

# Oceanic Iron Ore Corp.

## Management's Discussion and Analysis of Financial Condition and Results of Operations First Quarter Report – June 30, 2013 and 2012

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The following discussion is management's assessment and analysis of the results and financial condition of Oceanic Iron Ore Corp. ("Oceanic" or the "Company"), and should be read in conjunction with the accompanying unaudited condensed interim financial statements and related notes. The Company reports its financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All figures are reported in Canadian dollars unless otherwise indicated.

Certain information included in this discussion may constitute forward looking statements. Forward looking statements are based on current expectations and entail various risks and uncertainties. These risks and uncertainties could cause or contribute to actual results that are materially different from those expressed or implied. Please see the section entitled "Forward Looking Statements" of this document for further detail on forward looking statements. The effective date of this report is August 26, 2013.

### Description of Business

The Company was incorporated on March 8, 1986 under the British Columbia Business Corporations Act. Its common shares are traded on the TSX Venture Exchange and the OTCQX in the United States.

The Company is focused on the development of the Ungava Bay iron property (the "Property") in Nunavik, Québec, which the Company acquired in November, 2010. The Property comprises three project areas: Hopes Advance, Morgan Lake and Roberts Lake, which cover over 300 kilometres of iron formation and are located within 20 – 50 km of tidewater. The Company has a 100% interest, subject to a 2% net smelter returns royalty ("NSR") in the Property. All three project areas have been explored historically (in the 1950's and 1960's), including sampling, drilling and metallurgical work to support the planning and development of iron mines. The Company is currently focused on continuing its fast-track development of the Hopes Advance project.

### Hopes Advance Project Update

In November 2012, the Company published an NI 43-101 Pre-Feasibility Study in respect of the Hopes Advance project (the "Pre-Feasibility Study"), outlining a pre-tax net present value of the project of \$5.6 billion, a proven and probable reserve of approximately 1.36 billion tonnes at 32.2% Fe, and highlighting the extensive metallurgical test work undertaken to date, including the completion of bench scale testing and a pilot plant program (see below).

On May 23, 2013, the Company completed a \$3 million convertible debenture financing with Sino-Canada Natural Resources Fund, which has helped to strengthen the Company's treasury. To date the Company has taken a number of steps to ensure it derives maximum benefit from its cash position, including reductions in consulting and other general and administrative expenses, particularly given the challenging market conditions. Over the coming months, the Company will specifically focus on the following:

- Strategic Partnering and offtake agreements. Confidentiality agreements are in place and discussions are ongoing with a number of potential strategic partners and off-takers interested in participating in the development of the Hopes Advance project
- Shipping Optimization Study (led by AMEC with participation by various shipping companies), due to be completed in Q3 2013

The Company's Pre-Feasibility Study, published in November 2012, assumes that production from the Hopes Advance project would commence in 2017, following the delivery of a Feasibility Study and Environmental Impact Assessment in 2013/2014. Recently, the Company decided to delay certain environmental fieldwork, pending receipt of environmental guidelines from the Nunavik Marine Region

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Impact Review Board (“NMRIRB”) in order to ensure that the requirements of all regulatory agencies are in place before continuing with baseline work that may be impacted by the outstanding guidelines. This additional review body was sanctioned with the decision of the federal Minister of Environment announcing a Part 5 review of the project earlier this year. The NMRIRB indicated that it would issue the guidelines in question to the Company during the summer of this year. As a result, management decided in June 2013 that some aspects of the environmental work will be deferred to 2014. On a positive note, a consequence of this is a majority of the Company's resources can be fully directed to securing a strategic partner. The delay of this fieldwork is likely to lead to an approximately 12 month delay to the Company's original development timeline for the Hopes Advance project. Subsequent to this decision, in August 2013, the aforementioned guidelines were received by the Company from the NMRIRB.

The Company does not believe that the decision to delay fieldwork will have a negative impact on its ability to engage and secure a strategic partner.

In July 2013, the Company received a Letter of Intent (“LOI”) originating from the Ministry of Finance and Economy of the Government of Québec with respect to its interest in participating in a minority stake investment in Oceanic's Hopes Advance project, subject to additional future approvals of the Government of Québec. The government's financial contribution will originate from the province's Mining and Oil Capital fund (“fund”) which has been allocated a budget of \$ 750 million for investment in the non-renewable natural resources sector. The fund was announced in November 2012 as part of the 2013-2014 budget speech of the Government of Quebec. The Letter of Intent from the Ministry of Finance and Economy indicates that the terms of the financial contribution will be further defined as the Company reaches agreement with a senior strategic partner for the project.

### **Achievements to Date – Hopes Advance Project**

Active development of the Hopes Advance project commenced in March 2011 with the start of the Company's resource verification program.

Since then, milestones have been achieved in a number of areas:

#### *1. Project Technical Study and Economics*

- In November 2012, the Company published its Pre-Feasibility Study which reports an estimated pre-tax NPV of \$5.6 bn (post-tax NPV of \$3.2 bn), and pre-tax IRR of 20.5% (post-tax IRR of 16.8%) over a 31 year projected mine life at an 8% discount rate (see “Pre-Feasibility Study” below).

#### *2. Resource definition*

- In November 2012, as part of its Pre-Feasibility Study, the Company published an updated NI 43-101 compliant In-Pit Mineral Resource Estimate for the Hopes Advance project of 774,241,000 tonnes at 32.2% Fe measured, 613,796,000 tonnes at 32.0% Fe indicated and 222,188,000 tonnes at 32.5% Fe inferred. Inferred resources are not included in the Pre-Feasibility mine plan or project economics.

#### *3. Economic Mineral Reserves*

- In November 2012, as part of its Pre-Feasibility Study, the Company published an NI 43-101 compliant mineral reserve estimate of 763,276,000 tonnes at 32.3% Fe proven and 595,990,000 tonnes at 32.1% Fe probable for a total proven and probable reserve of 1,359,266,000 tonnes at 32.2% Fe.

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### 4. Metallurgy

- Metallurgical bench scale testing program conducted by SGS Mineral Services Lakefield ("SGS") over approximately 600 composite samples from various deposits at the Hopes Advance project which demonstrated high weight recoveries with a high percentage of iron recovery from the gravity process, as well as low levels of deleterious materials.
- Completion of a pilot plant testwork program also conducted by SGS to determine a flowsheet for the recovery of hematite and magnetite. The pilot plant testwork was also used to determine the appropriate size of equipment for the flowsheet as well as optimal grinding equipment and power requirements.

### 5. Product Versatility and Marketability

- Completed a Process and Product Optimization Study, led by Met-Chem with the associated laboratory test work completed by SGS, which illustrates the flexibility and marketability of the Hopes Advance project across a range of potential strategic partners and off-take customers. The Product Optimization Study concluded that the Hopes Advance project is capable of producing 2.4 million tonnes per annum of its initial 10 million tonnes per annum output (4.8 million tonnes per annum post expansion) of sinter quality product, at a 5.5% silica target.
- Completion of a Product Value-In-Use Marketing Study, led by Vulcantech Technologies Pty Ltd., which concluded that in addition to the iron unit premium for the high grade Hopes Advance product at 66.6% Fe measured against the 62% Fe benchmark, an estimated minimum 10% value-in-use premium can be anticipated due to the product's high quality and low impurities.
- Completed a Pot Grate test work program, performed by Coleraine Minerals Research Laboratory and supervised by Rod Johnson, VP Geometallurgy, which concluded that with the addition of limestone and dolomite, concentrates from the Company's Hopes Advance project are capable of being transformed into high quality pellets, with very low deleterious elements and compressive strengths of up to 638 lbs and swelling of 10.6%.

### 6. Infrastructure

- Defined a project implementation and development schedule independent of third party infrastructure with construction and operations to commence with self-generated power and self-constructed port and marine infrastructure.
- Completion of a marine logistics study in September 2011 by AMEC Environment and Infrastructure acknowledging the viability of constructing a deep water port facility at Hopes Advance and that year-round shipping using Cape Size vessels is feasible.
- Construction of a camp facility near the village of Aupaluk as a base for crews supporting the completion of the Pre-Feasibility Study, as well as future fieldwork.

### 7. Community/Government Relations and Support

- Establishment of positive relations with the Inuit community including signing of a letter of intent setting the terms and conditions on which the Company plans to develop the Hopes Advance project.
- Receipt of a Letter of Intent from the Ministry of Finance and Economy of the Government of Québec with respect to its interest in participating in a minority stake

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investment in Oceanic's Hopes Advance project, subject to additional future approvals of the Government of Québec.

### 8. *Environmental*

- Acceptance of the Project Description by the Canadian Environmental Assessment Agency under new regulations in accordance with the Canadian Environmental Assessment Act 2012.
- Receipt of Project Guidelines from the Canadian Environmental Assessment Agency.
- Receipt of Project Guidelines from Kativik Environmental Quality Commission through the Québec Ministry of Sustainable Development, Environment and Parks, Administration of Environmental Assessment for Northern Mining Projects 'Ministère du Développement durable, de l'Environnement et des Parcs Direction de l'évaluation environnementale des projets nordiques et miniers', which advances the Hopes Advance project to the next stage of the overall assessment process provincially.
- Acceptance of a ruling provided by the Hon. Peter Kent, Minister of Environment, regarding the marine portion of the Hopes Advance project to the Nunavik Marine Region Impact Review Board ("NMRIRB") for a Part 5 Review in association with the Canadian Environmental Assessment Act 2012 ("CEAA 2012") and the Nunavik Inuit Land Claims Agreement, whereby the review process of the Company's Environmental Impact statement will be streamlined such that only one submission will be needed and will respond to both CEAA 2012 as well as the NMRIRB requirements under the Nunavik Inuit Land Claims Agreement.
- Receipt of environmental guidelines from the NMRIRB

### **Pre-Feasibility Study**

The base case in the Pre-Feasibility Study for the Hopes Advance project assumes initial production of 10 million tonnes of concentrate per annum commencing in 2017 utilizing self-generated power, expanding to production of 20 million tonnes of concentrate per annum using hydroelectric power from 2027, following connection to the grid in 2025 and construction to support the expansion in 2025 and 2026. As noted above, there is likely to be an approximately 12 month delay to the commencement of production.

The Pre-Feasibility Study has been based on the Mineral Resource prepared by Eddy Canova, P.Geo., OGQ reported in a Company news release on April 2, 2012 and filed on SEDAR on May 17, 2012.

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## Pre-Feasibility Metrics

Table 1 below lists the key Pre-Feasibility Study estimated metrics.

**Table 1 – Pre-Feasibility Study Results**

| <b>Variable</b>                                  | <b>Results</b> |               |
|--|----------------|---------------|
| <b>Price assumption – FOB</b>                    | \$100 / tonne  |               |
| <b>Net Present Value (8%) (pre-tax/post-tax)</b> | \$5.6 billion  | \$3.2 billion |
| <b>Pre-tax IRR (unlevered / levered)</b>         | 20.5%          | 23.2%         |
| <b>Post-tax IRR (unlevered / levered)</b>        | 16.8%          | 19.2%         |
| <b>Post-tax Payback</b>                          | 5 years        |               |
| <b>Mine Life</b>                                 | 31 years       |               |
| <b>10 Million Tonne Initial Capital Costs</b>    | \$2.85 billion |               |
| <b>20 Million Tonne Expansion Capital Costs</b>  | \$1.61 billion |               |
| <b>Sustaining Capital Expenditure (LOM)</b>      | \$0.77 billion |               |
| <b>Life of Mine Operating Cost per tonne</b>     | \$30.18/tonne  |               |
| <b>Strip Ratio Years 1 – 15</b>                  | 0.57           |               |
| <b>Strip Ratio Life of Mine</b>                  | 1.17           |               |

As noted above, the Pre-Feasibility Study assumes a concentrate selling price of \$100/tonne FOB and also takes into consideration the 2% royalty payable to the vendors of the project. The Pre-Feasibility Study assumes that the Company exercises its right to purchase half of this royalty for \$3 million in the first year of commercial production. Analysis of the economics has been undertaken on both a pre-tax and post-tax basis and IRR is presented on both an unlevered and levered basis. In respect of the leveraged case, the key assumptions are as follows:

- Initial capital 60% debt financed;
- Annual interest rate of 8%;
- Upfront financing fee of 3%;
- 7 year term post commencement of commercial production;
- Expansion capital is assumed funded through operating cashflow.

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## Operating Costs

A summary of the estimated operating costs is set out in Table 2 below:

**Table 2 – Operating Costs (excluding royalty)**

| Category  | Years<br>1 - 8                            | Years<br>9 - 10                         | Years<br>11 – 31                 | Life of Mine<br>Average |
|---|---|---|----------------------------------|-------------------------|
|   | (10 MM T/YR &<br>Self-Generated<br>Power) | (10 MM T/Y &<br>Hydroelectric<br>Power) | (Post Expansion<br>- 20 MM T/YR) |                         |
| Mining<br>(\$/tonne all material)                                       | \$1.57                                    | \$1.59                                  | \$1.23                           | \$1.27                  |
| Mining<br>(\$/tonne product)  | \$5.46                                    | \$6.30                                  | \$7.78                           | \$7.37                  |
| Concentrator<br>(\$/tonne product)                                      | \$20.87                                   | \$18.35                                 | \$17.45                          | \$18.02                 |
| Port<br>(\$/tonne product)  | \$2.13                                    | \$2.13                                  | \$1.45                           | \$1.58                  |
| Site Services<br>(\$/tonne product)                                     | \$3.33                                    | \$2.77                                  | \$2.04                           | \$2.27                  |
| G&A (Site only)<br>(\$/tonne product)                                   | \$1.38                                    | \$1.38                                  | \$0.85                           | \$0.95                  |
| <b>Total Operating Cost<br/>/ tonne product<br/>(excluding royalty)</b> | <b>\$33.17</b>                            | <b>\$30.93</b>                          | <b>\$29.57</b>                   | <b>\$30.18</b>          |

The low operating costs are a function of a number of factors including:

- No rail component given the project's proximity to the identified port site at Pointe Breakwater;
- A very low strip ratio, averaging 0.57:1 waste to ore in the first 15 years of production and 1.17:1 over the life of mine;
- Straightforward metallurgy and high Fe recoveries, reflected in the simple flowsheet and low operating costs.

## **Metallurgical Pilot Plant Program**

### *Background*

In September 2011, the Company took the decision to accelerate its metallurgical test work program in order to continue the fast-track development of the Hopes Advance project. This included the completion of a comprehensive metallurgical bench scale testing program earlier this year by SGS.

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In addition to the bench scale work, SGS has undertaken a pilot plant testwork program to determine a flow sheet for the recovery of hematite and magnetite. The pilot plant test work was also used to determine the appropriate size of equipment for the flow sheet as well as the optimum grinding equipment and power requirements.

### *Bulk Samples and Composites*

During the 2011 field season, the Company collected bulk samples to support the bench scale test work and the pilot plant.

The 180.1 tonne Castle Mountain bulk sample was collected from the same three trenches that provided samples for historic metallurgical work conducted in the late 1950's. A 95.1 tonne sample was composited and blended from the Castle Mountain bulk sample for the pilot plant test.

### *Bench Scale Testing*

Bench scale work was conducted on a sample of the Castle Mountain bulk sample and included head mineralogy, bench-scale grindability testing, bench-scale gravity and low intensity magnetic separation (LIMS) testing. A full suite of grindability testing was conducted on the sample. The sample was classified as soft to very soft in terms of rod and ball milling (RWI and BWI) and very soft in terms of autogenous milling (AWI). This bench work complements the Mozley Table and Davis Tube test work conducted on drill core composites earlier this year at SGS.

### *Pilot Plant Testing*

The initial flowsheet for the pilot plant test was designed based on historic metallurgical work with modifications indicated by the results of bench scale Mozley Table and Davis Tube tests conducted on drill core composites from Hopes Advance earlier this year (noted above).

The pilot plant test work concluded that an optimized flowsheet composed of single-stage semi autogeneous milling (SAG), followed by rougher, cleaner, and recleaner spirals was optimal. The rougher spiral tails were sent to a LIMS Cobber for recovery of the remaining magnetite. The Cobber concentrate (12.9% of the feed) is then sent to a regrind mill for further liberation of the magnetite. The liberated magnetite is then sent to the two-stage cleaning LIMS to produce an iron rich magnetite concentrate of 70.0% Fe.

The Castle Mountain composite, with a Head Fe of 34.2% and a magnetite content of 11.8% (Table 3) responded well to the optimized pilot plant flowsheet. With a target grind of 300 microns the gravity circuit produced concentrate with a SiO<sub>2</sub> content of 4.8%. Not only did the gravity circuit recover hematite, it recovered 46.7% of the magnetite (Table 4). The LIMS circuit with a target grind of 37 microns (minus 400 mesh) produced concentrate with a SiO<sub>2</sub> content of 3.0%. The LIMS circuit recovered another 49.8% of the magnetite. The optimized circuit produced a combined concentrate with 4.5% SiO<sub>2</sub> with a weight recovery of 37.6% and an iron recovery of 73.1%.

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Figure 1 – Optimized Flowsheet

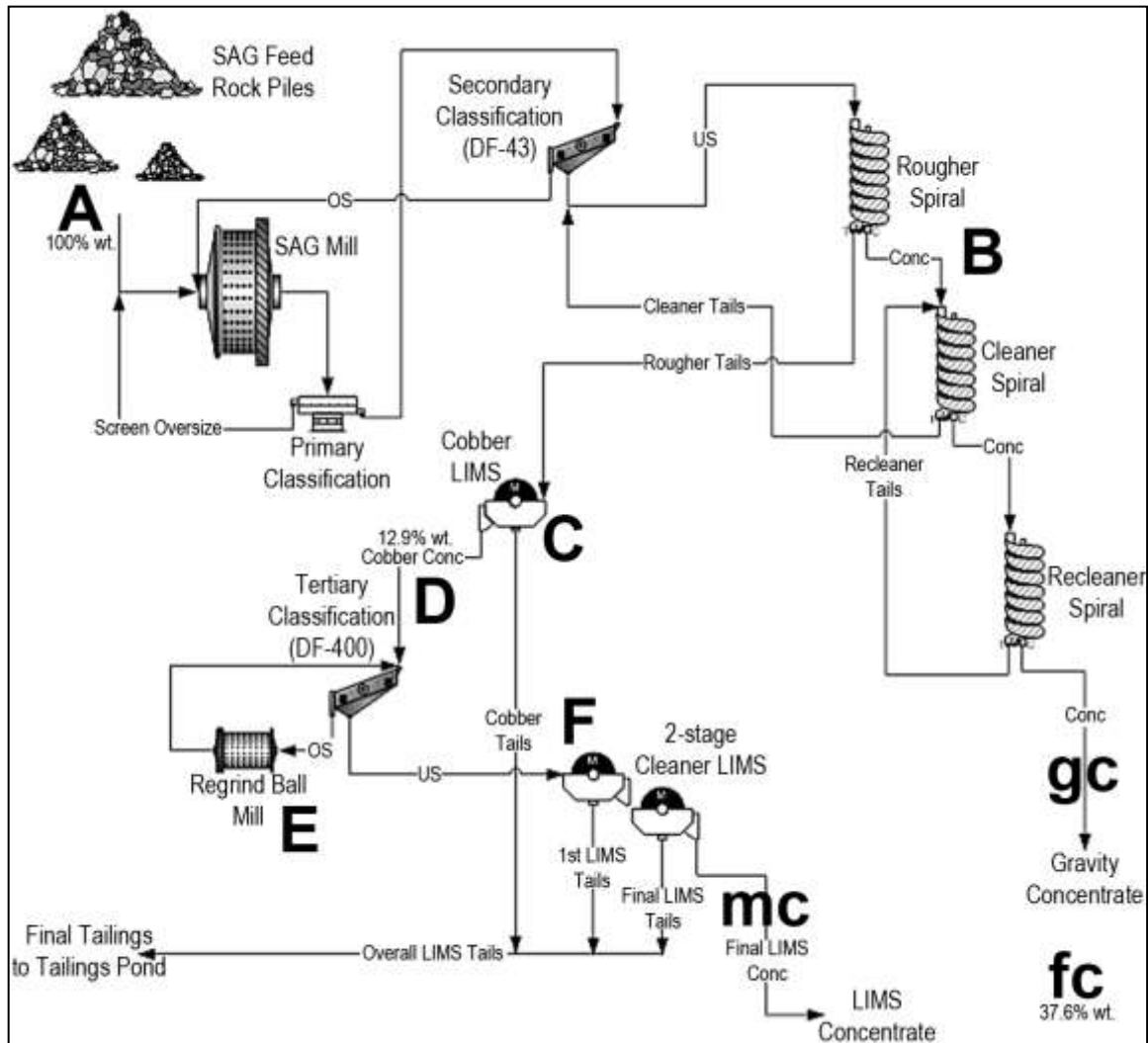


Figure 1 above sets out the optimized flowsheet. A description of the process is set out below:

- A. Crushed ore is fed into a SAG mill (no ball mill required at this stage), where the ore is ground to minus 50 mesh (300 microns);
- B. Ground ore is passed through a series of spirals to recover hematite, coarse magnetite, and aggregates of hematite and magnetite. A gravity concentrate (gc) is recovered;
- C. Tailings (rougher tails) from the spirals are sent to a magnetic cobber (low intensity magnetic cobber) where particles containing magnetite are separated from particles that do not contain magnetite;
- D. Only 12.9% by weight of ore requires fine grinding for magnetic separation processing;
- E. Residual magnetite containing particles are ground to minus 400 mesh (37 microns);



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- F. Ground magnetic material is passed through LIMS to recover the remaining magnetite. The magnetite concentrate (mc) is combined with the gravity concentrate (gc) to form the final concentrate (fc). By recovering the magnetite after gravity separation the amount of material that has to be finely ground is significantly reduced.

**Table 3 - Analysis of Head for Optimized Castle Mountain Pilot Plant Test**

| Composite       | Fe%  | Satmagan% |
|-----------------|------|-----------|
| Castle Mountain | 34.2 | 11.8      |

**Table 4 - Optimized Pilot Plant product quality and recovery**

| Composite / Streams          | Mass Dist. % | K80 $\mu\text{m}$ | Grade % |                  | Distribution (%) |          |
|------------------------------|--------------|-------------------|---------|------------------|------------------|----------|
|                              |              |                   | Fe      | SiO <sub>2</sub> | Fe               | Satmagan |
| <u>Castle Mountain</u>       |              |                   |         |                  |                  |          |
| Recleaner Spiral Concentrate | 31.5         | 144               | 65.9    | 4.8              | 60.6             | 46.7     |
| Secondary LIMS Cleaner Con.  | 6.1          | 33                | 70.0    | 3.0              | 12.5             | 49.8     |
| Combined Concentrate         | 37.6         |                   | 66.6    | 4.5              | 73.1             | 96.5     |

The results of the pilot plant test work on the composite suggest that Castle Mountain iron ore:

- Is soft;
- Can be processed with a simple flow sheet;
- Produces a concentrate with low SiO<sub>2</sub> and low deleterious elements;
- Produces concentrate with approximately 37.6% weight recovery and approximately 73.1% iron recovery, with 96.5% magnetite content recovery (Satmagan) (see Table 4 above).

The other zones at Hopes Advance can be expected to respond well to a similar flowsheet given the similarity in response to bench scale testing by Mozley Table and Davis tube as indicated by the results shown in Table 5 below.

**Table 5 - Summary of overall concentrate grade from Mozley Table and Davis Tube bench tests**

| Deposit                | Overall Concentrate Grade |                    |                                  |       |       | Overall Recovery |       |                    |       |
|------------------------|---------------------------|--------------------|----------------------------------|-------|-------|------------------|-------|--------------------|-------|
|                        | Fe %                      | SiO <sub>2</sub> % | Al <sub>2</sub> O <sub>3</sub> % | Sat % | MnO % | Wt %             | Fe %  | SiO <sub>2</sub> % | Sat % |
| <b>Castle Mountain</b> | 65.87                     | 4.42               | 0.02                             | 30.84 | 0.33  | 39.34            | 78.60 | 4.34               | 73.97 |
| <b>Iron Valley</b>     | 65.97                     | 4.64               | 0.04                             | 25.48 | 0.33  | 40.49            | 80.58 | 4.76               | 62.92 |
| <b>Bay Zone</b>        | 66.96                     | 4.46               | 0.03                             | 59.15 | 0.28  | 40.08            | 81.01 | 4.38               | 81.06 |
| <b>West Zone</b>       | 66.20                     | 4.31               | 0.03                             | 42.55 | 0.58  | 40.19            | 76.93 | 4.49               | 73.11 |

## Resource Estimate – Hopes Advance Project

In November 2012, the Company published an updated NI 43-101 compliant In-Pit Mineral Resource Estimate for the Hopes Advance project of 774,241,000 tonnes at 32.2% Fe measured, 613,796,000 tonnes at 32.0% Fe indicated and 222,188,000 tonnes at 32.5% Fe inferred. In addition, mineral reserves

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have been estimated at 763,276,000 tonnes at 32.3% Fe proven and 595,990,000 tonnes at 32.1% Fe probable for a total proven and probable reserve of 1,359,266,000 tonnes at 32.2% Fe.

Mineral reserves for the Hopes Advance project have been estimated as summarized in Table 6 below. Mineral reserves have not been estimated for the Bay Zone B or West Zone 2 pits as they are classified as inferred resources.

The open pit reserves, summarized below, are based on a 25% Fe cut-off grade. The reserves shown below are calculated based on industry standard pit optimization techniques guiding detailed pit designs including ramps and surface constraints. The mineral reserve is contained within the mineral resource. The effective date of the mineral reserve estimate is September 19, 2012.

**Table 6 – NI 43-101 In-Pit Mineral Reserve Estimate Hopes Advance Bay (25% Fe Cut-off)**

| Category                              | Tonnes        | Fe (%) | Wt. Recov. (%) | Concentrate Tonnes |
|---------------------------------------|---------------|--------|----------------|--------------------|
| <b>Proven Reserves</b>                | 763,276,000   | 32.3%  | 37.4%          | 285,428,000        |
| <b>Probable Reserves</b>              | 595,990,000   | 32.1%  | 37.1%          | 221,246,000        |
| <b>Proven &amp; Probable Reserves</b> | 1,359,266,000 | 32.2%  | 37.3%          | 506,675,000        |

The ultimate pit limits are based on the economic Lerchs-Grossmann algorithm designed to honour the property boundary and the setback from the lakes. The mine plan developed in this Pre-Feasibility Study is based on Measured and Indicated resources only. There is opportunity to upgrade some minor amounts of the inferred resource mineralization to ore classification with additional infill drilling.

There are no known legal, political, environmental or other risks that could materially affect the potential development of the mineral reserve.

The Pre-Feasibility Study mine schedule and economic analysis does not include inferred resources of approximately 72.7 million tonnes of 32.8% Fe. Mineral resources that are not mineral reserves do not have demonstrated economic viability.

The mineral resource estimates are classified as “measured”, “indicated”, or “inferred” as defined by CIM. According to the CIM definitions, a Mineral Resource must be potentially economic in that it must be “in such form and quantity and of such grade or quality that it has reasonable prospects for economic extraction”. For the Hopes Advance iron deposit, an iron cut-off grade was assigned based on economic assumptions and metallurgical parameters and was used in the resource estimations.

The “April, 2012” mineral resource estimate is effective as of 2 April 2012 and was prepared by Micon International Limited (“Micon”) under the direction of Eddy Canova, the Company’s Director of Exploration and a Qualified Person as defined in NI 43-101.

The “September, 2012” mineral resource estimate is effective as of 19 September 2012 and was prepared by Micon International Limited (“Micon”) under the direction of Eddy Canova. B. Terrence Hennessey, P. Geo., has reviewed this work and is the QP for this resource estimate update.

Further information in respect of the Company’s Resource Estimate and Pre-Feasibility Study is available in the full NI 43-101 technical reports available for access on the Company’s website ([www.oceanicironore.com](http://www.oceanicironore.com)) and on SEDAR ([www.sedar.com](http://www.sedar.com)).

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## **Environmental Review**

The Company appointed Québec based GENIVAR Inc. to lead the completion of the Environmental Impact Assessment in respect of the Hopes Advance project.

As at the date of this report, the Company has received guidelines for the review of the Hopes Advance project from the Canadian Environmental Assessment Agency, the Kativik Environmental Quality Commission and most recently, from the NMRIRB in August 2013. It should be noted that the additional work requirements contained in the new guidelines received from the NMRIRB will not materially impact the overall cost or the overall timetable for completion of the Environmental Impact Assessment.

All guidelines from all agencies are now in place and the Company continues to progress environmental baseline work to support the completion of the Environmental Impact Assessment.

## **Product Optimization Study**

In June 2013, the Company completed a process and product optimization study, led by Met-Chem, which enables the Company to determine the potential range of sinter feed and pellet feed product quantities and qualities that can be produced from the Hopes Advance project.

The Product Optimization Study was undertaken to further enhance the Company's understanding of the full range of process and product capabilities for the Hopes Advance project, helping to ensure a broad base for future off-take product agreements, including the maximization of potential premiums and the optimization of the Company's targeting of potential future end user markets and potential development partners.

The Product Optimization Study illustrates the flexibility and marketability of the Hopes Advance project across a range of potential strategic partners and potential off-take customers. In particular, the Product Optimization Study concludes that with minor alterations to the grinding process, as well as some minor changes to the downstream material handling system, the Hopes Advance project is capable of producing 2.4 million tonnes per annum of its initial 10 million tonnes per annum output (4.8 million tonnes per annum post expansion) of sinter quality product, at a 5.5% silica target. The total percentage of sinter product could potentially be optimized further if future customers have a higher silica tolerance in their blast furnace operations.

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**Table 7 – Product Results for Sinter Production for the Hopes Advance Project**

| Element                        | Base. %   | Max. %  | Min. % |
|--------------------------------|-----------|---------|--------|
| Fe <sub>Total</sub>            | 65.5      | 67      | 65     |
| SiO <sub>2</sub>               | 5.5       | 6       |        |
| MnO                            | 0.16      | 0.35    |        |
| Al <sub>2</sub> O <sub>3</sub> | 0.01      | 0.02    |        |
| C(t)                           | 0.1       | 0.2     |        |
| CaO                            | 0.27      | 0.3     |        |
| Cr <sub>2</sub> O <sub>3</sub> | 0.01      | 0.02    |        |
| Cu                             | < 0.01    | 0.01    |        |
| Hg                             | < 0.00003 | 0.00003 |        |
| K <sub>2</sub> O               | < 0.01    | 0.01    |        |
| MgO                            | 0.08      | 0.15    |        |
| Na <sub>2</sub> O              | 0.05      | 0.1     |        |
| P <sub>2</sub> O <sub>5</sub>  | 0.01      | 0.02    |        |
| S                              | 0.03      | 0.05    |        |
| TiO <sub>2</sub>               | < 0.01    | 0.01    |        |
| V <sub>2</sub> O <sub>5</sub>  | < 0.01    | 0.01    |        |
| LOI                            | 0.25      | 0.5     |        |

Overall, the results of the Product Optimization Study supplement the conclusions reached in the Company's Pre-Feasibility study.

## Marketing Study

In April 2013, the Company announced the results of a Value-In-Use Marketing Study completed by Vulcantech Technologies Pty Limited ("Vulcantech"). The Marketing Study was undertaken in order to broaden the Company's strategic understanding of the market for its future Hopes Advance iron ore products.

Market analysis was performed summarizing best fit between Hopes Advance iron products and end users taking into consideration geography and technical parameters, in particular focusing on how high quality iron products from the Hopes Advance project might blend with current steel manufacturer feed sources to enhance steel quality and blast furnace results. The Marketing Study also reported on potential premiums and recommendations in respect of optimizing revenues based on end user demand profiles.

The Marketing Study concluded that in addition to the iron unit premium for the high grade Hopes Advance product at 66.6% Fe measured against the 62% Fe benchmark, an estimated minimum 10% value-in-use premium can be anticipated due to the product's high quality and low impurities. To

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## Management's Discussion and Analysis of Financial Condition and Results of Operations First Quarter Report – June 30, 2013 and 2012

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illustrate, the Marketing Study concluded that a minimum 10% premium above prevailing prices for Brazilian ores of similar grade could be reasonably expected.

### **Pot Grate Test Work Program**

In August 2013, the Company announced the results of a pot grate test work program (the "Pot Grate Study") performed by Coleraine Minerals Research Laboratory on iron concentrates produced from the Company's Hopes Advance project.

The Pot Grate Study concluded that, with the addition of limestone and dolomite, concentrates from the Company's Hopes Advance project are capable of being transformed into high quality pellets, with very low deleterious elements and compressive strengths of up to 638 lbs and swelling of 10.6%.

This concentrate is expected to be in demand from steelmakers globally who are seeking high quality pellet feed concentrate to enhance production processes.

Eddy Canova, P.Geo., OGQ(403), the Director of Exploration for the Company and a Qualified Person as defined by NI 43-101, has reviewed and is responsible for the technical information contained in this document.

### **Overall Performance and Results of Operations**

Total assets increased to \$47,524,415 at June 30, 2013 from \$44,532,088 at March 31, 2013. The most significant assets at June 30, 2013 were mineral properties of \$37,796,875 (March 31, 2013: \$36,443,347), cash of \$4,021,001 (March 31, 2013: \$2,303,324), and receivables of \$4,904,404 (March 31, 2013: \$4,827,780). The Company's net working capital position at June 30, 2013 was \$4,984,575.

The increase in mineral properties of approximately \$1.3 million reflects the costs incurred in the continued development of the Hopes Advance project, including fieldwork and associated costs to complete legislated minimum work requirements on certain claims, as well as costs to progress the environmental permitting process.

The increase in cash during the period of \$1,717,677 resulted from \$2,765,936 received from financing activities, partially offset by \$608,094 incurred in operating activities and \$440,165 in investing activities. Expenditures incurred in investing activities included \$501,159 spent on mineral property expenditures, less \$56,114 received on the sale of marketable securities and interest income received of \$4,880. Financing activities comprised net proceeds from a non-brokered private placement via the issuance of a convertible debenture of \$2,789,552 (net of share issue costs), less interest expense on the demand loan of \$23,616.

The increase in receivables of \$76,624 resulted from increased input tax credits owing from the CRA as a result of increased expenditures in the quarter versus the fourth quarter of 2013.

### Three month period ended June 30, 2013 and 2012

The Company incurred a net loss of \$844,279 during the three months ended June 30, 2013 (2012: \$622,862). The most significant operating expenses incurred were non-cash share-based payments of \$441,349 (2012: \$57,579), consulting and management fees of \$137,500 (2012: \$276,847), investor

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relations and corporate development expenses of \$76,482 (2012: \$122,326), and wages and benefits of \$114,339 (2012: \$143,561). Non-cash share-based payments represent the Black-Scholes calculated fair value of the stock options vested during the period from options granted to directors, officers, consultants and charities during the current and prior periods. The increase in share-based payments compared to the same period in the prior year results from the granting of 3,055,000 stock options in January 2013 which continued to vest over the three month period ended June 30, 2013 as compared to only 1,250,000 stock options granted part way through the three month period ended June 30, 2012. The decrease in consulting and management fees results from the Company's efforts to reduce non-essential consulting costs in order to better preserve cash. The decrease in investor relations and corporate development costs reflected reduced participation in certain conferences and other general marketing efforts as the Company focused primarily on efforts to secure a strategic partner for the Hopes Advance project. The decrease in salaries and wages primarily relates to one-time recruitment costs incurred in the three month period ended June 30, 2012 relating to the hiring of the Company's President and Chief Operating Officer ("COO").

During the three months ended June 30, 2013, the Company recorded interest income of \$9,171 (2012: \$28,443), which consisted of interest earned on the Company's term deposits. The Company incurred \$84,304 of interest and other financing expense (2012: \$15,220), most of which comprises interest charges on the demand loan with National Bank. The increase in interest and other financing expense over the same period in the prior year reflects a higher principal balance owing on the demand loan during the current quarter over the same quarter in the prior year. The Company recorded a deferred tax recovery during the three months ended June 30, 2013 of \$149,235 (2012: expense of \$43,743), to recognize the tax benefits of additional non-capital losses in the period, partially offset by the deferred tax expenses recognized given the accounting to tax basis difference on the value of the convertible debenture liability.

### **Liquidity and Capital Resources**

While the unaudited condensed interim financial statements have been prepared on the basis that the Company will continue as a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due, there are certain conditions and events that may cast significant doubt on the validity of this assumption. For the three months ended June 30, 2013, the Company reported a loss of \$844,279 and as at that date had an accumulated deficit of \$21,504,560 and a working capital balance of \$4,984,575. In the event the Company does not receive the proceeds from its refundable exploration tax credit claim for the year ended March 31, 2012 in the coming months, the Company will need to raise sufficient funds in order to finance ongoing exploration and administrative expenses, as well as repay the Company's demand loan. The success of raising such funds cannot be assured. Factors that could affect the availability of financing include the Company's performance, the state of international debt and equity markets, investor perceptions and expectations, and the global financial and metals markets. The Company has sufficient cash resources to settle outstanding liabilities at June 30, 2013.

### Convertible Debenture

On May 23, 2013, the Company completed a non-brokered financing of \$3 million by way of issuance of a convertible debenture, which earns interest at a rate of 6% over a 30 month term.

## **Oceanic Iron Ore Corp.**

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The principal amount of the debenture may be convertible to common shares of the Company at a price of \$0.16 per share at the election of the subscriber. In addition, and subject to receipt of all required regulatory approvals, the Company has the right at any time to pay all or any part of the unpaid principal in respect of the debenture in common shares, where the issue price of each common share will be equal to the volume weighted average trading price for the 20 days prior to the date of notice of the conversion.

In the event that the volume weighted average trading price of common shares is equal to or greater than \$0.16 per share for any 20 consecutive trading day period during the term of the debenture, the principal and interest owing under the debenture will be automatically converted into common shares of the Company.

Issuance costs of \$210,448 were incurred and are being amortized to the statements of comprehensive loss over the life of the convertible debenture. Interest and accretion expense for the three months ended June 30, 2013 was \$60,688 (2012: \$nil).

#### Demand Loan

The Company has a demand loan facility in place with the National Bank of Canada (the "Demand Loan"). Under the facility agreement, the Company must maintain an adjusted long-term debt to net worth ratio of 2.5:1. As at June 30, 2013, the Company was in compliance with this covenant.

The maturity date of the Demand Loan is August 31, 2013. Subsequent to the period end, the National Bank of Canada extended the maturity date of the Demand Loan to September 30, 2013 to allow for the receipt of the Company's exploration tax credit claim, expected in September 2013. The guarantee provided by Investissement Québec relating to the Demand Loan expires the earlier of September 30, 2013 and the date on which the Demand Loan is repaid.

#### **Off-Balance Sheet Arrangements**

As at June 30, 2013, the Company had no Off-Balance sheet arrangements.

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### Summary of Quarterly Results

Below is a summary of results for the eight most recently completed quarters in accordance with IFRS:

|                                  | Q1<br>2014   | Q4<br>2013   | Q3<br>2013   | Q2<br>2013   |
|----------------------------------|--------------|--------------|--------------|--------------|
| Revenues ( <b>Note 1</b> )       | \$ 10,838    | \$ 13,384    | \$ 14,505    | \$ (2,153)   |
| Net loss                         | \$ (844,279) | \$ (741,905) | \$ (673,756) | \$ (589,800) |
| Basic and diluted loss per share | \$ (0.004)   | \$ (0.004)   | \$ (0.003)   | \$ (0.003)   |

|                                  | Q1<br>2013   | Q4<br>2012   | Q3<br>2012     | Q2<br>2012     |
|----------------------------------|--------------|--------------|----------------|----------------|
| Revenues ( <b>Note 1</b> )       | \$ 31,372    | \$ 31,957    | \$ 21,390      | \$ 27,896      |
| Net loss                         | \$ (622,862) | \$ (748,072) | \$ (1,599,936) | \$ (1,275,568) |
| Basic and diluted loss per share | \$ (0.004)   | \$ (0.006)   | \$ (0.010)     | \$ (0.009)     |

**Note 1** – Revenues comprise interest income earned on bank deposits and other income based on accounting and administrative services provided to a related party.

Operating expenses and overall net loss remained fairly consistent from the first to the third quarters of 2012 as the Company continued to advance the 2011 resource verification program. In the fourth quarter of 2012, the net loss decreased significantly, primarily due to a decrease in recognition of share-based payments to officers, directors, consultants and charities, partially offset by an increase in consulting and management fees as performance bonuses were accrued for key management personnel. The net loss further decreased from Q1 to Q3 2013 given the fact that management bonuses were determined in Q4 2012 and transaction costs were also incurred in Q4 in conjunction with the demand loan towards the end of the 2012 fiscal year, both of which are non-recurring costs quarter over quarter. The increase in net loss in Q1 2014 and Q4 2013 versus Q3 2013 can be attributed to Black-Scholes calculated fair value of share-based payments recorded as a result of the vesting of 3,055,000 stock options in January 2013.

### Critical Accounting Policies

A detailed summary of all the Company's significant accounting policies is included in Note 3 to the audited annual financial statements for the year ended March 31, 2013.



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## Recently Issued Accounting Standards

### a) Recently issued and applied accounting standards

#### Pronouncements affecting financial statement presentation or disclosures

##### *IFRS 12, Disclosure of interests in other entities*

The Company adopted IFRS 12 on April 1, 2013. IFRS 12 establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities.

The requirements of IFRS 12 relate to disclosures only and are applicable for the first annual period after adoption. IFRS 12 does not require the disclosures to be included for any period that precedes the first annual period for which IFRS 12 is applied. Additional disclosures will be included in the Company's annual financial statements for the year ended March 31, 2014, if applicable.

##### *IFRS 13, Fair value measurement*

The Company adopted IFRS 13 with prospective application from April 1, 2013. IFRS 13 is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date.

In accordance with the adoption of IFRS 13, interim disclosure requirements of IFRS 13 have been incorporated in note 12 of the unaudited condensed interim financial statements for the three months ended June 30, 2013 and 2012.

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

The Company adopted the amendments to IAS 1 on April 1, 2013, with retrospective application. The amendments to IAS 1 require items to be grouped within other comprehensive income that may be reclassified to profit or loss and those that will not be reclassified.

The adoption of the IAS 1 amendments did not have an effect on the Company's condensed interim financial statements for the current period or prior period.

##### *Amendment to IAS 34, Interim financial reporting*

The Company adopted the amendments to IAS 34 effective April 1, 2013. IAS 34 was amended to establish criteria for disclosing total segmented assets and require certain fair value disclosures. The fair value disclosures have been incorporated into the unaudited condensed interim financial statements for the three months ended June 30, 2013 and 2012.

#### Pronouncements affecting accounting policies only

##### *IFRS 10 - Consolidated financial statements*

The Company adopted IFRS 10 on April 1, 2013 with retrospective application. IFRS 10 requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power

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over the investee. IFRS 10 supersedes IAS 27, Consolidated and Separate Financial Statements and SIC 12, Consolidation – Special Purpose Entities.

The Company has concluded that IFRS 10 did not have an effect on the financial statements for the current period or prior periods presented as the Company does not have any subsidiaries.

### *IFRS 11- Joint arrangements*

The Company adopted IFRS 11 on January 1, 2013 with retrospective application. IFRS 11 requires a venturer to classify its interest in a joint agreement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation.

The Company has concluded that IFRS 11 did not have an effect on the condensed interim financial statements for the current period or prior periods presented as the Company does not have any joint arrangements.

### **b) Accounting standards recently issued but not yet applied**

#### *IFRS 9 – Financial instruments*

In November 2009, the IASB issued IFRS 9 Financial Instruments as the first step in its project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on an entity's business model and the contractual cash flows of the financial asset. Classification is made at the time the financial asset is initially recognized, namely when the entity becomes a party to the contractual provisions of the instrument. IFRS 9 amends some of the requirements of IFRS 7 Financial Instruments: Disclosures, including added disclosures about investments in equity instruments measured at fair value in OCI, and guidance on the measurement of financial liabilities and derecognition of financial instruments.

In December 2011, the IASB issued an amendment that adjusted the mandatory effective date of IFRS 9 from January 1, 2013 to January 1, 2015. The Company has not yet begun assessing the impact of adopting IFRS 9 on its financial statements, including the applicability of early adoption.

### **Critical Accounting Estimates**

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Areas requiring the use of estimates include measurement of advance royalty payables, measurement of the convertible debenture, and measurement and recovery of deferred tax benefits. 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 period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the notes to the annual audited financial statements for the year ended March 31, 2013 where applicable.

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## Financial Instruments and Other Instruments

### *Financial Risk Management*

The Company is exposed in varying degrees to a variety of financial instrument related risks. The board approves and monitors the risk management processes.

### Credit Risk

Credit risk arises from the potential for non-performance by counterparties of contractual financial obligations. The Company's exposure to credit risk is on its cash and cash equivalents and receivables. The Company has concentration of risk with respect to cash being held with two large Canadian financial institutions. The Company's credit risk is mitigated by maintaining its financial liquid assets with highly reputable counterparties. The maximum exposure to credit risk is equal to the carrying value of cash and cash equivalents, receivables, and restricted cash.

### Liquidity Risk

Liquidity risk is the risk that the Company cannot meet its obligations as they fall due. The Company's cash and cash equivalents are invested in business accounts and term deposits which are available on demand. The Company manages liquidity risk by preparing and maintaining cash forecasts, which illustrate cash spent to date and our cash needs over the short term. Contractual undiscounted cash flow requirements for financial liabilities as at June 30, 2013 and March 31, 2013 are presented below.

#### June 30, 2013

|  | Less than 1 year | 1 - 3 years | 4 - 5 years | Total      |
|--|------------------|-------------|-------------|------------|
| Accounts payable and accrued liabilities | \$ 977,133       | \$ -        | \$ -        | \$ 977,133 |
| Due to related parties                   | 20,865           | -           | -           | 20,865     |
| Demand loan                              | 3,123,190        | -           | -           | 3,123,190  |
| Advance royalty payable                  | 200,000          | 600,000     | 200,000     | 1,000,000  |

#### March 31, 2013

|  | Less than 1 year | 1 - 3 years | 4 - 5 years | Total      |
|--|------------------|-------------|-------------|------------|
| Accounts payable and accrued liabilities | \$ 369,050       | \$ -        | \$ -        | \$ 369,050 |
| Due to related parties                   | 41,511           | -           | -           | 41,511     |
| Demand loan                              | 3,123,190        | -           | -           | 3,123,190  |
| Advance royalty payable                  | 200,000          | 600,000     | 200,000     | 1,000,000  |

The Company's ability to continue operations in the normal course of business is dependent on several factors, including receipt of the proceeds from its refundable exploration tax credit claim for the year ended March 31, 2012, or in the absence of timely receipt of the aforementioned refund, the ability to secure additional financing. In addition, the recoverability of the amounts shown for mineral properties are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production, all of which are uncertain.

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### *Market Risk*

Market risk is the risk that the fair market value of the Company's financial instruments will significantly fluctuate due to changes in market prices. The value of the financial instruments can be affected by changes in interest rates, foreign exchange rates and equity and commodity prices. The Company is exposed to market risk in trading its marketable securities as well as its cash and cash equivalents. The Company manages market risk by investing in diverse industries and companies.

The Company's financial instruments are not subject to significant fluctuation due to changes in equity prices of investments included in marketable securities, commodity prices or foreign exchange rates.

The Company also invests surplus cash in fixed rate term deposits. It is the Company's policy to reduce interest rate risk over future cash flows through the use of instruments with a history of returns. A 1% change in interest rates would have a \$35,345 impact on net loss and comprehensive loss.

### *Fair value*

A three-level hierarchy for fair value measurements exists based upon the significance of inputs used in making fair value measurements:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 – inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data.

At June 30, 2013, marketable securities were categorized as level 1.

Fair value is based on available public market information or, when such information is not available, estimated using present value techniques and assumptions concerning the amount and timing of future cash flows and discount rates which factor in the appropriate credit risk. The carrying values of cash and cash equivalents, receivables, restricted cash, accounts payable and accrued liabilities, and the demand loan approximate their fair values due to their short term nature.

### **Commitments**

Effective March 1, 2011 (amended on January 1, 2012); the Company entered into an agreement with an affiliated company, with a director and officer in common, in respect of shared lease, overhead and service costs. Under the agreement, the Company is billed quarterly for office rental and other services relating to its Head Office in Vancouver. The agreement expires on September 29, 2015, but either party may terminate the agreement by providing 90 days' notice.

Effective May 25, 2012, the Company entered into an agreement with Monit International Inc. in respect of the leasing of new office space in Montreal, Québec. The agreement expires on January 31, 2023, but the Company may terminate the agreement effective December 31, 2016 with six months' notice.

As part of the acquisition of the Ungava Bay mineral properties, commencing on November 30, 2011, Oceanic must pay advance NSR payments of \$200,000 per year, which will be credited against all future NSR payments payable from production. The Company made its second payment to the Vendors on November 16, 2012.

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The committed charges for the Company are as follows:

| <b>March 31,</b> | <b>Vancouver<br/>office rent</b> | <b>Montreal<br/>office rent</b> | <b>NSR<br/>payments</b> | <b>Total<br/>commitments</b> |
|------------------|----------------------------------|---------------------------------|-------------------------|------------------------------|
| 2014             | \$ 34,120                        | \$ 96,494                       | \$ 200,000              | \$ 330,614                   |
| 2015             | -                                | 130,784                         | 200,000                 | 330,784                      |
| 2016             | -                                | 132,973                         | 200,000                 | 332,973                      |
| Thereafter       | -                                | 175,761                         | 200,000                 | 375,761                      |
|                  | <b>\$ 34,120</b>                 | <b>\$ 536,012</b>               | <b>\$ 800,000</b>       | <b>\$ 1,370,132</b>          |

### Related Party Transactions and Key Management Compensation

a) Key management compensation

Key management includes the Company's directors, Chief Executive Officer, Chief Financial Officer and President and Chief Operating Officer. Compensation awarded to key management is presented in the table below:

|                      | <b>Three months ended<br/>June 30, 2013</b> | Three months ended<br>June 30, 2012 |
|----------------------|---|-------------------------------------|
| Wages and benefits   | <b>\$ 68,750</b>                            | \$ 21,859                           |
| Consulting fees      | <b>122,500</b>                              | 145,000                             |
| Directors' fees      | <b>7,500</b>                                | 11,500                              |
| Share-based payments | <b>404,382</b>                              | 26,126                              |
|                      | <b>\$ 603,132</b>                           | \$ 204,485                          |

b) Payments for services by related parties

As disclosed in the section entitled "Commitments", the Company is charged shared lease and overhead, and service costs by an affiliated company, with a director and officer in common. For the three months ended June 30, 2013, the Company incurred \$33,479 in shared lease and overhead, and service costs (2012: \$30,847). Refer to the section entitled "Commitments" for a listing of future commitments in respect of such lease costs.

c) Services provided to related parties

During the three months ended June 30, 2013, the Company provided accounting and administrative services to an affiliated company with a director and an officer in common. For the three months ended June 30, 2013, the Company earned income totalling \$1,667 for accounting and administrative services (2012: \$2,941).

Amounts due to related parties at June 30, 2013 amounted to \$20,865 (March 31, 2013: \$41,511). All related party transactions were made on terms equivalent to those that prevail in arm's length transactions. None of the amounts due to related parties are secured against assets of the Company.

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### Outstanding Share Data

As at the date of this report, there were 196,618,231 common shares issued and outstanding.

As at the date of this report, there were 19,643,500 stock options, 37,837,500 common share purchase warrants outstanding.

As discussed in the section entitled "Convertible Debenture", under the terms of the convertible debenture, the principal amount of the Debenture can be converted, at the election of the subscriber, to 18,750,000 common shares of the Company at a price of \$0.16 per share. In addition, and subject to receipt of all required regulatory approvals, the Company has the right at any time to pay all or any part of the unpaid principal in respect of the Debenture in common shares, where the issue price of each common share will be equal to the volume weighted average trading price for the 20 days prior to the date of notice of the conversion.

In the event that the volume weighted average trading price of common shares is equal to or greater than \$0.16 per share for any 20 consecutive trading day period during the term of the Debenture, the principal and interest owing under the Debenture will be automatically converted into 18,750,000 common shares of the Company at \$0.16 per common share.

### Risks and Uncertainties

The Company is in the business of acquiring, exploring and, if warranted, developing and exploiting natural resource properties in Québec, Canada. Due to the nature of the Company's proposed business and the present stage of exploration of its mineral properties (which are primarily exploration), the following risk factors, among others, will apply:

#### *Going Concern*

The financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

While these financial statements have been prepared on the basis that the Company will continue as a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due, there are certain conditions and events that may cast significant doubt on the validity of this assumption. For the three months ended June 30, 2013, the Company reported a loss of \$844,279 and as at that date had an accumulated deficit of \$21,501,560 and a working capital balance of \$4,984,575. In the event the Company does not receive the proceeds from its refundable exploration tax credit claim for the year ended March 31, 2012 in the coming months, the Company will need to raise sufficient funds in order to finance ongoing exploration and administrative expenses, as well as repay the Company's demand loan. The success of raising such funds cannot be assured. Factors that could affect the availability of financing include the Company's performance, the state of international debt and equity markets, investor perceptions and expectations, and the global financial and metals markets.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary were the going concern assumption deemed to be inappropriate, and these adjustments could be material.

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### *Exploration, Development and Operating Risks*

The exploration for and development of mineral deposits involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. Few properties that are explored are ultimately developed into producing mines. Major expenses may be required to locate and establish mineral reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. It is impossible to ensure that the exploration or development programs planned by the Company will result in a profitable commercial mining operation. Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are: the particular attributes of the deposit, such as quantity and quality of the minerals and proximity to infrastructure; mineral prices, which are highly cyclical; and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted but could have a material adverse effect upon the Company's operations.

Mining operations generally involve a high degree of risk. The operations of the Company are subject to all the hazards and risks normally encountered in the exploration, development and production of minerals, including unusual and unexpected geologic formations, seismic activity, rock bursts, cave-ins, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although adequate precautions to minimize risk will be taken, milling operations are subject to hazards such as equipment failure or failure of retaining dams around tailings disposal areas, which may result in environmental pollution and consequent liability.

There is no certainty that the expenditures made by the Company toward the search and evaluation of minerals will result in discoveries of mineral resources, Mineral Reserves or any other mineral occurrences.

### *Political Stability and Government Regulation Risks*

The operations of the Company are currently conducted in Canada. As such, the operations of the Company are exposed to various levels of political, economic and other risks and uncertainties. These risks and uncertainties include, but are not limited to: terrorism; extreme fluctuations in currency exchange rates; and changing political conditions, currency controls and governmental regulations. Changes, if any, in mining or investment policies or shifts in political attitudes in any of these countries may adversely affect the operations or profitability of the Company. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, expropriation of property, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety. Failure to comply strictly with applicable laws, regulations and local practices relating to mineral rights applications and tenure could result in loss, reduction or expropriation of entitlements, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests.

The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the operations or profitability of the Company.

### *Insurance and Uninsured Risks*

The business of the Company is subject to a number of risks and hazards in general, including adverse environmental conditions, industrial accidents, labor disputes, unusual or unexpected geological conditions, ground or slope failures, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to

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mineral properties or facilities and equipment, personal injury or death, environmental damage to properties of the Company or others, delays in mining, monetary losses and possible legal liability.

Although the Company may maintain insurance to protect against certain risks in such amounts as it considers being reasonable, its insurance may not cover all the potential risks associated with a mining company's operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Company or to other companies in the mining industry on acceptable terms. The Company might also become subject to liability for pollution or other hazards which it may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

### *Environmental Risks and Hazards*

All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner that will require stricter standards and enforcement and involve increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards may exist on properties in which the Company holds interests which are unknown to the Company at present and which have been caused by previous or existing owners or operators of the properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions there under, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in mining operations or in the exploration or development of mineral properties may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing operations and activities of mining and exploration companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in exploration expenses, capital expenditures or require abandonment or delays in development of new mining properties.

### *Fluctuations in Metal Prices*

The price of the common shares, and the financial results and exploration, development and mining activities of the Company, may in the future be significantly and adversely affected by declines in the prices of iron ore and other metals or minerals. The prices of iron ore and other metals or minerals fluctuate widely and are affected by numerous factors beyond the control of the Company such as the sale or purchase of commodities by various central banks and financial institutions, interest rates, exchange rates, inflation or deflation, fluctuations in the value of the United States dollar and other foreign currencies, global and regional supply and demand, the political and economic conditions and production costs of major mineral-producing countries throughout the world, the cost of substitutes, inventory levels and carrying charges. Future serious price declines in the market prices of iron ore or other metals or minerals could cause continued development of and commercial production from the properties in which



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the Company holds an interest to be impracticable. Depending on the prices of iron ore and other metals and minerals, cash flow from mining operations could not be sufficient and the Company may lose its interest in, or may be forced to sell, some of its properties. Future production from the Company's properties is dependent upon the prices of iron ore and other metals and minerals being adequate to make these properties economically viable.

In addition to adversely affecting the resource estimates of the Company and its financial condition, declining commodity prices can affect operations by requiring a reassessment of the feasibility of a particular project. Such a reassessment may be the result of a management decision or be required under financing arrangements related to a particular project. Even if a project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or interrupt operations until the reassessment can be completed.

### *Key Personnel*

The Company is dependent upon the services of key executives, including the directors of the Company and a small number of highly skilled and experienced executives and personnel. Due to the relatively small size of the Company, the loss of these persons or the inability of the Company to attract and retain additional highly-skilled employees may adversely affect its business and future operations.

### *Share Price Volatility and Liquidity*

Publicly quoted securities are subject to a relatively high degree of price volatility. It may be anticipated that the quoted market for our shares will be subject to market trends generally, notwithstanding any potential success of us in creating sales and revenues. In addition, our shareholders may be unable to sell significant quantities of shares into the public trading markets without a significant reduction in the price of their shares, if at all.

### **Disclosure Controls and Procedures**

Disclosure controls and procedures ("DC&P") are intended to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified by securities regulations and that information required to be disclosed is accumulated and communicated to management. Internal controls over financial reporting ("ICFR") are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purpose in accordance with Canadian generally accepted accounting principles.

TSX-V listed companies are not required to provide representations in the annual filings relating to the establishment and maintenance of DC&P and ICFR, as defined in Multinational Instrument 52-109. In particular, the CEO and CFO certifying officers do not make any representations relating to the establishment and maintenance of (a) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation, and (b) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in their certificates regarding the absence of misrepresentations and fair disclosure of financial information. Investors should be aware that inherent limitations on the ability of certifying officers of a TSX-V issuer to design and implement on a cost effective basis DC&P and ICFR as defined in Multinational Instrument 52-109 may result in additional

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risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

### Forward Looking Statements

This document includes certain "Forward-Looking Statements" as that term is used in applicable securities law. All statements included herein, other than statements of historical fact, including, without limitation, statements regarding potential mineralization and resources, exploration results, and future plans and objectives of the Company, are forward-looking statements that involve various risks and uncertainties. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "scheduled", "believes", or variations of such words and phrases or statements that certain actions, events or results "potentially", "may", "could", "would", "might" or "will" be taken, occur or be achieved. There can be no assurance that such statements will prove to be accurate, and actual results could differ materially from those expressed or implied by such statements. Forward-looking statements are based on certain assumptions that management believes are reasonable at the time they are made. In making the forward-looking statements in this presentation, the Company has applied several material assumptions, including, but not limited to, the assumption that: (1) there being no significant disruptions affecting operations, whether due to labour/supply disruptions, damage to equipment or otherwise; (2) permitting, development, expansion and power supply proceeding on a basis consistent with the Company's current expectations; (3) certain price assumptions for iron ore; (4) prices for availability of natural gas, fuel oil, electricity, parts and equipment and other key supplies remaining consistent with current levels; (5) the accuracy of current mineral resource estimates on the Company's property; and (6) labour and material costs increasing on a basis consistent with the Company's current expectations. Important factors that could cause actual results to differ materially from the Company's expectations are disclosed under the heading "Risks and Uncertainties" in this MD&A. Such factors include, among others, risks related to the ability of the Company to obtain necessary financing and adequate insurance; the economy generally; fluctuations in the currency markets; fluctuations in the spot and forward price of iron ore or certain other commodities (e.g., diesel fuel and electricity); changes in interest rates; disruption to the credit markets and delays in obtaining financing; the possibility of cost overruns or unanticipated expenses; employee relations. Accordingly, readers are advised not to place undue reliance on Forward-Looking Statements. Except as required under applicable securities legislation, the Company undertakes no obligation to publicly update or revise Forward-Looking Statements, whether as a result of new information, future events or otherwise.

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