

## **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 year ended December 31, 2016 and should be read in conjunction with the unaudited condensed interim financial statements and the accompanying notes. The MD&A is the responsibility of management and is dated as of April 28, 2017.

All dollar amounts 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).

#### **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.

#### **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**

On July 19, 2016, the Company received \$251,079 in respect of its claim for a refundable tax credit on eligible exploration expenditures incurred in Québec for the year ended December 31, 2015.

##### **Investment in Eloro**

As at September 30, 2016, 2016, the Company held 5,010,000 common shares of Eloro Resources Ltd. ("Eloro"), representing 22.0% of the outstanding Eloro common shares issued and outstanding on September 30, 2016.

In connection with a partial payment of the Term Loan (see *Due to Champion Iron Mines Limited* section below), on November 15, 2016, the Company delivered 2,000,000 common shares of Eloro to Champion Iron Mines Limited ("Champion") at a deemed value of \$0.50 per common share, representing the satisfaction of \$1,000,000 towards the Term Loan balance.

As at December 31, 2016, the Company held 3,043,500 Eloro common shares representing 10.2% of the outstanding Eloro common shares. The fair value of the Eloro common shares held by the Company was \$1,247,835. As at April 28, 2017, the Company's holdings in Eloro remain unchanged and represent 9.8% of the outstanding Eloro common shares, and their fair value was \$2,434,800.

##### **Due to Champion Iron Mines Limited**

At March 31, 2016, the amount of \$1,325,529 (principal amount of \$1,284,716 plus accrued interest) due to Champion was a demand loan, which was unsecured, bore interest at the rate of LIBOR plus 2% and was due 6 months after Champion demands repayment (the "Demand Loan"). Champion had the right to convert the Demand Loan plus accrued but unpaid interest into common shares of the Company at a conversion price equal to the lowest subscription price per common share paid for the most recent capital raising undertaken by the Company at the time of the conversion, subject to the minimum pricing rules and stock exchange approval.

On May 17, 2016, the Company converted the Demand Loan to a term loan, which is unsecured, bears interest at the rate of LIBOR plus 2% and was due on September 30, 2017 ("Term Loan"). On November 15, 2016, the Company and Champion extended the Term Loan due date to December 31, 2017. Champion has the right to convert the Term Loan, plus accrued but unpaid interest, into Cartier common shares at a conversion price equal to the lowest subscription price per Cartier common share paid for the most recent capital raising undertaken by Cartier at the time of the conversion, subject to the minimum pricing rules and stock exchange approval.

At December 31, 2016, the amount of the Term Loan due to Champion was 346,268.

#### **Private placement**

On December 22, 2016, the Company completed a private placement of 1,728,571 common shares at a price of \$0.07 per share for gross proceeds of \$121,000. Of the private placement, a company controlled by a director acquired 150,000 shares.

#### **Gagnon option agreement**

In order to reduce land maintenance expenditure commitments, the Company and Champion agreed to an approximate 40% reduction in the acreage of the original Gagnon and consequently, on May 17, 2016, the Company and Champion amended the Gagnon option agreement. The Company now has an option to acquire a 55% interest (reduced from a 65% interest) in 365 claims of 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 ( <i>formerly Aubrey-Ernie, Penguin Lake &amp; Black Dan</i> )	318	168.27
Silicate-Brutus	19	10.09
Jeannine Lake	21	11.17
<b>Totals</b>	<b>358</b>	<b>189.54</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 payments \$	Common shares Number	Fair value \$	Exploration expenditures \$
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 (Note 1)	500,000	12,500	—
December 10, 2016 (incurred)		—	—	1,800,000 (note 3)
December 31, 2017	450,000 (Note 2)	—	—	—
	1,000,000	2,500,000	422,500	3,050,000 (note 4)

Note 1: reduced from \$250,000 to \$50,000.

Note 2: increased from \$250,000 to \$450,000 and due date amended to December 31, 2017 from December 10, 2016.

Note 3: reduced from \$4,750,000 to \$1,800,000.

Note 4: reduced from \$6,000,000 to \$3,050,000.

- b) repay the Term Loan due 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.

On November 15, 2016, the Company and Champion amended the option agreement for Gagnon to extend the due date for the option payment of \$450,000 from December 10, 2016 to December 31, 2017.

As December 31, 2015 and December 31, 2016, 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 \$3,662,756 for the year ended December 31, 2015 and \$80,578 for the year ended December 31, 2016.

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

\$	
Balance, December 31, 2015	3,662,756
Exploration expenditures	80,578
Refundable tax credit	(251,079)
Balance, December 31, 2016	<u>3,492,255</u>

### **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.

In late January, 2013, the Company commenced with an exploration drilling program at the Penguin Lake Project, part of the newly amalgamated property designated the Round Lake Property. Ten NQ-diameter drill-holes, totalling 3,315 m were completed at the Penguin Lake Project. The drill holes were designed to intersect magnetite/ hematite-rich iron formation, coincident with a strong magnetic-response anomaly<sup>1</sup>, in the area of the catalogued "Lac Pingouin Zone 1" Occurrence<sup>2</sup> (<http://sigeom.mrnf.gouv.qc.ca/> Cogite # 23C/01-0004), which has an historic mineral resource of 46.7 Million tonnes grading 30% FeT (Total Iron)<sup>3</sup>, estimated from the results of nine historic diamond-drill holes.

The Phase 1 drilling campaign intersected a total of 1600 metres of iron formation with an average grade of 29.5% FeT. Selected "best" intervals include: 242 m grading 25.2% FeT from hole PL13-04; 129 m grading 34.4% FeT in hole PL13-05; 112 m of 29.4% FeT encountered in hole PL13-07, and; 300 m grading 33% FeT in hole PL13-10. A comprehensive list of composite assay results from the drill programme can be found in the Company's press release dated April 25, 2013, which is available under the Company's filings on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.cartieriron.com](http://www.cartieriron.com).

The Phase 1 drilling campaign results and previous magnetic survey data has provided the Company's technical team with a better understanding of the sub-surface geology and has led them to postulate a bowl-shaped geometry to the iron formation. The Phase 1 drilling mainly intersected the south-east part of the "bowl", indicating there may be significant upside resource potential to the west, where the iron formation is interpreted to re-surface.

<sup>1</sup> 2008 GPR Geophysics Report & Survey Data: 2008 Airborne Survey, Fermont Properties, for Champion Iron Mines Limited (GM63919); 2011 Fugro Airborne Survey, for Champion Iron Mines Limited (GM65900).

<sup>2</sup> The on-line documented information on the Lac Pingouin Occurrence describes the rocks hosting the mineralization and the historic resource and can be viewed on-line at <http://sigeom.mrnf.gouv.qc.ca/> (COGITE #23C/01-0004).

<sup>3</sup> Historical Mineral Resource for the Lac Pingouin occurrence is from MRNFQ Assessment Files GM12096 and GM13035. All historical Mineral Resource estimates are non-compliant to NI 43-101 Mineral Resources and Mineral Reserves standards and should therefore not be relied upon. A Qualified Person has not done sufficient work to upgrade or classify these Historical Mineral Resources as current NI 43-101 Mineral Resources.

The Company further reported that it had completed a summer field exploration campaign on the Gagnon Holdings and that it had commissioned MRB & Associates ("MRB") of Val d'Or, Quebec to complete a National Instrument 43-101 compliant Mineral Resource Estimate ("MRE") for the Penguin Lake Project.

On December 19, 2013, the Company reported the completion of a current MRE for the Penguin Lake Project, authored by Abder Ladidi, P. Geo., an independent Qualified Person of MRB. 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 are 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	Tonnes (millions)	Global Inferred Resources*			Below Cut-off			
		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	Tonnes (millions)	In-Pit Inferred Resources*			Below Cut-off			
		Grade			Tonnes (millions)	Grade		
		FeT%	CaO%	MgO%		FeT%	CaO%	MgO%
15%	531.2	33.1	3.1	2.8	0.0	0.0	0.0	0.0
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>4</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

<sup>4</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.

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.

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.

Work completed during the summer and autumn at the Round Lake property included a helicopter supported prospecting program together with the resampling of core providing the Company with enough work credits to maintain the Round Lake claims in good standing.

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 2015 and 2016, the Company will continue its metallurgical testwork studies and focus on 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.

Hole PL15-11 was designed as a proof-of-concept hole, testing the western part of the Lac Penguin 3D deposit model and it successfully intersected 116.8 m grading 31.7% FeT, corroborating the interpreted deposit model and grade. Additional drilling will be needed to define a NI 43-101 Resource Estimate for the entire conceptualized Lac Penguin deposit, but results from hole PL15-11 demonstrate that the deposit model, which projects a 700 to 900 MT exploration target of similar grade, is valid.

Hole BD15-01 was drilled at the southern end of the iron formation, near the southern end of Lac Black Dan, and intersected 165.2 m grading 27.9% FeT. Hole HL15-01 was designed to test the S-fold interpretation and confirm the projected sub-surface continuation of the iron formation immediately west of Hearts Lake. The hole intersected the southern 2 limbs of the interpreted S-fold returning 50.8 m grading 31.2% FeT from the "upper" limb and 42.2 m grading 30.8% FeT from the "lower" limb. Because of the apparent thickness and folded repetition of iron formation at Hearts Lake, this occurrence represents an exploration-target of interest for Cartier Iron going forward. Hole TM15-01, drilled at the Thémines #2 occurrence, encountered iron formation at 71.4 metres and was halted in oxide iron formation at 106 m after intersecting 25.6 m grading 26.7% FeT and having fulfilled its objective. Thémines #2 area is not currently considered by Cartier Iron as an area of exploration interest.

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***

With the election of the Quebec Liberal Party to a majority government on April 7, 2014, the Quebec Government affirmed their commitment on July 21, 2014 wherein the Secretariat au Plan Nord announced that they would make a financial contribution for the realization of the feasibility study regarding the new rail link of up to \$20 million. The Company notes and welcomes that the Quebec Government has pledged to advance the Plan Nord development plan to support the undertaking of large-scale infrastructure programs designed to fuel economic growth from the resources sector in Quebec's north, including its portion of the Labrador Trough.

The Quebec Government passed a decree on October 1, 2014, to invest up to \$20 million for the rail feasibility study which, in Phase 1, will cover a rail spur 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.

As announced by Champion Iron Limited, during the quarter ended September 30, 2014, Champion formed a limited liability partnership with the Quebec Government and co-miner Lac Otelnuk 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. Subsequently, it was announced that CANARAIL Consultants Inc. ("CANARAIL") has been retained to carry out the first phase of the feasibility study – a proposed new 310 km long railway from Sept-Îles to the southern Labrador Trough. CANARAIL is a Quebec-based rail consulting and engineering firm known for its expertise in feasibility studies, consulting, detailed design, and the supervision of construction of major projects. The study was expanded to include the inclusion of an additional segment extending the proposed rail from Champion's 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 feasibility study is scheduled to be delivered before year-end.

The Company views these recent 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.

### **Risks and Uncertainties**

The Company is in the exploration stage and has no revenue. As at December 31, 2016, the Company had a working capital deficit of \$876,983 (2015 - \$1,453,573) and for the year ended December 31, 2016, the Company recorded income of \$804,285 (2015 - loss of \$4,834,094). The working capital deficit and accumulated losses limit the Company's ability to fund its operations and the acquisition, exploration and development of its iron ore properties. As a result, there is significant doubt about the Company's ability to continue as a going concern.

The continued operations of the Company is dependent upon the support of its creditors and the Company's ability to secure 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 equity financing, however, there can be no assurance that additional equity financing will be available.

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.

## Results of Operations

	3 months ended December 31,		Years ended December 31,	
	2016	2015	2016	2015
	\$	\$	\$	\$
<b>Expenses</b>				
Professional fees	20,502	6,750	50,956	27,781
Consulting fees	95,000	90,000	373,386	360,000
Stock-based compensation	—	—	—	213,000
General and administrative	36,092	79,657	221,145	232,102
Investor relations	10,000	21,037	64,311	129,832
Travel	—	18,779	21,036	57,089
Interest	4,838	6,545	28,684	26,306
Part XII.6 tax	—	170	—	4,031
Gain on sale of marketable securities, net of losses	(810,952)	—	(810,952)	—
Gain on statute-barred accounts payable	—	—	(48,044)	—
Gain on settlement of due to Champion	(80,000)	—	(80,000)	—
Increase in fair value of marketable securities	740	198,076	(1,500)	(49,545)
Refundable tax credit	—	—	(251,079)	—
Impairment of exploration and evaluation	21,481	3,663,190	80,578	3,976,648
	(702,299)	4,084,203	(351,481)	4,977,243
Income (loss) before share of net loss of an associate	702,299	(4,084,203)	351,481	(4,977,243)
Share of net loss of an associate, net of dilution gains	349,226	14,889	452,804	(116,051)
Income (loss) before income taxes	1,051,525	(4,069,314)	804,285	(5,093,294)
Deferred income tax recovery	—	75,520	—	259,199
Income (loss) and comprehensive income (loss)	1,051,525	(3,993,794)	804,285	(4,834,094)

### Years ended December 31

The income of \$804,285 in the current year compared to the loss of \$4,834,094 in the comparative year is the result of:

- a) income recorded in the current year for 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), a gain on statute-barred accounts payable of \$48,044, a gain on the settlement of amount due to Champion of \$80,000 and a refundable tax credit of \$251,079.
- b) no stock-based compensation in the current year.
- c) a reduction in impairment of exploration and evaluation to \$80,578 compared to \$3,976,648 including the impairment of Gagnon in the comparative year.

### 3 months ended December 31

The income of \$1,051,525 in the current period compared to the compared to the loss of \$3,993,794 in the comparative period in the previous year is the result of:

- a) income recorded in the current year for 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.
- b) a reduction in impairment of exploration and evaluation to \$21,481 compared to \$3,663,190 including the impairment of Gagnon in the comparative period in the previous year.

### Summary of Quarterly Results

	Q1 2015 \$ (note 1)	Q2 2015 \$ (note 2)	Q3 2015 \$ (note 3)	Q4 2015 \$ (note 4)	Q1 2016 \$	Q2 2016 \$ (note 5)	Q3 2016 \$	Q4 2016 \$ (note 6)
Revenue	—	—	—	—	—	—	—	—
Income (loss)	—	—	—	—	—	—	—	—
- Total	(1,592)	(502,782)	(335,840)	(3,993,879)	(248,263)	171,332	(170,309)	1,051,525
- Per share	—	(0.015)	(0.010)	(0.119)	(0.007)	0.005	(0.005)	0.031

## Notes

1. Loss for Q1 2015 reflects an increase in the fair value of marketable securities of \$248,843.
2. Loss for Q2 2015 reflects impairment loss of exploration and evaluation of \$313,458 related to abandonment of Borel River.
3. Loss for Q3 2015 reflects stock-based compensation of \$213,000 related to stock options granted.
4. Loss for Q4 2015 reflects impairment loss of \$3,662,190 of the Gagnon Holdings.
5. 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.
6. 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.

## Liquidity and Capital Resources

The Company is in the exploration stage and has no revenue. As at December 31, 2016, the Company had a working capital deficit of \$876,983 (2015 - \$1,453,573) and for the year ended December 31, 2016, the Company recorded income of \$804,285 (2015 - loss of \$4,834,094). The working capital deficit and accumulated losses limit the Company's ability to fund its operations and the acquisition, exploration and development of its iron ore 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 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 equity financing, however, there can be no assurance that additional equity financing will be available.

### Gagnon option agreement

In order to complete the Gagnon option agreement, the Company was required make an option payment of \$450,000 on December 10, 2016 and repay the Term Loan by September 17, 2017. On November 15, 2016, the Company and Champion agreed to extend the due date for the option payment of \$450,000 from December 10, 2016 to December 31, 2017 and agreed to extend the due date for the repayment of the Term Loan from September 17, 2017 to December 31, 2017.

## Transactions with Related Parties

	Years ended December 31, 2016	Outstanding as at December 31, 2016
<b>Exploration and evaluation</b>		
MRB & Associates, a company, in which, John Langton, a director of the Company, has an ownership interest	21,843	37,527
<b>Consulting fees</b>		
Gambier Holdings Corp., a company controlled by Thomas G. Larsen, for his services as Chief Executive Officer	120,000	76,325
John Langton for his services as President	60,000	135,000
Marlborough Management Limited, a company controlled by Miles Nagamatsu, for his services as Chief Financial Officer	90,000	177,500
J. Estepa Consulting Inc., a company controlled by Jorge Estepa, for his services as Vice President and Corporate Secretary	90,000	177,500

### Due to Champion

See "Overall Performance – Due to Champion Iron Mines Limited".

### 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.

### **Critical Accounting Estimates**

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

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

Information about judgments, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are as follows:

#### *Going concern*

The Company applies judgment in assessing its ability to continue as a going concern for at least 12 months.

#### *Determination of significant influence over investment in associate*

The Company applied judgment in assessing the level of influence that it has over Eloro Resources Ltd. ("Eloro") and determined that it has significant influence over Eloro. The Company has a 10.2% interest (2015 - 28.2%) in the voting rights of Eloro and two directors of the Company are directors of Eloro. The Company concluded that it does not control Eloro as it does not have sufficient rights to exercise control over Eloro.

#### *Impairment of exploration and evaluation*

Expenditures on exploration and evaluation are initially capitalized with the intent to establish commercially viable reserves. The Company makes estimates and applies judgment about future events and circumstances in determining whether the carrying amount of exploration and evaluation exceeds its recoverable amount, including the ability to renegotiate option agreements.

#### *Share-based compensation*

The Company uses the Black-Scholes option pricing model in determining share-based compensation, which requires a number of assumptions to be made, including the risk-free interest rate, expected life, forfeiture rate and expected share price volatility. Consequently, the actual share-based compensation expense may vary from the amount estimated.

#### *Deferred income taxes*

Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates at the reporting date in effect for the period in which the temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized as part of the provision for income taxes in the period that includes the enactment date. The recognition of deferred income tax assets is based on the assumption that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

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

Effective January 1, 2016, the Company adopted the following amendment to standards:

### *IAS 1, Presentation of Financial Statements*

Amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. The amendments clarify that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures. The adoption of this amendment had no effect on the Company's financial statements.

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 December 31, 2016 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
- 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 Eloro. 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 December 31, 2016 had changed by 25%, with all other variables held constant, the income would have increased or decreased by \$588.

#### *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.

## 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.

	Years ended December 31,	2016	2015
	\$	\$	\$
<b>General and administrative expenses</b>			
Office	199,869	198,869	
Public company costs	21,276	33,232	
	<b>221,145</b>	<b>232,102</b>	

### **Exploration and evaluation**

	December 31, 2015	Exploration expenditures	Writedowns	December 31, 2016
	\$	\$	\$	\$
<b>Property</b>				
Gagnon	—	80,578	(80,578)	—

### **Shares Outstanding as at April 28, 2017**

#### **Shares**

*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:*

Exercise price	Expiry date	Number of stock options
\$0.10	July 9, 2020	3,025,000

#### **Warrants**

*Outstanding:*

There are no warrants outstanding.