

# Cartier Iron Corporation

## Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") provides discussion and analysis of the financial condition and results of operations of Cartier Iron Corporation (the "Company") for the 6 months ended June 30, 2017 and should be read in conjunction with the unaudited condensed interim financial statements and the accompanying notes which have been prepared in accordance with International Financial Reporting Standards.

The MD&A is the responsibility of management and is dated as of August 25, 2017.

All dollar amounts in the MD&A are stated in Canadian dollars unless otherwise indicated.

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) and the Company's website at [www.cartieriron.com](http://www.cartieriron.com).

### Forward-Looking Statements

This MD&A may contain, without limitation, statements concerning possible or assumed future operations, performance or results preceded by, followed by or that include words such as "believes", "expects", "potential", "anticipates", "estimates", "intends", "plans" and words of similar connotation, which would constitute forward-looking statements. Forward-looking statements are not guarantees. The reader should not place undue reliance on forward-looking statements and information because they involve risks and uncertainties that may cause actual operations, performance or results to be materially different from those indicated in these forward-looking statements. The Company is under no obligation to update any forward-looking statements contained herein should material facts change due to new information, future events or other factors. These cautionary statements expressly qualify all forward-looking statements in this MD&A.

See page 9 for *Material assumptions and risk factors for forward-looking statements*.

### The Company

The Company is a public company engaged in the acquisition, exploration and development of mineral resource properties. The Company is a reporting issuer in Ontario and Alberta and its common shares are listed for trading on the Canadian Securities Exchange under the trading symbol "CFE".

### Overall Performance

#### Receivables

During the quarter ended March 31, 2017, the Company received \$79,775 and \$23,977 in respect of its claim for a credit on duties on eligible exploration expenditures incurred in Québec for the years ended December 31, 2013 and December 31, 2014, respectively.

#### Investment in Eloro

As at June 30, 2017, the Company held 3,043,500 Eloro common shares representing 9.66% (December 31, 2016 - 10.2%) of the outstanding Eloro common shares. As at August 24, 2017, the Company's investment in Eloro had a fair value of \$•.

#### Gagnon option agreement

The Company has an option from Champion Iron Mines Limited ("Champion"), a wholly-owned subsidiary of Champion Iron Limited, to acquire a 55% interest in Round Lake (formerly known as Penguin Lake, Black Dan and Aubrey-Ernie), Silicate-Brutus and Jeannine Lake in the Fermont Iron Ore District in the Labrador Trough in northeastern Quebec ("Gagnon").

Table 1: Summary of Gagnon Holdings

| Property  | Number of claims | Area (km <sup>2</sup> ) |
|---|------------------|-------------------------|
| Round Lake (formerly known as Penguin Lake, Black Dan and Aubrey-Ernie) | 178              | 94.20                   |
| Silicate-Brutus   | 19               | 10.09                   |
| Jeannine Lake   | 21               | 11.17                   |
| <b>Totals</b>   | <b>218</b>       | <b>115.46</b>           |

In order to earn a 55% interest, the Company must:

a) make option payments, issue common shares and incur exploration expenditures, as follows:

|   | Option<br>payments<br>\$ | Common shares<br>Number | Fair value<br>\$ | Exploration<br>expenditures<br>\$ |
|---|--------------------------|-------------------------|------------------|-----------------------------------|
| Upon execution of agreement (received)  | –                        | 1,000,000               | 250,000          | –                                 |
| Upon conditional approval from a stock exchange for the listing of the common shares of Cartier (received)  | 100,000                  | –                       | –                | –                                 |
| December 10, 2013 (paid, issued and incurred)   | 150,000                  | 500,000                 | 80,000           | 500,000                           |
| December 10, 2014 (issued and incurred)   | –                        | 500,000                 | 80,000           | 750,000                           |
| Extended from December 10, 2014 to the date that Cartier received its refundable tax credit on eligible expenditures incurred in Québec for the year ended December 31, 2013 (paid) | 250,000                  | –                       | –                | –                                 |
| December 10, 2015 (paid and issued)   | 50,000                   | 500,000                 | 12,500           | –                                 |
| December 10, 2016 (incurred)  | –                        | –                       | –                | 1,800,000                         |
| December 31, 2017   | 450,000                  | –                       | –                | –                                 |
|   | 1,000,000                | 2,500,000               | 422,500          | 3,050,000                         |

b) repay the Term Loan of approximately \$350,000 due to Champion on December 31, 2017.

In the event that the Company or Champion proposes to acquire any property within 10 kilometres of the Gagnon Holdings, the acquirer must offer the property at cost to the other party for inclusion in the Gagnon properties.

The Company has issued the common shares and incurred exploration expenditures required by the option agreement and in order to earn its 55% interest, the Company must make the remaining option payment of \$450,000 due on December 31, 2017 and repay the Term Loan due on December 31, 2017.

Upon the Company earning its 55% interest, a joint venture will be formed to incur additional exploration expenditures. If a joint venture partner does not fund its proportionate interest in the joint venture, its interest will be diluted and, when its interest is reduced below 10%, its interest would be reduced solely to a 1% royalty. The other joint venture partner will have the option to reduce the royalty from 1% to 0.5% by making a payment of \$3,000,000.

As December 31, 2016 and June 30, 2017, facts and circumstances suggested that the carrying amount of Gagnon may exceed its recoverable amount. As required by International Financial Reporting Standard 6, *Exploration for and Evaluation of Mineral Resources* ("IFRS 6"), the Company assessed Gagnon for impairment. The Company concluded that there were a number of indicators of impairment, and accordingly, recorded impairment losses of \$80,578 at December 31, 2016 and \$21,300 at June 30, 2017 to write off Gagnon.

The Company has incurred the following cumulative exploration and evaluation expenditures on Gagnon:

|                            | \$        |
|----------------------------|-----------|
| Balance, December 31, 2016 | 3,492,255 |
| Exploration expenditures   | 21,300    |
| Refundable tax credit      | (103,752) |
| Balance, June 30, 2017     | 3,409,803 |

### **Gagnon Holdings - Exploration**

The Gagnon Holdings are adjacent and in close proximity to Arcelormittal's Mont Reed property which encompasses the Mont Reed Mine deposit.

On December 19, 2013, the Company reported the completion of a National Instrument 43-101 compliant Mineral Resource Estimate ("MRE") for the Penguin Lake Project, authored by Abder Ladidi, P. Geo., an independent Qualified Person of MRB & Associates ("MRB") of Val d'Or, Quebec. Based on 10 drill holes totaling 3,315 m, the MRE reported 531 million tonnes ("Mt") grading 33.1% Total Iron ("FeT") of In-pit Inferred Resources at a 15% FeT cut-off grade. The global in-situ mineral resource of 534.8 Mt grading 33.1% FeT was subject to a Whittle pit optimization to estimate the portion of in-situ Mineral Resource within the pit shell. P&E Mining Consultants of Brampton, ON were contracted by

MRB to run the pit shell using a 1.05:1.00 \$CDN:\$US exchange rate, a mining cost of \$2.50/Tonne, and a charge of \$18.10/Tonne for the total processing, G&A, and freight costs. The process recovery, estimated to be 82%, an iron ore price of \$1.77/dmtu, and a 48° overall pit-slope, were used to complete the Whittle pit optimization. The sensitivity of the resource estimates is demonstrated by comparing the proportion of the mineral resources that may be economically exploited within the optimized pit shell to the global in-situ resource. A summary of the Global In-Situ Mineral Resource Estimate is presented in Table 2 and the results of the In-Pit Mineral Resource are presented in Table 3.

*Table 2: Global In-situ Mineral Resource Estimate, Penguin Lake Project*

| Cut-off Grade | Global Inferred Resources* |       |      |      | Below Cut-off     |       |      |      |
|---------------|----------------------------|-------|------|------|-------------------|-------|------|------|
|               | Tonnes (millions)          | Grade |      |      | Tonnes (millions) | Grade |      |      |
|               |                            | FeT%  | CaO% | MgO% |                   | FeT%  | CaO% | MgO% |
| 15%           | 534.8                      | 33.1  | 3.1  | 2.8  | 0.0               | 0.0   | 0.0  | 0.0  |
| 20%           | 534.7                      | 33.1  | 3.1  | 2.8  | 0.1               | 15.4  | 2.1  | 1.7  |
| 25%           | 531.4                      | 33.2  | 3.0  | 2.8  | 3.4               | 23.2  | 4.7  | 3.0  |
| 30%           | 466.4                      | 33.9  | 2.9  | 2.8  | 68.4              | 28.2  | 4.1  | 2.7  |

*Table 3: In-Pit Mineral Resource Estimate, Penguin Lake Project*

| Cut-off Grade | In-Pit Inferred Resources* |             |            |            | Below Cut-off     |            |            |            |
|---------------|----------------------------|-------------|------------|------------|-------------------|------------|------------|------------|
|               | Tonnes (millions)          | Grade       |            |            | Tonnes (millions) | Grade      |            |            |
|               |                            | FeT%        | CaO%       | MgO%       |                   | FeT%       | CaO%       | MgO%       |
| <b>15%</b>    | <b>531.2</b>               | <b>33.1</b> | <b>3.1</b> | <b>2.8</b> | <b>0.0</b>        | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> |
| 20%           | 531.1                      | 33.1        | 3.1        | 2.8        | 0.0               | 15.4       | 2.1        | 1.7        |
| 25%           | 527.8                      | 33.2        | 3.0        | 2.8        | 3.4               | 23.2       | 4.7        | 3.0        |
| 30%           | 463.9                      | 33.9        | 2.9        | 2.8        | 67.3              | 28.2       | 4.1        | 2.7        |

\* The quantity and grade of the reported Mineral Resources within the Project are categorized as Inferred Mineral Resources. Inferred Mineral Resources are that part of a Mineral Resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from drill core. There is no guarantee that further exploration will upgrade the Inferred Mineral Resources to Indicated or Measured Mineral Resources. Mineral Resources which are not Mineral Reserves do not have demonstrated economic viability. The estimate of Inferred Mineral Resources may be materially affected by environmental, permitting, legal, title, taxation, socio-political, marketing, or other relevant issues.

The 10 drill holes that define the MRE drilled only the southern portion of the deposit. The deposit occurs in the form of a multiply refolded tightly overturned synform that produces a bowl-like shape of shallow dipping iron formation host rock. No recent drilling has been completed in the northern portion of the deposit however, the strong correlation of magnetic response to where iron formation surfaces and a historic drill hole located in the NW portion of the deposit allow for projection of the modelled iron formation and an estimate of the exploration target potential<sup>1</sup>. The interpreted 3D model of iron formation includes an additional 700 to 900 million tonnes of similar grade as suggested by the current Inferred Resource, predominantly in the undrilled portion of the deposit to the north and northwest where additional resources might be identified.

A comparison of the current global in-situ mineral resource and in-pit mineral resource demonstrates the amenable geometry of the deposit to open-pit mining with 99+% of the in-situ resource occurring within the optimized pit shell. Furthermore, it is apparent that a natural geological cut-off grade exists for the modelled high grade iron oxide deposit that is above the economic cut-off grade. As can be seen by the quantity and grade of below cut-off grade material at the higher cut-off grades, the natural cut-off grade of the deposit is near 25% FeT where only 0.6% of the material is below cut-off at an average grade of 23.2% and well above the economic cut-off grade of 15% FeT.

<sup>1</sup> Exploration Target Potential is not a Mineral Resource. There is insufficient work completed to estimate the quantity and grade or quality of the exploration target on the basis of geological evidence and sampling. There is no guarantee that further exploration will define additional mineral resources from any portion of the exploration target potential.

The current resource reported in the MRE comprises less than half of the modelled bow-shaped deposit and makes the Penguin Lake deposit the largest iron resource in the southern Gagnon Terrane.

On March 24, 2014, the Company announced it has engaged BBA Inc. ("BBA") of Montreal to complete a Preliminary Economic Assessment ("PEA") of the Penguin Lake Project.

On November 28, 2014, the Company announced that with the responsible allocation of capital funds at the forefront of its exploration strategies, the Company was re-scoping its current PEA study in order to incorporate the forthcoming findings from the Labrador Trough rail pre-feasibility study (see "Multi-User Railway Feasibility" section below).

With the rail study proceeding through 2016 and 2017, the Company completed metallurgical testwork studies and investigated base-case process flowsheet aspects for the Penguin Lake deposit. Metallurgical test results announced by the Company on April 28, 2015, indicate that the iron at the Penguin Lake deposit will be most efficiently liberated by a 2-stage process designed to yield iron-fines to produce a final sinter product.

The metallurgical tests were targeted towards producing a concentrate of 65% iron (Fe) and 4.5% silica (SiO<sub>2</sub>) from an average sample-grade of 30% Fe. Stage-1 gravimetric separation tests by Wilfley Table on 18 samples returned average grades of 65.3% Fe, 4.5% SiO<sub>2</sub> and 1.1% MgO. Iron concentrate of similar grade (65% Fe / <4.5% SiO<sub>2</sub>) will be sought from the second-stage regrinding and magnetic separation process. Additional tests to determine the process model for optimal second-stage iron recovery are on-going. Overall iron recoveries of >80% are targeted for the 2-stage circuit. The maximum 4.5% SiO<sub>2</sub> content for the Penguin Lake concentrate is a value imposed by the Company, guided by today's selective-market requirement for the highest-quality iron concentrate.

On August 13, 2015, the Company announced the commencement of a helicopter-supported, diamond drilling programme at the Round Lake Property. A four-hole 707 m NQ-core diamond-drilling programme designed to test magnetite/hematite-rich members of the Sokoman (iron) Formation that underlie the Round Lake Property at the Black Dan, Hearts Lake, Thémines #2 and Lac Penguin West occurrences was completed and on November 17, 2015 the Company announced the results from the drilling programme.

The Company is currently evaluating further exploration programs at the Gagnon Holdings while managing its capital resources to ensure it has sufficient capital to support its ongoing operations. Further exploration and development of the Company's properties are contingent upon the Company raising an adequate amount of financing.

### ***Multi-User Railway Feasibility Study***

As announced by Champion Iron Limited, during the quarter ended September 30, 2014, Champion formed a limited liability partnership with the Québec Government and co-miner Lac Otnuk Mining Inc. (a joint venture between Adriana Resources Inc. and WISCO International Resources Development & Investment Limited) to manage the implementation of the rail feasibility study. The Québec Government passed a decree on October 1, 2014, to invest up to \$20 million for the multi-user rail feasibility study.

CANARAIL Consultants Inc. was retained to carry out the first phase of the feasibility study – a proposed new 310 km rail linking the port of Sept-Îles with Champion's Consolidated Fire Lake North property, located approximately 50 kms northeast of the Company's optioned Gagnon Holdings. The study was expanded to include an additional segment extending the proposed rail from Champion's Consolidated Fire Lake North project to the rail located at the Bloom Lake mine, allowing access to a greater number of potential users in the Labrador Trough.

The completion and findings of the rail feasibility study have not been released or announced as of the date of the MD&A.

The Company views these developments as potentially significant catalysts which could help attract new investment to the region and help unlock the value of the iron resources underlying the Gagnon Holdings.

### **Incienso Property, Chile**

On June 16, 2017, the Company signed a letter agreement for an option to earn a 55% interest in Incienso, a gold property comprising 31 mining concessions covering 4,112 hectares located in the Coquimbo District, III Region, Chile.

In order to earn a 55% interest, the Company was to make option payments, issue common shares and incur exploration expenditures, as follows:

|  | Option<br>payments<br>US\$ | Number of<br>common<br>shares | Exploration<br>expenditures<br>US\$ |
|--|----------------------------|-------------------------------|-------------------------------------|
| Upon signing of letter agreement (paid)  | 15,000                     | –                             | –                                   |
| Upon signing of definitive agreement and receipt of stock<br>exchange approval | 50,000                     | –                             | –                                   |
| 1 year after signing of the definitive agreement                               | 50,000                     | 250,000                       | 500,000                             |
| 2 years after signing of the definitive agreement                              | 75,000                     | 250,000                       | 500,000                             |
| 3 years after signing of the definitive agreement                              | 125,000                    | 250,000                       | 500,000                             |
| 4 years after signing of the definitive agreement                              | 150,000                    | 250,000                       | 500,000                             |
|  | 465,000                    | 1,000,000                     | 2,000,000                           |

On August 11, 2017, the Company decided not to proceed with the negotiation and execution of a definitive agreement, thereby terminating the option at no further cost to the Company. Effective June 30, 2017, the Company wrote off \$22,968 representing the option payment of US\$15,000 and due diligence costs incurred up to that date.

## **Risks and Uncertainties**

### ***Going concern***

The Company is in the exploration stage and has no revenue. As at June 30, 2017, the Company had a working capital deficit of \$1,096,762 (December 31, 2016 - \$876,982) and for the 6 months ended June 30, 2017, the Company incurred losses of \$225,350 (2016 - \$76,931) and negative cashflow from operations of \$48,844 (2016 - \$168,372). The working capital deficit and losses limit the Company's ability to fund operations and the acquisition, exploration and development of mineral resource properties. As a result, there is significant doubt about the Company's ability to continue as a going concern.

The continued operation of the Company is dependent upon the support of its creditors and the Company's ability to secure advances from related parties and equity financing to meet its existing obligations and finance the acquisition, exploration and development of mineral resource properties. The Company is actively seeking to raise the necessary advances and equity financing, however, there can be no assurance that additional financing will be available.

### ***Exploration***

The Company is exposed to the inherent risks associated with mineral exploration and development, including the uncertainty of mineral resources and their development into mineable reserves; the uncertainty as to potential project delays from circumstances beyond the Company's control; and the timing of production; as well as title risks, risks associated with joint venture agreements and the possible failure to obtain mining licences.

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## Results of Operations

|  | 3 months ended June 30, |           | 6 months ended June 30, |           |
|--|-------------------------|-----------|-------------------------|-----------|
|  | 2017                    | 2016      | 2017                    | 2016      |
|  | \$                      | \$        | \$                      | \$        |
| <b>Expenses</b>                                  |                         |           |                         |           |
| Professional fees                                | 5,623                   | 16,235    | 10,719                  | 21,235    |
| Consulting fees                                  | 95,526                  | 98,386    | 185,526                 | 188,386   |
| General and administrative                       | 25,473                  | 77,277    | 49,415                  | 140,557   |
| Investor relations                               | 4,000                   | 9,576     | 17,293                  | 28,871    |
| Travel   | 16,851                  | 6,089     | 16,851                  | 13,823    |
| Interest   | 1,755                   | 7,894     | 3,491                   | 15,839    |
| Gain on statute-barred accounts payable          | -                       | (48,044)  | -                       | (48,044)  |
| Increase in fair value of marketable securities  | 200                     | (816)     | (2,550)                 | (2,240)   |
| Refundable tax credit and mining tax credit      | -                       | (251,079) | (103,752)               | (251,079) |
| Other recoveries                                 | -                       | -         | (2,711)                 | -         |
| Impairment of exploration and evaluation         | 33,768                  | 8,103     | 44,268                  | 30,048    |
|  | 183,196                 | (76,381)  | 218,551                 | 137,395   |
| Loss before share of net loss of an associate    | (183,196)               | 76,381    | (218,551)               | (137,395) |
| Dilution gain on change in interest in associate | 34,824                  | 84,458    | 34,824                  | 84,458    |
| Share of loss of an associate                    | (37,547)                | 10,493    | (41,623)                | (23,994)  |
| Loss and comprehensive loss                      | (185,919)               | 171,332   | (225,350)               | (76,931)  |

### 6 months ended June 30

The increase in the loss of \$225,350 in the current period compared to the loss of \$76,931 in the comparative period was primarily the result of the following factors:

- a decrease in general and administrative expenses from \$140,557 to \$49,415 reflecting efforts to conserve cash.
- no gain on statute-barred accounts payable was recorded compared to a gain of \$48,044 in the comparative period.
- a decrease of in refundable tax credit and mining tax credits received from \$251,079 to \$103,752.

### 3 months ended June 30

The increase in the loss of \$185,919 in the current period compared to income of \$171,332 in the comparative period was primarily the result of the following factors:

- no gain on statute-barred accounts payable was recorded compared to a gain of \$48,044 in the comparative period.
- a refundable tax credit and mining tax credits of \$251,079 received the comparative period.

## Summary of Quarterly Results

|               | Q3 2015   | Q4 2015     | Q1 2016   | Q2 2016  | Q3 2016   | Q4 2016   | Q1 2017  | Q2 2017   |
|---------------|-----------|-------------|-----------|----------|-----------|-----------|----------|-----------|
|               | \$        | \$          | \$        | \$       | \$        | \$        | \$       | \$        |
|               | (note 1)  | (note 2)    |           | (note 3) |           | (note 4)  | (note 5) |           |
| Revenue       | -         | -           | -         |          |           |           |          |           |
| Income (loss) |           |             |           |          |           |           |          |           |
| - Total       | (335,840) | (3,993,879) | (248,263) | 171,332  | (170,309) | 1,051,525 | (39,431) | (185,919) |
| - Per share   | (0.010)   | (0.119)     | (0.007)   | 0.005    | (0.005)   | 0.031     | (0.001)  | (0.005)   |

## Notes

- Loss for Q3 2015 reflects stock-based compensation of \$213,000 related to stock options granted.
- Loss for Q4 2015 reflects impairment loss of \$3,662,190 of the Gagnon Holdings.
- Income for Q2 2016 reflects income for a gain on statute-barred accounts payable of \$48,044, a refundable tax credit of \$251,079, a gain on dilution of interest in associate of \$84,458 and share of income of an associate of \$10,493.
- Income for Q4 2016 reflects gains on the disposition of marketable securities of \$810,952 (including a gain of \$820,509 recorded on the disposition of \$2,000,000 common shares of Eloro to repay the Term Loan) and a gain on the settlement of amount due to Champion of \$80,000.
- Loss for Q1 2017 reflects the receipt of refundable tax credit and mining tax credit of \$103,752.

## Liquidity and Capital Resources

### Capital resources

At June 30, 2017, the Company had a cash balance of \$38,341 and an investment in Eloro with a fair value of \$2,252,190.

As the Company is in the exploration stage and has no revenue, the Company has financed its operations with advances from related parties and equity financings. The Company is dependent upon the support of its creditors and the Company's ability to secure advances from related parties and equity financings to meet its existing obligations and to fund its working capital requirements and the acquisition, exploration and development of mineral properties.

### Estimated working capital requirements for 2017

|   | \$        |
|---|-----------|
| Corporate and general costs                       | 200,000   |
| Claim renewals and work commitments               | 15,000    |
| Option payment on Gagnon due by December 31, 2017 | 450,000   |
| Repayment of Term Loan due on December 31, 2017   | 350,000   |
|   | 1,015,000 |

Excluding consulting fees to management, the payment of which is being deferred, corporate and general costs for the years ended December 31, 2016 and 2015 were approximately \$275,000 and \$260,000, respectively. For the year ended December 31, 2017, the Company expects to reduce costs and estimates its corporate and general costs at approximately \$200,000. For the 6 months ended June 30, 2017, the Company incurred corporate and general costs of \$97,770 which were funded by the receipt of refundable tax credit and mining tax credit of \$103,752.

At June 30, 2017, accounts payable and accrued liabilities were \$828,306, of which, \$734,377 represents consulting fees and exploration expenditures owed to related party management and consultants, the payment of which is being deferred.

Management is of the opinion that sufficient working capital will be obtained from advances from related parties and equity financings to meet the Company's liabilities and commitments as they become due. In the event that the Company is not able to obtain sufficient working capital from related parties and equity financings, the Company could consider renegotiating the due dates for the payment of the option payment for Gagnon and the Term Loan and selling Eloro common shares.

### Transactions with Related Parties

|   | 6 months ended<br>June 30, 2017<br>\$ | Outstanding<br>as at<br>June 30, 2017<br>\$ |
|---|---------------------------------------|---|
| <b>Exploration and evaluation</b>   |                                       |   |
| MRB & Associates, a company, in which, John Langton, a director of the Company, has an ownership interest                   |                                       | 37,527                                      |
| <b>Consulting fees</b>  |                                       |   |
| Gambier Holdings Corp., a company controlled by Thomas G. Larsen, for his services as Chief Executive Officer               | 60,000                                | 86,850                                      |
| John Langton for his services as President  | 30,000                                | 165,000                                     |
| Marlborough Management Limited, a company controlled by Miles Nagamatsu, for his services as Chief Financial Officer        | 45,000                                | 222,500                                     |
| J. Estepa Consulting Inc., a company controlled by Jorge Estepa, for his services as Vice President and Corporate Secretary | 45,000                                | 222,500                                     |

### Due to Champion

See "Overall Performance – Gagnon option agreement".

### Champion holding in common shares of the Company

Champion holds 11,519,971 common shares of the Company, representing approximately 32.4% of the outstanding common shares of the Company.

The holdings of Champion in the Company are subject to the terms of a pre-emptive rights agreement and an agreement respecting board representation rights and standstill obligations entered into on December 10, 2012.

Until December 31, 2017, Champion shall not sell common shares without the prior written consent of the Company, and thereafter, Champion shall not sell more than 2,000,000 common shares during any 30-day period.

Until December 31, 2017, provided that Champion owns at least 10% of the outstanding common shares of the Company:

- a) The Company shall take all commercially reasonable steps to have a nominee of Champion elected as a director ("Champion Nominee") the board of directors of the Company ("Board").
- b) Champion shall not vote against any shareholder resolution recommended by the Board, except in the event that the Champion Nominee dissented when the Board approved a shareholder resolution that proposes to: (i) reduce the voting or dividend rights of the common shares; (ii) issue shares which carry a number of votes proportionately greater than the capital to be represented thereby or which carry dividend rights at a rate which would substantially impair the dividends ordinarily payable on the common shares; and (iii) approve a transaction with an arm's length third party, which must be passed by at least two-thirds of the votes cast and in respect of which a shareholder has dissent rights.
- c) Champion shall not vote in favour of the election of nominees to the Board who are not proposed by the then Board.
- d) Champion shall not (i) participate in a take-over bid for any securities of the Company; (ii) solicit proxies from any shareholder or attempt to influence the voting by any shareholders other than in support of initiatives recommended by the Board or (iii) seek to influence or control the management, Board or the policies or affairs of Company; or (iv) make any public or private announcement or disclosure with respect to the foregoing.

A director of the Company is a director of Champion Iron Limited, the parent company of Champion.

#### **New standards and interpretations not yet adopted**

The following amendment to standards will be effective for periods beginning on or after January 1, 2018:

##### *IFRS 9, Financial Instruments ("IFRS 9")*

This standard will replace *IAS 39, Financial Instruments: Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held for trading are measured at FVTPL and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The Company has not determined the extent of the impact of IFRS 9 on its financial statements.

The following new standard will be effective for periods beginning on or after January 1, 2019:

##### *IFRS 16, Leases ("IFRS 16")*

This standard will replace *IAS 17, Leases*. IFRS 16 provides an updated definition of a lease contract, including guidance on the combination and separation of contracts. The standard requires lessees to recognize a right-of-use asset and a lease liability for substantially all lease contracts. The accounting for lessors is substantially unchanged from IAS 17. The Company has not determined the extent of the impact of IFRS 16 on its financial statements.

#### **Financial Instruments and Other Instruments**

A number 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.

##### *Cash, accounts payable and accrued liabilities and due to Champion*

The fair values of cash, accounts payable and accrued liabilities and due to Champion at June 30, 2017 approximated their respective carrying value due to their short term to maturity.

##### *Marketable securities*

The fair value of marketable securities is estimated based on observable inputs.

##### *Classification of fair value of financial instruments*

The Company classified the fair value of its financial instruments measured at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument:



- Level 1: quoted prices in active markets for identical assets and liabilities;
- Level 2: inputs, other than the quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly;
- Level 3: inputs for the asset or liability that are not based on observable market data

Cash and marketable securities are classified as Level 1 financial assets.

### ***Financial risk management***

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration and financing activities, including credit risk, liquidity risk and market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors oversees management's establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

### ***Credit risk***

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Company's cash and due from Eoro. The Company's limits its exposure to credit risk on its cash by holding deposits with high credit quality Canadian chartered bank.

### ***Liquidity risk***

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial liabilities that are settled in cash or other financial assets. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities as they come due, other than amounts owing to related parties. Accounts payable and accrued liabilities are subject to normal trade terms and the amount due to Champion is due on December 31, 2017.

### ***Market risk***

Market risk is the risk that changes in market prices, such as equity prices, foreign exchange rates, and interest rates will affect the Company's income or the value of its financial instruments.

### ***Equity price risk***

Equity price risk arises from the Company's marketable securities. The Company's approach to managing equity price risk is to optimize the return from its marketable securities within acceptable parameters for equity price risk. The Company estimates that if the fair value of its marketable securities as at June 30, 2017 had changed by 25%, with all other variables held constant, the income would have increased or decreased by \$1,225.

### ***Currency risk***

Currency risk arises from the Company's financial instruments and purchases that are denominated in a currency other than the Canadian dollar, the Company's functional currency. As all of the Company's purchases are in Canadian dollars, the Company limits its exposure to currency risk by maintaining its cash in Canadian dollars.

### ***Interest rate risk***

The Company's exposure to interest rate risk is limited due to the short-term nature of its financial instruments.

### ***Capital management***

Capital of the Company consists of share capital, contributed surplus and deficit. The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern so that it can acquire, explore and develop mineral resource properties for the benefit of its shareholders. The Company manages its capital structure and makes adjustments based on the funds available to the Company in light of changes in economic conditions. The Board of Directors has not established quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain the future development of the Company. In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that consider various factors, including successful capital deployment and general industry conditions. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

As the Company is an exploration stage company and has no revenues, its principal source of capital is from the issue of common shares or advances from related parties. In order to achieve its objectives, the Company intends to raise additional funds as required.

The Company is not subject to externally imposed capital requirements and there were no changes to the Company's approach to capital management during the year.

#### Material assumptions and risk factors for forward-looking statements

The following table outlines certain forward-looking statements contained in this MD&A and provides material assumptions used to develop such forward-looking statements and material risk factors that could cause actual results to differ materially from the forward-looking statements.

| Page | Forward-looking statement   | Assumption  | Risk factor  |
|------|---|---|--|
| 6    | Liquidity and Capital Resources<br>"Management is of the opinion that sufficient working capital will be obtained from advances from related parties and equity financings to meet the Company's liabilities and commitments as they become due." | Advances from related parties and equity financings will be obtained. | The Company is unable to obtain future financing to meet its liabilities and commitments as they become due. |

#### Other Information

##### Additional disclosure for venture companies without significant revenue

The following table sets forth a breakdown of material components of the general and administration costs, capitalized or expensed exploration and development costs of the Company for the periods indicated.

##### General and administrative expenses

|                      | 6 months ended June 30, |         |
|----------------------|-------------------------|---------|
|                      | 2017                    | 2016    |
|                      | \$                      | \$      |
| Office               | 40,236                  | 125,564 |
| Public company costs | 9,179                   | 14,993  |
|                      | 49,415                  | 140,557 |

##### Exploration and evaluation

|          | December 31,<br>2016 | Exploration<br>expenditures | Writedowns | June 30,<br>2017 |
|----------|----------------------|-----------------------------|------------|------------------|
|          | \$                   | \$                          | \$         | \$               |
| Property |                      |                             |            |                  |
| Gagnon   | —                    | 21,300                      | (21,300)   | —                |

##### Shares outstanding as at August 25, 2017

###### Authorized:

Unlimited number of common shares.

###### Outstanding:

35,572,721 common shares.

##### Stock options

###### Authorized:

3,557,272 stock options, representing 10% of the issued and outstanding common shares.

*Outstanding:*

| <b>Exercise price</b> | <b>Expiry date</b> | <b>Number of<br/>stock options<br/>issued and<br/>exercisable</b> |
|-----------------------|--------------------|---|
| \$0.10                | July 9, 2020       | 3,025,000   |

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***Warrants***

*Outstanding:*

There are no warrants outstanding.