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Champion Iron Ltd (CIA)

Initiation - Evolving with steel's transition

Recommendation

Buy (Initiation)

Price

\$5.76

Target (12 months)

\$7.15

Sector

Materials

Expected Return

Capital growth	24%
Dividend yield	4%
Total expected return	28%

Company Data & Ratios

Enterprise value	\$3,282m
Market cap	\$2,984m
Issued capital	518m
Free float	75%
Avg. daily val. (52wk)	\$12.0m
12 month price range	\$5.26-\$8.75

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	5.99	6.59	5.94
Absolute (%)	-3.8	-12.6	-3.0
Rel market (%)	-7.5	-15.5	-15.5

Absolute Price



SOURCE: IRESS

High grade iron concentrates to enable greener steel

CIA's 100%-owned Bloom Lake mine in northern Quebec Canada produces around 15Mtpa of high grade (+66% Fe) iron concentrate. This high grade concentrate reduces steel making carbon emissions by around 10% compared with typical hematite ore. From 2026, processing plant upgrades will lift around half of CIA's production to 69% Fe. At this "DR-grade" level, CIA's concentrates can supply Direct Reduction Iron – Electric Arc Furnace steel producers, reducing carbon emissions by 2-7x compared with traditional blast furnace methods. An upgrade to blend all of Bloom Lake's production to DR-grade is a potential next step.

Capturing high grade premiums; potential to partner

High grade iron concentrates trade at material premiums to the 62% Fe iron ore index. Over the last two years, CIA's gross realised price has averaged around US\$15/t higher than the 62% index. DR-grade concentrate could fetch a further premium of around US\$25/t. At present, these premiums relate to higher value-in-use. With carbon emission policies becoming more acute (e.g. the EU Carbon Border Adjustment Mechanism), these premiums will likely expand to capture emission reduction economic benefits. CIA is also progressing the Kami Project, nearby to Bloom Lake, through a feasibility study and a partnering process. The Kami prefeasibility study (January 2024) outlined potential for a further 9Mtpa of DR-grade production.

Investment view – Buy, Target Price \$7.15/sh

The shift into higher grade production will likely support average realised prices and earnings amid an iron ore price environment generally expected to weaken. However, there is the potential for a positive iron ore price response with typical seasonal activity (Q1 2025). CIA will benefit from maturing higher-grade iron concentrate markets which recognise emission reduction benefits. Government policy will be increasingly supportive of processes which assist decarbonising the hard-to-abate steel sector. CIA is a dividend payer; we expect earnings to continue to support dividends.

Earnings Forecast

Year ending 31 March	2024a	2025e	2026e	2027e
Sales (C\$m)	1,524	1,790	1,853	1,954
EBITDA (C\$m)	553	654	687	710
NPAT (reported) (C\$m)	234	283	334	371
NPAT (adjusted) (C\$m)	234	283	334	371
EPS (adjusted) (A¢ps)	51.0	59.2	69.0	76.6
EPS growth (%)	19%	16%	17%	11%
PER (x)	11.3x	9.7x	8.3x	7.5x
FCF Yield (%)	2%	-3%	11%	17%
EV/EBITDA (x)	5.3x	4.6x	4.5x	4.3x
Dividend (A¢ps)	22.5	26.0	23.6	28.9
Yield (%)	4%	5%	4%	5%
Franking (%)	-	-	-	-
ROE (%)	18%	20%	21%	20%

SOURCE: BELL POTTER SECURITIES ESTIMATES

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Initiation - Evolving with steel's transition

Investment view: Buy, Target Price \$7.15/sh

- **Expanding high grade iron concentrate production:** CIA's 100%-owned Bloom Lake mine in northern Quebec Canada produces around 15Mtpa of high grade (+66% Fe) iron concentrate. From 2026, processing plant upgrades will lift around half of CIA's production to DR-grade or 69% Fe. An upgrade to blend all of Bloom Lake's production to DR-grade is a potential next step.
- **Offsetting softening iron ore prices:** We expect CIA's lift in product grade to support average realised prices and earnings amid a consensus view of iron ore prices trending lower. Over the next two years, traditional iron ore markets must absorb new supply (i.e. Simandou, Guinea) while China's steel production is considered to have plateaued. Increased seasonal activity in China (not expected until Q1 2025) presents near-term upside risk to iron ore prices.
- **Reducing steelmaker carbon emissions:** CIA's traditional high grade concentrates reduce steel making carbon emissions by around 10% compared with typical hematite ore. At DR-grade, CIA's concentrates can supply Direct Reduction Iron – Electric Arc Furnace steel producers, reducing steel making carbon emissions by 2-7x compared with traditional blast furnace methods.
- **Value-in-use premiums (emissions reduction premiums?):** High grade iron concentrates trade at material premiums to the 62% Fe iron ore index. Over the last two years, CIA's gross realised price has averaged around US\$15/t higher than the 62% index. We estimate that DR-grade concentrate could fetch a further premium of around US\$25/t. At present, these premiums are associated with a higher value-in-use relating to a higher iron content and lower impurities. With carbon emission policies becoming more acute, the premiums will likely expand to capture emission reduction economic benefits.
- **Expansion potential beyond Bloom Lake:** CIA is also progressing the Kami Project through feasibility. This project is located nearby to Bloom Lake and a recent prefeasibility study (January 2024) outlined potential for an additional 9Mtpa of DR-grade production. It is likely that CIA will seek a partner to further progress this asset.
- **Strong balance sheet; dividend support:** At 30 June 2024, CIA held C\$260m cash and debt of \$531m resulting in a net debt position of C\$272m; net debt to net debt plus equity gearing was 16%. CIA has a US\$400m undrawn revolving credit facility. CIA has traditionally paid semi-annual dividends; the FY24 dividends implied a payout ratio of around 44%. Our earnings outlook supports a steady dividend payout level.

Focus on ESG at home & in end markets

- CIA has strong community engagement in support of its Bloom Lake operations located near the border of Quebec and Labrador, Canada.
- Bloom Lake's emissions intensity per unit of iron ore produced is one of the lowest compared with global peers, owing to renewable hydropower supplying more than 50% of energy consumed on site.
- CIA has committed to greenhouse gas emission reductions at site of 40% by 2030 and carbon neutral by 2050.
- CIA's high grade iron concentrates have the potential to feed very low carbon intensity steel production through the DRI-EAF manufacturing route.

Structural shifts to CIA's advantage

There is potential for the structural shifts in steel input markets associated with driving down the carbon emissions of hard-to-abate steel production. These shifts will likely expand the premiums for high grade and low impurity iron inputs.

- **Decarbonising steel production:** The use of high-grade iron concentrate, in particular the application of DR-grade concentrates to produce DR pellets for the DRI-EAF mode of steel production, has the potential to dramatically reduce the carbon emissions associated with steel production. Steel is categorised as a hard-to-abate industry with respect to carbon emissions. There is potential for inputs to green steel production to attract a premium to traditional input products.
- **Carbon policy:** Trade policies, including the EU's Carbon Border Adjustment Mechanism, may be a catalyst for green steel and green steel input premiums. Such carbon-related policies attach defined economic penalties on non-compliant products and therefore economic incentives for the adoption of lower carbon emitting technologies.
- **Substitute for scrap steel:** CIA's proposed DR-grade concentrate has greater flexibility than traditional iron ore products. It is a precursor to DR pellets and DRI, which can be a substitute for scrap steel in EAF steel production.
- **Solving scrap quality issues:** Increased reliance on scrap steel for steel production via the EAF route brings steel quality issues associated with contaminant metals (copper, manganese, titanium, vanadium etc.). Ore-based metallic inputs (like DRI) have very low impurities enabling steel producers to blend-out contaminant metals.

There is also the potential for broader critical minerals policy support. In June 2024, the Government of Canada added high-purity iron ore to Canada's Critical Minerals List. The governments of Québec, and Newfoundland and Labrador had previously announced critical mineral status for these products. This status typically supports projects through permitting and financing.

Comp with Fortescue: Cheaper, with earnings support

The following data are consensus estimates sourced from Visible Alpha. The transition of CIA's product to higher grade concentrates offsets a decline in traditional iron ore markets. Over the forecast period, CIA's earnings remain relatively stable compared with FMG's earnings. Despite this earnings stability, CIA trades on materially weaker earnings multiples.

Table 1 - Comp with FMG

	Price A\$/sh	EPS			PER		
		FY25 US\$/sh	FY26 US\$/sh	FY27 US\$/sh	FY25 x	FY26 x	FY27 x
Champion Iron (CIA)	5.59	0.47	0.46	0.46	8.4	8.0	8.1
Fortescue (FMG)	16.66	1.31	1.03	0.87	8.0	10.9	13.7
	EV US\$m	EBITDA			EV/EBITDA		
		FY25 US\$m	FY26 US\$m	FY27 US\$m	FY25 x	FY26 x	FY27 x
Champion Iron (CIA)	2,080	528	527	560	3.9	3.9	3.7
Fortescue (FMG)	33,953	8,140	7,066	6,395	4.2	4.8	5.3

SOURCE: VISIBLE ALPHA

Common questions, answered

QUESTION: WHAT ARE CIA’S UNIT COSTS & HOW DO THEY COMPARE?

ANSWER: LTM C1 ~C\$75/T (~US\$56/T); AISC ~C\$82/T (~US\$61/T)

Over the last four quarterly reporting periods, CIA reported:

- C1 cash costs have averaged ~C\$75/t (~US\$56/t); and
- All-in sustaining costs have averaged ~C\$82/t (~US\$61/t).

Compared with peer iron ore producers (BHP WAIO, FMG and RIO Pilbara):

- CIA FOB unit costs have averaged US\$25-40/t higher than peers; and
- CIA’s EBITDA level unit costs have averaged US\$45-60/t higher than peers.

Reasons for higher unit costs include:

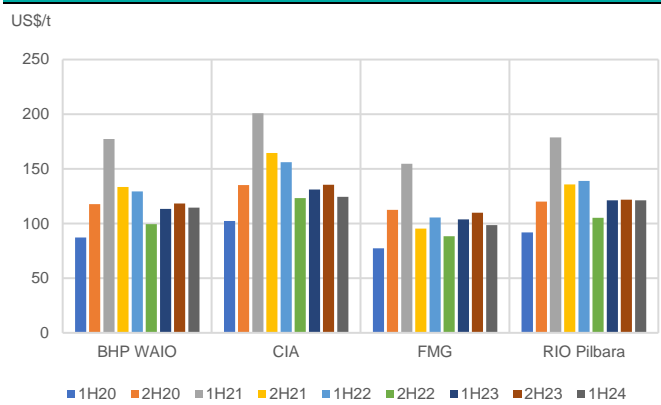
- **Scale:** CIA shipped around 12Mt over the last twelve months compared with the next largest producer (FMG) at +190Mt.
- **Processing:** CIA’s operations include a higher degree of processing to upgrade a head grade of around 29% Fe to a high grade iron concentrate at 66% Fe.
- **Transport constraints:** Recent rail constraints have resulted in the build of finished concentrate inventory and additional costs in material handling.
- **Ocean freight:** CIA’s shipping costs (mostly to China) have averaged around US\$30/t compared with Pilbara iron ore producers at around US\$10/t.

Some of this cost differential is offset by higher unit revenues for high grade iron concentrate compared with traditional Pilbara hematite iron ore production. Over the last twelve months, CIA unit revenue (CFR basis) has averaged US\$10-30/t higher than peers, given its higher Fe content.

The net result is CIA’s unit EBITDA has averaged US\$23-40/t lower than peers.

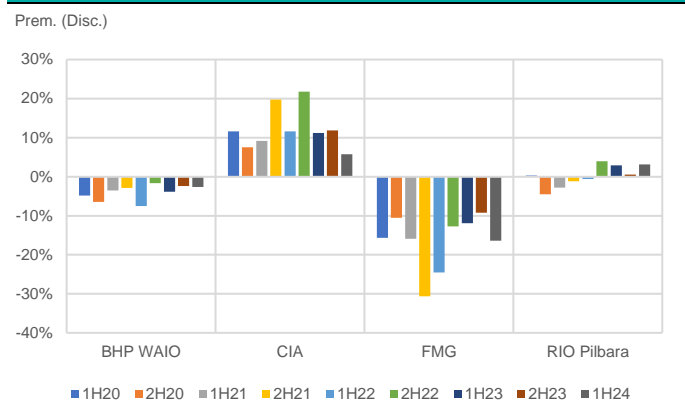
Note: These estimates are based on peer company reported segment financials and production. We have adjusted these reported results to provide a normalised comparison.

Figure 1 - Unit revenue US\$/t CFR



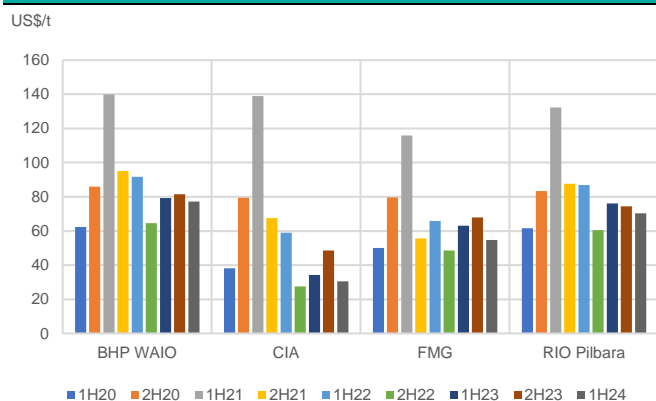
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 2 - Unit revenue premium to 62% Fe CFR China index



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 3 - Unit EBITDA US\$/t



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

QUESTION: WHAT IS CIA'S BREAKEVEN COST? DOES IT WORK AT US\$80/T?**ANSWER: EBITDA-LEVEL US\$70/T 62% FE INDEX; NPAT-LEVEL US\$83/T**

On our modelling, we estimate CIA's:

- EBITDA-level breakeven price (62% Fe CFR China Index) is currently around US\$70/t (equating to a gross realised price of around US\$86/t for 66% Fe iron concentrate, CFR China).
- NPAT-level breakeven price (62% Fe CFR China Index) is currently around US\$83/t (equating to a gross realised price of around US\$96/t for 66% Fe iron concentrate, CFR China).

That is, at BHP's suggested lower-bound for the near-term cost curve support of US\$80/t for the 62% Fe CFR China Index, CIA is EBITDA positive.

Timeline & value catalysts

- **DRPF Project updates:** CIA committed to the development of the DRPF project in January 2024. Commissioning of this project is expected in 2H 2025. The capital cost estimate is C\$471m and the project involves integrating additional grinding and flotation capacity with the Bloom Lake Phase II concentrator.
- **Improved rail performance, working capital unwind & cost benefits:** With the ramp-up of Bloom Lake Phase II, production has outperformed railing capacity and therefore concentrate shipments. At 30 June 2024, CIA had accumulated iron concentrate product stockpiles of 3.0Mt, perhaps worth up to C\$300m on a net revenue basis. Railing capacity is expected to catch up and ultimately exceed production capacity over the next twelve months, enabling the unwind of this working capital. We also expect unit costs to fall with less material handling associated with the stockpiles.
- **Kami Project updates & partnering:** In January 2024, CIA announced the results of a prefeasibility study for the Kami Project. Kami is a potential greenfield development; the study outlined 9Mtpa production of DR quality concentrate (+67.5% Fe, low silica), a capital cost of US\$3.0b and a NPV8 of US\$416m. Along with ongoing project optimisation work, we expect CIA will introduce a downstream partner to share the risk of this project.
- **Policy support:** CIA's products can contribute to reducing carbon emissions associated with steel production. High grade iron concentrates have been added to federal and provincial government critical minerals lists. These factors support further policy support with respect to permitting, infrastructure access and financing.

Funding available & capital requirements

We expect that CIA has sufficient cash generation and available funding facilities to pursue its current capital plans.

Table 2 - Debt facilities & available liquidity				
Debt facilities at 30 June 2024	C\$m	US\$m	Interest rate	Maturity
Term loan	312	230	SOFR + 2.25% to 3.25%	29-Nov-28
CAT FS	101	74	3.70%	Jul-24 to Oct-29
FTQ	74	54	7.75%	21-May-28
Investissement Quebec	45	33	SOFR + 2.35% to 3.25%	1-Apr-32
Total debt	531	392		
Cash	260	192		
Net debt	272	200		
Available funds	C\$m	US\$m		
Undrawn revolving facility	543	400		Nov-27

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Cash generation: We estimate FY25 operating cash flows of around C\$493m.

CAPITAL REQUIREMENTS: DRPF PROJECT, SUSTAINING CAPEX, DIVIDENDS

We expect the following material capital outlays:

- **DRPF Project in development:** Feasibility study apital cost of C\$471m (US\$351m) of which around C\$154m has been spent to date, leaving approximately C\$317m in capital costs to be incurred between now and commissioning in 2H 2025.
- **Sustaining capital costs:** Average of around C\$35m per quarter over the last twelve months, mostly relating to tailings storage facility lifts and equipment replacement.
- **Dividends:** Dividend payments have averaged C\$52m per half year over the last two years.

Valuation & assumptions

Risked, sum of the parts valuation

Table 3 - CIA valuation						
NPV (Discount rate 8% real)	Current		+12 mths		+24 mths	
	C\$m	C\$/sh	C\$m	C\$/sh	C\$m	C\$/sh
Project (equity) (risk discount)						
Bloom Lake - 100% (risk disc. 0%)	2,447	4.72	2,142	4.13	1,864	3.60
Bloom Lake DRPF1 - 100% (risk disc. 20%)	448	0.86	711	1.37	655	1.26
Bloom Lake DRPF2 - 100% (risk disc. 35%)	312	0.60	495	0.96	456	0.88
Kami - 100% (risk disc. 50%)	271	0.34	271	0.35	271	0.31
Other	174	0.34	181	0.35	162	0.31
Corporate overheads	(125)	(0.24)	(135)	(0.26)	(146)	(0.28)
Enterprise value	3,526	6.81	3,665	7.07	3,262	6.30
Net debt / (cash)	272	0.52	300	0.58	(19)	(0.04)
Equity value	3,255	6.28	3,365	6.50	3,280	6.33
	A\$m	A\$/sh	A\$m	A\$/sh	A\$m	A\$/sh
Equity value - A\$m	3,566	6.90	3,687	7.15	3,594	6.95

SOURCE: BELL POTTER SECURITIES ESTIMATES

Bloom Lake & DRPF

The following table outlines key Bloom Lake and DRPF pricing and volume assumptions. We assume that the DRPF project commences production in the September 2025 quarter.

Table 4 - Bloom Lake & DRPF price & volume assumptions							
Year ending December	2022a	2023a	2024e	2025e	2026e	2027e	LTe (real)
Index price							
Iron ore price 62% Fe CFR China Index US\$/t	121	120	111	96	93	90	90
Bloom Lake realised prices							
Bloom Lake concentrate price CFR China US\$/t	137	133	126	111	109	104	104
Bloom Lake concentrate premium US\$/t	16	14	15	15	17	14	14
Bloom Lake concentrate premium %	14%	12%	13%	16%	18%	16%	16%
Bloom Lake DRPF price US\$/t				137	135	129	130
Bloom Lake DRPF premium US\$/t				26	25	25	25
Volumes							
Bloom Lake concentrate sales Mt	9.4	11.8	13.7	13.1	8.6	8.5	8.0
Bloom Lake DRPF sales Mt	0.0	0.0	0.0	2.2	7.2	7.1	7.2
Bloom Lake total sales Mt	9.4	11.8	13.7	15.3	15.8	15.6	15.3

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Other assets:

- **Kami Project:** We have not explicitly modelled the Kami Project. Our Kami valuation is based on the January 2024 prefeasibility study published NPV8, then heavily risked to take into account the project's stage of assessment.
- **Other assets:** Notional valuation to take into account other exploration ground and optionality associated with Bloom Lake. This valuation is around 5% of the sum of the Bloom Lake and Kami Project valuations.
- **Corporate overheads:** Allowances for CIA's corporate overhead costs.

Valuation sensitivities

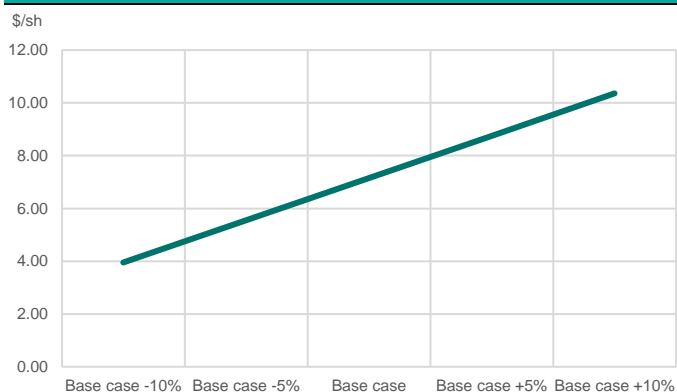
The following sensitivity analysis adjusts for commodity price and currency only. There are no follow-through adjustments to discretionary capital expenditure of capital management, which would normally occur under different pricing assumptions.

Table 5 - Earnings sensitivity

	62% Fe Index			EPS Ac (PE ratio x)			EBITDA C\$m (EV/EBITDA x)		
	FY25	FY26	FY27	FY25	FY26	FY27	FY25	FY26	FY27
Base case -10%	96	86	83	36 (16.2x)	35 (16.4x)	40 (14.4x)	478 (6.3x)	440 (6.8x)	452 (6.6x)
Base case -5%	100	91	88	47 (12.2x)	52 (11.1x)	58 (9.9x)	566 (5.3x)	563 (5.3x)	581 (5.2x)
Base case	104	96	93	59 (9.7x)	69 (8.3x)	77 (7.5x)	654 (4.6x)	687 (4.4x)	710 (4.2x)
Base case +5%	108	101	97	71 (8.1x)	86 (6.7x)	95 (6.1x)	742 (4.0x)	810 (3.7x)	840 (3.6x)
Base case +10%	111	106	102	83 (7.0x)	103 (5.6x)	113 (5.1x)	830 (3.6x)	933 (3.2x)	969 (3.1x)
Spot	99	94	94	49 (11.9x)	71 (8.1x)	92 (6.2x)	569 (5.3x)	688 (4.4x)	807 (3.7x)
Long term	95	90	90	33 (17.4x)	47 (12.3x)	65 (8.8x)	459 (6.5x)	526 (5.7x)	632 (4.7x)

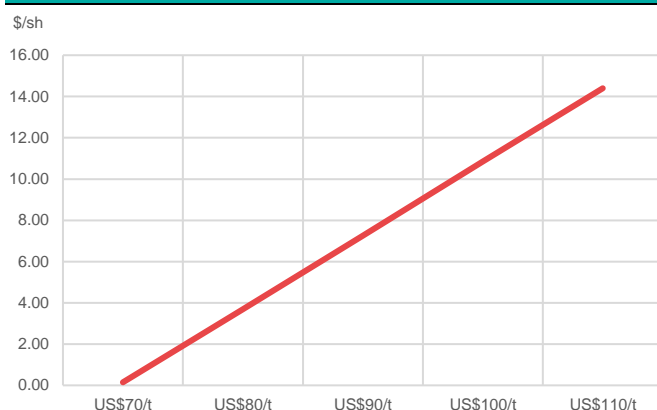
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 4 - Valuation sensitivity to iron ore price assumptions



SOURCE: BELL POTTER SECURITIES ESTIMATES

Figure 5 - Valuation sensitivity to 62% Fe iron ore price scenarios



SOURCE: BELL POTTER SECURITIES ESTIMATES

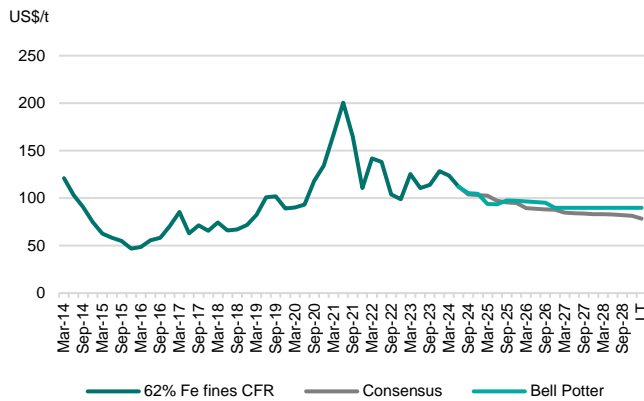
Iron ore risks & outlook

Table 6 - Bell Potter Securities iron ore price outlook (62% Fe CFR China)

	2022a	2023a	2024e	2025e	2026e	2027e	LTe (real)
62% Fe CFR China	121	120	111	98	99	96	90

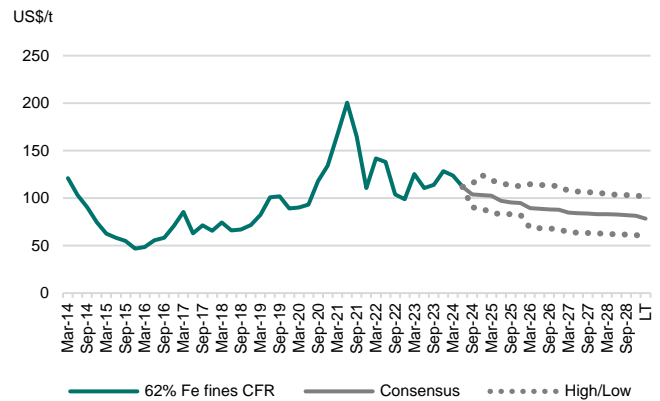
SOURCE: FASTMARKETS & BELL POTTER SECURITIES ESTIMATES

Figure 6 - Bell Potter vs Consensus outlook (real)



SOURCE: FASTMARKETS, BELL POTTER SECURITIES & CONSENSUS ECONOMICS

Figure 7 - Consensus range (real)



SOURCE: FASTMARKETS, BELL POTTER SECURITIES & CONSENSUS ECONOMICS

Short term market dynamics: Seasonal weakness

Over the next few months, we expect iron ore prices to remain relatively weak due to seasonal demand (China) and uninterrupted supply from the major seaborne producers (RIO, Vale, BHP, FMG and Roy Hill).

Key points of concern are:

- **China's steel mill profitability is weak:** While China's domestic steel prices are relatively normal, raw material costs (particularly hard coking coal) remain high on a historical view.
- **China's iron ore port inventories are seasonally high:** China's iron ore imports appear to be running ahead of underlying demand.

We would not expect a material recovery until the March 2025 quarter.

Key questions in iron ore markets

THE IRON ORE MARKET IS BEARISH, ISN'T IT?

It is hard to be bullish long term (see below). However, there is potential for short term price spikes (likely early 2025) considering recent price strength in an environment where the market appears adequately supplied (no major disruptions) and China's property sector has been a big headwind. Consensus Economics surveys show the market is expecting 62% Fe CFR China prices to average ~US\$100/t in 2025, then in the low US\$90s/t out to 2028 (LT real US\$83/t). The spot price is US\$92/t (12/09/2024).

HASN'T CHINA'S STEEL PRODUCTION PLATEAUED/PEAKED?

Yes, likely. However, China's demand is likely to become more diversified, and therefore potentially less risky, over time. IISA data suggests that China's crude steel production has plateaued above 1,000Mtpa since 2020. This relatively flat production level has been despite weak property sector demand. BHP estimates that the construction industry now

accounts for 24% of China's steel demand (42% in 2010); the machinery sector 30% (20% in 2010) and infrastructure sector 17% (13% in 2010). China now exports around 100Mtpa finished steel goods.

WON'T SIMANDOU OVER-SUPPLY THE IRON ORE MARKET?

Maybe. Though it will take a while (years to ramp up) and it could also be argued to displace existing mine depletion. Simandou has the potential to add 120Mtpa, or around 8% of current supply, to the seaborne iron ore market by mid-2028. First production from RIO's Simandou project (Blocks 3 & 4) is expected in 2025, with a 2.5-year ramp-up to 60Mtpa rates. Rail and port infrastructure is being developed to ultimately support total production of 120Mtpa, which includes capacity for RIO's subsidiary and the developers of Blocks 1 & 2 (Winning Consortium Simandou). This 120Mtpa high grade (66.5% Fe) supply could support 75-80Mtpa crude steel production.

WHAT DO THE "BIG-5" HAVE PANNED IN THE WAY OF IRON ORE EXPANSIONS?

Note: We refer to the "Big-5" as the key suppliers into the seaborne iron ore trade: RIO, Vale, BHP, FMG, and Hancock Prospecting. Mineral Resources is another important source of iron ore supply.

Guidance from the listed iron ore majors suggests relatively flat near-term (2025/FY25) production levels:

- **Rio Tinto (RIO, not rated):** Guiding to 2024 Pilbara iron ore shipments of 323-338Mt (mid 331Mt), flat on 2023 levels of 332Mt.
- **Vale (BVMF:VALE3, not rated):** Guiding to 2024 iron ore shipments of 310-320Mt (mid 315Mt), up on 2023 levels of 293Mt.
- **BHP (BHP, not rated):** Guiding to FY25 Western Australia Iron Ore shipments of 282-294Mt (mid 288Mt), flat on FY24 levels of 288Mt.
- **Fortescue (FMG, Hold TP\$17.58/sh):** Guiding to FY25 iron ore shipments of 190-200Mt (mid 195Mt, includes Iron Bridge), flat on FY24 levels of 192Mt.
- **Hancock Prospecting (Roy Hill):** Producing at rates of 60Mtpa, with approval to increase to 70Mtpa.
- **Mineral Resources (MIN, Buy TP\$66.00/sh):** MIN shipped around 18Mt iron ore in FY24. With the introduction of the 35Mtpa Onslow Iron project, less the wind-down of operations in the Yilgarn (7.5Mt in FY24), production should increase to mid-40sMt over the next few years. MIN recently shelved plans to expand Onslow production to 50Mtpa.

CAN INDIA'S STEEL INDUSTRY GROWTH OFFSET IRON ORE SUPPLY GROWTH?

Not really. India is now the second largest crude steel producer globally, but at around 150Mtpa, is only 14% the size of China. Reports suggest India's steel production will grow to 200Mtpa by 2030 (CAGR 5.25%), which would require an additional 80Mt of 62% Fe iron ore. However, India also has its own domestic iron ore supply (as does China) which is expected to grow (unlike China's), and this supply is relatively high grade (also unlike China's domestic iron ore).

Key charts for seaborne iron ore markets

CHINA'S STEEL PROFITABILITY IS LOW...

China's steel manufacturing profits are low, as measured by Bloomberg's index and our calculated steel price margin above raw material input costs.

Figure 8 - Bloomberg steel mill profitability index (weekly)



SOURCE: BLOOMBERG

Figure 9 - Steel margin above raw materials US\$/t (weekly)

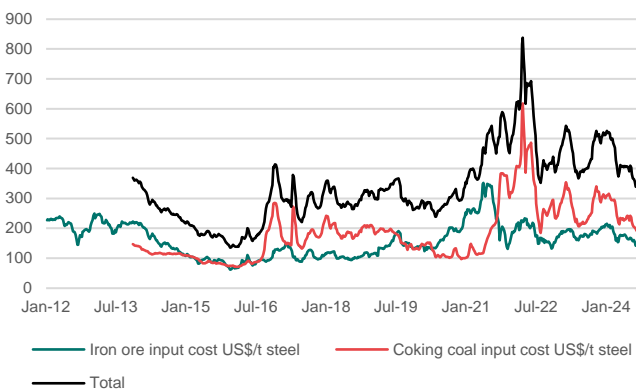


SOURCE: BLOOMBERG, FASTMARKETS, BELL POTTER SECURITIES

... BECAUSE OF HIGH RAW MATERIAL COSTS AMID “WEAK” STEEL PRICES

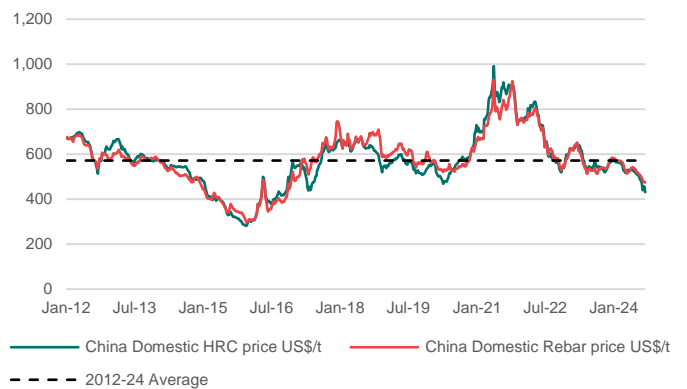
Steel raw materials prices are high in a historical context, particularly hard coking coal. China’s domestic steel prices have weakened to below average levels of the last 12 years.

Figure 10 - Steel making raw materials US\$/t CFR China (weekly)



SOURCE: FASTMARKETS, BELL POTTER SECURITIES

Figure 11 - China’s domestic steel price (weekly)

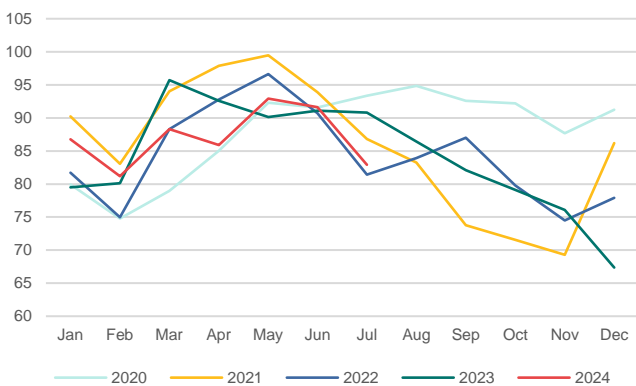


SOURCE: BLOOMBERG, BELL POTTER SECURITIES

CHINA’S CRUDE STEEL PRODUCTION IS CONSISTENT WITH RECENT YEARS

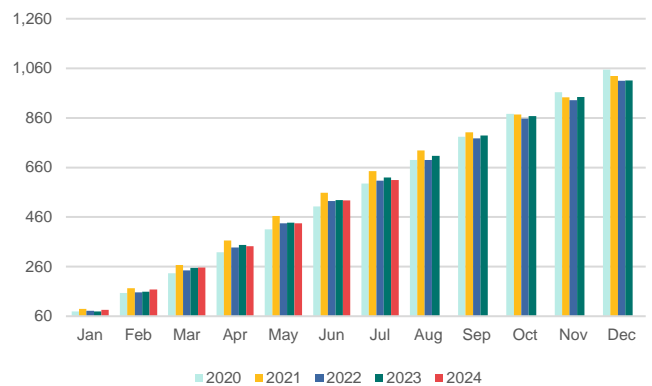
China’s crude steel production is following recent seasonal trends and is tracking at “plateau” levels.

Figure 12 - China crude steel production seasonality



SOURCE: BLOOMBERG (IISICHIN INDEX), BELL POTTER SECURITIES

Figure 13 - China’s annual cumulative crude steel production

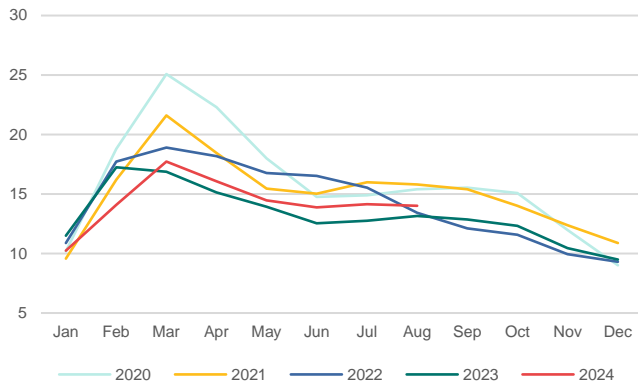


SOURCE: BLOOMBERG (IISICHIN INDEX), BELL POTTER SECURITIES

STEEL INVENTORIES & STEEL CONSUMPTION ALSO LOOK NORMAL

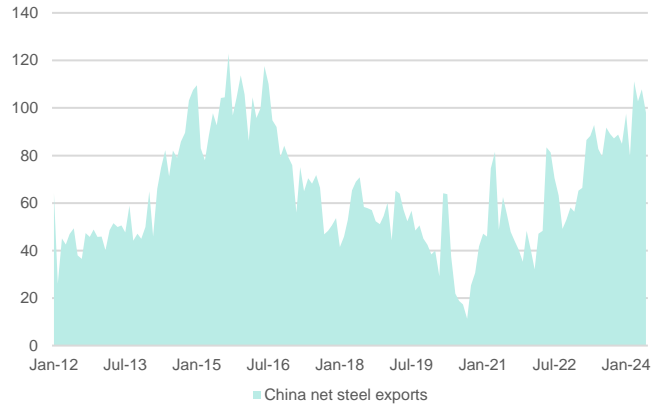
China's steel inventory levels are tracking to a typical seasonal trend. However, China has increased its steel exports.

Figure 14 - China finished steel inventories Mt



SOURCE: BLOOMBERG (.CHFLINV INDEX & .CHLONINV INDEX)

Figure 15 - China monthly steel net exports Mtpa

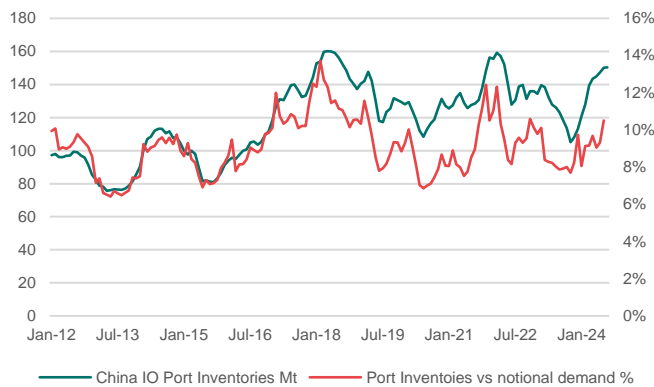


SOURCE: BLOOMBERG (IISICHIN INDEX), BELL POTTER SECURITIES

CHINA'S IRON ORE PORT INVENTORIES ARE TRACKING SEASONALLY HIGH

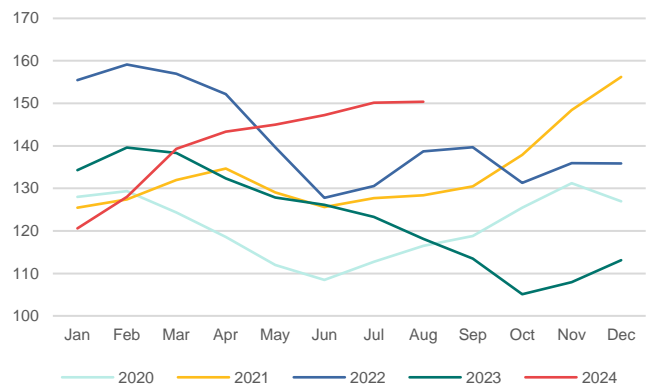
China's iron ore port inventories look ok, but from a seasonal perspective look relatively high.

Figure 16 - China iron ore port inventories Mt



SOURCE: BLOOMBERG (.CHFLINV INDEX & .CHLONINV INDEX)

Figure 17 - China iron ore port inventories by month Mt

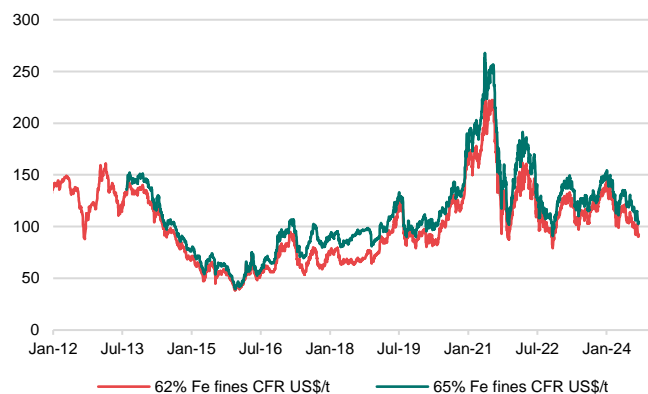


SOURCE: BLOOMBERG (SIVCTOTL INDEX)

WHAT CAUSED THE LAST MAJOR DOWN-CYCLE? AUSTRALIAN SUPPLY?

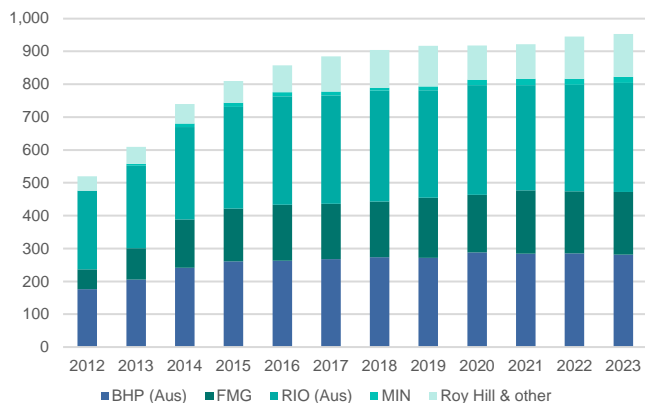
Iron ore's last major price weakness from 2013 to 2015 corresponded with a significant lift in Australian iron ore supply. Between 2012 and 2017, the Australian producers added around 400Mt iron ore to the seaborne trade. Over the same period of time, China's crude steel output only increased by around 60Mt. The Samarco dam failure in late 2015 caused a drop in Brazil's iron ore supply, with iron ore prices recovering into 2016.

Figure 18 - Iron ore US\$/t CFR China



SOURCE: FASTMARKETS (MB-IRO-0008 & MB-IRO-0009)

Figure 19 - Australian iron ore production



SOURCE: COMPANY REPORTS & BELL POTTER SECURITIES ESTIMATES

The case for high-grade iron ore products

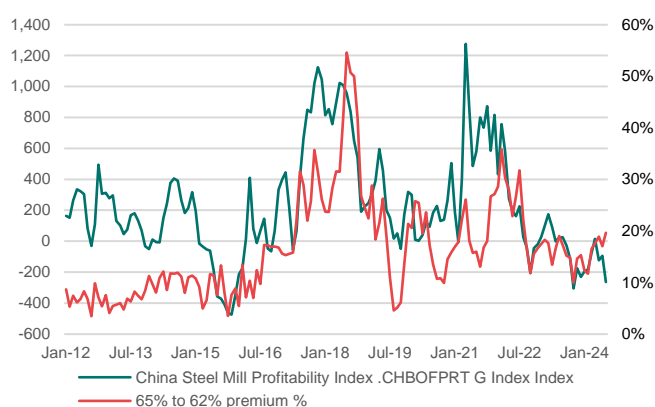
Drivers for high grade iron ore demand

VALUE-IN-USE: LIFT PRODUCTIVITY WHEN PROFITABILITY IS HIGH

Premiums for established high grade/value-in-use iron ore products have correlated strongly with steel mill profitability. The arguments being that in times of:

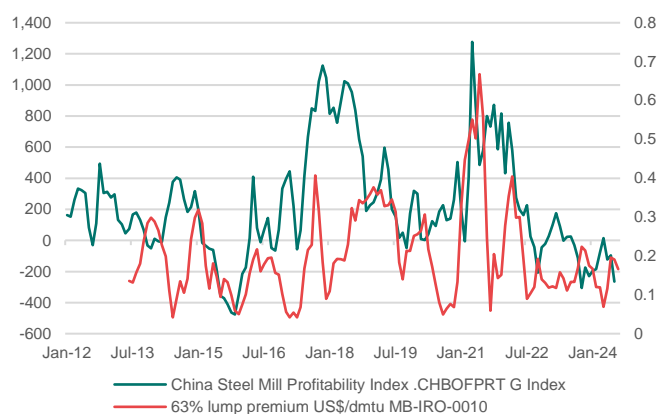
- **Strong profitability:** Steel producers look to improve productivity by introducing higher iron grade products and products which bypass the sintering process (typically a bottleneck).
- **Weak profitability:** Steel producers reduce steel production through lower grade products while keeping the blast furnace operational.

Figure 20 - Steel mill profitability vs 65%/62% IO premium



SOURCE: BLOOMBERG (.CHFLINV INDEX & .CHLONINV INDEX)

Figure 21 - Steel mill profitability vs lump IO premium



SOURCE: BLOOMBERG (SIVCTOTL INDEX)

EMERGING: TECHNOLOGY SHIFT; SCRAP SUBSTITUTE

Emerging arguments for high grade premiums, specifically related to high grade iron concentrates, relate to its ability to substitute for scrap steel in the Electric Arc Furnace mode of steel production.

- **DRI-EAF steel production:** Ultra-high grade iron ore concentrates (~69% Fe) are pelletised for use in the Direct Reduction Iron – Electric Arc Furnace (DRI-EAF) mode of steel production. The pellets are converted into metallic iron (Direct Reduction Iron or Hot Briquetted Iron) which can then be converted to steel using Electric Arc Furnace technology. This route of production has the potential to produce very low to zero carbon steel.
- **Ore-based metallics improve steel quality:** A key challenge for EAF steel production is producing low-impurity, high quality steel products from scrap steel. Traditional sources of scrap supply contain residual metals (typically copper, tin, nickel, chrome, molybdenum) which impact the final steel product's quality. Ore-based metallic products contain low levels of impurities and residual metals making them a high-value blend for EAF feedstock

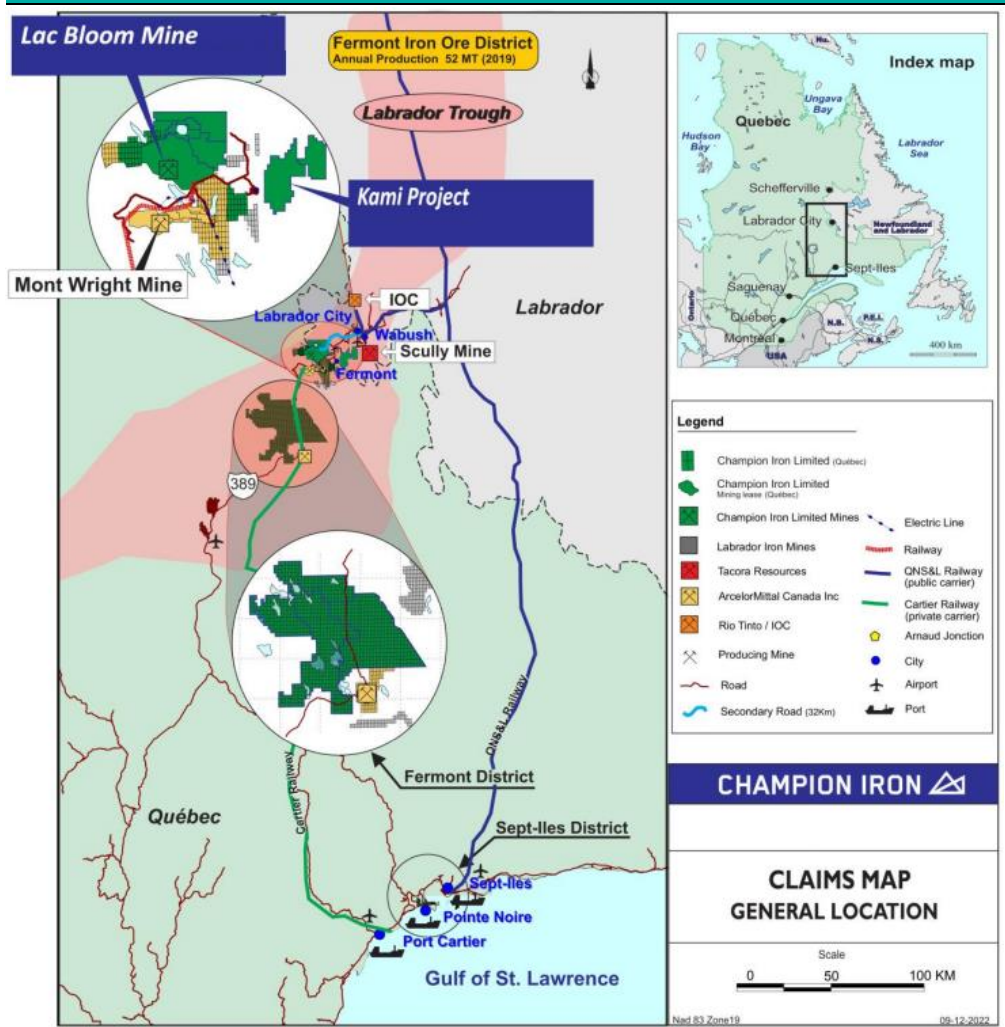
Project locations

CIA's Bloom Lake (Lac Bloom) mine and Kami Project are located in the Labrador Trough iron ore district in Quebec and Labrador, Canada. Other major operators in the area include:

- **Rio Tinto IOC (58.7% RIO):** Guiding to produce 16.2-19.6Mt (9.8-11.5Mt RIO equity share) iron ore pellets and concentrate in 2024.
- **ArcelorMittal Mining Canada:** Producing approximately 26Mtpa iron ore concentrate.
- **Tacora Resources (Scully Mine):** Nameplate capacity of 6Mtpa iron ore concentrate, though has reportedly struggled to reach these levels.

Bloom Lake, Rio Tinto IOC and the Scully mine are serviced by the Quebec North Shore and Labrador (QNS&L) railway which provides access to port capacity at Sept-Îles. QNS&L is a common carrier federally regulated railway which is a wholly owned subsidiary of the Iron Rio Tinto IOC (RIO). ArcelorMittal Mining Canada is serviced by ArcelorMittal Infrastructure Canada G.P. which provides access to port capacity at Port-Cartier.

Figure 22 - CIA project locations



Bloom Lake Mining Complex (CIA 100%)

Value catalysts & news flow

- ✓ 2016 - CIA acquire 63.2% interest in Bloom Lake for C\$10.6m along with environmental and reclamation liabilities.
- ✓ February 2017 – Bloom Lake restart Feasibility Study released based on 7.4Mtpa operation over a 21-year life-of-mine.
- ✓ February-March 2018 – Bloom Lake operations restart and first concentrates are shipped.
- ✓ March 2019 – CIA takes ownership in Bloom Lake to 100%.
- ✓ June 2019 – Bloom Lake Phase II Feasibility Study released validating expansion to 15Mtpa.
- ✓ May 2022 – First shipments from Bloom Lake Phase II.
- ✓ January 2023 – CIA announce positive results from Direct Reduction Pellet Feed Project Feasibility Study, evaluating modifications to upgrade around 50% of production to a grade of 69% Fe.
- ✓ January 2024 – Direct Reduction Pellet Feed Project FID.
- ✓ February 2024 – CIA announce a new 5-year collective bargaining agreement with unionised employees, who comprise around 63% of the Bloom Lake workforce.
- 2H 2025 - Direct Reduction Pellet Feed first production.

Project summary: 15Mtpa high grade iron concentrate

Bloom Lake is an open pit operation producing around 15Mtpa +66% iron concentrate for export markets. The project was 75% held and developed by Consolidated Thompson with first production from 2010. In early 2011, Cliffs Natural Resources Inc (NYSE: CLF) acquired Consolidated Thompson for C\$4.9b. Bloom Lake was placed under care and maintenance in early 2015. CIA acquired the project in 2016 and recommenced production from 2018. Under CIA's ownership, production has expanded from initial 7.5Mtpa rates to now 15Mtpa high grade iron concentrate.

Project location & transport infrastructure

Bloom Lake is located approximately 13km to the west of the town of Fermont, located in Quebec near its border with Labrador. Concentrate is loaded onto rail cars at site for a 400km rail haul to Pointe Noire at the Port of Sept-Iles. The Pointe Noire multi-user dock has nameplate capacity of 50Mtpa across two docks and is capable of receiving 400,000DWT Chinamax vessels.

Mineral Resource & Ore Reserve Estimate

CIA's latest Bloom Lake Mineral Resources and Reserves estimates (August 2023) support a mine life of 18 years and expansion opportunities beyond the current life-of-mine plan. The Resource pit shell is based on a long-term P65 iron ore price (65% Fe CFR China Inex) assumption of US\$110.24/t; the Reserves pit shell P65 price assumption was US\$99/t.

Table 7 - Bloom Lake Mineral Resources & Reserves

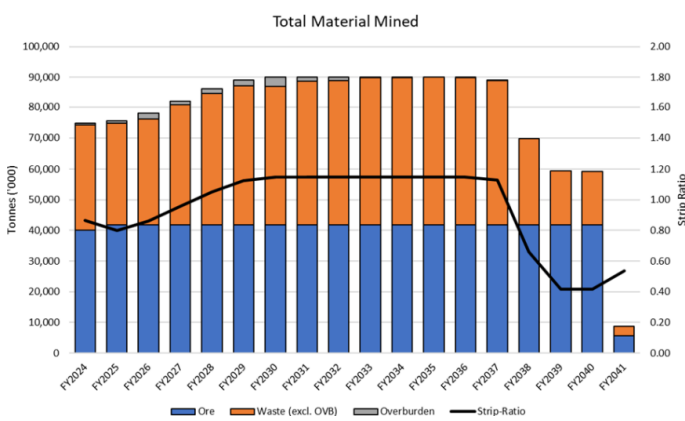
Apr-23 Resources & Ore Reserves	Mt	% Fe	CaO	Sat	MgO	Al2O3
Resources						
Measured	187	30.4%	1.3%	5.5%	1.3%	0.3%
Indicated	1,066	28.4%	1.3%	6.1%	1.2%	0.5%
Measured & Indicated	1,252	28.7%	1.3%	6.0%	1.2%	0.5%
Inferred	246	26.6%	1.4%	6.4%	1.2%	0.5%
Total	1,499	28.4%	1.3%	6.1%	1.2%	0.5%
Reserves						
Proven	184	30.0%	1.3%	5.6%	1.3%	0.3%
Probable	533	28.1%	2.1%	9.2%	2.0%	0.5%
Total	716	28.6%	1.9%	8.3%	1.8%	0.4%
Waste (Includes Inferred)	686	-	-	-	-	-
Cut-off grade 15%						

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Mining: Conventional open pit delivering 42Mtpa ore

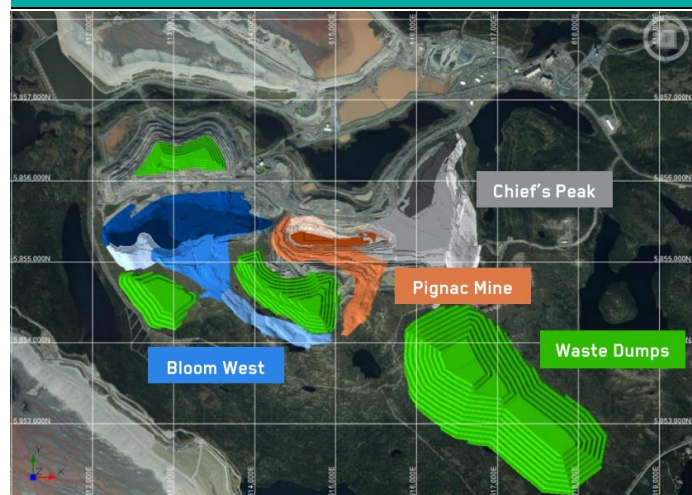
Bloom Lake is an owner-operated conventional open pit bulk mine serviced with electric hydraulic shovels and mining trucks designed to provide on average 42Mtpa of ore feed to processing plants. The mine currently operates across two pits: Chief's Peak and West pits. The current Reserve of 716Mt is across three pits (adding the Pignac pit), with an average strip ratio of 0.96:1 to support the 18-year mine life. Increased waste movement will lift mining rates from approximately 75Mtpa in 2024 to plateau at 90Mt over 2030-36.

Figure 23 - Total material mined



SOURCE: CIA TECHNICAL REPORT SEPTEMBER 28, 2023

Figure 24 - Bloom Lake pit layout



SOURCE: CIA PRESENTATION MARCH 20, 2024

Processing: Two plants producing 15Mtpa concentrate

Bloom Lake has two parallel processing circuits. The initial Phase I plant supported the mine's 2018 restart. The Phase II plant supported the expansion in 2022.

The Bloom Lake processing plants can be summarised as follows:

- **Crushing circuit:** Mined ore is fed into two separate crushers, where crushed ore (<250mm) is delivered by conveyor to the crushed ore stockpile.
- **Grinding & classification circuit:** Crushed ore is reclaimed to AG mills and classified to a size of <5mm. Ground ore is discharged from the mill as a slurry.

- **Separation circuit:** A multi-stage circuit comprising of spirals, classifiers and magnetic separators designed to remove gangue materials (mostly silica).
- **Filtration:** Rotary pan filters de-water the concentrate for delivery onto product stockpiles or silos for railcar loading.

TAILINGS CIRCUIT TO DE-RISK STORAGE FACILITY

Bloom Lake has a separate tailings circuit (cyclone, thickeners and water recycling) which prepares separate coarse and fine tailings for the tailings storage facilities. The concept behind the two separate tailings output is to mitigate storage facility risks by materially reducing the quantity of unstable tailings material.

Fiscal regime: Taxation & royalties

Bloom Lake is subject to three levels of taxation: federal corporate tax, provincial corporate tax and provincial mining taxes. The federal and provincial corporate taxes are around 15% and 11.5%, respectively. Quebec mining tax rates range from 16%-28%, depending on profit margin.

CIA's independent technical expert reports assume a cumulative effective tax rate of 36% on project earnings. In recent quarters, CIA's effective tax rate has averaged around 40%.

Product pricing: High-grade premiums for +66% product

Bloom Lake currently produces a 66.2% Fe concentrate product which achieves a price premium to the commonly quoted 62% Fe index price. The price premiums reflect the product's value in use (higher iron content, lower deleterious impurities and reduced handling costs) and are adjusted for ocean freight differentials.

The following table outlines CIA's recent quarterly product pricing. The table highlights that over the last 30 months, Bloom Lake product has achieved a price premium on average C\$18/t (or 16%) higher than the equivalent 62% Fe product.

Table 8 - Bloom Lake concentrate pricing

	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	30-month average
62% Fe index US\$/t CFR China	142	138	104	99	125	110	114	128	124	112	
Freight US\$/t (CIA published)	37	34	32	29	28	26	26	32	32	33	
Netback 62% Fe index US\$/t FOB Canada	105	104	72	70	97	85	87	96	91	79	
Exchange rate C\$/US\$	1.27	1.28	1.31	1.36	1.35	1.34	1.34	1.36	1.35	1.33	
62% Fe index C\$/t CFR China	180	176	135	134	169	148	153	175	167	149	
Freight C\$/t (CIA published)	47	44	42	39	38	35	36	44	44	44	
Netback 62% Fe index C\$/t FOB Canada	133	132	94	95	131	114	117	131	123	105	
CIA realised price C\$/t FOB Canada	175	139	108	130	150	116	134	157	112	136	
CIA realised price premium C\$/t	43	7	14	36	19	2	17	26	-11	31	18
CIA realised price premium %	32%	5%	15%	38%	14%	2%	15%	20%	-9%	29%	16%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Product markets & pricing: Market pricing mechanisms

CIA's iron concentrates are blended and pelletised for use in the traditional Blast Furnace-Basic Oxygen Furnace mode of steel production.

Since recommencing production at Bloom Lake in 2018, the split of sales to end markets has been: China 53%; Japan 29%; Bahrain 6%; South Korea 5%; Europe 5%; India 2%

and North America 0.4%. Sales are mostly under long-term agreements based on prevailing market prices.

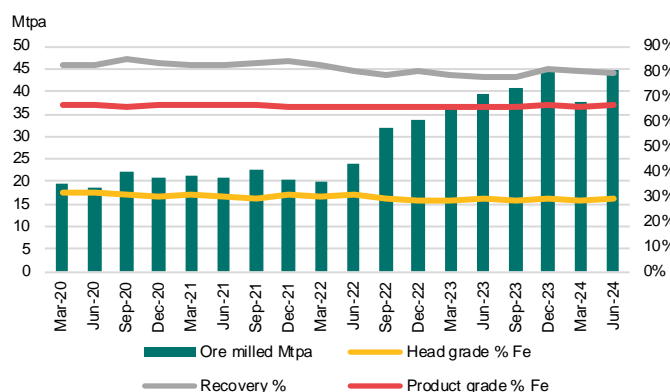
With the expected upgrade of product quality, CIA will target markets in Europe and the Middle East.

Recent Bloom Lake mine, concentrator & earnings

The following charts outline Bloom Lake's quarterly performance since the beginning of 2020. Points to note relating to this performance are:

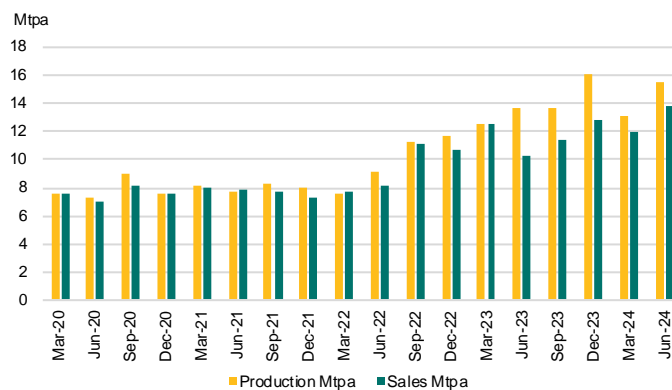
- Plant recoveries fell during the ramp-up of the Phase II concentrator and have since recovered.
- Recent quarterly concentrate sales have lagged concentrate production. Rail operator performance has resulted in lower than expected rail utilisation and therefore product available for shipping. CIA noted that at the end of June 2024, the company had concentrate stocks at the mine site of around 3.0Mt.
- CIA's gross pricing performance (i.e. on a C\$ CFR China basis) has typically been materially higher than the prevailing 62% Fe price index.
- Since the beginning of 2020, Bloom Lake's quarterly EBITDA has averaged C\$169m (range C\$61-406m).

Figure 25 - Mine & plant performance (annualised throughput)



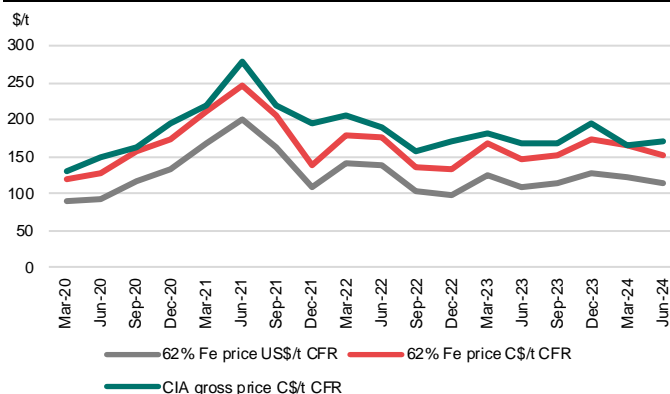
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 26 - Concentrate production & sales (annualised)



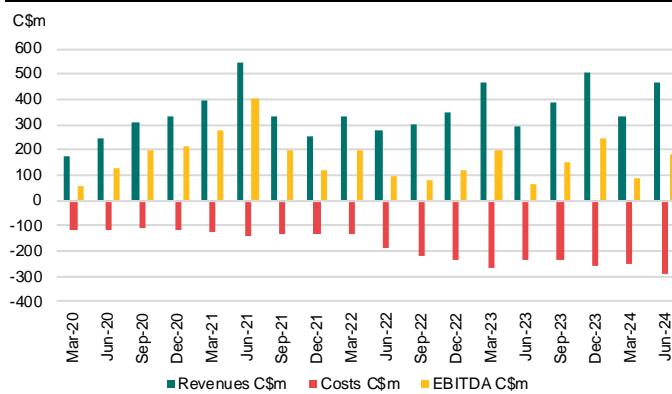
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 27 - Iron ore & concentrate (quarterly)



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 28 - Revenues, costs & EBITDA (quarterly)



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

DRPF project: Upgrading to 69% product

In January 2024, CIA committed to investing C\$471m (US\$351m) in the DRPF Project. The DRPF Project involves building additional processing infrastructure at the Phase II concentrator to upgrade around half of current Bloom Lake production from 66.2% Fe concentrate to 69% Fe Direct Reduction Pellet Feed concentrate (DR grade), with low levels of impurities (silica and alumina less than 1.2%). Commissioning of the DRPF Project is expected in 2H 2025.

The Final Investment Decision followed a Feasibility Study (January 2023) and previous Board sanctioned investment in the project (C\$60m, included in stated C\$471m capital cost). The DRPF Project will also potentially be a precursor to further investment at the Phase I concentrator to upgrade 100% of Bloom Lake's production to DR grade.

DR Grade benefits: Emissions reduction & Green Steel markets

The global DR grade market is still relatively niche compared with the seaborne iron ore trade, currently representing around 5% of supply. However, the "ore-based metallic products", like CIA's DRPF, can provide material benefits in decarbonisation of the hard to abate steel industry. Conventional blast furnace steel production accounts for around 8% of global industrial emissions through the reduction of iron ore.

Ore-based metallic products like DRPF have benefits including:

- **Iron content value-in-use:** DRPF provides more than 11% additional iron content per mass of product compared with benchmark 62% Fe iron ore. Therefore, steel producers can acquire less product to produce the same quantity of crude steel with reduced shipping and handling costs.
- **Emissions reduction & potentially green steel:** DRPF is pelletised for iron feed in the Direct Reduction Iron – Electric Arc Furnace (DRI-EAF) mode of steel production. In the DRI process, DRPF is converted to metallic iron in the form of Direct Reduction Iron or Hot Briquetted Iron (DRI or HBI), which can then be used in the EAF. DRI-EAF steel production reduces carbon emissions by 50-75% compared with blast furnace steel production. There is scope that when supported by renewable energy and hydrogen, very low or even zero emission crude steel production can be achieved.
- **Substitute for scrap steel:** The limited availability of high-quality scrap steel, particularly in developing countries, will increase the demand for substitutes including DRPF.
- **Reducing impurities in EAF steel production:** A key challenge for EAF steel production is producing low-impurity, high quality steel products from scrap steel. Traditional sources of scrap supply contain residual metals (typically copper, tin, nickel, chrome, molybdenum) which impact the final steel product's quality. Ore-based metallic products contain low levels of impurities and residual metals making them a high-value blend for EAF feedstock.

DR Grade pricing: Evolving market dynamics

The pricing of high-grade iron products is evolving with the steel industry's sharpened focus on emissions reduction. To meet decarbonisation objectives, the global steel industry will have to increase its share of DRI-EAF steel production and therefore its sourcing of suitable high grade iron unit inputs.

Higher grade iron ore concentrates and DR Grade products have traditionally been priced by referencing common iron ore price indices and then adjusting for iron content value in

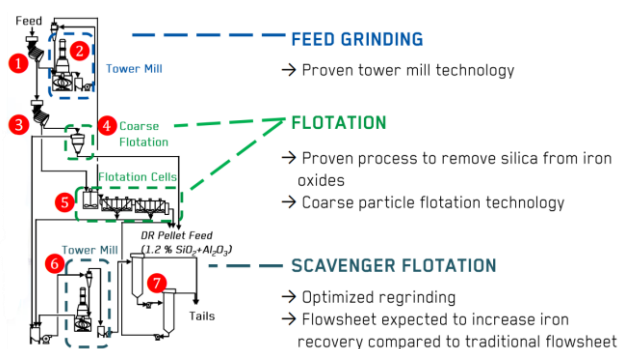
use. However, to date this methodology ascribes limited to no value to the product's flexibility across modes of steel production and capacity to reduce the sector's emissions.

We ultimately expect that DR Grade product premiums will encapsulate the full range of benefits outlined above.

Process: Grind, Flotation & scavenger flotation

The DRPF plant will integrate with the Bloom Lake Phase II concentrator. It adds further capacity to regrind the iron ore concentrate prior to reverse flotation to further remove silica and iron oxides. A key consideration in taking FID was CIA's ability to secure additional hydroelectric power through local utility Hydro-Québec.

Figure 29 - DRPF flow sheet



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 30 - DRPF project layout



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Feasibility study economic outcomes

The following tables outline CIA's January 2023 DRPF project Feasibility Study economic outcomes.

At a high level, the study concluded that at a capital cost of C\$471m (US\$351m) and an operating cost increment of C\$9.60/t (US\$7.2/t) over 7.5Mtpa, the DR Grade product would generate sufficient additional margin to support an NPV8 of C\$738m (US\$551m).

Given these metrics, we estimate that the study assumed a circa C\$37/t (US\$27/t) premium (over the 66.2% product) for the DR Grade product, providing a pre-tax (i.e. EBITDA level) margin of around C\$27/t (US\$20/t) or C\$200m (US\$150m).

Other highlights from the study include:

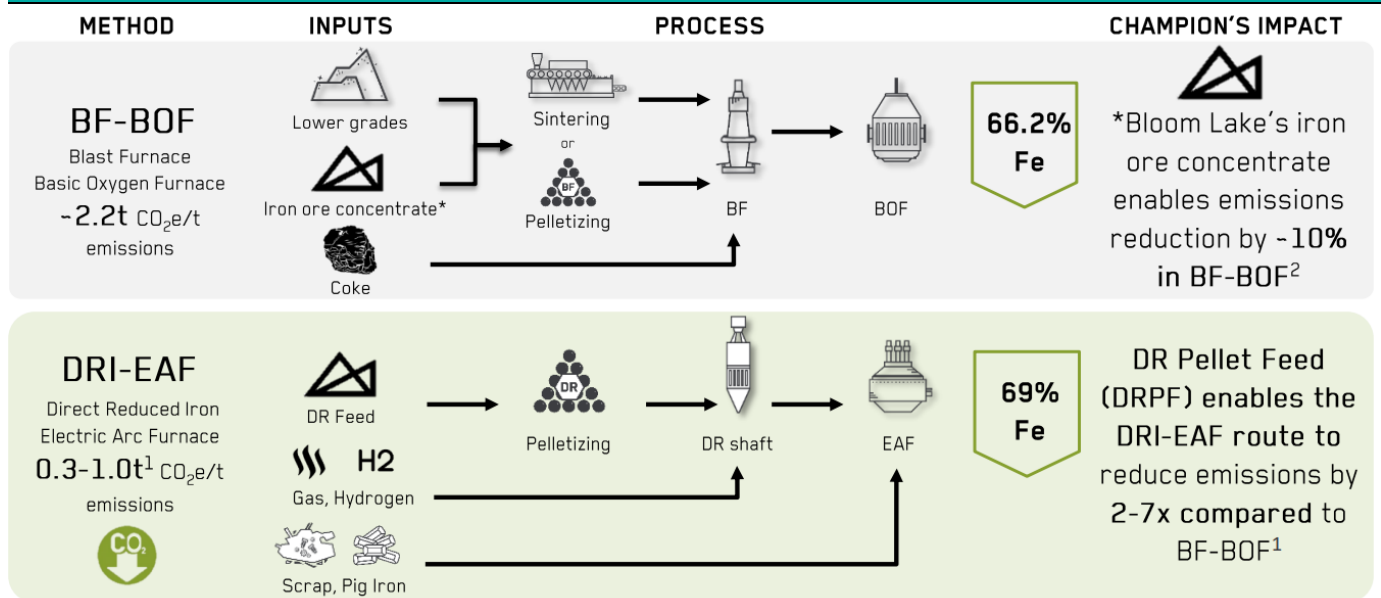
- CIA conclude that the Bloom Lake DRPF project could produce one of the highest quality products available on the seaborne market with a grade of 69% Fe and a combined silica and alumina content of less than 1.2%;
- The project deploys proven technologies to regrind the iron ore concentrate and for reverse flotation removal of the silica and iron oxide gangue; and
- The project is designed to be carbon neutral through its access to hydroelectric power and is not expected to create any additional environmental impacts at Bloom Lake.

At FID in early 2024, CIA noted that the project remains on budget and is expected to be fully funded from available liquidity and cash flows from operating activities.

Figure 31 - DRPF Project Feasibility Study outcomes				Figure 32 - DRPF Project capital cost estimates			
		C\$	US\$	Capital costs	C\$	US\$	
NPV8 pre-tax		1,230.1	918.0	Phase II circuit optimisation	348.1	259.8	
NPV8 after-tax		738.2	550.9	Electrical upgrade & port	46.4	34.6	
IRR pre-tax	30.10%			Contingencies	76.2	56.9	
IRR after-tax	24%			Total	470.7	351.3	
Capex		470.7	351.3				
Opex increment		9.6	7.2				
Production volume Mtpa	7.5Mtpa						
Construction period	30 months						
Project life	20 years						
Tax rate	36.30%						

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 33 - CIA's position in the steelmaking supply chain



Source: data by Minespans by McKinsey, Wood Mackenzie
 Notes: Direct Reduced Iron (DRI) is an intermediate form of processed iron (Direct Reduced pellets) used in green steelmaking, specifically in Electric Arc Furnaces (EAFs). Elevated silica & alumina levels increase slag formation in EAFs, which is difficult to remove ¹ -0.3 t using hydrogen and -1.0 t using natural gas | ² Based on data from Wood Mackenzie; Champion's iron ore concentrate induces significant slag reduction and energy efficiency in the blast furnace

SOURCE: CIA PRESENTATION

Bloom Lake Mining Complex background

Consolidated Thompson completed a Feasibility Study on Bloom Lake (75% owned) in April 2007, commenced development in 2008 and then mining operations and first shipments in 2010. The Feasibility Study estimated a capital cost of US\$333m for a 7Mtpa, 66.5% iron ore concentrate project.

In early 2011, Cliffs Natural Resources Inc (NYSE: CLF) announced an agreement to acquire Consolidated Thompson Iron Mines Ltd for C\$4.9b. At the time, Bloom Lake was Consolidated Thompson's key asset with production ramping up to 8Mtpa of iron ore concentrate and plans to double capacity to 16Mtpa.

In late 2014, CLF abandoned the Bloom Lake expansion plans due to weak market conditions and ultimately suspended mining operations before placing the asset on a care and maintenance program in early 2015.

APRIL 2016: CIA COMPLETES ACQUISITION OF BLOOM LAKE MINE

In December 2015, CIA announced a definitive agreement to acquire the Bloom Lake mine and rail assets from Cliffs Natural Resources Inc (NYSE: CLF). CIA, through its subsidiary Québec Iron Ore Inc. (QIO), acquired the Bloom Lake assets from affiliates of Cliffs Natural Resources Inc. for a cash consideration of C\$10.5 million and the assumption of environmental and reclamation liabilities then assessed at approximately C\$42m by the Government of Québec. QIO was 63.2% owned by CIA, with the remaining 36.8% equity interest owned by Ressources Québec (Government of Québec).

February 2017 – CIA announce the results of the Feasibility Study for a restart of operations at Bloom Lake. Mineral Reserves are estimated at 411.7Mt at an average grade of 30.0% Fe. Concentrate production is expected to average 7.4Mtpa at 66.2% Fe over a 21-year life-of-mine. Average metallurgical recoveries are estimated at 83.3% Fe.

March 2017 – CIA acquires 735 specialized iron ore railcars for Bloom Lake Mine for US\$30.1 million.

March 2017 – CIA appoints David Cataford as Chief Operating Officer.

April 2017 – QIO and the Innu People of Uashat mak Mani-utenam (ITUM) enter into Impact and Benefits Agreement (IBA) with respect to the Bloom Lake Mine.

May 2017 – QIO signs off-take agreement with Sojitz Corporation pursuant to which Sojitz would purchase up to 3Mtpa from QIO upon the re-commencement of commercial operation at Bloom Lake. The agreement is for an initial five-year term.

May 2017 – CIA has announced that it has arranged a \$40m debt and equity bridge financing for QIO to support the restart of operations at Bloom Lake.

July 2017 – CIA announces debt financing conditional commitments of US\$180m for its subsidiary QIO from la Caisse de dépôt et placement du Québec (Caisse) and Sprott Resource Lending.

August 2017 – CIA announce that it has secured a conditional financing commitment of US\$25m from Glencore International AG for the non-brokered sale of a subordinated unsecured mandatory convertible debenture on a private placement basis. The commitment also contemplates that QIO and Glencore will enter into an off-take agreement with fixed terms of 10 years.

February 2018 – CIA restarts the Bloom Lake Mine shipments with 16,500t of high-grade 66% Fe iron concentrate leaving the mine site.

March 2018 – CIA ship first vessel of iron ore from Port of Sept-Îles to customers in Asia.

May 2019 – CIA announces that its subsidiary QIO has concluded an agreement with the government of Québec, through its agent Ressources Québec Inc. (RQ) to acquire RQ's 36.8% equity interest in QIO for a total cash consideration of C\$211 million. The Transaction increases CIA's stake in QIO to 100%.

June 2019 – CIA announces positive results of the Bloom Lake Phase II NI 43-101 Feasibility Study. Phase II will increase overall capacity from 7.4Mtpa to 15Mtpa of 66.2% Fe iron ore concentrate.

August 2019 – CIA complete refinancing and acquisition of 100% of Bloom Lake.

March 2020 – CIA announce that it will ramp down operations at the Bloom Lake Mining Complex, following a directive from the Québec Government due to COVID-19.

April 2020 – CIA to ramp back up mining operations at its Bloom Lake Mine.

November 2020 – CIA announce that its subsidiary QIO has received commitments from its current credit facility syndicate members to amend and increase its existing credit facilities from US\$200 million to US\$400 million. Concurrently, the Board of Directors has provided final approval to complete the Bloom Lake Phase II expansion project.

December 2020 – CIA has announced that its subsidiary QIO has successfully completed the amendment and increase to its credit facilities.

August 2021 – CIA has announced that it has signed a Letter of Intent with Caterpillar Inc. to implement artificial intelligence based Advanced Drilling Technologies on CAT equipment at Bloom Lake.

May 2022 – CIA completes first rail shipments from the Bloom Lake Mine's Phase II expansion.

January 2023 – CIA announce positive results from the Direct Reduction Pellet Feed (DRPF) Project Feasibility Study. The study evaluated modifications to the Bloom Lake Phase II plant and infrastructure required to upgrade Phase II 7.5Mtpa production to DRPF grade iron ore concentrate (69% Fe with combined silica and alumina below 1.2%). Total capital cost for the project is estimated at US\$351m with an operating cost increment (over Bloom Lake's cash cost of C\$9.6/t. The CIA Board approve an initial budget of C\$10m to advance the project over 2023.

August 2023 – CIA announce updated Mineral Resource and Reserve estimates for its Bloom Lake operations, along with accompanying life-of-mine plan. Mineral Reserves are estimated at 716.2Mt at an average grade of 28.6% Fe. Concentrate production is expected to average 15.2Mtpa at an assumed steady state over the 18-year life-of-mine. The concentrate, at 66.2% Fe is obtained with an expected metallurgical recovery that averages 82.0% Fe.

November 2023 – CIA's subsidiary QIO completes US\$230m term loan financing, increasing liquidity for growth opportunities for decarbonize steelmaking.

January 2024 – CIA announce the Board has provided a final investment decision to proceed with the DRPF project.

Kami Project (CIA 100%)

Value catalysts & news flow

- ✓ April 2021 - CIA complete acquisition of the Kami Project for \$15m in cash, the extinguishment of ~\$19.4m in secured debt and an undertaking to make a finite production payment on a fixed amount of future iron ore concentrate production.
- ✓ January 2024 - CIA announce results of the Kami Project (prefeasibility) study.
- 2H 2024 - Further information with respect to a partnering process associated with the Kami Project.

Project summary: Leveraging location & infrastructure

The Kamistatusset (Kami) Project is located around 21km to the south-east of CIA's Bloom Lake mine. CIA released the results of the Kami Project Study in January 2024 which outlined potential production of 9Mtpa concentrate at DR quality (+67.5% Fe, low-silica) over 25 years. Initial capital expenditure was estimated at C\$3.9b (US\$3.0b) and the financial model reported a base case after tax NPV8 of C\$541m (US\$416m) and IRR of 9.8%.

Figure 34 - Key study assumptions & results				Figure 35 - Macro/market assumptions			
Mineral Reserves	M dmt	643				C\$	US\$
Production life of mine	Years	25		65% Fe Index	\$/dmt	156	120
Average annual production	M dmt	8.6		Average shipping cost	\$/dmt	28.6	22.0
Average annual production wet	M wmt	9		Average FX C\$:US\$	1.3		
Average Fe in-situ grade to plant	%	29.20%		Capital costs		C\$	US\$
Average Fe metallurgical recovery	%	76.40%		Construction period months	48		
Average concentrate grade sold	% Fe	>67.5%		Initial capex	\$m	3,864	2,972
Average stripping ratio	Waste:Ore	1.6		Operating cost per tonne sold		C\$	US\$
NPV8 post tax	\$m	C\$541m (US\$416m)		Total cash cost (C1)	\$/dmt	76.1	58.5
IRR post tax	%	9.80%		Total all-in sustaining cost (AISC)	\$/dmt	89.5	68.9
Payback period	Years	7 years					

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

CIA's Kami Project strategy: Optimise & partnering potential

CIA views the Kami pre-feasibility study as a basis for evaluating the project within its portfolio of growth opportunities. In the quarterly release accompanying the study, CIA noted that it will continue to optimise the project and evaluate a potential strategic partnership prior to any final investment decision.

Mineral Resource & Ore Reserves

Table 9 - Kami Project Mineral Resources							
	Mass	Total Fe	Mag Fe	Hem Fe	Mag+Hem Fe	MnO	SiO2
Classification	Mt	%	%	%	%	%	%
Measured	212.4	30.2	14.8	13	27.8	1.6	47.5
Indicated	763.0	29.5	16.2	10	26.2	1.5	47.6
M&I	975.5	29.6	15.9	10.7	26.6	1.5	47.6
Inferred	163.0	29.2	14.5	11.9	26.4	1.2	48.0

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 10 - The Kami Project Ore Reserves

Mineral Reserves by Category	Unit	Proven	Probable	Proven & Probable
Crude Ore Tonnage	Mt	167.0	476.0	643.0
Crude Hematite Grade	% HemFe	13.8	10.6	11.4
Crude Magnetite Grade	% MagFe	13.2	15.1	14.6
Crude Total Iron Grade	% TotFe	29.7	29.0	29.2
Concentrate Tonnage	Mt	54.8	157.6	212.4
Concentrate Iron Grade	% Fe	67.6	67.6	67.6

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Mining & recovery: Open pit to produce 9Mtpa 67.6% con

Open pit mine: The Kami pre-feasibility was based on an open pit operation with mining rates peaking at 81Mtpa over a 25-year life of mine. A total of 643Mt ore would be mined with an average grade of 29.2% Fe and an average strip ratio of 1.6 (waste tonnes to ore tonnes).

Crush, grind, float & mag separation: The Kami concentrator design has a 26Mtpa annual feed capacity. Run of mine ore would be crushed and conveyed to a stockpile area before autogenous grinding. The ground slurry is then treated through a series of gravity concentration and magnetic separation, then thickened to produce a low silica, iron concentrate. Tailings from the plant are dewatered, separated into fine and coarse fractions then pumped to the tailing management facility.

Capital cost & unit operating cost estimates

Figure 36 - Capital cost estimates

Capex	C\$m	US\$m
Mine site	627	483
Mining fleet	183	141
Mining pre-production	64	50
Processing	1,135	873
Tailings & water management	472	363
Pre-production opex	5	3
Other	41	32
Total direct capex	2,528	1,945
Owners costs	105	81
Contingency	474	356
Others indirect	551	424
Total indirect	1,130	870
Total direct & indirect	3,659	2,815
Kami railroad	205	158
Total initial capex	3,864	2,972

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 37 - Unit operating cost estimates

Operating cost LOM average	C\$/t	US\$/t
Mining costs	22.41	17.23
Processing cost	23.21	17.85
Tailings & water management	2.76	2.12
Minesite G&A	7.51	5.78
Logistics port & rail	20.19	15.53
Total cash cost (C1)	76.08	58.52
CSR & bonding	2.84	2.18
Sustaining capex	9.19	7.07
Capex leased	1.44	1.11
Total all-in sustaining costs (AISC)	89.54	68.88

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Champion Iron (CIA) company summary

Company description

CIA's key asset is the Bloom Lake mining complex located in northern Quebec Canada. Bloom Lake was developed by Consolidated Thompson (later acquired by Cliffs Natural Resources) over 2008-10 then placed on a care and maintenance program in early 2015. CIA announced and completed the Bloom Lake acquisition over 2015-16 and recommenced production in early 2018.

Bloom Lake currently produces high grade (+66% Fe) iron concentrates at rates of around 15Mtpa. These concentrates are typically priced at premiums to underlying 62% Fe iron ore index prices due to the higher iron content and value-in-use. In January 2024, CIA announced a final investment decision to invest a further US\$351m to upgrade around half of Bloom Lake concentrate production to DR grade (69% Fe); commissioning is expected in 2H 2025.

Investment view: Buy, Target Price \$7.15/sh

The shift into higher grade production will likely support average realised prices and earnings amid an iron ore price environment generally expected to weaken. There is also the potential for a positive iron ore price response with typical seasonal activity (Q1 2025). CIA will benefit from maturing higher-grade iron concentrate markets which recognise emission reduction benefits. Government policy will be increasingly supportive of processes which assist decarbonising the hard-to-abate steel sector. CIA is a dividend payer; we expect earnings to continue to support dividends.

Valuation assumptions

Components of our CIA valuation include:

- **Bloom Lake & DRPF:** Discounted cash flow model of the Bloom Lake operations, including the DRPF project commissioning from 2H 2025. We have also made a risked valuation allowance which assumes CIA will ultimately expand the DRPF project to upgrade 100% of Bloom Lake production to DR grade.
- **Kami:** We have not explicitly modelled the Kami Project. Our Kami valuation is based on the January 2024 prefeasibility study published NPV8, then heavily risked to take into account the project's stage of assessment.
- **Corporate overheads:** Allowances for CIA's corporate overhead costs.

Appendix 1: Capital structure

Capital structure

Table 11 - Capital structure

Shares on issue	518.1m
Share price	\$5.760/sh
Shares on issue	518m
Market capitalisation	\$2,984m
Net debt/(cash)	\$298m
Enterprise value	\$3,282m
Diluted	
Performance rights & options	20m
Shares on issue (diluted)	538m
Assumed cash from options	\$0m
Market capitalisation (diluted)	\$3,101m
Net debt (diluted)	\$298m
Enterprise value (diluted)	\$3,399m

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 12 - Debt facilities & available liquidity

Debt facilities at 30 June 2024	C\$m	US\$m	Interest rate	Maturity
Term loan	312	230	SOFR + 2.25% to 3.25%	29-Nov-28
CAT FS	101	74	3.70%	Jul-24 to Oct-29
FTQ	74	54	7.75%	21-May-28
Investissement Quebec	45	33	SOFR + 2.35% to 3.25%	1-Apr-32
Total debt	531	392		
Cash	260	192		
Net debt	272	200		
Available funds		C\$m	US\$m	
Undrawn revolving facility	543	400		Nov-27

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Major shareholders

The following table is sourced from CIA's 2024 annual report.

Table 13 - Major shareholders

	Holding	% of CIA
Investissement Quebec	44m	8.4%
WC Strategic Opportunity LP	42m	8.1%
Mr Michael O'Keeffe (and associates)	42m	8.0%
Blackrock Group	28m	5.4%
Other	363m	70.1%
Total	518m	100.0%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Appendix 2: Board & management

Board of Directors

MICHAEL O'KEEFE – EXECUTIVE CHAIRMAN OF THE BOARD

A metallurgist by training, Michael serves as executive chairman of Champion Iron. On April 1, 2019, Mr. O'Keefe stepped down as CEO and remains Executive Chair of the Board. Mr. O'Keefe commenced his career with MIM Holdings in 1975. He held a series of senior operating positions, rising to Executive Management level in commercial activities. In 1995, he became Managing Director of Glencore Australia (Pty) Limited and held the position until July 2004. Mr. O'Keefe was the founder and Executive Chairman of Riversdale Mining Limited. Mr. O'Keefe is presently a member of the Board of Directors of Burgundy Diamond Mines Ltd and Mont Royal Resources.

Mr. O'Keefe was appointed Executive Chair of the Company on August 13, 2013.

DAVID CATAFORD – CHIEF EXECUTIVE OFFICER AND DIRECTOR

Mining engineer by training, Mr. Cataford joined Champion Iron in 2014. Prior to his appointment as Chief Executive Officer, he held the role of Chief Operating Officer at Champion Iron where he played a key role in the management team. Mr. Cataford completed the acquisition, financing and delivery of the successful restart of the Bloom Lake Mine in 2018. Subsequently, Mr. Cataford led efforts to complete the Phase II expansion project, doubling Bloom Lake's production capacity, resulting in overall employment exceeding 1000 top mining talents. In addition to his successful performance history in executing acquisitions, Mr. Cataford held several management positions in the Labrador Trough, including his tenure with Cliffs Natural Resources Inc. and ArcelorMittal. Mr. Cataford cofounded and held the role of President for the North Shore and Labrador Mineral Processing Society. His career has been recognized by several accolades including the Young Mining Professionals award and the Brendan Woods International Top Gun CEO award

Mr Cataford was appointed Chief Executive Officer on April 1, 2019.

GARY LAWLER – NON-EXECUTIVE DIRECTOR

Gary has practiced as a mergers and acquisitions lawyer for over 30 years. Over the course of his career, he has advised numerous companies and investment banks on a wide range of commercial transactions, including hostile takeovers and anti-takeover measures. Gary is a trusted consultant to many clients on corporate governance. He also served on the boards of Dominion Mining Limited and Riversdale Mining Limited. Peers describe Gary as "being the most prominent and having the highest standing in the M&A market."

Mr. Lawler was appointed Non-Executive Director on April 9, 2014.

MICHELLE CORMIER – NON-EXECUTIVE DIRECTOR

Michelle has vast experience in senior management in corporate strategy, finance, human resources and reorganization. Michelle is an operating partner for the Quebec-based investments of Wynnchurch Capital (Canada) Ltd., a \$2.3 billion private equity fund. Before joining Wynnchurch, Michelle was chief financial officer for a private company and for a publicly traded forest products company operating in Canada and the United States. She is an accredited executive officer with solid expertise in corporate governance. In addition to serving on the Champion Iron board of directors, Michelle serves on the boards of Hydro-Québec, Cascades Inc., Uni-Select Inc, Industries Moreau Inc. and Pro-Fab Inc.

Ms. Cormier was appointed Non-Executive Director on April 11, 2016.

JYOTHISH GEORGE – NON-EXECUTIVE DIRECTOR

Mr. George is currently Head of Marketing (copper & zinc metal) at Glencore. Immediately prior to his current role, Mr. George served as head of marketing for iron ore at Glencore. Prior to that he was the Chief Risk Officer of Glencore. He earlier held a number of roles at Glencore's head office in Baar, Switzerland from 2009 onwards focused on iron ore, nickel and ferroalloys physical and derivatives trading, and has been involved with iron ore marketing since its inception at Glencore. Mr. George joined Glencore in 2006 in London. He was previously a Principal at Admiral Capital Management in Greenwich, Connecticut, a Vice-President in equity derivatives trading at Morgan Stanley in New York, and started his career at Wachovia Securities in New York as a Vice President in convertible bonds trading. Mr. George received a Bachelor of Technology from IIT Madras, India and a PhD in Mechanical Engineering from Cornell University.

Mr. George was appointed Non-Executive Director on October 16, 2017.

LOUISE GRONDIN – NON-EXECUTIVE DIRECTOR

Louise Grondin has been Senior Vice-President of Human Resources and Culture for Agnico Eagle Mines Limited ("Agnico Eagle"), an international gold producer based in Canada, since January 2020. Joining Agnico Eagle in 2001, Ms. Grondin has held various management positions, including Senior Vice-President of Environment, Sustainable Development and Human Resources and Senior Vice-President of Environment and Sustainable Development. Prior to working with Agnico Eagle, Ms. Grondin was Director of Environment, Human Resources and Safety for Billiton Canada Ltd. A graduate of University of Ottawa (B.Sc.) and McGill University (M.Sc.), she is a member of Professional Engineers Ontario and Ordre des Ingénieurs du Québec and a fellow of the Canadian Academy of Engineering.

Ms. Grondin was appointed Non-Executive Director on August 27, 2020.

JESSICA MCDONALD – NON-EXECUTIVE DIRECTOR

Ms. McDonald has been a corporate director since 2014 and has been certified by the Institute of Corporate Directors since 2017. She is currently a member of the board of directors of GFL Environmental Inc. and Foran Mining Corporation. Ms. McDonald was also a director of Coeur Mining, Inc. from 2018 to 2023, a director of Hydro One Limited from 2018 to 2022 and a director and chair of Trevali Mining Corporation between 2017 and 2020. From 2014 to 2017, Ms. McDonald was President and Chief Executive Officer of the BC Hydro and Power Authority, a clean energy utility with over \$5.5 billion in annual revenue and more than 5,000 employees. Ms. McDonald is a director of Sustainable Development Technology Canada. She acted as interim President and Chief Executive Officer of Canada Post Corporation from April 2018 to March 2019 and was the chair of its board of directors between 2017 and 2020. Ms. McDonald served as the Chair of Powertech Labs, one of the largest testing and research laboratories in North America and a director of Powerex, an energy trading company. Ms. McDonald has extensive government experience, including serving as Deputy Minister to the Premier and Head of the BC Public Service. Ms. McDonald holds a Bachelor of Arts degree in Political Science from the University of British Columbia, is a graduate of the Institute of Corporate Directors and holds a certification in cybersecurity oversight from the National Association of Corporate Directors and Carnegie Mellon University.

Ms. McDonald was appointed Non-Executive Director on August 30, 2023.

RONNIE BEEVER – NON-EXECUTIVE DIRECTOR

Ronnie Beevor has over 40 years of experience in investment banking and the mining sector, including as Chair and non-executive director of several mining companies in Australia and internationally. Ronnie is currently Chairman of Bannerman Energy Ltd, owner of the large Etango uranium deposit in Namibia, Chairman of Felix Gold, which has substantial gold exploration properties in Alaska and director of Mont Royal Resources, building a dominant position in underexplored greenstone belts in Quebec. Previously, Mr. Beevor served as head of investment banking at Rothschild Australia, Chair of EMED Mining, which acquired, developed and operated the Rio Tinto copper mine in Southern Spain, board member of Riversdale Resources, which was acquired by Hancock Prospecting for A\$800M, as well as Talison Lithium which acquired the Greenbushes lithium mine in West Australia, prior to its acquisition by Tianqi Industry Group for nearly C\$700M. Mr. Beevor holds an Honours degree in Philosophy, Politics and Economics from Oxford University, and qualified as a chartered accountant in England and Wales.

Mr. Beevor was appointed Non-Executive Director on March 4, 2024.

SOURCE: CIA WEBSITE

Key management

ALEXANDRE BELLEAU – CHIEF OPERATING OFFICER

Mr. Belleau joined the team in 2016, following the Company's decision to acquire and recommission the sidelined Bloom Lake Mine. His entrepreneurial and versatile background allowed him to successfully head the Bloom Lake mine restart in 2018. As Chief Operating Officer, Mr. Belleau is closely involved in many aspects of the Company where logistics, operations, human resources and financing, all benefit from his expertise in business development and project management. Leading the charge where innovation and growth intersect, Mr. Belleau's most recent accomplishment is the completion of the Phase II expansion project. Prior to joining Champion Iron, Mr. Belleau participated in the creation of two startups specializing in building and medical control technology and bioenergy. He also worked in process and building energy efficiency and recreational products. Mr. Belleau holds a bachelor's degree in mechanical engineering from the University of Sherbrooke and is an executive member of the Québec Mining Association since 2018.

Mr Belleau was appointed as Chief Operating Officer on July 22, 2020.

DONALD TREMBLAY – CHIEF FINANCIAL OFFICER

With 25 years of extensive experience and an impressive track record in finance and the mining industry, Mr. Tremblay joined Champion Iron in 2022. He previously worked in similar roles with private and publicly traded companies including Iron Ore Company of Canada, TransAlta Corporation and Brookfield Renewable Power. Throughout his career, Donald developed strategic skills in capital markets, investor relations and corporate development that complement his work experience in accounting, tax, controls, and compliance. Mr Tremblay is a Chartered Professional Accountant with a Bachelor's degree in Business Administration from the Université du Québec en Outaouais.

Mr Belleau was appointed as Chief Financial Officer on July 4, 2022.

STEVE BOUCRATIE – SENIOR VICE-PRESIDENT, GENERAL COUNSEL AND CORPORATE SECRETARY

Steve joined Champion Iron in June 2019 as Vice-President, General Counsel and Corporate Secretary. Steve brings more than 16 years of legal and transaction experience. Prior to joining Champion, Steve was serving as Director, Legal Affairs and Assistant Corporate Secretary for Osisko Gold Royalties Ltd. Before Osisko, Steve was a partner of the law firm Fasken Martineau Dumoulin LLP where he practiced corporate law. Steve holds a Bachelor of Law from Montreal University, a Bachelor of Business Administration from HEC Montreal and is a member of the Barreau du Québec.

Mr. Boucratie was appointed as Senior Vice-President, General Counsel and Corporate Secretary on June 14, 2019.

SOURCE: CIA WEBSITE

MICHAEL MARCOTTE – SENIOR VICE-PRESIDENT, CORPORATE DEVELOPMENT AND CAPITAL MARKETS

Michael joined Champion Iron in 2018 as Vice-President Investor Relations. Prior to joining Champion Iron Limited, Michael worked as Vice-President and Partner at Orion Financials Inc. from 2004 to 2007, which was acquired by Macquarie Capital Markets Canada Ltd., where he most recently worked as Associate Director engaging institutional investors across North America and Europe from 2007 to 2018. His previous experience includes equity research focused on resource equities at various institutional asset managers. Michael was recognized as a leading institutional sales professional in 2017 and 2018, when he was awarded the 'TopGun' award by Brendan Wood International. Michael is a Chartered Financial Analyst, a Calvin C. Potter Fellow and holds a Commerce Degree from Concordia University.

Michael was appointed as Senior Vice-President, Corporate Development and Capital Markets in September 9, 2021.

ANGELA KOUROUKLIS – SENIOR VICE-PRESIDENT, HUMAN RESOURCES

Angela Kourouklis has been a human resources manager for nearly 20 years. She holds a Bachelor's degree in Industrial Relations from the Université de Montréal, an MBA from UQAM and an EMBA from the Université Paris Dauphine – PSL. Prior to joining Champion Iron Limited as Senior Vice-President, Human Resources, Angela worked in various sectors such as the aerospace, hospitality, transportation and warehousing and food industries. She was able to implement, through her diverse experience and in various contexts, many management practices that position people at the heart of the company. This approach has enabled her to foster culture, innovation and creativity. Throughout her career, Angela has developed strategies to promote skills development, organizational development projects and labour relations. She has made a name for herself by modernizing company cultures wherever she worked, and fostering team engagement, recruitment and leadership. Beyond her professional experience, her involvement in various boards of directors and advisory committees has allowed her to develop related knowledge and skills, stay connected to the most advanced management practices and enrich her thoughts by collaborating with professionals and managers.

Ms. Kourouklis was appointed as Senior Vice-President, Human Resources in September 9, 2021.

SOURCE: CIA WEBSITE

Investment risks

Risks

Risk to materials sector equities include, but are not limited to:

- **Commodity price and exchange rate fluctuations.** The future earnings and valuations of exploration, development and operating energy and industrial development assets and companies are subject to fluctuations in underlying commodity prices (energy and other) and foreign currency exchange rates.
- **Infrastructure access.** Energy projects are reliant upon access to processing/treatment and pipeline infrastructure. Access to infrastructure is often subject to contractual agreements, permits and capacity allocations. Agreements are typically long-term in nature. Infrastructure can be subject to outages as a result of weather events or the actions of third party providers.
- **Operating and capital cost fluctuations.** Markets for exploration, development and costs of goods sold can fluctuate and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to energy, building/construction materials and labour markets. Energy companies are also exposed to costs associated with future land rehabilitation.
- **Reserve and Resource risks.** Future earnings forecasts and valuations rely on accuracy of Reserve estimation, the ability to extract the underlying Reserve and the potential for Reserve life extensions.
- **Sovereign risks.** Energy companies' assets are subject to the sovereign risk of the country and state of location and may also be exposed to the sovereign risks of major offtake customers.
- **Regulatory changes.** Changes to the regulation of infrastructure, taxation, carbon abatement and environmental management (among other things) can impact the earnings and valuations of energy companies.
- **Environmental risks.** Energy companies are exposed to risks associated with environmental degradation as a result of their exploration and production processes. Fossil fuel producers may be partially exposed to the environmental risks of end markets including the electricity generation sector.
- **Operating and development risks.** Energy companies' assets are subject to risks associated with their operation and development. Development assets can be subject to approvals timelines or weather events, causing delays to commissioning and commercial production.
- **Occupational health and safety (OH&S) risks.** Energy and industrial development companies are exposed to OH&S risks.
- **Funding and capital management risks.** Funding and capital management risks can include access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments and managing debt repayments.
- **Merger/acquisition risks.** Risks associated with value transferred during merger and acquisition activity.
- **Impact of pandemic infection such as Coronavirus disease (COVID-19):** This may have an adverse impact on the macro economic factors such as energy demand and oil/gas pricing.

Table 14 - Financial summary

Date	13/09/24					Bell Potter Securities
Price	A\$/sh	5.76				Stuart Howe (showe@bellpotter.com.au, +61 3 9235 1856)
Valuation	A\$/sh	7.15				
PROFIT AND LOSS						
Year ending 31 March	Unit	2023a	2024a	2025e	2026e	2027e
Revenue	C\$m	1,396	1,524	1,790	1,853	1,954
Expenses	C\$m	(903)	(971)	(1,136)	(1,166)	(1,244)
EBITDA	C\$m	493	553	654	687	710
Depreciation & amortisation	C\$m	(121)	(124)	(146)	(170)	(187)
EBIT	C\$m	372	429	508	517	523
Net interest expense	C\$m	(26)	(36)	(36)	(37)	(37)
Profit before tax	C\$m	347	393	472	480	486
Tax expense	C\$m	(146)	(159)	(189)	(146)	(116)
NPAT (reported)	C\$m	201	234	283	334	371
Adjustments	C\$m	-	-	-	-	-
NPAT (adjusted)	C\$m	201	234	283	334	371
CASH FLOW STATEMENT						
Year ending 31 March	Unit	2023a	2024a	2025e	2026e	2027e
Operating cash flow	C\$m	236	475	493	513	622
INVESTING CASH FLOW						
Capex / disposals	C\$m	(292)	(343)	(519)	(162)	(127)
Other	C\$m	42	(12)	-	-	-
Investing cash flow	C\$m	(250)	(355)	(519)	(162)	(127)
FINANCING CASH FLOW						
Debt proceeds/(repayments)	C\$m	114	59	(13)	-	-
Dividends paid	C\$m	(103)	(103)	(126)	(122)	(143)
Proceeds share issues (net, incl. options)	C\$m	-	-	-	-	-
Other	C\$m	(4)	(4)	-	-	-
Financing cash flow	C\$m	7	(48)	(138)	(122)	(143)
Change in cash	C\$m	(7)	72	(164)	229	352
Free cash flow	C\$m	(14)	120	(26)	352	495
BALANCE SHEET						
Year ending 31 March	Unit	2023a	2024a	2025e	2026e	2027e
ASSETS						
Cash	C\$m	327	400	197	427	779
Receivables	C\$m	162	120	198	247	228
Inventories	C\$m	168	333	269	276	287
Capital assets	C\$m	1,379	1,678	2,049	2,041	1,982
Other assets	C\$m	279	159	205	209	214
Total assets	C\$m	2,315	2,690	2,918	3,200	3,489
LIABILITIES						
Creditors	C\$m	179	252	330	339	351
Borrowings	C\$m	475	539	531	531	531
Provisions	C\$m	-	-	84	84	84
Other liabilities	C\$m	399	502	471	532	581
Total liabilities	C\$m	1,053	1,293	1,416	1,487	1,548
NET ASSETS	C\$m	1,263	1,397	1,502	1,713	1,941
Share capital	C\$m	401	410	410	410	410
Reserves	C\$m	46	40	40	40	40
Accumulated losses	C\$m	816	947	1,052	1,264	1,492
Non-controlling interest	C\$m	-	-	-	-	-
SHAREHOLDER EQUITY	C\$m	1,263	1,397	1,502	1,713	1,941
Weighted average shares	m	517	518	518	518	518
FINANCIAL RATIOS						
Year ending 31 March	Unit	2023a	2024a	2025e	2026e	2027e
VALUATION						
EPS (adjusted)	C\$/sh	39.0	45.0	54.6	64.4	71.5
EPS (adjusted)	Ac/sh	42.9	51.0	59.2	69.0	76.6
EPS growth (Acps)	%	-61%	19%	16%	17%	11%
PER	x	13.4x	11.3x	9.7x	8.3x	7.5x
DPS	C\$/sh	20.0	20.0	24.0	22.0	27.0
DPS	Ac/sh	22.1	22.5	26.0	23.6	28.9
Franking	%	0%	0%	0%	0%	0%
Yield	%	3.8%	3.9%	4.5%	4.1%	5.0%
FCF/share	Ac/sh	(10.2)	9.2	(18.9)	62.3	95.5
FCF yield	%	-2%	2%	-3%	11%	17%
EV/EBITDA	x	6.0x	5.3x	4.6x	4.5x	4.3x
LIQUIDITY & LEVERAGE						
Net debt / (cash)	C\$m	148	139	334	105	(247)
Net debt / Equity	%	37%	34%	82%	26%	-60%
Net debt / Net debt + Equity	%	27%	25%	45%	20%	-152%
Net debt / EBITDA	x	0.3x	0.3x	0.5x	0.2x	-0.3x
EBITDA / net int expense	x	19.3x	15.3x	18.1x	18.5x	19.1x
PROFITABILITY RATIOS						
EBITDA margin	%	35%	36%	37%	37%	36%
EBIT margin	%	27%	28%	28%	28%	27%
Return on assets	%	9%	9%	10%	11%	11%
Return on equity	%	17%	18%	20%	21%	20%
ASSUMPTIONS - Prices (nominal)						
Year ending 31 March	Unit	2023a	2024a	2025e	2026e	2027e
Iron ore 62% Fe index CFR China	US\$/t	116	119	104	96	93
Iron ore 65% Fe index CFR China	US\$/t	132	131	122	111	107
Premium - 65% Fe index over 62% Fe index	%	14%	10%	17%	16%	16%
Bloom Lake						
Year ending 31 March	Unit	2023a	2024a	2025e	2026e	2027e
Concentrate production (66% Fe)	Mt	11.2	14.2	15.5	11.0	7.8
DRPF production (69% Fe)	Mt	-	-	-	3.9	7.2
Total sales	Mt	10.6	11.6	14.5	15.4	15.8
Exchange rate CAD:USD	C\$/US\$	1.32	1.35	1.33	1.33	1.33
Iron ore 62% Fe index CFR China	US\$/t CFR	116	119	104	96	93
Iron ore 65% Fe index CFR China	C\$/t CFR	175	177	162	149	143
CIA gross concentrate realised price	C\$/t CFR	176	175	163	149	143
Premium - CIA con. over 65% Fe index	%	1%	-1%	1%	0%	0%
CIA net concentrate realised price FOB	C\$/t FOB	132	130	124	112	108
C1 cash cost	C\$/t FOB	74	76	72	70	73
AISC	C\$/t FOB	86	91	85	81	84
C1 cash cost	US\$/t FOB	56	56	54	53	55
AISC	US\$/t FOB	65	67	64	61	63
VALUATION						
NPV (Discount rate 8% real)	Current	+12 mths		+24 mths		
Project (equity) (risk discount)	C\$m	C\$/sh	C\$m	C\$/sh	C\$m	C\$/sh
Bloom Lake - 100% (risk disc. 0%)	2,447	4.72	2,142	4.13	1,864	3.60
Bloom Lake DRPF1 - 100% (risk disc. 20%)	448	0.86	711	1.37	655	1.26
Bloom Lake DRPF2 - 100% (risk disc. 35%)	312	0.60	495	0.96	456	0.88
Kami - 100% (risk disc. 50%)	271	0.34	271	0.35	271	0.31
Other	174	0.34	181	0.35	162	0.31
Corporate overheads	(125)	(0.24)	(135)	(0.26)	(146)	(0.28)
Enterprise value	3,526	6.81	3,665	7.07	3,262	6.30
Net debt / (cash)	272	0.52	300	0.58	(19)	(0.04)
Equity value	3,255	6.28	3,365	6.50	3,280	6.33
A\$m	A\$/sh	A\$m	A\$/sh	A\$m	A\$/sh	
Equity value - A\$m	3,566	6.90	3,687	7.15	3,594	6.95

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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