

# **Champion Iron Limited**

**(ACN: 119 770 142)**

## **Condensed Interim Consolidated Financial Statements For the Three-Month Period Ended June 30, 2021 and 2020**

(Expressed in thousands of Canadian dollars - unaudited)

# Champion Iron Limited

## Interim Consolidated Statements of Financial Position

(Expressed in thousands of Canadian dollars - unaudited)

		As at June 30, 2021	As at March 31, 2021
	Notes		
<b>Assets</b>			
Current			
Cash and cash equivalents		393,557	609,316
Short-term investments		29,775	27,200
Receivables	3	283,336	98,755
Prepaid expenses and advances		11,177	5,454
Inventories	4	69,650	66,814
		787,495	807,539
Non-current			
Restricted cash	10	43,379	44,012
Non-current investments		3,894	8,761
Advance payments	6	101,203	49,246
Intangible assets	7	9,585	6,257
Property, plant and equipment	8	607,248	504,985
Exploration and evaluation assets	9	104,842	76,106
<b>Total assets</b>		<b>1,657,646</b>	<b>1,496,906</b>
<b>Liabilities</b>			
Current			
Accounts payable and other		141,545	102,225
Derivative liabilities	17	5,217	—
Income and mining taxes payable		90,563	191,542
Current portion of long-term debt	10	14,873	—
		252,198	293,767
Non-current			
Long-term debt	10	225,875	214,951
Lease liabilities		1,351	1,401
Rehabilitation obligation		46,406	45,074
Other long-term liabilities		4,104	4,163
Deferred tax liabilities		90,833	84,533
<b>Total liabilities</b>		<b>620,767</b>	<b>643,889</b>
<b>Shareholders' equity</b>			
Share capital	11	487,003	515,970
Contributed surplus		23,313	22,309
Warrants	11	29,973	29,973
Foreign currency translation reserve		550	530
Retained earnings		496,040	284,235
<b>Total equity</b>		<b>1,036,879</b>	<b>853,017</b>
<b>Total liabilities and equity</b>		<b>1,657,646</b>	<b>1,496,906</b>
Commitments and contingencies	18		
Subsequent events	21		

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

Approved on July 29, 2021 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)

	Notes	Three Months Ended June 30,	
		2021	2020
<b>Revenues</b>	<b>12</b>	<b>545,408</b>	244,574
Cost of sales	<b>13</b>	<b>(120,846)</b>	(107,338)
Depreciation		<b>(9,959)</b>	(8,940)
<b>Gross profit</b>		<b>414,603</b>	128,296
<b>Other expenses</b>			
Share-based payments	<b>11</b>	<b>(1,289)</b>	(885)
General and administrative expenses		<b>(7,804)</b>	(5,184)
Product research and development expenses		<b>(1,353)</b>	—
Sustainability and other community expenses		<b>(4,114)</b>	(3,472)
<b>Operating income</b>		<b>400,043</b>	118,755
Net finance costs	<b>14</b>	<b>(4,387)</b>	(1,145)
Other income (expense)	<b>15</b>	<b>(4,263)</b>	2,467
<b>Income before income and mining taxes</b>		<b>391,393</b>	120,077
Current income and mining taxes		<b>(160,754)</b>	(43,442)
Deferred income and mining taxes		<b>(6,300)</b>	(1,079)
<b>Net income</b>		<b>224,339</b>	75,556
<b>Earnings per share</b>			
Basic	<b>16</b>	<b>0.44</b>	0.16
Diluted	<b>16</b>	<b>0.43</b>	0.15
<b>Weighted average number of common shares outstanding</b>			
Basic		<b>506,271,000</b>	471,228,000
Diluted		<b>524,690,000</b>	489,764,000

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,	
	2021	2020
<b>Net income</b>	<b>224,339</b>	75,556
<b>Other comprehensive income</b>		
Item that may be reclassified subsequently to the consolidated statements of income:		
Net movement in foreign currency translation reserve	<b>20</b>	43
<b>Total other comprehensive income</b>	<b>20</b>	43
<b>Total comprehensive income</b>	<b>224,359</b>	75,599

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)

	Notes	Attributable to Champion Shareholders								
		Share Capital				Contributed Surplus	Warrants	Foreign Currency Translation	Retained Earnings (Accumulated Deficit)	Total
		Ordinary Shares		Preferred Shares						
		Shares <sup>(1)</sup>	\$	Shares	\$					
Balance - March 31, 2021		502,116,000	356,463	185,000,000	159,507	22,309	29,973	530	284,235	853,017
Net income		—	—	—	—	—	—	—	224,339	224,339
Other comprehensive income		—	—	—	—	—	—	20	—	20
Total comprehensive income		—	—	—	—	—	—	20	224,339	224,359
Exercise of stock options	11	100,000	715	—	—	(215)	—	—	—	500
Issuance of common shares for the acquisition of the Kami project <sup>2</sup>	5, 11	4,200,000	22,050	—	—	—	—	—	—	22,050
Redemption of preferred shares	11	—	—	(60,000,000)	(51,732)	—	—	—	(8,268)	(60,000)
Dividends on preferred shares	11	—	—	—	—	—	—	—	(4,266)	(4,266)
Share-based payments	11	—	—	—	—	1,219	—	—	—	1,219
Balance - June 30, 2021		506,416,000	379,228	125,000,000	107,775	23,313	29,973	550	496,040	1,036,879
Balance - March 31, 2020		467,689,000	272,049	185,000,000	159,507	21,100	75,336	381	(151,751)	376,622
Net income		—	—	—	—	—	—	—	75,556	75,556
Other comprehensive income		—	—	—	—	—	—	43	—	43
Total comprehensive income		—	—	—	—	—	—	43	75,556	75,599
Exercise of stock options	11	5,153,000	4,100	—	—	(1,449)	—	—	—	2,651
Share-based payments	11	—	—	—	—	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

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

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

<sup>2</sup> Kamistatusset iron ore project (the "Kami Project").

# Champion Iron Limited

## Interim Consolidated Statements of Cash Flows

[Expressed in thousands of Canadian dollars - unaudited]

	Notes	Three Months Ended June 30,	
		2021	2020
<b>Cash provided by (used in)</b>			
<b>Operating Activities</b>			
Net income		224,339	75,556
Adjustments for non-cash items			
Depreciation	19	9,959	8,940
Share-based payments	11	1,289	885
Unrealized loss on derivative liabilities	17	5,217	—
Change in fair value and related gain on disposal of non-current investments	15	(954)	(2,467)
Unrealized foreign exchange (gain) loss		1,928	(2,029)
Deferred income and mining taxes		6,300	1,079
Other		370	556
		248,448	82,520
Changes in non-cash operating working capital	19	(261,077)	(7,232)
<b>Net cash flow (used in) from operating activities</b>		<b>(12,629)</b>	<b>75,288</b>
<b>Investing Activities</b>			
Increase in short-term investments		(2,697)	—
Acquisition of the Kami Project	5	(15,444)	—
Net proceeds on disposal of non-current investments		5,821	—
Purchase of intangible assets	7	(448)	(825)
Purchase of property, plant and equipment	8, 19	(109,939)	(22,796)
Increase in advance payments	6	(40,338)	—
Investment in exploration and evaluation assets	9	(743)	(76)
<b>Net cash flow used in investing activities</b>		<b>(163,788)</b>	<b>(23,697)</b>
<b>Financing Activities</b>			
Issuance of long-term debt	10	30,000	—
Transaction costs on long-term debt	10	(981)	—
Exercise of stock options	11	500	2,651
Redemption of preferred shares	11	(60,000)	—
Payment of lease liabilities		(259)	(233)
Dividends paid on preferred shares	11	(4,266)	—
<b>Net cash flow (used in) from financing activities</b>		<b>(35,006)</b>	<b>2,418</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>(211,423)</b>	<b>54,009</b>
Cash and cash equivalents, beginning of the period		609,316	281,363
Effects of exchange rate changes on cash and cash equivalents		(4,336)	(5,157)
<b>Cash and cash equivalents, end of the period</b>		<b>393,557</b>	<b>330,215</b>
Interest paid		2,370	296
Income and mining taxes paid		261,733	—

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

(Tabular figures are expressed in thousands of Canadian dollars, except where otherwise indicated - unaudited)

### 1. Description of Business

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), Australian Securities Exchange (ASX: CIA) and OTCQX Best Market (OTCQX: CIAFF). 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 Iron Limited, through its subsidiary Quebec Iron Ore Inc. ("QIO"), owns and operates the Bloom Lake Mining Complex ("Bloom Lake" or "Bloom Lake Mine"), located on the south end of the Labrador Trough, approximately 13 km north of Fermont, Québec, adjacent to established iron ore producers. Bloom Lake is an open-pit truck and shovel operation with a concentrator, and it ships iron ore concentrate from the site by rail, initially on the Bloom Lake Railway, to a ship loading port in Sept-Îles, Québec. The Bloom Lake Phase I plant has a nameplate capacity of 7.4M tonnes per annum ("Mtpa") and produces a high-grade 66.2% Fe iron ore concentrate with low contaminant levels, which has proven to attract a premium to the Platts IODEX 62% Fe iron ore benchmark. In addition to the partially completed Bloom Lake Phase II project ("Phase II"), Champion owns a portfolio of exploration and development projects in the Labrador Trough, including the Kamistatusset iron ore project (refer to note 5 - Acquisition of the Kami Project) located a few kilometres south-east of Bloom Lake, and the Fire Lake North iron ore project, located approximately 40 km south of Bloom Lake.

The Company sells its iron ore concentrate globally, including customers in China, Japan, the Middle East, Europe, South Korea, India and Canada.

### 2. Significant Accounting Policies and Future Accounting Changes

#### A. Basis of preparation

The Company's condensed interim consolidated financial statements ("financial statements") consist 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, 2021.

#### 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 Australian Accounting Standards ("AAS") and 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, 2021.

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, 2021, except for accounting policies adopted resulting from transactions during the reporting, and new accounting standards issued and adopted by the Company, which are described below.

These financial statements were approved and authorized for issue by the Board on July 29, 2021.

#### C. Significant accounting policies

The following accounting policies were adopted following transactions that occurred during the reporting period:

##### Acquisition of a group of assets

The Company determines whether it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs. If the set of activities do not constitute a business, the Company accounts for the acquisition of a group of assets including intangible assets and liabilities assumed based on their relative fair values at the date of acquisition. The cost of acquisition, including directly attributable acquisition-related costs, is measured as the aggregate of the consideration transferred measured at acquisition date fair value.

If the acquisition of a group of assets comprises a variable contingent consideration that varies according to future activities such as future production, then the contingent consideration is expensed when incurred. Contingent considerations related to the initial value of the assets are capitalized when the contingency is crystallized.

# Champion Iron Limited

## Notes to the Condensed Interim Consolidated Financial Statements

(Tabular figures are expressed in thousands of Canadian dollars, except where otherwise indicated - unaudited)

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

### C. Significant accounting policies (continued)

#### **Derivative financial instruments**

Derivative financial instruments are mainly used to manage the Company's exposure to foreign exchange generally through forward foreign exchange contracts. Derivative financial instruments include derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. Derivative financial instruments are classified as fair value through profit and loss, unless they are designated as hedging instruments for which hedge accounting is applied. Changes in the fair value of derivative financial instruments not designated in a hedging relationship, excluding embedded derivatives, are recognized in other income (expense), based on the nature of the exposure.

Embedded derivatives of the Corporation include prepayment options which are not closely related to the host contract and are measured at fair value, with the initial value recognized as an increase of the related long-term debt and amortized to income using the effective interest method. Subsequent changes in fair value of embedded derivatives are recorded in net finance cost.

#### **Cash-settled share-based payments**

Cash-settled share-based payments are measured at fair value at the grant date with a corresponding liability. Until the liability is settled, the fair value of the liability is remeasured at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in income. The fair value of the compensation is measured based on the closing share price of the Company on the Toronto Stock Exchange adjusted to take into account the terms and conditions upon which the shares were granted, if any, and the PSUs, that are expected to vest.

### D. Significant accounting judgments, estimates and assumptions

The preparation of financial statements in conformity with AAS and 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.

### E. New accounting amendments issued and adopted by the Company

The following amendments to existing standards have been adopted by the Company on April 1, 2021:

#### **Earlier Adoption of the Amendments to AASB 101 (IAS 1), Presentation of Financial Statements ("IAS 1")**

Amendments to IAS 1 change the requirements in IAS 1 with regard to disclosure of accounting policies. Applying the amendments, an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments to IAS 1 are made to explain how an entity can identify a material accounting policy.

#### **Earlier Adoption of the Amendments to AASB 108 (IAS 8), Accounting Policies, Changes in Accounting and Errors ("IAS 8")**

Amendments to IAS 8 replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

#### **Interest Rate Benchmark Reform - Phase 2, which amends AASB 9 (IFRS 9), Financial Instruments ("IFRS 9"), AASB 139 (IAS 39), Financial Instruments: Recognition and Measurement ("IAS 39"), AASB 7 (IFRS 7), Financial Instruments: Disclosures ("IFRS 7") and AASB 16 (IFRS 16), Leases ("IFRS 16")**

The amendments relate to: i) changes to contractual cash flows - an entity will not have to derecognize or adjust the carrying amount of financial instruments for changes required by the reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate; ii) hedge accounting - an entity will not have to discontinue its hedge accounting solely because it makes changes required by the reform, if the hedge meets other hedge accounting criteria; and iii) disclosures - an entity will be required to disclose information about new risks arising from the reform and how it manages the transition to alternative benchmark rates.

The adoption of 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

(Tabular figures are expressed in thousands of Canadian dollars, except where otherwise indicated - unaudited)

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

#### F. New accounting amendments issued but not yet in effect

There has been no change to amendments to standards issued but not yet in effect for annual periods beginning on April 1, 2022 and thereafter since the filing of the Company's audited annual consolidated financial statements for the year ended March 31, 2021.

The Company is currently evaluating the impact of adopting the amendments on the Company's financial statements.

### 3. Receivables

	As at June 30, 2021	As at March 31, 2021
Trade receivables	253,384	73,341
Sales tax	27,487	24,359
Other receivables	2,465	1,055
	283,336	98,755

As at June 30, 2021, the trade receivables, subject to provisional pricing, amounted to \$43,061,000 (March 31, 2021: \$550,000).

### 4. Inventories

	As at June 30, 2021	As at March 31, 2021
Stockpiled ore	15,105	13,050
Concentrate inventories	17,189	18,860
Supplies and spare parts	37,356	34,904
	69,650	66,814

For the three-month period ended June 30, 2021, the amount of inventories recognized as an expense totalled \$130,805,000 (three-month period ended June 30, 2020: \$116,278,000). For the three-month period ended June 30, 2021, no specific provision was recorded on any of the Company's inventories (three-month period ended June 30, 2020: nil).

# Champion Iron Limited

## Notes to the Condensed Interim Consolidated Financial Statements

(Tabular figures are expressed in thousands of Canadian dollars, except where otherwise indicated - unaudited)

### 5. Acquisition of the Kami Project

On November 16, 2020, the Supreme Court of Newfoundland and Labrador approved the acquisition by the Company from Deloitte Restructuring Inc. (the "Receiver"), as receiver for Alderon Iron Ore Corp. ("Alderon"), of the mining properties of the Kami Project located in the Labrador Trough geological belt in southwestern Newfoundland, near the Québec border, and certain related contracts.

At the acquisition date, on April 1, 2021, Champion paid \$15,000,000 in cash and purchased and extinguished the secured debt between Alderon and Sprott Private Resource Lending (Collector), LP ("Sprott") through the issuance of 4,200,000 ordinary shares to Sprott and Altius Resources Inc. ("Altius"). The consideration also includes an undertaking in favour of the Receiver to make a finite production payment on a fixed amount of future iron ore concentrate production from the Kami Project. Refer to note 18 - Commitments and Contingencies.

The transaction has been determined and recorded as an acquisition of a group of assets. The total purchase price was allocated to the assets acquired based on their relative fair values at the acquisition date.

The purchase price and the allocation to the assets were calculated as follows:

	Notes	As at April 1, 2021
<b>Purchase price</b>		
Cash consideration		15,000
4,200,000 ordinary shares issued		22,050
Transaction costs		444
		<b>37,494</b>
<b>Assets acquired</b>		
Advance payment (Port agreement)	6	5,988
Intangible asset (access to Port)	7	3,513
Exploration and evaluation assets (mining property rights)	9	27,993
		<b>37,494</b>
<b>Reconciliation of the acquisition of the Kami Project to the net cash flow used in investing activities</b>		
Cash consideration		15,000
Transaction costs paid		444
		<b>15,444</b>

# Champion Iron Limited

## Notes to the Condensed Interim Consolidated Financial Statements

(Tabular figures are expressed in thousands of Canadian dollars, except where otherwise indicated - unaudited)

### 6. Advance Payments

	As at June 30, 2021	As at March 31, 2021
Port	23,399	17,920
Railway and port facilities	63,617	23,724
Other long-term advance	14,187	7,602
	101,203	49,246

#### Port

On July 13, 2012, the Company signed an agreement with the Sept-Îles Port Authority ("Port") to reserve annual loading capacity of 10 million metric tonnes of iron ore. Pursuant to the agreement, the Company made an advance payment on its future shipping, wharfage and equipment fees. As at June 30, 2021, the remaining advance payment amounted to \$17,411,000.

On April 1, 2021, the Company acquired the Kami Project, along with related contracts, which included an advance payment and take-or-pay advance payments as an advance on its future shipping, wharfage and equipment fees, previously made by Alderon in respect of the Port agreement totalling \$5,988,000. Refer to note 5 - Acquisition of the Kami Project.

Both agreements with the Port have an initial term of 20 years maturing in 2032 with options to renew for 4 additional 5-year terms. The current portion of the advance is presented under Prepaid expenses and advances in the consolidated statements of financial position.

#### Railway and port facilities

On October 12, 2017, the Company entered into a railway and stockyard facilities access agreement with Société Ferroviaire et Portuaire de Pointe-Noire ("SFPPN") for the transportation, unloading, stockpiling and loading of iron ore concentrate from Sept-Îles to Pointe-Noire, Québec. In connection with the agreement, the Company makes annual advance payments of \$3,750,000 to SFPPN to guarantee access to the yard.

In addition, the Company made advances to increase the transshipment capacity and support the Company's plans to increase production with the Phase II project, which totalled \$30,549,000 as at June 30, 2021 (March 31, 2021: \$15,211,000).

On April 16, 2021, the Company entered into an agreement to expand the existing long-term rail contract with Quebec North Shore and Labrador Railway to accommodate the anticipated increased Phase II production volumes. In connection with the agreement, the Company made an advance of \$25,000,000.

#### Other long-term advance

The other long-term advance relates mainly to amounts paid to SFPPN annually and are recoverable from under the guarantee access agreement if certain conditions are met and amounts paid for capital maintenance expenditures on SFPPN's assets.

# Champion Iron Limited

## Notes to the Condensed Interim Consolidated Financial Statements

(Tabular figures are expressed in thousands of Canadian dollars, except where otherwise indicated - unaudited)

### 7. Intangible Assets

	Port Access	Software	Total
<b>Cost</b>			
March 31, 2021	—	9,410	9,410
Additions	3,513	448	3,961
<b>June 30, 2021</b>	<b>3,513</b>	<b>9,858</b>	<b>13,371</b>
<b>Accumulated depreciation</b>			
March 31, 2021	—	3,153	3,153
Depreciation	—	633	633
<b>June 30, 2021</b>	<b>—</b>	<b>3,786</b>	<b>3,786</b>
<b>Net book value - June 30, 2021</b>	<b>3,513</b>	<b>6,072</b>	<b>9,585</b>

	Port Access	Software	Total
<b>Cost</b>			
March 31, 2020	—	7,705	7,705
Additions	—	1,705	1,705
March 31, 2021	—	9,410	9,410
<b>Accumulated depreciation</b>			
March 31, 2020	—	1,635	1,635
Depreciation	—	1,518	1,518
March 31, 2021	—	3,153	3,153
<b>Net book value - March 31, 2021</b>	<b>—</b>	<b>6,257</b>	<b>6,257</b>

On April 1, 2021, in connection with the acquisition of the Kami Project, the Company acquired a Port agreement for the rights and entitlements to reserve annual loading capacity of 8 million metric tonnes of iron ore for an initial term of 20 years maturing in 2032 with options to renew for 4 additional 5-year terms. The related port access is amortized straight-line over the life of mine. Refer to note 5 - Acquisition of the Kami Project.

# Champion Iron Limited

## Notes to the Condensed Interim Consolidated Financial Statements

(Tabular figures are expressed in thousands of Canadian dollars, except where otherwise indicated - unaudited)

### 8. Property, Plant and Equipment

	Mining and Processing Equipment	Locomotives, Railcars and Rails	Tailings Dykes	Assets under Construction <sup>(1)</sup>	Mining Development and Stripping Asset <sup>(2)</sup>	Asset Rehabilitation Obligation and Other	Subtotal	Right-of-use Assets	Total
<b>Cost</b>									
March 31, 2021	172,460	43,663	81,549	176,079	67,831	32,223	573,805	10,335	584,140
Additions	1,036	—	—	100,925	9,670	1,380	113,011	—	113,011
Transfers and disposals	6,651	—	351	(7,002)	—	—	—	—	—
Foreign exchange and other	—	(618)	—	—	—	—	(618)	—	(618)
<b>June 30, 2021</b>	<b>180,147</b>	<b>43,045</b>	<b>81,900</b>	<b>270,002</b>	<b>77,501</b>	<b>33,603</b>	<b>686,198</b>	<b>10,335</b>	<b>696,533</b>
<b>Accumulated depreciation</b>									
March 31, 2021	56,018	6,967	8,212	—	1,799	3,519	76,515	2,640	79,155
Depreciation	7,568	464	1,131	—	315	399	9,877	347	10,224
Transfers and disposals	—	—	—	—	—	—	—	—	—
Foreign exchange and other	—	(94)	—	—	—	—	(94)	—	(94)
<b>June 30, 2021</b>	<b>63,586</b>	<b>7,337</b>	<b>9,343</b>	<b>—</b>	<b>2,114</b>	<b>3,918</b>	<b>86,298</b>	<b>2,987</b>	<b>89,285</b>
<b>Net book value - June 30, 2021</b>	<b>116,561</b>	<b>35,708</b>	<b>72,557</b>	<b>270,002</b>	<b>75,387</b>	<b>29,685</b>	<b>599,900</b>	<b>7,348</b>	<b>607,248</b>

	Mining and Processing Equipment	Locomotives, Railcars and Rails	Tailings Dykes	Assets under Construction <sup>(1)</sup>	Mining Development and Stripping Asset <sup>(2)</sup>	Asset Rehabilitation Obligation and Other	Subtotal	Right-of-use Assets	Total
<b>Cost</b>									
March 31, 2020	150,455	43,421	73,196	61,817	41,105	29,020	399,014	10,335	409,349
Additions	14,828	5,500	—	129,560	26,726	3,203	179,817	—	179,817
Transfers and disposals	6,945	—	8,353	(15,298)	—	—	—	—	—
Foreign exchange and other	232	(5,258)	—	—	—	—	(5,026)	—	(5,026)
March 31, 2021	172,460	43,663	81,549	176,079	67,831	32,223	573,805	10,335	584,140
<b>Accumulated depreciation</b>									
March 31, 2020	30,087	5,767	3,983	—	871	1,919	42,627	1,252	43,879
Depreciation	25,931	1,934	4,229	—	928	1,600	34,622	1,388	36,010
Foreign exchange and other	—	(734)	—	—	—	—	(734)	—	(734)
March 31, 2021	56,018	6,967	8,212	—	1,799	3,519	76,515	2,640	79,155
<b>Net book value - March 31, 2021</b>	<b>116,442</b>	<b>36,696</b>	<b>73,337</b>	<b>176,079</b>	<b>66,032</b>	<b>28,704</b>	<b>497,290</b>	<b>7,695</b>	<b>504,985</b>

<sup>1</sup> 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, 2021 was \$2,713,000 (three-month period ended June 30, 2020: \$931,000). Borrowing costs consisted of interest expense on the long-term debt and the amortization of transaction costs (note 10). The capitalization rate used to determine the amount of borrowing costs eligible for capitalization for the three-month period ended June 30, 2021 was 5.7% (three-month period ended June 30, 2020: 3.9%).

<sup>2</sup> For the three-month period ended June 30, 2021, the addition to the stripping asset includes: i) production expenses capitalized amounting to \$6,146,000 (three-month period ended June 30, 2020: \$1,175,000) and ii) allocated depreciation of property, plant and equipment amounting to \$1,136,000 (three-month period ended June 30, 2020: \$245,000).

# Champion Iron Limited

## Notes to the Condensed Interim Consolidated Financial Statements

(Tabular figures are expressed in thousands of Canadian dollars, except where otherwise indicated - unaudited)

### 9. Exploration and Evaluation Assets

	Labrador Trough	Newfoundland	Total
March 31, 2021	73,423	2,683	76,106
Additions	28,512	224	28,736
<b>June 30, 2021</b>	<b>101,935</b>	<b>2,907</b>	<b>104,842</b>

  

	Labrador Trough	Newfoundland	Total
March 31, 2020	73,087	2,438	75,525
Additions	336	245	581
March 31, 2021	73,423	2,683	76,106

Exploration and evaluation assets mainly comprise mining rights and exploration and evaluation expenditures which typically include costs associated with prospecting, sampling, trenching, drilling and other work involved in searching for ore such as topographical, geological, geochemical and geophysical studies.

On April 1, 2021, in connection with the acquisition of the Kami Project, the Company acquired mining property rights of \$27,993,000. Refer to note 5 - Acquisition of the Kami Project.

### 10. Long-Term Debt

	As at June 30, 2021 (three-month period)	As at March 31, 2021 (twelve-month period)
<b>Opening balance</b>	<b>214,951</b>	275,968
Advance - FTQ Loan	30,000	—
Capital repayment	—	(25,262)
Transaction costs	(1,918)	(7,888)
Amortization of transaction costs	973	2,398
Foreign exchange gain	(3,258)	(32,128)
Non-cash loss on debt refinancing	—	1,863
	<b>240,748</b>	214,951
Less current portion	(14,873)	—
<b>Ending balance</b>	<b>225,875</b>	214,951

  

	As at June 30, 2021	As at March 31, 2021
Debt	253,092	226,350
Unamortized transaction costs	(12,344)	(11,399)
<b>Long-term debt, net of transaction costs</b>	<b>240,748</b>	214,951

# Champion Iron Limited

## Notes to the Condensed Interim Consolidated Financial Statements

(Tabular figures are expressed in thousands of Canadian dollars, except where otherwise indicated - unaudited)

### 10. Long-Term Debt [continued]

The Company entered into a lending arrangement with various lenders to fund the completion of Phase II, which is comprised of a US\$350,000,000 non-revolving credit facility (the "Term Facility") and a US\$50,000,000 revolving credit facility (the "Revolving Facility") (collectively the "Senior Debt"), maturing on December 23, 2025 and December 23, 2023, respectively. As at June 30, 2021, the undrawn portion of the Senior Debt totalled US\$220,000,000. The repayment of the Term Facility commences on the earlier of June 30, 2022 or the first quarter following the Phase II completion date, and equal quarterly installments thereafter of the principal balance outstanding.

Collaterals are comprised of all of the present and future undertakings, properties and assets of QIO and Lac Bloom Railcars Corporation Inc. The Company guaranteed all the obligations of QIO and Lac Bloom Railcars Corporation Inc. and pledged all of the shares it holds in QIO and Lac Bloom Railcars Corporation Inc.

The Senior Debt required the Company to deposit US\$35,000,000 of cash as contingent funds to cover potential cost overruns of Phase II. As at June 30, 2021, this deposit of \$43,379,000 was classified as a non-current restricted cash in the consolidated statements of financial position.

On May 21, 2021, QIO entered into a loan agreement with Fonds de Solidarité des Travailleurs du Québec ("FTQ Loan") to fund the completion of Phase II for an amount up to \$75,000,000, maturing on May 21, 2028. During the three-month period ended June 30, 2021, the Company drew \$30,000,000. The FTQ Loan includes an option to prepay in whole or in part at anytime, but not prior to the second anniversary by paying a premium that varies from 2% to 6% based the prepayment date.

All loans are subject to operational and financial covenants, all of which have been met as at June 30, 2021. The undrawn portion of the Senior Debt and the FTQ Loan is subject to standby commitment fees varying from 0.35% to 1.38% during the pre-completion of Phase II.

During the three-month period ended June 30, 2021, the weighted average interest rate was 4.4% (three-month period ended June 30, 2020: 3.9%).

# Champion Iron Limited

## Notes to the Condensed Interim Consolidated Financial Statements

(Tabular figures are expressed in thousands of Canadian dollars, except where otherwise indicated - unaudited)

### 11. 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,	
	2021	2020
	(in thousands)	(in thousands)
<b>Shares</b>		
<b>Opening balance</b>	<b>502,116</b>	467,689
Shares issued for the acquisition of the Kami Project	<b>4,200</b>	—
Shares issued for exercise of options - incentive plan	<b>100</b>	5,153
<b>Ending balance</b>	<b>506,416</b>	472,842

On April 1, 2021, the Company issued 4,200,000 ordinary shares to Sprott and Altius as partial consideration for the acquisition of the Kami Project. Refer to note 5 - Acquisition of the Kami Project.

#### c) Preferred share issuances

	Three Months Ended June 30,	
	2021	2020
	(in thousands)	(in thousands)
<b>Shares</b>		
<b>Opening balance</b>	<b>185,000</b>	185,000
Redemption of preferred shares	<b>(60,000)</b>	—
<b>Ending balance</b>	<b>125,000</b>	185,000

On August 16, 2019, QIO issued preferred shares for consideration of \$185,000,000 to CDP Investissements Inc. ("CDPI"). Transaction costs of \$3,205,000 were incurred for this transaction, resulting in net proceeds of \$181,795,000. 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. During the 21-month construction period of Phase II, the applicable dividend rate is locked in at 9.25%.

During the three-month period ended June 30, 2021, the Company declared and paid dividends on the preferred shares amounting to \$4,266,000 or 0.02 per preferred shares, which represented the accumulated dividends for the April 1, 2021 to June 30, 2021 period. On June 30, 2021, the Company redeemed a portion of QIO preferred shares for \$60,000,000 and the excess of the repurchase price over the book value of \$8,268,000 was recorded in retained earnings.

The preferred shares are redeemable 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. Therefore, the Company has the ability to redeem all QIO preferred shares on August 16, 2021.

At any time after the tenth 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

(Tabular figures are expressed in thousands of Canadian dollars, except where otherwise indicated - unaudited)

### 11. 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 i) at the end of three years from the date of grant or ii) over a 32-month period for Phase II construction. Vesting is subject to key performance indicators established by the Board. A portion of the PSUs granted with performance criteria based on Phase II milestones is settled in cash.

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

	Three Months Ended June 30,	
	2021	2020
Stock option costs	322	74
DSU costs	—	61
RSU costs	369	512
PSU costs	598	238
	1,289	885

#### e) Stock options

As at June 30, 2021, the Company is authorized to issue 50,642,000 stock options and share rights (June 30, 2020: 47,284,000) equal to 10% (June 30, 2020: 10%) of the issued and outstanding ordinary shares for issuance under the Omnibus incentive plan. The stock options granted will vest over a three-year period.

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

	Three Months Ended June 30,		Three Months Ended June 30,	
	2021		2020	
	Number of Stock Options (in thousands)	Weighted Average Exercise Price	Number of Stock Options (in thousands)	Weighted Average Exercise Price
Opening balance	1,920	4.85	6,814	0.83
Exercised	(100)	5.00	(5,153)	0.56
Ending balance	1,820	4.84	1,661	1.65
Options exercisable - end of the period	620	4.52	1,139	1.62

During the three-month period ended June 30, 2021, no new stock options were granted to executive officers of the Company. During the three-month period ended June 30, 2021, a total of 100,000 stock options were exercised and the weighted average share price at the exercise date was \$6.00.

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 and the weighted average share price at the exercise date was \$1.93.

# Champion Iron Limited

## Notes to the Condensed Interim Consolidated Financial Statements

(Tabular figures are expressed in thousands of Canadian dollars, except where otherwise indicated - unaudited)

### 11. Share Capital and Reserves [continued]

#### e) Stock options [continued]

A summary of the Company's outstanding and exercisable stock options as at June 30, 2021 is presented below:

Exercise Price	Weighted Average Remaining Life (Years)	Number of Stock Options	
		Outstanding	Exercisable
		(in thousands)	(in thousands)
\$2.53	0.89	120	120
\$5.00	3.61	1,700	500
		<b>1,820</b>	<b>620</b>

#### f) Restricted share units

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

	Three Months Ended June 30,		Three Months Ended June 30,	
	2021		2020	
	Number of RSUs	Weighted Average Share Price	Number of RSUs	Weighted Average Share Price
	(in thousands)		(in thousands)	
<b>Opening balance</b>	<b>1,010</b>	<b>2.24</b>	598	2.18
Granted	<b>316</b>	<b>6.16</b>	412	2.33
<b>Ending balance</b>	<b>1,326</b>	<b>3.18</b>	1,010	2.24
<b>Vested - end of the period</b>	<b>536</b>	<b>2.22</b>	482	2.22

During the three-month period ended June 30, 2021, 316,000 RSUs were granted to key management personnel (three-month period ended June 30, 2020: 412,000). They will vest annually in three equal tranches from the date of grant.

# Champion Iron Limited

## Notes to the Condensed Interim Consolidated Financial Statements

(Tabular figures are expressed in thousands of Canadian dollars, except where otherwise indicated - unaudited)

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

#### g) Performance share units

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

	Year Ended June 31,		Three Months Ended June 30,	
	2021		2020	
	Number of PSUs	Weighted Average Share Price	Number of PSUs	Weighted Average Share Price
	(in thousands)		(in thousands)	
Opening balance	1,272	2.25	653	2.17
Granted	1,635	6.16	619	2.33
Ending balance	2,907	4.45	1,272	2.25
Vested - end of the period	—	—	—	—

During the three-month period ended June 30, 2021, 1,635,000 PSUs were granted to key management personnel (three-month period ended June 30, 2020: 619,000). Out of the PSUs granted during the period, a portion is payable in cash representing a fair value of \$70,000 for the three-month period ended June 30, 2021.

#### h) Warrants

	Three Months Ended June 30,		Three Months Ended June 30,	
	2021		2020	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
	(in thousands)		(in thousands)	
Opening balance	25,281	1.91	53,014	1.50
Exercised	—	—	—	—
Ending balance	25,281	1.91	53,014	1.50

A summary of the Company's outstanding and exercisable warrants as at June 30, 2021 and 2020 is presented below:

Exercise Price	Holder	Expiry Date	Outstanding and Exercisable	
			As at June 30, 2021	As at June 30, 2020
			(in thousands)	(in thousands)
\$1.125	Sprott	October 16, 2022	281	281
\$1.125	CDPI	October 16, 2024	10,000	10,000
\$1.125	Glencore	October 13, 2025	—	27,733
\$2.45	CDPI	August 16, 2026	15,000	15,000
			25,281	53,014

All ordinary share warrants were accounted for as warrants in the consolidated statements of equity. There has been no change to the details of the warrants as disclosed in the Company's audited annual consolidated financial statements for the year ended March 31, 2021.

During the three-month period ended June 30, 2021, no warrants were exercised (three-month period ended June 30, 2020: nil)

# Champion Iron Limited

## Notes to the Condensed Interim Consolidated Financial Statements

(Tabular figures are expressed in thousands of Canadian dollars, except where otherwise indicated - unaudited)

### 12. Revenues

	Three Months Ended June 30,	
	2021	2020
Iron ore revenue	484,513	221,439
Provisional pricing adjustments	60,895	23,135
	545,408	244,574

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, 2021, 1.2 million tonnes of iron ore sales remained subject to provisional pricing, with the final price to be determined in the subsequent reporting periods (June 30, 2020: 1.3 million tonnes).

### 13. Cost of Sales

	Three Months Ended June 30,	
	2021	2020
Land transportation	41,996	41,145
Operating supplies and parts	30,900	21,613
Salaries, benefits and other employee expenses	25,497	20,793
Sub-contractors	20,777	15,443
Other production costs	6,377	3,677
Change in inventories	(623)	1,280
Production expenses capitalized as stripping asset	(6,146)	(1,175)
Incremental costs related to COVID-19	2,068	4,562
	120,846	107,338

The Company incurred direct and incremental operating costs resulting from its COVID-19 safety measures, which are mainly comprised of premiums paid to employees from adjusted work schedules, incremental transportation costs, on-site COVID-19 testing and laboratory cost and incremental costs for cleaning and disinfecting facilities.

For the three-month period ended June 30, 2021, the amount recognized as an expense for defined contribution plans was \$1,240,000 (three-month period ended June 30, 2020: \$1,309,000) and was included in salaries, benefits and other employee expenses.

# Champion Iron Limited

## Notes to the Condensed Interim Consolidated Financial Statements

(Tabular figures are expressed in thousands of Canadian dollars, except where otherwise indicated - unaudited)

### 14. Net Finance Costs

	Three Months Ended June 30,	
	2021	2020
Interest on long-term debt	508	1,802
Realized and unrealized foreign exchange (gain) loss	2,027	(1,774)
Amortization of transaction costs	338	484
Interest expense on lease liabilities	22	34
Standby commitment fees and other	1,492	599
	4,387	1,145

### 15. Other Income (Expense)

	Note	Three Months Ended June 30,	
		2021	2020
Unrealized gain on non-current investments		546	2,467
Gain on disposal of non-current investments		408	—
Unrealized loss on derivative liabilities	17	(5,217)	—
		(4,263)	2,467

### 16. Earnings per Share

Earnings per share amounts are calculated by dividing the net income attributable to Champion shareholders for the three-month period ended June 30, 2021 and 2020 by the weighted average number of shares outstanding during the year.

	Three Months Ended June 30,	
	2021	2020
Net income attributable to Champion shareholders	224,339	75,556
Weighted average number of common shares outstanding - Basic	506,271,000	471,228,000
Dilutive share options, warrants and equity settled awards	18,419,000	18,536,000
Weighted average number of outstanding shares - Diluted	524,690,000	489,764,000
Basic earnings per share	0.44	0.16
Diluted earnings per share	0.43	0.15

# Champion Iron Limited

## Notes to the Condensed Interim Consolidated Financial Statements

(Tabular figures are expressed in thousands of Canadian dollars, except where otherwise indicated - unaudited)

### 17. 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 or financial liabilities 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, 2021 and 2020:

As at June 30, 2021		Fair Value Through Profit and Loss	Financial Assets at Amortized Cost	Financial Liabilities at Amortized Cost	Total Carrying Amount and Fair Value
<b>Assets</b>					
Current					
Cash and cash equivalents	Level 1	—	393,557	—	393,557
Short-term investments	Level 1	—	29,775	—	29,775
Trade receivables	Level 2	253,384	—	—	253,384
Other receivables (excluding sales tax)	Level 2	—	2,465	—	2,465
Non-current					
Restricted cash	Level 1	—	43,379	—	43,379
Non-current investments (equity investment in public entity)	Level 1	2,655	—	—	2,655
Non-current investments (equity investment in private entity)	Level 3	1,239	—	—	1,239
		257,278	469,176	—	726,454
<b>Liabilities</b>					
Current					
Accounts payable and other (excluding current portion of lease liabilities)	Level 2	—	—	141,254	141,254
Derivative liabilities	Level 2	5,217	—	—	5,217
Current portion of long-term debt	Level 2	—	—	14,873	14,873
		5,217	—	156,127	161,344
Non-current					
Long-term debt	Level 2	—	—	225,875	225,875
		5,217	—	382,002	387,219

# Champion Iron Limited

## Notes to the Condensed Interim Consolidated Financial Statements

(Tabular figures are expressed in thousands of Canadian dollars, except where otherwise indicated - unaudited)

### 17. Financial Instruments (continued)

#### Measurement categories (continued)

As at March 31, 2021		Fair Value Through Profit and Loss	Financial Assets at Amortized Cost	Financial Liabilities at Amortized Cost	Total Carrying Amount and Fair Value
<b>Assets</b>					
Current					
Cash and cash equivalents	Level 1	—	609,316	—	609,316
Short-term investments	Level 1	—	27,200	—	27,200
Trade receivables	Level 2	73,341	—	—	73,341
Other receivables (excluding sales tax)	Level 2	—	1,055	—	1,055
Non-current					
Restricted cash	Level 1	—	44,012	—	44,012
Non-current investments	Level 1	8,761	—	—	8,761
		82,102	681,583	—	763,685
<b>Liabilities</b>					
Current					
Accounts payable and other (excluding the current portion of lease liabilities)	Level 2	—	—	101,724	101,724
		—	—	101,724	101,724
Non-current					
Long-term debt	Level 2	—	—	214,951	214,951
		—	—	316,675	316,675

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). The fair value of restricted cash approximates its carrying amount. 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, 2021 (three-month period ended June 30, 2020: 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.

# Champion Iron Limited

## Notes to the Condensed Interim Consolidated Financial Statements

(Tabular figures are expressed in thousands of Canadian dollars, except where otherwise indicated - unaudited)

### 17. Financial Instruments (continued)

#### Financial instruments measured at fair value (continued)

##### Non-current investments

Equity instruments publicly listed are classified as a Level 1 in the fair value hierarchy. Their fair values are a recurring measurement and are estimated using the closing share price observed on the relevant stock exchange.

During the three-month period ended June 30, 2021, the Company purchased equity investments in a private entity. Its fair value is a recurring measurement and it is classified as Level 3. The determination of fair value is conducted on a quarterly basis and it is based on the investment's financial performance from latest financial statements. No adjustment in the fair value of the equity instrument was recorded in the consolidated statements of income in the three-month period ended June 30, 2021.

The equity investments are classified as financial assets at FVPL.

##### Derivative financial instruments

The Company entered into forward foreign exchange contracts to sell U.S. dollars to reduce the risk of variability of future cash flows resulting from forecasted sales. The amount of contracts signed was determined based on the planned Phase II construction expenditures. As at June 30, 2021, forward exchange contracts totalled US\$180,000,000, maturing between July 2021 and April 2022. The forward foreign exchange rates used to estimate the fair value of these contracts was \$1.24 as at June 30, 2021 and resulted in a derivative liability of \$5,217,000 as at June 30, 2021.

The fair value of forward exchange contracts was categorized as Level 2 in the fair value hierarchy. Fair value of derivative financial instruments generally reflects the estimated amounts that the Corporation would receive or pay taking into consideration the counterparty credit risk or the Corporation's credit risk, at the reporting dates. The Corporation uses market data such as credit spreads and foreign exchange spot rates to estimate the fair value of forward agreements. The Company did not apply hedge accounting on these contracts. The change in fair value of the derivative financial instruments is recognized in the consolidated statements of income.

### 18. Commitments and Contingencies

#### Commitments

The Company's future minimum payments of commitments as at June 30, 2021 are as follows:

(in thousands of dollars)	Less than a year	1 to 5 years	More than 5 years	Total
Impact and Benefits Agreement with the Innu community	5,285	22,772	89,097	117,154
Take-or-pay fees related to the Port agreement	6,551	27,883	107,171	141,605
Capital expenditure obligations	246,866	—	—	246,866
Service commitment	8,925	9,797	—	18,722
Spare parts purchase commitment	12,225	—	—	12,225
Committed leases not yet commenced	5,022	14,400	54,000	73,422
Other	490	1,161	374	2,025
	285,364	76,013	250,642	612,019

In relation to the acquisition of the Kami Project and contingent upon it advancing to commercial production (refer to note 5 - Acquisition of the Kami Project), the Company is subject to:

- 3% gross sales royalty to Altius on iron ore concentrate, refined copper, fine gold bullion, silver bullion, and other refined products;
- Production payment royalty to the Receiver of \$1 per dry metric tonne limited to the first 10,000,000 tonnes of iron ore sold;
- Education and training fund of \$1,000,000 per year for 7 years starting at commercial production; and
- Special tax payment to the Minister of Finance of Newfoundland and Labrador.



# Champion Iron Limited

## Notes to the Condensed Interim Consolidated Financial Statements

(Tabular figures are expressed in thousands of Canadian dollars, except where otherwise indicated - unaudited)

### 19. Financial Information Included in the Consolidated Statements of Cash Flows

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

	Three Months Ended June 30,	
	2021	2020
Receivables	(183,883)	(55,656)
Prepaid expenses and advances	(5,723)	2,635
Inventories	(3,074)	(1,231)
Advance payments	(5,631)	732
Accounts payable and other	38,272	2,906
Income and mining taxes payable	(100,979)	43,442
Other long-term liabilities	(59)	(60)
	(261,077)	(7,232)

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

	Three Months Ended June 30,	
	2021	2020
<b>Additions of property, plant and equipment before right-of-use assets as per note 8</b>	<b>113,011</b>	<b>27,105</b>
Depreciation of property, plant and equipment allocated to stripping activity asset	(1,136)	(245)
Non-cash increase of the asset rehabilitation obligation	(1,301)	(4,064)
Capitalized amortization of transaction costs	(635)	—
<b>Net cash flow from investing activities - purchase of property, plant and equipment</b>	<b>109,939</b>	<b>22,796</b>

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

	Three Months Ended June 30,	
	2021	2020
<b>Depreciation of property, plant and equipment as per note 8</b>	<b>10,224</b>	<b>8,283</b>
Depreciation of property, plant and equipment allocated to stripping activity asset	(1,136)	(245)
Depreciation of intangible assets	633	344
Net effect of depreciation of property, plant and equipment allocated to inventory	238	558
<b>Depreciation as per statements of income</b>	<b>9,959</b>	<b>8,940</b>

# Champion Iron Limited

## Notes to the Condensed Interim Consolidated Financial Statements

(Tabular figures are expressed in thousands of Canadian dollars, except where otherwise indicated - unaudited)

### 20. 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 Months Ended June 30, 2021	Mine Site	Exploration and Evaluation	Corporate	Total
<b>Revenues</b>	<b>545,408</b>	—	—	<b>545,408</b>
Cost of sales	(120,846)	—	—	(120,846)
Depreciation	(9,895)	—	(64)	(9,959)
<b>Gross profit (loss)</b>	<b>414,667</b>	—	(64)	<b>414,603</b>
Share-based payments	—	—	(1,289)	(1,289)
General and administrative expenses	—	—	(7,804)	(7,804)
Product research and development expenses	—	—	(1,353)	(1,353)
Sustainability and other community expenses	(1,455)	—	(2,659)	(4,114)
<b>Operating income (loss)</b>	<b>413,212</b>	—	(13,169)	<b>400,043</b>
Net finance costs, other income and taxes expenses				(175,704)
<b>Net income</b>				<b>224,339</b>
<b>Segmented total assets</b>	<b>1,513,640</b>	<b>104,842</b>	<b>39,164</b>	<b>1,657,646</b>
<b>Segmented total liabilities</b>	<b>(611,168)</b>	—	(9,599)	<b>(620,767)</b>
<b>Segmented property, plant and equipment</b>	<b>605,487</b>	—	<b>1,761</b>	<b>607,248</b>

Three Months Ended June 30, 2020	Mine Site	Exploration and Evaluation	Corporate	Total
<b>Revenues</b>	244,574	—	—	244,574
Cost of sales	(107,338)	—	—	(107,338)
Depreciation	(8,876)	—	(64)	(8,940)
<b>Gross profit (loss)</b>	<b>128,360</b>	—	(64)	<b>128,296</b>
Share-based payments	—	—	(885)	(885)
General and administrative expenses	—	—	(5,184)	(5,184)
Sustainability and other community expenses	(1,428)	—	(2,044)	(3,472)
<b>Operating income (loss)</b>	<b>126,932</b>	—	(8,177)	<b>118,755</b>
Net finance costs, other income and taxes expenses				(43,199)
<b>Net income</b>				<b>75,556</b>
<b>Segmented total assets</b>	<b>902,147</b>	<b>75,601</b>	<b>24,559</b>	<b>1,002,307</b>
<b>Segmented total liabilities</b>	<b>(536,954)</b>	—	(9,596)	<b>(546,550)</b>
<b>Segmented property, plant and equipment</b>	<b>387,389</b>	—	<b>1,951</b>	<b>389,340</b>

### 21. Subsequent Events

On July 21, 2021, the Company signed a loan agreement with Fonds du développement économique for an amount up to \$70.0M to finance a portion of SFPPN existing infrastructures upgrade. The loan has an 11.5-year maturity and bears interest at 3.7% with annual repayments of \$6.0M, commencing on April 1, 2022.