

## **June 2019 Quarterly Production Report**

### **CHAMPION IRON REPORTS RECORD QUARTER IN FY2020 FIRST QUARTER RESULTS**

Achieves highest quarterly production of 1,989,400 wmt in Bloom Lake's history  
and record operating cash flow of \$91.9 million for the quarter

**Montreal, July 31, 2019** - Champion Iron Limited (TSX: CIA) (ASX: CIA) ("Champion" or the "Company") is pleased to announce strong operational and financial results for the first quarter ended June 30, 2019 of the fiscal year ending March 31, 2020.

For complete details of the unaudited Condensed Consolidated Financial Statements and associated Management's Discussion and Analysis, please refer to the Company's filings on SEDAR ([www.sedar.com](http://www.sedar.com)) or the Company's website ([www.championiron.com](http://www.championiron.com)). All amounts are in Canadian dollars unless otherwise indicated.

#### **Conference Call Details**

Champion will host a conference call and webcast at 8:30 AM EDT (Montreal Time), on Wednesday July 31, 2019 to discuss the first quarter results of the fiscal year ending March 31, 2020. Call details are outlined at the end of this quarterly production report.

## **1. HIGHLIGHTS**

### **Operations**

- Record quarterly production of 1,989,400 wmt of high-grade 66.2% Fe iron ore concentrate compared to 1,542,900 wmt in the same period of the prior year;
- Focus to improve short-term mine and plant capacity and reliability to maximize operating cash flows during periods of elevated iron ore prices;
- Record quarterly recovery of 82.1%, setting a new historical record since Bloom Lake was first commissioned in 2010; and
- Total cash cost<sup>1</sup> of \$54.3/dmt sold (C1) and an all-in sustaining cost<sup>1</sup> ("AISC") of \$62.8/dmt sold during the first quarter compared to \$55.0/dmt and \$59.9/dmt, respectively, in the same period of the prior year.

### **Financial**

- Net income of \$74.2 million for the quarter ended June 30, 2019 compared to \$20.7 million in the same period of the prior year;
- Attributable earnings per share ("EPS") of \$0.09 for the quarter ended June 30, 2019 compared to \$0.03 in the same period of the prior year. EPS was affected by non-cash derivative financial instruments revaluation. By excluding this item, EPS would have been \$0.14.
- Revenues of \$277.9 million for the quarter ended June 30, 2019 compared to \$150.7 million during the same period of the prior year;
- Cash flow from operations after working capital totalling \$91.9 million for the quarter ended June 30, 2019, compared to \$46.7 million for the same period of the prior year;

- EBITDA<sup>1</sup> totalling \$166.9 million representing an EBITDA<sup>1</sup> margin of 60% for the quarter ended June 30, 2019, compared to an EBITDA<sup>1</sup> of \$44.9 million representing an EBITDA<sup>1</sup> margin of 30% in the same period of the prior year; and
- Cash on hand<sup>2</sup> of \$210.7 million on June 30, 2019, compared to \$153.3 million on March 31, 2019.

## Growth

- Signed a binding letter of intent to acquire RQ's 36.8% equity interest in Q10 to increase the Company's stake in Q10 to 100% for a total cash consideration of \$211 million. As a result of this transaction, the entire net income of Q10 will be allocated to Champion shareholders and there will no longer be a non-controlling interest ("NCI"). The transaction is expected to be closed during Q2 2020 without subsequent adjustment to working capital;
- Entered into an agreement with Caisse de dépôt et placement du Québec for a preferred share offering with proceeds of \$185 million;
- Signed a firm fully underwritten commitment for a US\$200 million credit facility with The Bank of Nova Scotia and Societe Generale;
- Released positive results of the Phase II Feasibility Study (the "Feasibility Study") with an after-tax IRR of 33.4% and after-tax NPV of \$956 million which envisions doubling the Bloom Lake overall capacity from 7.4 Mtpa to 15 Mtpa of 66.2% Fe iron ore concentrate; and
- Approval of an initial \$68 million budget to advance the project during the remainder of 2019 and secure the timetable detailed in the Feasibility Study.

"We are extremely pleased with the strong performance delivered by the operations team again this quarter and proud to set another new quarterly production record for Bloom Lake, especially in a period impacted by the second major planned shutdown", commented David Cataford, Champion's CEO. "In order to benefit from a favourable pricing environment for our product while our company remains unhedged, we have optimized operations aiming to increase short-term mine and plant reliability and thus maximize cash flow from operations. This initiative also allowed our team to push the boundaries of Bloom Lake and further identify bottlenecks which could eventually provide further organic growth to the Company."

## 2. BLOOM LAKE MINE OPERATING ACTIVITIES<sup>3</sup>

	<b>Three Months Ended June 30,</b>	
	<b>2019</b>	2018
<b>Operating Data</b>		
Waste mined (wmt)	3,580,900	3,372,900
Ore mined (wmt)	5,105,100	4,647,900
Strip ratio	0.7	0.7
Ore milled (wmt)	4,780,000	4,244,000
Head grade Fe (%)	32.5	31.1
Recovery (%)	82.1	77.1
Product Fe (%)	66.2	66.5
Iron ore concentrate produced (wmt)	1,989,400	1,542,900
Iron ore concentrate sold (dmt)	1,906,700	1,740,400
<b>Financial Data</b> (in thousands of dollars)		
Revenues	277,914	150,741
Cost of sales	103,607	95,768
Other expenses	7,371	10,031
Net finance cost	29,052	14,239
Net income	74,241	20,748
EBITDA <sup>1</sup>	166,936	44,942
<b>Statistics</b> (in dollars per dmt sold)		
Average realized selling price <sup>1</sup>	145.7	86.6
Total cash cost (C1 cash cost) <sup>1</sup>	54.3	55.0
All-in sustaining cost <sup>1</sup>	62.8	59.9
Cash operating margin <sup>1</sup>	82.9	26.7

## **Operational Performance**

During the three-month period ended June 30, 2019, 8.7 million tonnes of material were mined, representing an increase of 8% compared to the same quarter of the prior year. This increase reflects higher mining equipment availability and a higher utilization rate, attributable to the Company's progress with its mining equipment rebuilding program.

The plant processed 4,780,000 tonnes of ore during the first quarter compared to 4,224,000 tonnes in the same quarter last year. The positive variation of 13% relates to higher average hourly mill throughput further to the implementation of operational improvements designed to increase plant capacity and reliability. The higher throughput was offset by the major planned shutdown during the period.

The Company achieved an average recovery rate over 82.1% during the first quarter compared to 77.1% in the same period of the prior year. The improvement period over period relates to the continuous optimization of the recovery circuit which translated in a record monthly recovery of 84.6% in June 2019 from a 32.1% Fe head grade. The quarterly and monthly recovery rates achieved during the period set a new historical record since Bloom Lake was first commissioned in 2010.

Based on the foregoing, Champion produced 1,989,400 wmt of 66.2% Fe high-grade iron ore concentrate during the three-month period ended June 30, 2019 compared to 1,542,900 wmt in the same period of the prior year.

Production, hourly mill throughput and recovery rate reached record levels during the quarter, despite the second major planned shutdown since commercial production resumed.

## **3. FINANCIAL PERFORMANCE**

### **A. Revenues**

During the three-month period ended June 30, 2019, a total of 1,906,700 tonnes of high-grade iron ore concentrate were sold at a CFR China gross realized price of US\$129.0/dmt before shipping. The gross sales price of US\$129.0/dmt represents a premium of 17% over the benchmark P62 price compared to a premium of 19% in the previous quarter as the P62 price strengthened by 21% during the quarter. Deducting sea freight costs of US\$19.4/dmt, the Company obtained an average net realized price of US\$109.6 per tonne (CA\$145.7 per tonne) for its high-grade iron ore delivered to the end customer, benefiting from an average foreign exchange rate of CA\$1.33 / US\$. As a result, revenues totalled \$277,914,000 for the period. The sales increase compared to the corresponding quarter of the prior year stems primarily from higher iron ore prices and volume.

### **B. Cost of sales**

Cost of sales represent mining, processing, and mine site-related general and administrative expenses.

During the three-month period ended June 30, 2019, the total cash cost<sup>1</sup> or C1 cash cost<sup>1</sup> per tonne totalled \$54.3/dmt compared to \$55.0/dmt in the same period of the previous year. The C1 cash-cost<sup>1</sup> of the period reflects the impact of the major planned shutdown that occurred during the period as this scheduled shutdown included specific maintenance required after twelve months of operations. The Company also took advantage of the planned shutdown to complete additional initiatives aimed at improving plant reliability as Champion seeks to maximize operating cash flows during periods of elevated prices. The comparable C1 cash-cost<sup>1</sup> for the quarter ended June 30, 2018 represents the first period of production commissioning and ramp-up.

### **C. Gross profit**

The gross profit for the three-month period ended June 30, 2019 totalled \$170,693,000, compared to \$50,548,000 for the same period of the prior year. The increase directly correlates to the net realized iron ore price improvement of 68% and to volume increases as the plant was in the commissioning phase during the same period the prior year.

#### D. Other Expenses

Other expenses comprise share-based payments, corporate expenses as well as sustainability and other community expenses [“CSR expenses”]. CSR expenses are composed mainly of community taxes such as property and school taxes and expenditures related to the Impact and Benefits Agreement with the First Nations.

The variation of the other expenses and income for the three-month period ended June 30, 2019 compared to the same period the previous year is essentially due to restart costs incurred in the first quarter of the prior year, as well as Champion's transition from a development stage company to an iron ore producer. The increase in share-based payments reflects the higher stock price period over period combined with the issuance of equity awards in relation to the performance achieved during the last fiscal year ended March 31, 2019.

#### E. Net Finance Costs

Net finance costs totalled \$29,052,000 for the three-month period ended June 30, 2019 compared to \$14,239,000 for the same period in the prior year. The increase is mainly attributable to the change in the fair market value of the derivative liability period over period slightly offset by a lower unrealized foreign exchange loss and by the recognition of a non-cash derivative asset.

The change in the fair value of the derivative liability is associated with the variation of the Company's ordinary share price, which appreciated by 43.4% during the period, and is a non-cash item. This variation in the derivative liability will cease upon the repayment of the Glencore debenture as part of the refinancing. In compliance with IFRS, the Company also recorded non-cash derivative assets in relation with the existing debt facility.

The Company reports in Canadian dollars and benefits from a natural hedge between its revenues generated in U.S. dollars and its U.S. denominated term facilities. Consequently, the unrealized foreign exchange loss included in net finance costs represents a non-cash expenditure associated with the conversion of the term facilities in Canadian dollars. The Company maintains sufficient U.S. dollars on hand to prevent foreign exchange loss upon interest or capital payments. Unrealized loss on investments and accretion costs are non-cash items.

#### F. Income Taxes

The Company's subsidiaries are subject to tax in Australia and Canada. As a result of accumulated losses before tax, there are no current or deferred income taxes related to the Australian activities. Q10, Champion's operating subsidiary, is subject to a Quebec mining tax at a progressive rate ranging from 16% to 28% depending on the mining profit margin as defined by tax regulations. The mining profit margin represents the mining profit divided by revenues and is taxable based on three segments as follow:

Mining profit margin range	Tax rate
Mining profit between 0% to 35%	16%
Incremental mining profit over 35%, up to 50%	22%
Incremental mining profit over 50%	28%

In addition, Q10 is subject to an income tax in Canada where the statutory rate is 26.68%.

During the three-month period ended June 30, 2019, current income and mining taxes amounted to \$53,362,000 compared to \$5,530,000 in the same period of the prior period. The current income tax variation is attributable to the utilization of tax benefits such as carry-forward losses in the previous periods combined with a higher taxable profit. The higher mining tax period over period is due to higher mining taxable profit. Deferred income tax expenses of \$6,667,000, compared to nil in the same period of the prior year, relate mainly to the accelerated depreciation available under tax regulations that were not applied in the same period of the prior year.

During the period, in compliance with local regulations, the Company made a payment of \$34,059,000 in relation with the fiscal year-end 2019 mining tax payable. Mining taxes are now due through monthly installments based on the prior year amount payable. As the Company did not incur current income tax for the fiscal year ended March 31, 2019, the current income tax for the current fiscal year ending March 31, 2020 will solely be payable in May 2020.

## **G. Net Income (Loss) & EBITDA<sup>1</sup>**

For the three-month period ended June 30, 2019, the Company generated net income of \$74,241,000, with the net income attributable to Champion shareholders for the period totalling \$38,751,000, representing earnings per share of \$0.09. A net income of \$11,018,000, representing earnings per share of \$0.03 per share was realized in the three-month period ended June 30, 2018. Since the plant was still in startup and commissioning in the first quarter of the fiscal year ended March 31, 2019, the variation is mainly due to the additional tonnage sold as a result of the successful ramp-up, combined with increased iron ore concentrate selling prices.

During the first quarter ended June 30, 2019, the Company generated an EBITDA<sup>1</sup> of \$166,936,000 or an EBITDA<sup>1</sup> margin of 60% compared to an EBITDA<sup>1</sup> of \$44,942,000 or an EBITDA<sup>1</sup> margin of 30% in the same period of the prior year.

## **H. All-in sustaining cost<sup>1</sup> and cash operating margin<sup>1</sup>**

The Company believes that the AISC<sup>1</sup> and cash operating margin<sup>1</sup> are measures reflecting the costs associated with producing iron ore and assessing the Company's ability to operate without reliance on additional borrowing or usage of existing cash. The Company defines AISC<sup>1</sup> as the total costs associated with producing iron ore concentrate. The Company's AISC<sup>1</sup> represents the sum of cost of sales, corporate expenditures and sustaining capital expenditures, including stripping activities, all divided by the iron ore concentrate per dmt sold to arrive at a per dmt figure.

During the three-month period ended June 30, 2019, the Company realized an AISC<sup>1</sup> of \$62.8/dmt compared to \$59.9/dmt in the same period of last year. The variation period over period is due to two main factors. First, the Company made the prudent decision to accelerate tailings containment dam rising construction work in order to ensure safe tailings deposition. Second, the Company made additional investments in the mining equipment rebuild program required to increase mining equipment fleet availability. The conservative decision made by the Company to bring forward the tailings investment does not modify the total amount that would have been invested on the tailings facility over the next few years, only the timing is modified. The remaining variation between periods reflects the fact that the first quarter of 2018 did not include intensive sustaining capital expenditures as the Company was still in the commissioning phase.

Deducting the AISC<sup>1</sup> of \$62.8/dmt from the realized average selling price<sup>1</sup> of \$145.7/dmt, the Company generated a cash operating margin<sup>1</sup> of \$82.9 for each tonne of high-grade iron ore concentrate sold during the first quarter ended June 30, 2019 compared to \$26.7/dmt in the same period of the last year.

## **I. Non-controlling interests**

As of June 30, 2019, the Government of the province of Quebec, through RQ, held a 36.8% interest in Q10 and as such, was considered Champion's non-controlling interest ("NCI"). The net income attributable to the NCI is based on the statutory financial statements of Q10. The variation period over period is associated with the commencement of operational commercialization on April 1, 2018 offset by the change in the fair value of derivative liabilities.

On May 29, 2019, the Company announced a transaction to acquire RQ's 36.8% equity interest in Q10 for a total consideration of \$211 million, which is not subject to further working capital adjustment. For more information on the proposed transaction, please refer to the Company's press release dated May 29, 2019, available under the Company's filings on SEDAR at [www.sedar.com](http://www.sedar.com). When Champion closes the announced acquisition of the minority interest held by RQ, Champion will no longer have to attribute a portion of Q10's net income to a NCI.

## **4. EXPLORATION ACTIVITIES**

During the three-month period ended June 30, 2019, the Company did not conduct any exploration work at Bloom Lake, nor on any of its other properties. Exploration activities will resume in July 2019 on the Bloom Lake property.

During the quarter, the Company maintained all its properties in good standing. The Company did not enter into farm-in/farm-out arrangements during the quarter.

## 5. CONFERENCE CALL AND WEBCAST INFORMATION

A webcast and conference call to discuss these results will be held on Wednesday, July 31, 2019, at 8:30 AM EDT [Montreal Time]. Listeners may access a live webcast of the conference call from the Investors section of the Company's website at [www.championiron.com](http://www.championiron.com) or by dialing toll free 1-888-390-0546 within North America or +1-888-076-068 from Australia.

An online archive of the webcast will be available by accessing the Company's website at [www.championiron.com](http://www.championiron.com). A telephone replay will be available for one week after the call by dialing +1-888-390-0541 within North America or +1-416-764-8677 overseas, and entering passcode 134161#.

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<sup>1</sup> EBITDA, average realized selling price, total cash cost or C1 cash cost, AISC and cash operating margin are non-IFRS financial performance measures with no standard definition under IFRS. See the "Non-IFRS financial performance measures" section of this MD&A included in note 17.

<sup>2</sup> Cash on hand includes cash and cash equivalents and short-term investments.

<sup>3</sup> The Company considers that pre-commercial production operations at the Bloom Lake mine commenced on April 1, 2018 with the first shipment of high-grade iron ore concentrate and that commercial production began on June 30, 2018.

## **About Champion Iron Limited**

Champion is a producing iron development and exploration company, focused on developing its significant iron resources in the south end of the Labrador Trough in the province of Quebec. Following the acquisition of its flagship asset, the Bloom Lake iron ore property, the Company implemented upgrades to the mine and processing infrastructure and has partnered in projects associated with improving access to global iron markets, including rail and port infrastructure initiatives with government and other key industry and community stakeholders. Champion's management team includes professionals with mine development and operations expertise, who also have vast experience from geotechnical work to green field development, brown field management including logistics development and financing of all stages in the mining industry.

## **For further information please contact:**

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*For additional information on Champion Iron Limited, please visit our website at: [www.championiron.com](http://www.championiron.com)*

## **Forward-Looking information**

This news release includes certain information that may constitute "forward-looking information" under applicable Canadian securities legislation. All statements, other than statements of historical facts, included in this news release that address future events, developments or performance that Champion expects to occur including management's expectations regarding (i) the acquisition of RQ's equity interest in Q10, its expected closing date; (ii) the preferred share offering with Caisse de dépôt et placement du Québec; (iii) the credit facility with The Bank of Nova Scotia and Societe Generale; (iii) the Feasibility Study, its timetable, its after-tax IRR and NPV; (iv) the doubling the Bloom Lake overall capacity; (v) the Company's growth; (vi) the increase of the plan capacity and reliability; (vii) the repayment of the Glencore debenture; (viii) the Company's exploration activities and programs; are forward-looking statements. Forward-looking statements are statements that are not historical facts and are generally, but not always, identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates", "aims", "targets", or "believes", or variations of, or the negatives of, such words and phrases or state that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved including, without limitation, the results of the feasibility study with regards to the potential expansion of the Bloom Lake mine. Although Champion believes the expectations expected in such forward-looking statements are based on reasonable assumptions, such forward-looking statements involve known and unknown risks, uncertainties and other factors, most of which are beyond the control of the Company, which may cause the Company's actual results, performance or achievements to differ materially from those expressed or implied by such forward-looking statements. Factors that could cause the actual results to differ materially from those in forward-looking statements include, without limitation: project delays; continued availability of capital and financing and general economic, market or business conditions; general economic, competitive, political and social uncertainties; future prices of Iron Ore; failure of plant, equipment or processes to operate as anticipated; delays in obtaining governmental approvals, necessary permitting or in the completion of development or construction activities, as well as those factors discussed in the section entitled "Risk Factors" of the Company's 2019 Annual Information Form and the risks and uncertainties discussed in the Company's MD&A for the year ended March 31, 2019, both available on SEDAR at [www.sedar.com](http://www.sedar.com). There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such forward-looking information. Accordingly, readers should not place undue reliance on forward-looking information. All of Champion's forward-looking information contained in this press release is given as of the date hereof and is based upon the opinions and estimates of Champion's management and information available to management as at the date hereof. Champion disclaims any intention or obligation to update or revise any of its forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.