)**	—
Property taxes adjustment	**10**	**7,559**	—	**7,559**	—
Exploration and evaluation		**—**	(94)	**—**	(544)
Operating income (loss)		**62,816**	**(39,513)**	**180,570**	**(62,420)**
Net finance costs	**15**	**(9,279)**	(14,502)	**(30,624)**	(15,606)
Income (loss) before income tax		**53,537**	**(54,015)**	**149,946**	**(78,026)**
Current income tax	**16**	**(8,227)**	—	**(25,731)**	—
Deferred income tax	**16**	**(14,111)**	—	**(4,771)**	—
Net income (loss) for the period		**31,199**	**(54,015)**	**119,444**	**(78,026)**
Attributable to:					
Champion shareholders		**21,672**	(37,341)	**74,226**	(54,321)
Non-controlling interest		**9,527**	(16,674)	**45,218**	(23,705)
Earnings (loss) per share					
Basic		**0.05**	(0.09)	**0.18**	(0.14)
Diluted		**0.05**	(0.09)	**0.17**	(0.14)
Weighted Average Number of Common Shares Outstanding - Basic		**419,807,247**	406,025,063	**417,472,039**	393,356,872
Weighted Average Number of Common Shares Outstanding - Diluted		**442,006,087**	406,025,063	**443,389,112**	393,356,872

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

Champion Iron Limited

Condensed Consolidated Statements of Comprehensive Income (Loss)

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	**2017**	**2018**	**2017**
Net income (loss) for the period	**31,199**	**(54,015)**	**119,444**	**(78,026)**
Item that may be reclassified in future years to the statement of income				
Net movement in foreign currency translation reserve	**(57)**	(38)	**(181)**	2,202
Comprehensive income (loss)	**31,142**	**(54,053)**	**119,263**	**(75,824)**
Attributable to:				
Champion shareholders	**21,615**	(37,379)	**74,045**	(52,119)
Non-controlling interest	**9,527**	(16,674)	**45,218**	(23,705)

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

Champion Iron Limited

Condensed Consolidated Statements of Equity

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

	Ordinary Shares							
	Shares[1]		Contributed Surplus	Warrants	Foreign Currency Translation	Non-Controlling Interest	Accumulated Deficit	TOTAL
Balance - March 31, 2018	414,618,000	224,336	21,204	17,730	578	823	(210,223)	54,448
Net income	—	—	—	—	—	45,218	74,226	119,444
Other comprehensive loss	—	—	—	—	(181)	—	—	(181)
Total comprehensive income (loss)	—	—	—	—	(181)	45,218	74,226	119,263
Exercise of stock options	5,100,000	2,633	(608)	—	—	—	—	2,025
Exercise of share rights	752,000	1,000	(1,000)	—	—	—	—	—
Exercise of conversion option - Altius	10,000,000	10,000	—	—	—	—	—	10,000
Share-based payments	—	—	1,538	—	—	—	—	1,538
Balance - December 31, 2018	**430,470,000**	**237,969**	**21,134**	**17,730**	**397**	**46,041**	**(135,997)**	**187,274**
Balance - March 31, 2017 (restated[2])	385,934,000	201,990	20,120	—	588	2,363	(135,748)	89,313
Net loss	—	—	—	—	—	(23,705)	(54,321)	(78,026)
Other comprehensive income	—	—	—	—	2,202	—	—	2,202
Total comprehensive income (loss)	—	—	—	—	2,202	(23,705)	(54,321)	(75,824)
Public offering of subscription receipts	21,033,508	18,930	—	—	—	—	—	18,930
Share issue costs	—	(1,115)	—	—	—	—	—	(1,115)
Private placement	—	—	—	—	—	31,316	—	31,316
Exercise of stock options	4,150,000	1,788	(485)	—	—	—	—	1,303
Fair value of share rights exercised	—	870	(870)	—	—	—	—	—
Share-based payments	—	—	2,595	—	—	—	—	2,595
Fair value of warrants issued	—	—	—	17,730	—	—	—	17,730
Derecognition of derivative liability	—	—	732	—	—	—	—	732
Balance - December 31, 2017 (restated[2])	411,117,508	222,463	22,092	17,730	2,790	9,974	(190,069)	84,980

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

1 All issued ordinary shares are fully paid and have no par value.
2 Refer to note 2 for details regarding the restatement adjustment.

Champion Iron Limited

Consolidated Statements of Cash Flow

(Expressed in thousands of Canadian dollars - unaudited)

		Three Months Ended December 31,		Nine Months Ended December 31,	
	Notes	**2018**	2017	**2018**	2017
Cash provided by (used in)					
Operating Activities					
Net income (loss)		**31,199**	**(54,015)**	**119,444**	**(78,026)**
Items not affecting cash					
Depreciation	**7,19**	**2,593**	1,091	**11,102**	3,272
Share-based payments		**471**	758	**1,538**	2,595
Gain on sale of PPE		**—**	(2)	**—**	(1,174)
Change in fair value of derivative liability		**(3,853)**	6,950	**(3,299)**	6,491
Unrealized foreign exchange loss		**7,392**	—	**7,515**	—
Unrealized loss (gain) on investments		**321**	(1,045)	**1,975**	(1,159)
Accretion of borrowing costs and debt discount		**(1,814)**	1,966	**2,575**	2,410
Accretion of the rehabilitation obligation		**49**	171	**145**	513
Deferred income tax		**14,111**	—	**4,771**	—
Interest not paid		**1,601**	1,859	**15,103**	2,416
		52,070	(42,267)	**160,869**	(62,662)
Changes in non-cash operating working capital	**19**	**37,006**	(30,353)	**(22,187)**	(26,235)
		89,076	**(72,620)**	**138,682**	**(88,897)**
Financing Activities					
Proceeds of long-term debt		**—**	66,159	**74,195**	66,159
Production payment agreement		**—**	—	**(4,564)**	—
Borrowing costs		**—**	(2,158)	**(1,618)**	(2,158)
Proceeds of convertible debenture, Altius		**—**	—	**—**	10,000
Proceeds (repayment of capitalized interest), Glencore		**(4,429)**	31,200	**(4,429)**	31,200
Public offering of subscription receipts		—	18,930	—	18,930
Share issue cost		—	(1,115)	—	(1,115)
Private placement of common shares of Quebec Iron		—	26,164	—	31,316
Exercise of stock options		**575**	728	**2,025**	1,303
Repayment of note payable		**—**	—	**—**	(5,995)
Proceeds of bridge loan		**—**	—	**—**	16,000
Repayment of bridge loan		**—**	(16,000)	—	(16,000)
Bridge loan transaction costs		**—**	(247)	**—**	(501)
Others		—	50	—	50
		(3,854)	**123,711**	**65,609**	**149,189**
Investing Activities					
Withdrawal (investment) in term deposits		**131**	(889)	**(337)**	8,322
Due from Cartier Iron Corporation		**—**	348	**—**	348
Proceeds on sale of equipment		**—**	2	**—**	1,174
Purchase of property, plant and equipment		**(12,914)**	(3,261)	**(39,401)**	(22,718)
Exploration and evaluation		**(3,413)**	8	**(5,265)**	(562)
		(16,196)	**(3,792)**	**(45,003)**	**(13,436)**
Net increase in cash and cash equivalents		**69,026**	**47,299**	**159,288**	**46,856**
Cash and cash equivalents, beginning of period		**97,866**	1,315	**7,895**	1,863
Effects of exchange rate changes on cash		**929**	147	**638**	42
Cash and cash equivalents, end of period		**167,821**	**48,761**	**167,821**	**48,761**
Interest paid		10,885	475	11,986	1,319

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

1. Nature of operations

Champion Iron Limited ("Champion") 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-Iles and 13 km by road 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% legal interest in its subsidiary, Quebec Iron Ore Inc. ("QIO"). Ressources Québec, a subsidiary of governmental agency Investissement Québec, is the owner of the remaining 36.8% share. The Bloom Lake Mine assets are held in QIO.

2. Summary of significant accounting policies

A. Basis of measurement

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments to fair value. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

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 financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") and should be read in conjunction with the Company's annual financial statements for the year ended March 31, 2018, 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 February 13, 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, 2018.

C. New accounting standards issued and adopted by the Company

A number of new or amended 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 9 Financial Instruments, and
- IFRS 15 Revenue from Contracts with Customers.

The impact of the adoption of these standards and the new accounting policies are disclosed below. The other standards did not have any impact on the Company's accounting policies and did not require retrospective adjustments.

i) IFRS 9, Financial Instruments ("IFRS 9")

In July 2014, the International Accounting Standards Board ("IASB") issued IFRS 9, which represents the final version of this standard and completes the IASB's project to replace International Accounting Standard ("IAS") 39, Financial Instruments: Recognition and Measurement. This standard includes updated guidance on the classification and measurement of financial assets and liabilities. This standard also introduces a new, expected credit loss impairment model that will require more timely recognition of expected credit losses. IFRS 9 also introduces a substantially-reformed model for hedge accounting with enhanced disclosures about risk management activity and aligns hedge accounting. There was no significant impact to the Company's condensed consolidated financial statements as a result of adopting this standard.

2. Summary of significant accounting policies (continued)

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

ii) IFRS 15, Revenue from contracts with customers ("IFRS 15")

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18, Revenue, IAS 11, Construction Contracts, and several revenue-related interpretations. This standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRS, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities. The Company adopted IFRS 15 on April 1, 2018. As the Company did not have any revenues in the previous financial year, adoption of IFRS 15 had no impact on the opening balances of the Company's consolidated financial statements.

D. New Standards and Interpretations not Yet Adopted

Australian Accounting Standards and International Financial Reporting Standards that have been issued but are not yet effective have not been adopted by the Company for the quarter ended December 31, 2018.

i) IFRS 16, Leases ("IFRS 16")

IFRS 16 will replace IAS 17 'Leases' and three related Interpretations. It completes the IASB's long-running project to overhaul lease accounting. Leases will be recorded in the statement of financial position in the form of a right-of-use asset and a lease liability. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. The Company is currently assessing the impact of the Standard and therefore is unable to provide quantified information. However, in order to determine the impact, the Company is in the process of:

- performing a full review of all agreements to assess whether any additional contracts will become lease contracts under IFRS 16's new definition of a lease;
- deciding which transitional provision to adopt; either full retrospective application or partial retrospective application (which means comparatives do not need to be restated). The partial application method also provides optional relief from reassessing whether contracts in place are, or contain, a lease, as well as other reliefs. Deciding which of these practical expedients to adopt is important as they are one-off choices;
- determining which optional accounting simplifications are available and whether to apply them and assessing the additional disclosures that will be required.

E. Restatement of Deferred Tax Liability

During the fiscal year ended March 31, 2018, the Company identified a prior period adjustment in respect of accounting for deferred tax liabilities arising on mining duties. The adjustment required originated prior to the beginning of the financial year ended March 31, 2017 and involved the use of deferred tax assets arising in respect of non-capital loss carry-forwards originating from a separate tax authority to offset the deferred tax liability arising in respect of mining duties. The restatement relates to non-cash accounting entries only. The restatement does not impact the statement of comprehensive income (loss) for the three and nine-month periods ended December 31, 2018.

3. Cash and cash equivalent

As at December 31, 2018, cash and cash equivalent totaling $167,821,000 (December 31, 2017: $7,895,000) consisted of cash in bank chequing accounts. As at December 31, 2018, the Company's cash balance is comprised of $11,003,000 U.S. dollars ($15,011,000), $776,000 Australian dollars ($746,000), and $152,064,000 Canadian dollars.

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

4. Receivables

	As at December 31, 2018	As at March 31, 2018
Trade receivables	**32,480**	—
Sales tax	**17,195**	20,060
Refundable tax credits	**—**	1,213
Government grants	**—**	4,229
Other receivables	**695**	336
	50,370	**25,838**

5. Inventories

	As at December 31, 2018	As at March 31, 2018
Stockpiles ore	**12,132**	8,081
Concentrate inventories	**10,918**	36,449
Supplies and spare parts	**14,183**	3,641
	37,233	**48,171**

6. Advance Payments

	As at December 31, 2018	As at March 31, 2018
Port	22,291	23,546
Railway and port facilities	7,873	6,050
Rail transportation	1,688	6,921
Deposit related to rehabilitation obligation	6,000	—
Investment in railway and port facilities partnership	1,000	1,000
	38,852	**37,517**

In accordance with the Quebec regulations, the Company deposited $6,000,000 to the Ministry of Finance during third quarter of the fiscal year ending March 31, 2019. The whole deposit is kept by the Ministry of Finance and will be reimbursed to the Company at the end of the mine life once the Company has completed its obligation with respect to the rehabilitation of the mine site.

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

7. Property, Plant and Equipment

	Mining and Processing Equipment	Rail and Railcars	Mine and Mineral Rights	Assets under Construction	Stripping Activity Asset	Housing	Others	TOTAL
Cost								
March 31, 2018	**23,766**	**39,532**	**3,000**	**107,894**	**—**	**4,000**	**1,412**	**179,604**
Additions	—	—	—	30,856	8,733	—	63	39,652
Transfers and disposal	88,838	—	24,576	(122,765)	8,124	—	1,128	(99)
Foreign Exchange	—	2,250	—	—	—	—	(5)	2,245
December 31, 2018	**112,604**	**41,782**	**27,576**	**15,985**	**16,857**	**4,000**	**2,598**	**221,402**
Accumulated Depreciation								
March 31, 2018	**4,576**	**1,818**	**13**	**—**	**—**	**326**	**152**	**6,885**
Depreciation	6,855	1,587	638	—	431	125	549	10,185
Disposals	—	—	—	—	—	—	(98)	(98)
Foreign exchange	—	(124)	—	—	—	—	(7)	(131)
December 31, 2018	**11,431**	**3,281**	**651**	**—**	**431**	**451**	**596**	**16,841**
Net book value - December 31, 2018	**101,173**	**38,501**	**26,925**	**15,985**	**16,426**	**3,549**	**2,002**	**204,561**

	Mining Equipment	Rail and Railcars	Mine and Mineral Rights	Assets under Construction	Stripping Activity Asset	Housing	Others	TOTAL
Cost								
March 31, 2017	**23,573**	**41,452**	**3,000**	**—**	**—**	**4,000**	**466**	**72,491**
Additions	600	—	—	107,921	—	—	946	109,467
Disposals and other adjustments	(407)	—	—	(27)	—	—	—	(434)
Foreign exchange	—	(1,920)	—	—	—	—	—	(1,920)
March 31, 2018	**23,766**	**39,532**	**3,000**	**107,894**	**—**	**4,000**	**1,412**	**179,604**
Accumulated Depreciation								
March 31, 2017	**2,259**	**104**	**—**	**—**	**—**	**160**	**116**	**2,639**
Depreciation	2,317	1,710	13	—	—	166	38	4,244
Disposals	—	—	—	—	—	—	—	—
Foreign Exchange	—	4	—	—	—	—	(2)	2
March 31, 2018	**4,576**	**1,818**	**13**	**—**	**—**	**326**	**152**	**6,885**
Net book value - March 31, 2018	**19,190**	**37,714**	**2,987**	**107,894**	**—**	**3,674**	**1,260**	**172,719**

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

8. Convertible Debenture Altius

	As at December 31, 2018	As at March 31, 2018
Opening balance	**9,791**	**—**
Proceeds (conversion)	(10,000)	10,000
Fair value of derivatives	—	(1,191)
Gain on extension of maturity date	(713)	—
Accretion of debt discount	922	982
Ending balance	—	**9,791**

In accordance with the agreement, on December 31, 2018, the convertible debenture was converted into 10,000,000 ordinary shares of the Company at a conversion price of $1.00 per share.

9. Long-Term Debt

	Sprott	CDPI	As at December 31, 2018	As at March 31, 2018
Opening balance	**67,553**	**73,672**	**141,225**	**—**
Advances	32,976	41,219	74,195	155,255
Transactions costs	(588)	(1,030)	(1,618)	(5,642)
Termination fees PPA	(4,564)	—	(4,564)	—
Accretion	1,590	1,247	2,837	1,478
Standby fees payable	—	(854)	(854)	1,323
Fair value of warrants	—	—	—	(17,730)
Interest capitalized	4,685	7,753	12,438	3,510
Foreign exchange unrealized	6,134	7,827	13,961	3,031
	107,786	**129,834**	**237,620**	**141,225**
Less current portion	(32,945)	—	(32,945)	—
Ending balance	**74,841**	**129,834**	**204,675**	**141,225**

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

9. Long-Term Debt (continued)

On October 10, 2017, QIO entered into definitive agreements for debt financing of US$180,000,000 with the following terms:

Lender:	**Sprott Private Resource Lending (Collector), LP ("Sprott")**
Amount:	US$80,000,000
Maturity:	September 30, 2022
Interest:	7.5% per annum plus the greater of US dollar 3-month LIBOR and 1% per annum calculated, compounded and payable quarterly. QIO had the option to capitalize the interest until September 19, 2018.
Repayment:	Commencing on March 31, 2019, and quarterly thereafter, 1/14th of the principal balance outstanding on March 31, 2019.
Prepayment	Option to prepay in whole or in part at anytime with a premium of 3%

Lender:	**CDP Investissements Inc. ("CDPI")**
Amount:	US$100,000,000
Maturity:	October 23rd, 2024
Interest:	12% per annum for the first year, and thereafter, at an interest rate linked to the price of iron ore calculate and capitalized monthly. The interest rate will change if the price of Iron ore per the IODEX 65% Fe CFR North China is 1) lower than US$66/t: 14% 2) higher than US$66/t but lower than US$76/t: 12% 3) higher than US$76/t: 10%. From October 22, 2018, the actual interest rate was 10%
Repayment:	October 23rd, 2023 – 50% of principal and capitalized interest.
	October 23rd, 2024 – the balance of the principal and capitalized interest, subject to the option to defer the payment of capitalized interest for 1 year.
Prepayment	After 2 years from October 23rd, 2017, QIO has the option to prepay the principal and capitalized interest subject to the payment of an early redemption fee of 6%, 5%, 3%, 2% and 1% in years 3, 4, 5, 6, and 7, respectively.

10. Property Taxes Payable

The property taxes payable relate to the real estate taxes of the municipality of Fermont, Quebec.

Following the acquisition of the Bloom Lake property, the Company requested a revision of the property assessment. In December 2018, the authorities have approved a revised assessment confirming a lower taxable value. The decision resulted to a provision decrease amounting to $7,559,000.

As at December 31, 2018, property taxes payable of $11,116,000 (March 31, 2018 : $16,276,000) includes property taxes of $9,501,000 (March 31, 2018: $14,469,000) and accrued interest of $1,615,000 (March 31, 2018: $1,807,000).

The Company and the Town of Fermont have agreed that the Company will make monthly installments payments of $150,000 on the account of property taxes for Bloom Lake and the arrears of property taxes shall bear interest at the rate of 12%. Upon recommencement of commercial operations of Bloom Lake and provided that the price of 62% Fe iron ore minus an agreed upon transportation cost is greater than US$75 per metric tonne for a period of 90 consecutive days, the Company will pay the arrears in 24 monthly installments, subject to the condition that the arrears shall be paid in full by December 11, 2025.

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

11. Convertible Debenture, Glencore

	As at December 31,		As at March 31,	
	2018		2018	
	Convertible Debenture	Conversion Option	Convertible Debenture	Conversion Option
Opening balance	**14,016**	**24,683**	**—**	**—**
Issue of convertible debenture	—	—	31,200	
Fair value of derivatives	—	—	(20,634)	20,634
Change in fair value	—	(3,299)	—	4,049
Accretion of debt discount	(471)	—	1,716	—
Capitalized interest	2,824	—	1,734	—
Payment of capitalized interest	(4,429)	—	—	—
Ending balance	**11,940**	**21,384**	**14,016**	**24,683**

Glencore has the option to convert the Debenture into ordinary shares of the Company at a conversion price of $1.125 per ordinary share (" Conversion Price"). A mandatory conversion could occur if a) Sprott or CDPI exercise their respective option to require a mandatory conversion or b) upon the occurrence of one of the following mandatory conversion event:

(i) quarterly average iron ore prices during a quarter are such that the Bloom Lake financial model fails to demonstrate that the Bloom Lake has the capacity to meet all future obligations as they become due;

(ii) QIO is merged into, absorbed or acquired by the Company and total net debt (being debt minus freely available cash and short-term investments) of the merged entity exceeds US$270,000,000; or

(iii) total net debt from the Company, QIO and Lac Bloom Railcars Corporation Inc. exceeds US$250,000,000.

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

	As at December 31,	As at March 31,
	2018	2018
Conversion options granted	27,733,333	27,733,333
Exercise price	$1.125	$1.125
Share price	$1.07	$1.07
Risk-free interest rate	2.5%	2.5%
Expected volatility based on historical volatility	80%	80%
Valuation date	December 31, 2018	March 31, 2018
Expected life of conversion option	6.8 years	7.5 years
Expected dividend yield	0%	0%
Forfeiture rate	0%	0%
Fair value	**$21,384,333**	**$24,683,000**

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

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

12. Note payable

	As at December 31,	As at March 31,
	2018	2018
Consideration loan (US$28,260,000)	38,552	36,438

On March 10, 2017, the Company, entered into a Railcar Instalment Sale Agreement to acquire 735 specialized iron ore railcars for consideration of US$30,078,000. The Company made a down payment of US$1,818,000 with the balance of the consideration being financed by a note owing to the vendor. The note matures on March 10, 2019.

13. Share Capital and Reserves

a) Share issuances

	Nine Months Ended December 31,	
	2018	2017
Shares		
Opening balance	**414,617,847**	**385,934,000**
Shares issued for public offering	—	21,033,508
Shares issued for exercise of options - incentive plan	4,100,000	4,150,000
Shares issued for exercise of options - outside plan	1,000,000	—
Shares issued for exercise of share rights	752,000	—
Shares issued - conversion of Altius debenture	10,000,000	—
Ending balance	**430,469,847**	**411,117,508**

During the nine-month period ended December 31, 2018, the Company issued 15,852,000 common shares, as follows:

i) 4,100,000 common shares issued for exercise of option

During the nine-month period ended December 31, 2018 the Company issued 4,100,000 shares pursuant to the exercise of stock options with a weighted average exercise price of $0.38 per share, for total net proceeds of $1,575,000.

ii) 1,000,000 common shares issued for exercise of option - outside the share incentive plan

A number of 1,000,000 shares were issued pursuant to the exercise of stock options outside the share incentive plan with a weighted average exercise price of $0.45 per share, for total net proceeds of $450,000.

iii) 752,000 common shares issued - shares rights

During the nine-month period ended December 31, 2018 the Company issued 752,000 common shares following the vesting of shares rights previously granted to a director.

iv) 10,000,000 commons shares issues - Conversion of Altius debenture

On December 31, 2018, Altius exercised its option to retire a debt associated with a $10,000,000 convertible debenture outstanding, which triggered the issuance of 10,000,000 common shares (refer to note 8).

13. Share Capital and Reserves (continued)

b) Share-based payments

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	**2017**	**2018**	**2017**
Stock-options costs	471	159	538	862
Share rights costs	—	599	1,000	1,733
Total share-based payments expensed	**471**	**758**	**1,538**	**2,595**

c) Stock-options

The Company is authorized to issue 86,094,000 stock options and share rights (March 31, 2018 – 82,924,000) equal to 20% of the issued and outstanding ordinary shares for issuance under the share incentive plan.

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

	Nine Months Ended December 31, 2018		Nine Months Ended December 31, 2017	
	Number of Stock Options (in thousands)	**Weighted-Average Exercise Price** $	**Number of Stock Options** (in thousands)	**Weighted-Average Exercise Price** $
Opening balance	**12,800**	**0.44**	**15,450**	**0.30**
Granted	1,401	1.30	2,750	1.00
Exercised	(4,100)	0.38	(4,150)	0.30
Cancelled	(1,150)	0.72	—	—
Ending balance	**8,951**	**0.57**	**14,050**	**0.40**
Options exercisable - end of period	**7,233**	**0.41**	**11,983**	**0.34**

The exercise price of outstanding stocks options ranges from A$0.20 to A$1.33 and the weighted-average remaining contractual life of outstanding stock options is 1.46 years.

For the three-month period ended December 31, 2018, there were 201,000 new options granted. A total of 1,401,000 new options were issued to independent directors and employees of the Company during the nine-month period ended December 31, 2018. The fair market value of the options granted options during the nine-month period ended December 31, 2018, totalled $939,000. The options granted, will mainly vest over a three-year period.

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

	Nine Months Ended December 31,	
	2018	**2017**
Risk-free interest rate	2.5%	2.5%
Expected volatility based on historical volatility	80%	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	$0.67	$0.48

13. Share Capital and Reserves (continued)

d) Share rights

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

	Nine Months Ended December 31, 2018	Nine Months Ended December 31, 2017
	Number of Share rights (in thousands)	Number of Share rights (in thousands)
Opening balance	—	—
Granted	752	2,250
Exercised	(752)	(1,000)
Ending balance	**—**	**1,250**

On August 17, 2018, at the annual general meeting, 751,900 share rights were granted to the director and executive chairman. The share rights vested and were converted into 751,900 ordinary shares at $1.33 per share. A share-based payment expense amounting to $1,000,000 was recorded.

e) Compensation Options

Exercise Price	Expiry Date	Warrants Exercisable
$0.250	February 1, 2020	21,000,000
Balance - March 31, 2018 and December 31, 2018		**21,000,000**

f) Warrants

Exercise Price	Expiry Date	Warrants Exercisable
$1.125	October 16, 2022	3,000,000
$1.125	October 16, 2024	21,000,000
Balance - March 31, 2018 and December 31, 2018		**24,000,000**

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

14. Cost of Sales

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	**2017**	**2018**	**2017**
Transportation	32,067	—	95,814	—
Operating supplies and parts	23,267	—	60,618	—
Salaries, benefits and other employee expenses	18,279	—	45,353	—
Sub-contractors	16,550	—	47,496	—
Other production costs	2,265	—	6,255	—
Change in inventories	(7,946)	—	11,979	—
	84,482	**—**	**267,515**	**—**

The Company considers that the pre-commercial activities at its Bloom Lake mine started April 1, 2018, when the shipment of high-grade iron ore was first made. Consequently, they are no mining operating expenses for the comparative periods ended December 31, 2017.

15. Net Finance Costs

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	**2017**	**2018**	**2017**
Interest on term facilities	7,982	6,884	21,734	8,293
Change in fair value of derivative liabilities	(3,853)	6,950	(3,299)	6,491
Foreign exchange loss (gain)	7,488	(424)	7,447	(942)
Other interest and finance costs (income)	(894)	—	47	—
Unrealized loss (gain) on investments	321	(1,045)	1,975	(1,159)
Accretion of borrowing costs and debt discount	(1,814)	1,966	2,575	2,410
Accretion of rehabilitation obligation	49	171	145	513
	9,279	**14,502**	**30,624**	**15,606**

16. Income Tax

The current income tax expense for the three and the nine-month ended December 31, 2018 represents mining tax. No other income tax is payable due to the availability of non-capital losses and tax attributes.

As a result of the Bloom Lake mine reaching commercial production during the second quarter of 2019, and the estimated levels of taxable income for the 2019 financial year periods, the Company determined that the criteria for recognition of a deferred tax asset was met. Accordingly, a deferred tax asset totaling $10,459,000 was recognized. During the three-month period ended December 31, 2018, the Company taxable income was sheltered with all the tax losses previously recognized and with available tax deductions. The deferred tax asset was therefore reversed and a deferred tax liability was recorded. The remaining deferred tax assets and deferred tax liabilities presented on the balance sheet relate to timing differences.

17. Determination of Fair Values

Several of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

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

17. Determination of Fair Values (continued)

Cash and cash equivalents, short-term investments, receivables, accounts payable and accrued liabilities and property taxes payable
The fair values of cash and cash equivalents, short-term investments, receivables, accounts payable and accrued liabilities and property taxes payable approximate their carrying value due to their short term to maturity.

Investments
The fair values of the investment in common shares of Fancamp, Aura Health and Eloro are measured at the common share market price on the measurement date.

Convertible Debenture
The convertible debentures are evaluated by the Company based on parameters such as interest rates and the risk characteristics of the financial assets. As at December 31, 2018, the carrying amount of the convertible debentures was not materially different from its calculated value.

Long Term-Debt
Long-term debt was accounted for at amortized cost and its fair value approximates its carrying value.

Note Payable
The note payable is evaluated by the Company based on parameters such as interest rates and the risk characteristics of the financed assets. As at December 31, 2018, the carrying amount of the note payable was not materially different from its calculated fair value.

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

Classification and Fair Values

As at December 31, 2018	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	167,821	—	—	**167,821**
Short-term investments	—	17,627	—	**17,627**
Receivables (excluding sales taxes)	—	33,175		**33,175**
Non-current				
Investments	2,275	—	—	**2,275**
	170,096	**50,802**	**—**	**220,898**
Liabilities				
Current				
Accounts payable and accrued liabilities	—	—	37,157	**37,157**
Current portion of long-term debt	—	—	32,945	**32,945**
Note payable	—	—	38,552	**38,552**
	—	**—**	**108,654**	**108,654**
Non-current				
Property taxes payable	—	—	11,116	**11,116**
Long-term debt	—	—	204,675	**204,675**
Convertible debenture, Glencore	—	—	11,940	**11,940**
Derivative liabilities	21,384	—	—	**21,384**
	21,384	**—**	**336,385**	**357,769**

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

17. Determination of Fair Values (continued)

As at March 31, 2018	Fair Value Through Profit and Loss	Loans and Receivables at Amortized Cost	Financial Liabilities at Amortized Cost	Total Carrying Amount and Fair value
Assets				
Current				
Cash and cash equivalents	7,895	—	—	7,895
Short-term investments	—	17,291	—	17,291
Receivables (excluding sales taxes)	—	5,777	—	5,777
Non-current				
Investments	4,250	—	—	4,250
	12,145	**23,068**	**—**	**35,213**
Liabilities				
Current				
Accounts payable and accrued liabilities	—	—	63,481	63,481
Convertible debenture, Altius	—	—	9,791	9,791
Note payable	—	—	36,438	36,438
	—	**—**	**109,710**	**109,710**
Non-current				
Property taxes payable	—	—	16,276	16,276
Long-term debt	—	—	141,225	141,225
Convertible debenture, Glencore	—	—	14,016	14,016
Derivative liabilities	24,683	—	—	24,683
	24,683	**—**	**281,227**	**305,910**

Fair value measurements recognized in the consolidated statement of loss and comprehensive loss

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 and nine-month periods ended December 31, 2018.

18. Commitments and Contingencies

Commitments for annual basic premises rent and contracts with vendors are as follows:

	As at December 31, 2018	As at March 31, 2018
Less than 1 year	120,268	173,920
1-5 years	199,690	272,593
More than 5 years	149,186	8,459
	469,144	**454,972**

The Company does not have any contingent liabilities.

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

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

a) Changes in non-cash operating working capital

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	**2017**	**2018**	**2017**
Receivables	61,722	(4,356)	(20,053)	(485)
Prepaid expenses and advances	(6,253)	387	(5,008)	(959)
Inventories	(7,134)	(64)	9,770	(64)
Advance payments	(3,830)	(22,181)	(1,335)	(39,581)
Accounts payable and accrued liabilities	(7,146)	(5,945)	(26,324)	9,436
Current income tax	8,227	—	25,731	—
Property taxes not paid	(8,580)	1,806	(4,968)	5,418
	37,006	**(30,353)**	**(22,187)**	**(26,235)**

b) Supplementary Cash Flow Information

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	**2017**	**2018**	**2017**
Depreciation of PPE allocated to stripping activity asset	(251)	—	(251)	—
Net effect of depreciation of PPE allocated to inventory	(752)	—	1,168	—

20. Segment Information

The Company operates in one business segment being iron ore production and exploration in Canada. The internal reporting framework 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 primarily based on segment mining operating margin.

21. Comparative Figures

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