



**(A Development-Stage Company)**  
**Management's Discussion and Analysis**  
**For the year ended December 31, 2016**

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## **Introduction**

This Management's Discussion and Analysis ("MD&A") provides a review of the financial performance, financial condition and cash flows of Alderon Iron Ore Corp. for the year ended December 31, 2016. In this MD&A, "Alderon", the "Company", "we", "us" or "our" mean Alderon Iron Ore Corp. and its subsidiaries and affiliates. This MD&A should be read in conjunction with the Company's annual consolidated financial statements as of December 31, 2016 and 2015 (the "Financial Statements"). This MD&A is prepared as of March 29, 2017.

The Company has prepared this MD&A with reference to National Instrument 51-102 "Continuous Disclosure Obligations" of the Canadian Securities Administrators.

All dollar amounts in this MD&A are presented in Canadian dollars (which is the Company's presentation and functional currency), except where otherwise indicated.

## **Responsibility of financial reports**

Management is responsible for the preparation and integrity of financial reports, as well as for the maintenance of appropriate information systems, procedures and internal controls and for ensuring that information used internally or disclosed externally, including our Financial Statements and MD&A, is complete and reliable. The Company's Board of Directors follows recommended corporate governance guidelines for public companies to ensure transparency and accountability to shareholders. Our Board of Directors' Audit Committee meets with management quarterly to review the Financial Statements and the MD&A and to discuss other financial, operating and internal control matters.

Our Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. Consequently, all comparative financial information presented in this MD&A reflects the consistent application of IFRS.

## **Forward-looking information**

This MD&A contains "forward-looking information" within the meaning of the U.S. Private Securities Litigation Reform Act and applicable Canadian securities laws concerning anticipated developments and events that may occur in the future. Forward looking information contained in this MD&A includes, but is not limited to, statements with respect to: (i) permitting time lines; (ii) the sufficiency of working capital; (iii) requirements for additional capital; (iv) development, construction and production timelines and estimates; (v) the timing of long lead equipment items; (vi) the supply of power for the Kami Project; (vii) forecasts for future expenditures; (viii) the Company's financing strategy for the development of the Kami Project, including a senior debt facility; (ix) the results of the PEA including statements about mineral resources, estimated future production, future operating and capital costs, the projected IRR, NPV, payback period, construction timelines and production timelines for the Kami Project; and (x) the statements in the "Outlook" section of this MD&A, including, the successful completion of a senior debt facility and other financing for the construction of the Kami Project, and the expected timeline for the commencement of construction and its duration.

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In certain cases, forward-looking information can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Forward-looking information contained in this MD&A is based on certain factors and assumptions regarding, among other things, the estimation of mineral resources, the realization of resource estimates, iron ore and other metal prices, the timing and amount of future exploration and development expenditures, the estimation of initial and sustaining capital requirements, the estimation of labour and operating costs, the availability of necessary financing and materials to continue to explore and develop the Kami Property (as defined below) in the short and long-term, the progress of exploration and development activities, the receipt of necessary regulatory approvals, the estimation of insurance coverage, and assumptions with respect to currency fluctuations, environmental risks, title disputes or claims, and other similar matters. While the Company considers these assumptions to be reasonable based on information currently available to it, these assumptions may prove to be incorrect.

Forward looking information involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information including, without limitation, the following risks and uncertainties referred to under the heading "Risk Factors" in the Company's Annual Information Form ("Annual Report") for the year ended December 31, 2016:

- risks relating to the fact that the Company depends on a single mineral project;
- risks inherent in the exploration and development of mineral deposits, including risks relating to changes in project parameters as plans continue to be redefined including the possibility that mining operations may not commence at the Kami Property;
- risks relating to variations in mineral resources, grade or recovery rates resulting from current exploration and development activities;
- risks related to fluctuations in the price of iron ore as the Company's future revenues, if any, are expected to be derived from the sale of iron ore;
- risks related to a reduction in worldwide and specifically Chinese demand for iron ore which could result in lower prices and demand for iron ore;
- financing, capitalization and liquidity risks, including the risk that the financing necessary to fund the development and construction activities at the Kami Property may not be available on satisfactory terms, or at all;
- the Company has no history of mining operations and no revenues from operations and expects to incur losses for the foreseeable future;
- risks related to the Company relying on two customers for 100% of its expected iron ore concentrate production;
- risks related to the Company obtaining various permits required to conduct its current and anticipated future operations;
- risks related to unresolved land claims by various aboriginal groups;
- risks related to disputes concerning property titles and interest;
- risks relating to the ability to access rail transportation, sources of power and port facilities;
- the Company is dependent on the support and cooperation of HBIS Group Co., Ltd. (formerly "Hebei Iron & Steel Group Co. Ltd") ("HBIS Group"), its partner to develop the Kami Property;

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- operational risks inherent in the conduct of mining activities, including the risk of accidents, labour disputes, increases in capital and operating costs and the risk of delays or increased costs that might be encountered during the development process;
- risks related to the significant governmental regulation that the Company is subject to;
- environmental risks;
- reliance on key personnel;
- risks related to increased competition in the market for iron ore and related products and in the mining industry generally;
- risks related to potential conflicts interests among the Company's directors and officers;
- the absence of dividends;
- risks related to current global financial conditions;
- land reclamation requirements may be burdensome;
- risks associated with the acquisition of any new properties;
- uncertainties inherent in the estimation of mineral resources;
- the Company may become subject to legal proceedings; and
- risks relating to the Company's common shares.

Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. The forward-looking information is made as of the date of this MD&A.

Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement. Except as required by applicable securities laws, the Company does not undertake any obligation to publicly update or revise any forward-looking information, and readers should also carefully consider the matters discussed under the heading, "Risk Factors", in this MD&A and in the Annual Report.

### **Description of business and overview**

Alderon is a development-stage company conducting iron ore evaluation activities related entirely to its Canadian properties located in western Labrador in the province of Newfoundland & Labrador. Those properties are collectively referred to as the Kamistiasusset, or "Kami", Property. All activities associated with the Kami Property are referred to as the Kami Project.

The Company's common shares are listed on the Toronto Stock Exchange ("TSX"), under the symbol "IRON". Effective March 8, 2017, the Company changed its trading symbol from "ADV" to "IRON".

## **The Kami Project**

Alderon is focused on developing its core asset, the Kami Property of which it owns 75%, located next to the mining towns of Wabush and Labrador City in western Labrador, Canada. The Kami Property is surrounded by two producing mines and is within close proximity to a common carrier railway that is connected to deep sea ports with year-round access to the global market. The Company's goal is to develop the Kami Property into a profitable mining operation and to become a producer of low-cost iron concentrate by taking advantage of the Kami Property's strategic location and of the readily available regional infrastructure.

Technical information disclosed in this MD&A is from the National Instrument ("NI") 43-101 Technical Report entitled "Re-Scoped Preliminary Economic Assessment of the Kamistatusset (Kami) Iron Ore Property, Labrador", dated effective February 28, 2017 (the "Technical Report" or "PEA") and filed on SEDAR ([www.sedar.com](http://www.sedar.com)). The Technical Report was prepared under the supervision of Mr. Angelo Grandillo, P.Eng, of BBA, a Qualified Person as defined by NI 43-101, with contributions from Gemtec Limited and Watts, Griffis and McOuat Limited ("WGM"). Mr. Grandillo is a Qualified Person as defined by NI 43-101 and Mr. Grandillo is independent of Alderon. Mr. Grandillo has reviewed and approved the technical information contained in this MD&A, with the exception of the mineral resource estimate. Mr. Michael Kociumbas, P.Geo. with independent firm, WGM, is a Qualified Persons as defined by NI 43-101 and is responsible for reviewing and approving the mineral resource estimate and the QA/QC associated with the mineral resource estimate. Mr. Kociumbas is independent of Alderon.

### *Project re-scoping*

The PEA was prepared as a result of a re-scoping exercise of the capital and operating costs of the Kami Project, which was necessary in order to identify the savings that arose as a result of the depressed state of the market that existed over the last several years, changes in ownership and management of assets in the Labrador Trough and the idling of the neighbouring Wabush Scully Mine.

The PEA replaces the previous 2012 Feasibility Study NI 43-101 report (the "2012 Feasibility Study") as the current technical report for the Kami Project. Significant portions of PEA remain unchanged from the 2012 Feasibility Study, including sections relating to geology, exploration, drilling, sampling and data verification, and the mineral resource estimate. The current PEA includes the replacement of the port handling and terminal facilities in the Pointe-Noire area of Sept-Îles, Québec, with proposed access to the new multi-user terminal facility at the Port of Sept-Îles that will be open to all market participants, and the integration of the Wabush Scully Mine property as a tailings solution. The present study was prepared as a PEA, not a feasibility study, as a result of the proposed integration of the Wabush Scully Mine property. The Company currently does not have access to the Wabush Scully Mine property to complete the additional engineering and technical work that would be required for the preparation of a feasibility study.

Subsequent to the year ended December 31, 2016, the Company submitted a binding offer to purchase certain assets related to the Wabush Scully Mine. Refer to "Subsequent event".

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Highlights of the PEA include:

|                                                                                                                                                                                                   |                              |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|
| NPV at 8% discount rate (on a pre-tax basis)                                                                                                                                                      | US\$1,377 M                  |
| IRR (pre-tax)                                                                                                                                                                                     | 23.8%                        |
| Total Estimated Capital Cost (excluding sustaining capital)                                                                                                                                       | US\$897.5 M                  |
| Average Estimated Operating Costs (loaded in ship Port of Sept-Îles)                                                                                                                              | US\$31.08                    |
| CFR Concentrate Sales Price Forecast - based on three year trailing average CFR benchmark price of US\$69.40/T @ 62% iron adjusted for Kami Fe grade, and HBIS Group and Glencore agreement terms | US\$79.30<br>(FOB US\$65.30) |
| Estimated Mine Life                                                                                                                                                                               | 24 years                     |
| Final Product Iron Grade (%Fe)                                                                                                                                                                    | 65.2%                        |
| Measured and Indicated Resource of the Rose Deposit<br>(COG=15%, 29.6% Total Iron)                                                                                                                | 1093.2 Mt*                   |
| Annual Production Rate (average life of mine, post ramp-up year)                                                                                                                                  | 7.8 Mtpa                     |
| Construction Period (including pre-operational verification and handover to operations)                                                                                                           | 29 months                    |
| Projected Years to Payback                                                                                                                                                                        | 3.9                          |

\* Measured: 536.9 Mt @ 29.9% TFe, Indicated: 737.6 Mt @ 29.5% TFe,

Based on a production rate of 7.8 million tonnes per year of iron ore concentrate at a grade of 65.2% iron, the PEA shows a pre-tax Net Present Value ("NPV") of US\$1,377 million at a cash flow discount rate of 8%. The internal rate of return ("IRR") for the project is 23.8%. The level of accuracy of the PEA is considered to be +/-30% and an exchange rate of CAD\$1.00 = US\$0.77 was used.

On a post-tax basis, the PEA shows a NPV of US\$712 million at a cash flow discount rate of 8%. The post-tax IRR for the project is 17.9% and the payback period is 4.7 years. The post-tax analysis is based on a number of assumptions which are detailed in the Technical Report.

The PEA demonstrates significant reductions in initial and sustaining capital costs as well as operating costs as compared to the 2012 Feasibility Study. There are two key changes that explain the significant reduction in initial and sustaining capital costs. The first is the re-scoped tailings management facility which proposes to utilize the existing Wabush Scully Mine open pits for tailings disposal. In addition to the capital cost savings, this will provide a significant reduction in the greenfield footprint and a net benefit to the Wabush Scully Mine property relative to the current closure scenario of allowing the pits to partially flood and otherwise leave them as-is and the demolition of existing infrastructure. The second key change is with respect to the port terminal facilities. Specifically, on March 8, 2016 the Government of Quebec became the owner of rail, stockyard and terminal facilities located in the Pointe-Noire area of the Port of Sept-Îles. The Government of Quebec acquired these facilities from Cliffs Natural Resources and has announced its plans to use these assets to create a multi-user terminal facility at the Port of Sept-Îles that will be open to all market participants. The multi-user facility may be accessed by participants as either a partner in a newly formed limited partnership or as a non-partner regular user. The Company's ability to access the multi-user terminal facility will result in a significant capital cost savings as it will no longer need to construct its own stockyard and material handling facilities. The multi-user terminal facility will allow the Company to connect to the completed multi-user dock facility that the Company has an existing contract to ship 8 million tonnes per annum of material through.

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Prior to construction commencing, the Company will have to complete a feasibility study for the re-scoped project, re-assemble the owner's team, award an EPCM/EPC contract, resume detailed engineering, and have construction financing in place. This process could take several months to complete once it is commenced.

For additional information on the PEA results, please refer to the Technical Report filed on SEDAR ([www.sedar.com](http://www.sedar.com)).

#### *Cumulative project costs*

From January 1, 2010, through to December 31, 2016, the Company has incurred a cumulative total of \$161.1 million related to the Kami Project. These costs include \$65.5 million of exploration and evaluation expenditures and \$7.2 million in project maintenance expenditures which have been accounted for as expenses in the consolidated statements of comprehensive loss and \$88.4 million in development costs which have been accounted for as additions to mineral properties in the consolidated statement of financial position. The nature of the project maintenance expenses is detailed in "Results of operations – Project maintenance expenses".

#### **Corporate activities**

##### *Strategic investment from HBIS Group (the "Strategic Investment")*

On March 15, 2013, HBIS Group and Alderon completed the Strategic Investment in which HBIS Group contributed \$119.9 million (the "Initial Investment") into The Kami Mine Limited Partnership ("The Kami LP") for 25% interest in the Kami Project and Alderon contributed the Kami Property and its related assets into The Kami LP for 75% interest in the Kami Project. Alderon and HBIS Group are required to contribute to capital expenditures for the development of the Kami Project not covered by initial capital contributions and project debt financing, in accordance with their respective interests. However, HBIS Group's further contributions to The Kami LP will depend upon the amount of aggregate proceeds received as project debt financing and will not exceed \$220.0 million.

##### *Engineering Procurement and Construction Management ("EPCM") services agreement*

A formal, comprehensive EPCM services agreement (the "EPCM Agreement") with WorleyParsons Canada Services Ltd. ("WorleyParsons") was executed effective April 30, 2013. On June 30, 2014, the Company announced that it had completed the required pre-construction engineering on the Kami Project and as such has temporarily suspended any further work by WorleyParsons. Alderon's internal project team took over the management of all works in progress to continue advancing the Kami Project in preparation for the start of construction, once the Company's financing plan (as discussed below) is concluded. As a result of the temporary suspension of WorleyParsons, certain demobilization costs were incurred in accordance with the terms of the EPCM Agreement. As of December 31, 2016, the Company has accrued \$3.3 million in demobilization costs.

##### *Debt financing*

Alderon is pursuing a financing strategy for the Kami Project based on a combination of a senior debt facility, other debt options, equipment financing, and equity. In order to provide flexibility and maximize its financing options, Alderon intends to pursue a senior debt facility and its other debt and equity options in parallel. There can be no assurance that the Company will successfully conclude a senior debt facility or any of its financing plan.

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*Convertible debt*

On February 24, 2014, Liberty Metals & Mining Holdings, LLC ("Liberty") provided a loan (the "Liberty Note") to The Kami LP in the amount of \$22.0 million. \$21.0 million of the gross proceeds of the Liberty Note was used to fund the first security deposit that is required by NLH in connection with the construction of the New Transmission Line. Commencing 12 months after the issuance of the Liberty Note, the principal amount of the Liberty Note and any accrued but unpaid interest, become convertible at Liberty's option into the Company's common shares at a conversion price equal to \$2.376 per common share. The Liberty Note is secured with a mortgage over the Kami Project and bears interest at a rate of 8% per annum, payable on June 30th and December 31st of each year. The Company has the option to prepay the entire balance of the Liberty Note, at a premium of a 20% internal rate of return to Liberty. The maturity date of the Liberty Note is December 31, 2018.

On December 8, 2014, Alderon and Liberty amended the Liberty Note (the "Amended Note"). Liberty agreed to defer the payments of the interest due on December 31, 2014 and June 30, 2015. The deferred interest was added to the principal amount of the Liberty Note and is subject to interest in accordance with the terms of the Amended Note. In consideration of such deferral, Liberty was issued on each deferred interest payment date a number of warrants determined by dividing the interest payable by a dollar amount equal to a 10% premium to the volume weighted average trading price of the Company's common shares on the TSX for the five trading days prior to the applicable interest payment date. The Company issued to Liberty 1,987,083 warrants with an exercise price of \$0.4465 on December 31, 2014 and 3,254,353 warrants with an exercise price of \$0.279 on June 30, 2015.

During the year ended December 31, 2016, the Company paid interest in the amount of \$1,899,406 (2015 - \$959,631).

During the year ended December 31, 2016, the Company sold land and building and paid the net proceeds in the amount of \$92,804 to Liberty to reduce the principal outstanding on the Amended Note in consideration for Liberty releasing its security interest in the land and building.

*Cash conservation program*

On December 9, 2014, the Company announced a cash conservation program (the "Program") designed to allow it to maintain sufficient liquidity during the advancement of its financing plan. The Program includes an interest deferral agreement with Liberty, voluntary partial payment deferrals with equipment vendors for work completed to date, workforce reductions and the implementation of the DSU Plan (as defined below) with respect to director fees as discussed in "Consolidated statements of financial position information - DSU liability".

**Outlook**

The delay in the completion of the financing has led to the Company implementing the Program which will allow it to maintain sufficient liquidity while it continues to advance its financing plan.

In February 2017, the Company received the results of the PEA on the Rose Deposit of the Kami Project which demonstrates significant reduction in initial and sustaining capital costs as well as operating costs, as detailed in "The Kami Project – Project re-scoping". The Company will use the results of the re-scoping process to further its goal of completing its financing plan. As discussed above, the overall project financing strategy likely will take the form of a combination of debt and equity instruments.

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As previously disclosed, Alderon intends to commence construction of the Kami Project when the Company's financing plan is successfully completed, including the closing of a senior debt facility. In addition, prior to construction commencing the Company will have to complete a feasibility study for the re-scoped Kami Project, secure access to the proposed infrastructure integrations in the PEA, re-assemble the owner's team, award an EPCM/EPC contract and resume detailed engineering. This process could take several months to complete once it is commenced. Once construction does commence, it is expected to take 29 months for completion, including pre-operational verifications, hot commissioning and handover to mine operations team.

**Selected annual information**

The following financial data are selected information for the Company for the three most recently completed financial years:

|                                                                      | Years ended December 31, |             |             |
|----------------------------------------------------------------------|--------------------------|-------------|-------------|
|                                                                      | 2016                     | 2015        | 2014        |
|                                                                      | \$                       | \$          | \$          |
| Net loss and comprehensive loss attributable to owners of the parent | <b>(2,614,263)</b>       | (5,613,564) | (7,835,552) |
| Net loss per share                                                   |                          |             |             |
| Basic and diluted                                                    | <b>(0.02)</b>            | (0.04)      | (0.06)      |
| Total assets                                                         | <b>258,096,071</b>       | 263,010,511 | 271,496,567 |
| Total non-current financial liabilities                              | <b>21,411,871</b>        | 20,556,395  | 18,852,378  |

There were no distributions or cash dividends declared during the years ended December 31, 2016, 2015 or 2014.

Net loss and comprehensive loss

Net loss and comprehensive loss attributable to owners of the parent decreased during each of the years ended December 31, 2016 and 2015 as compared to the previous year. The decreases are a result of the implementation of the Plan at the end of fiscal 2014 and the Company's focus on re-scoping and financing the Kami Project rather than its development. Refer to "Results of operations" for further detail of net loss and comprehensive loss for the years ended December 31, 2016 and 2015.

Total assets

Total assets remained consistent in composition as of December 31, 2016, 2015 and 2014 and consisted primarily of non-current assets related to the Kami Project, including restricted investments, mineral properties, property, plant and equipment and long-term advances. The decrease in total assets during the years ended December 31, 2016 and 2015 is primarily attributable to decreased cash and cash equivalent balances. Refer to "Consolidated statements of financial position information" for asset balance details as of December 31, 2016 and 2015. Refer to "Liquidity and capital resources - Consolidated statements of cash flows information" for a summary of cash flows by activity for the years ended December 31, 2016 and 2015.

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Total non-current financial liabilities

Total non-current financial liabilities relate to the Amended Note issued by Liberty on February 24, 2014, as amended on December 8, 2014, which is detailed under the "Corporate activities - Convertible debt" heading. The increase in the balance of non-current financial liabilities during the year ended December 31, 2016 is due to non-cash accretion expense recorded, net of a partial principal payment made in the amount of \$92,804. The increase in the balance of non-current financial liabilities during the year ended December 31, 2015 is due to non-cash accretion expense recorded.

**Results of operations**

*Annual consolidated results of operations*

|                                                              | <b>Years ended December 31,</b> |                     |
|--------------------------------------------------------------|---------------------------------|---------------------|
|                                                              | <b>2016</b>                     | <b>2015</b>         |
|                                                              | <b>\$</b>                       | <b>\$</b>           |
| <b>Operating expenses</b>                                    |                                 |                     |
| General and administrative expenses                          | 3,162,995                       | 7,091,396           |
| Project maintenance expenses                                 | 1,172,586                       | 1,892,572           |
| Foreign exchange loss (gain)                                 | (159,038)                       | 794,025             |
| Environmental, aboriginal, government and community expenses | -                               | 13,578              |
|                                                              | <u>4,176,543</u>                | <u>9,791,571</u>    |
| <b>Loss from operations</b>                                  | <b>(4,176,543)</b>              | <b>(9,791,571)</b>  |
| Finance income                                               | 427,102                         | 510,562             |
| Finance costs                                                | (2,847,686)                     | (2,678,293)         |
| Net finance costs                                            | <u>(2,420,584)</u>              | <u>(2,167,731)</u>  |
| <b>Net loss and comprehensive loss</b>                       | <b>(6,597,127)</b>              | <b>(11,959,302)</b> |
| <b>Attributable to:</b>                                      |                                 |                     |
| Owners of the parent                                         | (2,614,263)                     | (5,613,564)         |
| Non-controlling interest                                     | (3,982,864)                     | (6,345,738)         |
|                                                              | <u>(6,597,127)</u>              | <u>(11,959,302)</u> |
| <b>Net loss per share</b>                                    |                                 |                     |
| Basic and diluted                                            | <u>(0.02)</u>                   | <u>(0.04)</u>       |
| <b>Weighted average number of shares outstanding</b>         |                                 |                     |
| Basic and diluted                                            | <u>132,134,061</u>              | <u>132,134,061</u>  |

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General and administrative expenses

Comparative general and administrative expenses, by nature of expenditure, are summarized below:

|                                          | <b>Years ended December 31,</b> |             |
|------------------------------------------|---------------------------------|-------------|
|                                          | <b>2016</b>                     | <b>2015</b> |
|                                          | <b>\$</b>                       | <b>\$</b>   |
| Salaries, wages and benefits             | <b>1,448,291</b>                | 1,256,881   |
| Legal, professional and consulting costs | <b>1,230,640</b>                | 4,015,809   |
| Other costs                              | <b>213,493</b>                  | 754,114     |
| Rent and facilities                      | <b>149,580</b>                  | 789,704     |
| Share-based compensation                 | <b>79,497</b>                   | 119,506     |
| Travel                                   | <b>41,494</b>                   | 155,382     |
|                                          | <b>3,162,995</b>                | 7,091,396   |

During the year ended December 31, 2016, the Company incurred general and administrative expenses in the amount of \$3.2 million (2015 - \$7.1 million) resulting in a decrease of \$3.9 million compared to the prior year which reflects the implementation of the Program. The decrease in general and administrative expenses is discussed in detail below.

Salaries, wages and benefits include cash based salaries, wages and benefits and the impact of non-cash deferred share unit ("DSU") compensation costs. The increase in total salaries, wages and benefits of \$0.2 million for the year ended December 31, 2016 is explained by an increase in DSU compensation costs of \$0.8 million, net of a decrease in cash based salaries, wages and benefits of \$0.6 million. DSU compensation costs reflect the change in value of the DSU liability. The increase in DSU compensation costs of \$0.8 million is attributable to both the Company's increased share price as of December 31, 2016 (\$0.315 per share) compared to as of December 31, 2015 (\$0.09 per share) and the increased number of deferred share units outstanding as of December 31, 2016 (3.8 million units) compared to as of December 31, 2015 (3.2 million units). Staff reductions throughout the year ended December 31, 2015 resulted in decreased cash based salaries, wages and benefits during the year ended December 31, 2016.

Legal, professional and consulting costs decreased by \$2.8 million as a result of the Company expensing previously deferred professional fees of \$2.2 million related to a future financing transaction. The deferred transaction costs were expensed during the year ended December 31, 2015 due to the uncertainty of the underlying future financing transaction. Additional reductions in legal, professional and consulting costs during the year ended December 31, 2016 are explained by reduced overall corporate activity.

The decrease in rent and facilities of \$0.6 million is due to various office closures which occurred during the year ended December 31, 2015.

Other and travel costs decreased by \$0.5 million and \$0.1 million respectively, which is explained by reduced overall corporate activity as the Company continued to attempt to conserve cash.

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It is the Company's expectation that total general and administrative expenses will continue to be at lower levels for the year ending December 31, 2017, consistent with the year ended December 31, 2016 and the Plan, excluding the impact of share-based and deferred shared unit compensation costs which in turn depend on a number of unknown or currently inestimable factors such as the Company's future share price, the number of options that will be granted in future periods and any changes to parameters or judgments applied to the option pricing model used to calculate the underlying fair value of share-based awards.

Project maintenance expenses

Comparative project maintenance expenses, by nature of expenditure, are summarized below:

|                                            | <b>Years ended December 31,</b> |             |
|--------------------------------------------|---------------------------------|-------------|
|                                            | <b>2016</b>                     | <b>2015</b> |
|                                            | <b>\$</b>                       | <b>\$</b>   |
| Professional services and consulting costs | <b>664,773</b>                  | 393,996     |
| Building rental and services               | <b>487,531</b>                  | 814,266     |
| Salaries, wages and benefits               | <b>14,691</b>                   | 501,287     |
| Other costs                                | <b>5,591</b>                    | 183,023     |
|                                            | <b>1,172,586</b>                | 1,892,572   |

The Company started to capitalize costs directly attributable to the Kami Project as of February 1, 2013, which coincided with the release of the 2012 Feasibility Study. Generally, as of November 15, 2014, the Company ceased to incur development costs eligible for capitalization as it was focused on the advancement of its financing plan rather than the development of the Kami Property. Therefore, most of Kami Project costs incurred subsequent to November 15, 2014 have been recorded as project maintenance expenses in the Company's operating expenses as they did not meet the criteria for capitalization.

During the year ended December 31, 2016, the Company incurred project maintenance expenses in the amount of \$1.2 million (2015 - \$1.9 million), resulting in a decrease of \$0.7 million compared to the prior year which reflects the temporary suspension of the Kami Project and the implementation of the Program.

During the year ended December 31, 2016, professional services and consulting costs increased by \$0.3 million due to the Company focusing on re-scoping the Kami Project during the year, including preliminary work on the PEA, as discussed in "The Kami Project – Project re-scoping".

The decreases in building rental and services and other costs in the amounts of \$0.3 million and \$0.2 million respectively are explained by the closure of various site offices during the year ended December 31, 2015.

Staff reductions during the year ended December 31, 2015 resulted in a decrease of \$0.5 million in salaries, wages and benefits realized during the year ended December 31, 2016.

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Foreign exchange loss (gain)

The foreign exchange gains and losses recorded during the years ended December 31, 2016 and 2015 reflect changes in the currency exchange rate between the US dollar compared to the Canadian dollar as of each year end and the related impact on US dollar denominated liabilities with respect to equipment commitments.

Net finance costs

During the year ended December 31, 2016, the Company incurred net finance costs of \$2.4 million (2015 - \$2.2 million). The increase in net finance costs in the amount of \$0.2 million for the year ended December 31, 2016 as compared to the prior year is due to both decreased finance income and increased finance costs. The decreased finance income and increased finance costs realized are a result of decreased cash and cash equivalents balances and an increased principal balance outstanding on the Amended Note, respectively.

*Quarterly consolidated results of operations*

As summarized in the table below, loss from operations for the three month period ended December 31, 2016 amounted to \$1.8 million (2015 - \$1.7 million), representing an increase of \$0.1 million. General and administrative expenses increased by \$0.7 million which is primarily attributable to non-cash DSU compensation costs, as discussed in "Results of operations – annual consolidated results of operations". The increase in salaries, wages and benefits was partially offset by decreased rent and facilities costs. Total project maintenance costs increased slightly by \$0.1 million as a result of preliminary work on the PEA during the fourth quarter of fiscal 2016, as discussed in "The Kami Project – Project re-scoping". The foreign exchange loss decreased by \$0.7 million as a result of changes in the currency exchange rate between the US dollar compared to the Canadian dollar.

Net loss and comprehensive loss attributable to owners of the parent for the three month period ended December 31, 2016 increased by \$0.4 million compared to the three month period ended December 31, 2015 which is explained by the increases in operating costs (\$0.1 million), net finance costs (\$0.1 million), and the amount of net loss and comprehensive loss allocated to the non-controlling interest (\$0.2 million).

Selected quarterly consolidated results of operations information for the most recently completed eight fiscal quarters are presented below:

|                                                                            | Quarters ended       |                       |                  |                   |
|----------------------------------------------------------------------------|----------------------|-----------------------|------------------|-------------------|
|                                                                            | December 31,<br>2016 | September 30,<br>2016 | June 30,<br>2016 | March 31,<br>2016 |
|                                                                            | \$                   | \$                    | \$               | \$                |
| Loss from operations                                                       | (1,827,929)          | (769,159)             | (630,873)        | (948,582)         |
| Net loss and comprehensive<br>loss attributable to owners<br>of the parent | (1,036,920)          | (235,837)             | (171,257)        | (1,170,249)       |
| Net loss per share<br>Basic and diluted                                    | (0.01)               | (0.00)                | (0.00)           | (0.01)            |



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|                                                                            | Quarters ended |               |             |             |
|----------------------------------------------------------------------------|----------------|---------------|-------------|-------------|
|                                                                            | December 31,   | September 30, | June 30,    | March 31,   |
|                                                                            | 2015           | 2015          | 2015        | 2015        |
|                                                                            | \$             | \$            | \$          | \$          |
| Loss from operations                                                       | (1,724,763)    | (3,443,974)   | (1,843,442) | (2,779,392) |
| Net loss and comprehensive<br>loss attributable to owners<br>of the parent | (671,093)      | (1,948,856)   | (1,363,500) | (1,630,115) |
| Net loss per share<br>Basic and diluted                                    | (0.01)         | (0.01)        | (0.01)      | (0.01)      |

Net loss per share is based on each reporting period's weighted average number of shares outstanding, which may differ on a quarter-to-quarter basis. As such, the sum of the quarterly net loss per share amounts may not equal year-to-date net loss per share.

Historical quarterly results of operations and net loss per share data do not necessarily reflect any recurring expenditure patterns or predictable trends. As such, quarterly results cannot be interpreted as being indicative of future expectations, results of operations or net loss per share.

Quarterly loss from operations and net loss and comprehensive loss have generally decreased over the past eight quarters, consistent with the temporary suspension of the Kami Project and the implementation of the Program, as discussed in "Corporate activities". The increased loss from operations for the three month period ended September 30, 2015 is due to previously deferred transaction costs in the amount of \$2.2 million which were expensed in the period on the basis that the timing of the underlying future financing transaction is uncertain. The increased loss from operations for the three month period ended December 31, 2016 is explained by increased non-cash DSU compensation costs and preliminary work commenced on the PEA.

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**Consolidated statements of financial position information**

|                                             | As of December 31, |                    |
|---------------------------------------------|--------------------|--------------------|
|                                             | 2016               | 2015               |
|                                             | \$                 | \$                 |
| Cash and cash equivalents                   | 8,854,646          | 13,874,614         |
| Restricted investments                      | 21,000,000         | 21,000,000         |
| Short-term investments                      | 1,253,365          | 967,011            |
| Asset held for sale                         | -                  | 93,590             |
| Receivables and other current assets        | 496,800            | 753,077            |
| Mineral properties                          | 177,120,145        | 176,951,104        |
| Property, plant and equipment               | 28,906,099         | 28,906,099         |
| Long-term advance                           | 20,465,016         | 20,465,016         |
| <b>Total assets</b>                         | <b>258,096,071</b> | <b>263,010,511</b> |
| Payables and accrued liabilities            | 10,119,409         | 10,343,762         |
| Due to related parties                      | 350,746            | 287,906            |
| Convertible debt                            | 21,411,871         | 20,556,395         |
| Deferred share unit liability               | 1,195,736          | 286,509            |
| Equity attributable to owners of the parent | 181,636,989        | 184,171,755        |
| Non-controlling interest                    | 43,381,320         | 47,364,184         |
| <b>Total liabilities and equity</b>         | <b>258,096,071</b> | <b>263,010,511</b> |

Cash and cash equivalents

As noted below in "Liquidity and capital resources", cash and cash equivalents decreased by \$5.0 million during the year ended December 31, 2016, due largely to the cash used in operating activities and cash payments to Liberty with respect to the Amended Note.

Restricted investments and short-term investments

Restricted investments represent investments deposited with the Company's bank to guarantee letters of credit issued in the course of the Company's development activities. Such investments must remain on deposit as long as the letters of credit are outstanding. As of December 31, 2016 and 2015, restricted investments relate to the first security deposit in connection with the Power Purchase Agreement (the "PPA") with Newfoundland and Labrador Hydro ("NLH"), a subsidiary of Nalcor Energy, to supply power to the Kami Project via a new transmission line.

During the year ended December 31, 2016, short-term investments increased by \$0.3 million as a result of investments maturing and the reinvestment of earned interest.

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Asset held for sale

As of December 31, 2015, the balance of asset held for sale in the amount of \$0.1 million related to land and building for which the Company received an offer to purchase the asset. During the year ended December 31, 2016, the land and building were sold.

Receivables and other current assets

Receivables and other current assets include sales tax credits receivable, interest receivable and prepaid expenses. The total balance of receivables and other current assets decreased by \$0.3 million during the year ended December 31, 2016 as a result of a decrease in receivables of \$0.3 million which was partially offset by a slight increase in prepaid expenses of \$0.05 million. Total receivables decreased due to the receipt of sales tax refunds during the year ended December 31, 2016. The increase in prepaid expenses during the year ended December 31, 2016 related to the prepayment of administrative fees associated with the bank guaranteed letters of credit and consulting fees associated with the PEA.

Mineral properties

As discussed above in "Results of operations – Project maintenance expenses", the Company started to capitalize development costs incurred in relation to the Kami Project as of February 1, 2013. Generally, as of November 15, 2014, the Company ceased to incur development costs eligible for capitalization as it was focused on the advancement of its financing plan rather than the development of the Kami Property. Development costs capitalized to mineral properties will only increase significantly once the Company's financing plan is in place and the Company commences construction of the Kami Project.

During the year ended December 31, 2016, mineral properties increased by \$0.2 million as a result of the renewal of mining and surface rights leases.

Property, plant and equipment

As of December 31, 2016 and 2015, property, plant and equipment consisted of construction in progress in the amount of \$28.9 million and related to advances paid or accrued on equipment.

Long-term advance

The long-term advance in the amount of \$20.5 million relates to the initial commitment paid by the Company to the Sept-Îles Port Authority (the "Port Authority") with respect to an agreement with the Port Authority to secure usage of a new multi-user deep water dock facility that the Port Authority is constructing. The advance constitutes an advance on the Company's future shipping fees. The Buy-in Payment will be reimbursed to the Company via a discount that will be applied to shipping fees to be billed by the Port once the Company's usage of the multi-user facility commences. Once the new multi-user dock facility is operational, the Company has a take or pay obligation based on a discounted rate applied on 50% of the 8,000,000 tons minimum annual shipping capacity and is payable even if the Company does not use the facilities.

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During the year ended December 31, 2016, the Port Authority provided notice to the Company that the new multi-user dock facility is operational. The Port Authority is engaged in negotiations with all the users of the multi-user dock facility (including the Company) in order to develop a satisfactory arrangement with respect to take or pay obligations. The Company is involved in these negotiations but at this time cannot provide certainty regarding what any arrangement will encompass. The Company intends to work collaboratively with the Port Authority but it has also provided notice that there are certain factors that indicate that the multi-user dock facility is not yet operational.

Payables and accrued liabilities

Payables and accrued liabilities decreased by \$0.2 million during the year ended December 31, 2016 which is explained by the decrease in accrued equipment purchases (\$0.4 million) due to the impact of foreign exchange (\$0.2 million) and equipment deposits paid (\$0.2 million), net of the increase in trade accounts payable (\$0.2 million) due to the timing of payments to third parties.

Due to related parties

As of December 31, 2016, amounts due to related parties increased by \$0.06 million compared to the balance as of December 31, 2015. The increase in amounts due to related parties is due to amounts accrued for services provided by HBIS International Holding (Canada) Co., Ltd. Refer to "Related party transactions" below.

Convertible debt

As discussed above in "Corporate activities - Convertible debt", the Company entered into the Liberty Note which amounted to \$22.0 million. The Liberty Note is a compound instrument composed of both a debt component and an equity component. The equity component is due to the embedded derivatives identified in the agreement with respect to Liberty's conversion option and the Company's early repayment option. Management determined that the fair value of the debt component at inception was \$18.3 million with the residual value of \$3.4 million allocated to the equity component, net of transaction costs of \$0.3 million.

On December 8, 2014, the Company and Liberty amended the Liberty Note to defer cash interest payments that were due on December 31, 2014 and June 30, 2015. The Company issued to Liberty 1,987,083 warrants, with an exercise price of \$0.4465, on December 31, 2014 and 3,254,353 warrants, with an exercise price of \$0.279, on June 30, 2015. The fair value of these warrants (\$0.8 million) was accounted for as additional financing costs of the Liberty Note.

During the year ended December 31, 2016, the balance of convertible debt increased by \$0.9 million as a result of non-cash accretion expense of \$1.0 million, net of a partial principal repayment of \$0.1 million. During the year ended December 31, 2016, the Company sold land and building and subsequently paid the net proceeds of the sale to Liberty in consideration for Liberty releasing its security interest in the land and building.



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Deferred share unit ("DSU") liability

The Company has in place a program (the "DSU Plan") whereby directors are issued DSUs, which vest immediately, are equivalent in value to a common share upon issuance of the Company, and are settled in cash. Directors have the option to convert 25, 50, 75 or 100 percent of their annual director fees into DSUs. To support the Program, the directors agreed to convert 100 percent of their annual director fees into DSUs as of September 30, 2014 through to March 31, 2016. Effective April 1, 2016, the directors agreed to convert 50 percent of their annual director fees into DSUs.

As of December 31, 2016, the Company had 3,795,986 DSUs outstanding. DSUs can only be redeemed following a director's departure from the Company in accordance with the terms of the DSU Plan.

The carrying value of the DSU liability is based on the number of DSUs outstanding and the closing share price of the Company's common shares as of each period end.

During the year ended December 31, 2016, the balance of the DSU liability increased by \$0.9 million and is attributable to both the Company's increased share price as of December 31, 2016 (\$0.315 per share) compared to as of December 31, 2015 (\$0.09 per share) and the increased number of DSUs outstanding as of December 31, 2016 (3.8 million units) compared to as of December 31, 2015 (3.2 million units). In addition, a former director of the Company redeemed 635,390 DSUs which the Company settled in cash in the amount of \$0.1 million during the year ended December 31, 2016.

Equity attributable to owners of the parent

Equity attributable to owners of the parent decreased by \$2.5 million during the year ended December 31, 2016 as a result of the net loss and comprehensive loss attributable to the parent for the year, net of share-based compensation costs.

No distributions or cash dividends were made or declared during the year ended December 31, 2016.

Non-controlling interest

Non-controlling interest represents HBIS Group's 25% interest in the equity of the Company's less than wholly-owned affiliate, The Kami LP, and is classified as a separate component of equity. On initial recognition, non-controlling interest, which represented HBIS Group's \$119.9 million contribution into The Kami LP, was measured at fair value.

Changes in the Company's ownership interest in The Kami LP that do not result in a loss of control are recorded as equity transactions. The carrying amount of non-controlling interest decreased by \$4.0 million during the year ended December 31, 2016 as a result of the net loss and comprehensive loss attributable to The Kami LP.

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## Liquidity and capital resources

### *Consolidated statements of cash flows information*

As of December 31, 2016, the Company had cash and cash equivalents of \$8.9 million, as compared to \$13.9 million as of December 31, 2015, and a working capital deficit (total current assets less total current liabilities) of \$1.1 million, as compared to a working capital surplus of \$4.8 million as of December 31, 2015.

The decrease in working capital surplus of \$5.9 million during the year ended December 31, 2016 is due to decreases in cash and cash equivalents (\$5.0 million), asset held for sale (\$0.1 million) and receivables (\$0.3 million) and increases in the DSU liability (\$0.9 million) and amounts due to related parties (\$0.1 million), which were partially offset by an increase in short-term investments (\$0.3 million) and a decrease in accounts payable and accrued liabilities (\$0.2 million). Refer to "Consolidated statements of financial position information" for further discussion of account balance changes during the year ended December 31, 2016.

Cash used in operating activities during the year ended December 31, 2016 amounted to \$2.4 million, as discussed in "Results of operations". Net cash used in investing activities amounted to \$0.6 million and related to additions to mineral properties (\$0.2 million), deposits paid on equipment (\$0.2 million) and reinvestment of interest income received (\$0.3 million), net of proceeds received on the sale of land and building (\$0.1 million). Cash used in financing activities of \$2.0 million related to interest payments (\$1.9 million) and a principal repayment (\$0.1 million) on the Amended Note, as discussed in "Consolidated statements of financial position information – Convertible debt".

During the year ended December 31, 2015, cash and cash equivalents decreased by \$7.6 million which is primarily explained by cash used in operating activities of \$5.8 million, as discussed in "Results of operations". Net cash used in investing activities of \$0.8 million included additions to mineral properties of \$1.0 million, net of restricted investment changes of \$0.2 million. Financing activities for the year ended December 31, 2015 related to interest payments on the Amended Note of \$1.0 million.

A summary of cash flows by activity is summarized below.

|                                                               | <b>Years ended December 31,</b> |             |
|---------------------------------------------------------------|---------------------------------|-------------|
|                                                               | <b>2016</b>                     | <b>2015</b> |
|                                                               | <b>\$</b>                       | <b>\$</b>   |
| Net cash used in operating activities                         | <b>(2,444,714)</b>              | (5,754,743) |
| Net cash used in investing activities                         | <b>(583,044)</b>                | (839,270)   |
| Net cash used in financing activities                         | <b>(1,992,210)</b>              | (974,276)   |
| <b>Net change in cash and cash equivalents</b>                | <b>(5,019,968)</b>              | (7,568,289) |
| <b>Cash and cash equivalents at the beginning of the year</b> | <b>13,874,614</b>               | 21,442,903  |
| <b>Cash and cash equivalents at the end of the year</b>       | <b>8,854,646</b>                | 13,874,614  |

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Cash used in operating activities represents net loss and excludes the impact of any non-cash transactions, such as the recording of accretion of the Amended Note, share-based and DSU compensation costs, and depreciation expense and impairment losses in relation to property, plant and equipment. Additionally, net cash used in operating activities reflects any changes in components of working capital, such as receivables and payables, which fluctuate in a manner that does not necessarily reflect predictable patterns for the overall use of cash, the generation of which depends almost entirely on sources of external financing to fund our evaluation and development initiatives and other expenses.

Cash used in investing activities primarily represents cash development costs that have been capitalized, changes in restricted and unrestricted investments and advances made to suppliers of equipment, as discussed above in "Consolidated statements of financial position information".

Cash used in financing activities reflects activities with respect to the Amended Note, as discussed above in "Consolidated statements of financial position information" and "Corporate activities – Convertible debt".

As of December 31, 2016, \$7.7 million in cash and cash equivalents and \$1.0 million in short-term investments are held by The Kami LP which is the remaining amount of the Initial Investment. Under the terms of the agreements with HBIS Group, the Company has agreed that the proceeds from the Initial Investment would be used solely for Kami Project related expenditures. As a result, the Company is restricted from transferring this cash from The Kami LP to the parent company (Alderon Iron Ore Corp.). Currently this restriction does not have an effect on the Company's ability to meet its short- to medium-term obligations as Alderon held \$1.0 million in cash as of December 31, 2016; however, the Company will need to obtain additional financing at the parent company level in the future. See also "Financial instruments and risk management – Liquidity risk" and "Risk factors".

To date, the Company has not recorded any revenues from operations, has no source of operating cash flow and no assurance that additional funding will be available to it for further development of the Kami Project. The Company has \$10.1 million in cash and cash equivalents and unrestricted short-term investments. The Company currently does not have sufficient financial resources to cover all of its planned commitments and as a result, it has split its purchase orders for equipment into two phases, engineering and manufacturing. Advances for engineering have been paid in full while commitments for manufacturing and fabrication, estimated at \$8.0 million for the next twelve months and \$22.7 million for the following 12 months, remain contingent upon the Company issuing to its suppliers a notice to proceed following successful completion of its financing plan.

In addition, the Company is committed to paying its amounts payable (\$10.1 million) as of December 31, 2016, of which certain amounts therein become due once financing is obtained. Necessary general and administrative costs are projected at approximately \$3.2 million over the next twelve months, including key management personnel (\$1.0 million), audit, tax, legal and other professional services (\$0.3 million), project re-scoping and maintenance (\$1.1 million) and other corporate and regulatory costs (\$0.8 million). Interest payments on the Amended Note total \$1.9 million over the next twelve months.

The Company could be required to advance up to \$44.0 million to NLH as of a date to be determined to support continued construction of a new transmission line to supply power to the Kami Project. However, NLH has halted construction; and construction of the remaining portion of the new transmission line will proceed once the Company secures its project financing for the Kami Project.

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Despite the actions taken by the Company, these conditions and events indicate material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. The Company has plans in place and is seeking to arrange the necessary funds in order to cover these obligations. While the Company has been successful in the past in obtaining necessary funds on terms acceptable to the Company, there is no assurance that such funds will be available in the future. If management is unable to obtain new funding, the Company may be unable to continue its operations, and amounts realized for assets might be less than amounts reflected in the consolidated financial statements.

As discussed in the "Outlook" section below, the Company does not currently have sufficient resources to fund the construction of the Kami Project. In order to obtain the necessary funds the Company plans to conclude a senior debt facility and issue equity instruments as discussed further in the section below. The Company will not be able to commence the construction of the Kami Project until the funds are obtained.

### **Outstanding share data**

As of March 29, 2017, there were 132,134,061 common shares issued and outstanding, 4,760,000 stock options outstanding, 10,175,271 common shares issuable on the conversion of the outstanding amount of the Amended Note and 5,241,436 warrants outstanding.

### **Related party transactions**

A related party is any person, including close members of that person's family, or entity that has significant influence over the Company. Related parties also include members of our key management personnel—namely, those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company. Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies. Significant influence may be gained by share ownership, statute or agreement. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

### *Key management personnel*

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consists of executive and non-executive members of the Company's Board of Directors, corporate officers, including the Company's Chief Executive Officer ("CEO"), Chief Operating Officer ("COO") and Chief Financial Officer ("CFO"), as well as any Vice Presidents reporting directly to a Corporate Executive Board member or officer, acting in that capacity.

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Remuneration attributed to key management personnel can be summarized as follows:

|                                                  | <b>Years ended December 31,</b> |             |
|--------------------------------------------------|---------------------------------|-------------|
|                                                  | <b>2016</b>                     | <b>2015</b> |
|                                                  | <b>\$</b>                       | <b>\$</b>   |
| Short-term benefits*                             | <b>1,244,944</b>                | 1,980,428   |
| Share-based and deferred share unit compensation | <b>978,300</b>                  | 305,676     |
|                                                  | <b>2,223,244</b>                | 2,286,104   |

\* include base salaries, pursuant to contractual employment or consultancy arrangements, directors' fees and other non-post-retirement benefits.

*Other related parties*

**King & Bay West Management Corp. ("King & Bay"):** King & Bay is an entity that is owned by Mark Morabito, the Non-Executive Chairman of the Company's Board of Directors and Chief Executive Officer. King & Bay provides certain administrative, management, geological, legal and regulatory, finance, corporate development, information technology support and corporate communications services to the Company. These services are provided to the Company on an as-needed basis and are billed based on the cost or value of the services provided to the Company. The amount set out in the table below represents amounts paid to King & Bay for the services of King & Bay personnel and for overhead and third party costs incurred by King & Bay on behalf of the Company.

**Liberty:** Liberty is a significant shareholder of the Company and is entitled to a representative on the Company's Board of Directors. During the year ended December 31, 2014, Liberty provided the Company with the Liberty Note that was used to fund the first security deposit that is required by Nalcor in connection with the construction of the New Transmission Line. The Liberty Note has an interest rate of 8% per annum. Transactions with Liberty in connection with the Liberty Note and the subsequent amendments are discussed in "Corporate activities - Convertible debt". The Company entered into this related party transaction to fund the first security deposit required by NLH. During the year ended December 31, 2016, the Company paid interest and made a principal repayment to Liberty, as discussed in "Consolidated statements of financial position information – Convertible debt".

**HBIS International Holding (Canada) Co., Ltd ("HBIS"):** HBIS is a subsidiary of HBIS Group, a significant shareholder of the Company and a 25% owner of The Kami LP. Under the terms of the definitive agreements governing the strategic partnership between HBIS Group, HBIS and the Company, HBIS has the right to appoint two people to the management of The Kami LP. HBIS has nominated two individuals to act as Vice President, Finance & Procurement (China) and Vice President, Strategy & Development. These individuals provide management services to The Kami LP in these roles and HBIS is paid a fee for the provision of these individuals to provide these services. The fees for these services are consistent with the Company's compensation policies for other management personnel.

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Transactions entered into with related parties, other than key management personnel and the Amended Note, include the following:

|            | <b>Years ended December 31,</b> |             |
|------------|---------------------------------|-------------|
|            | <b>2016</b>                     | <b>2015</b> |
|            | <b>\$</b>                       | <b>\$</b>   |
| HBIS       | <b>320,016</b>                  | 320,016     |
| King & Bay | <b>293,053</b>                  | 449,837     |
|            | <b>613,069</b>                  | 769,853     |

Transactions with related parties, are described above, were for services rendered to the Company in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. All services were made on terms equivalent to those that prevail with arm's length transactions.

### **Commitments and contingencies**

In connection with the 2010 purchase from Altius Resources Inc. ("Altius") of the Kami Property, Alderon committed to paying Altius a 3% gross royalty on iron ore concentrate that is generated from the Kami Project.

In connection with the Strategic Investment, HBIS Group agreed to purchase, upon the commencement of commercial production, 60% of the actual annual production from the Kami Project up to a maximum of 4.8 million tonnes of the first 8.0 million tonnes of iron ore concentrate produced annually at the Kami Project. The price paid by HBIS Group will be based on the Platts Iron Ore Index ("Platts Price"), including additional quoted premium for iron content greater than 62%, less a discount equal to 5% of such quoted price. HBIS Group also will have the option to purchase additional tonnages at a price equal to the Platts Price, without any such discount.

On July 29, 2014, The Kami LP entered into an off-take agreement (the "Glencore Agreement") with a subsidiary of Glencore plc ("Glencore"), with respect to an off-take transaction pursuant to which Glencore will acquire all of actual annual production from the Kami Project that has not been allocated to HBIS Group. Under the terms of the Glencore Agreement, Glencore will be obligated to purchase upon the commencement of commercial production, 40% of the actual annual production from the Kami Project up to a maximum of 3.2 million tonnes of the first 8.0 million tonnes of iron ore concentrate produced annually at the Kami Project. The term of the Glencore Agreement will continue until The Kami LP has delivered 48.0 million tonnes of iron ore concentrate to Glencore, which is expected to be 15 years after the commencement of commercial production. The market price paid by Glencore will be based on the Platts Price, including additional quoted premium for iron content greater than 62%, less a discount equal to 2% of such quoted price.

As discussed above, as part of Alderon's strategy to source the long-lead mining and processing equipment in sufficient time to adhere to the Kami Project's schedule, the Company has negotiated contracts with suppliers in relation to the purchase of equipment. As of December 31, 2016, payments of \$30.7 million remain to be paid on the equipment for contracts entered into and approximately \$30.5 million of this amount is contingent on confirmation by the Company of notice to proceed with fabrication of this equipment.

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Including the commitments and contractual obligations discussed above, the Company has the following known commitments as of December 31, 2016:

|                                 | Payments due in: |                     |                 |                 |                      |
|---------------------------------|------------------|---------------------|-----------------|-----------------|----------------------|
|                                 | Total            | Less than<br>1 year | 1 to 3<br>years | 3 to 5<br>years | More than<br>5 years |
|                                 | \$               | \$                  | \$              | \$              | \$                   |
| Equipment <sup>(1)</sup>        | 30,651,000       | 7,957,000           | 22,694,000      | -               | -                    |
| Convertible debt <sup>(2)</sup> | 27,516,000       | 1,907,000           | 25,609,000      | -               | -                    |
| Operating lease obligations     | 280,000          | 60,000              | 120,000         | 100,000         | -                    |
| Totals                          | 58,447,000       | 9,924,000           | 48,423,000      | 100,000         | -                    |

<sup>(1)</sup> Approximately \$30.5 million of this amount is contingent on confirmation by the Company of notice to proceed with fabrication of this equipment.

<sup>(2)</sup> The convertible debt is convertible as of February 23, 2015. The principal amount and any accrued but unpaid interest are convertible at Liberty's option into the Company's common shares at a conversion price equal to \$2.376 per common share.

As noted above, under the terms of the agreement with NLH, the Company has provided \$21.0 million in security deposits to NLH and has agreed to provide an additional \$44.0 million in security deposits in the future. At this point, the Company does not know the timing of these security deposits.

On September 28, 2016, the Kami LP sent a Notice of Arbitration ("Notice") to NLH. The Notice was amended on February 24, 2017. The Notice relates to a dispute regarding the NLH Security Agreement and the amount and scope of the costs incurred by NLH in the construction of the New Transmission Line. The Kami LP is seeking an award in the proceedings on several bases including: a declaration that the NLH Security Agreement is of no force or effect, an order for NLH to return the \$21.0 million letter of credit posted by Kami LP, an order requiring the substitution of the letter of credit with alternative security and access to the complete books of account of NLH related to the construction of the New Transmission Line. The arbitration is scheduled to occur in November 2017.

### Off-balance sheet arrangements

As of December 31, 2016, the Company did not have any off-balance sheet arrangements.

### Significant accounting policies and critical estimates and judgments

#### *Significant accounting policies*

A complete summary of our significant accounting policies is provided in note 2 to the consolidated financial statements of the Company as of December 31, 2016 and 2015.

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*Critical accounting estimates and judgments*

The preparation of the Company's consolidated financial statements in accordance with IFRS requires management to make estimates about and apply assumptions to future events and other matters that affect the reported amounts of the Company's assets, liabilities, expenses and related disclosures. Assumptions and estimates are based on historical experience, expectations, current trends and other factors that management believes to be relevant at the time at which the Company's consolidated financial statements are prepared. Management reviews, on a regular basis, the Company's accounting policies, assumptions and estimates in order to ensure that the consolidated financial statements are presented fairly and in accordance with IFRS.

Critical accounting estimates are those that have a significant risk of causing material adjustment and are often applied to matters or outcomes that are inherently uncertain and subject to change. As such, management cautions that future events often vary from forecasts and expectations and that estimates routinely require adjustment.

Judgments:

Management considers the following areas to be significant judgments used in the process of applying the Company's accounting policies that have the most significant effect on the Company's consolidated financial statements.

*Going concern*

The preparation of the Company's consolidated financial statements requires management to make judgements regarding the Company's ability to continue as a going concern, as discussed in "Liquidity and capital resources" and "Risks".

*Capitalization of development costs*

The application of the Company's accounting policy for development costs requires judgment in determining the timing at which to begin capitalizing development costs and whether future economic benefits, which are based on assumptions about future events and circumstances, may be realized. Generally, as of November 15, 2014, the Company ceased to incur development costs eligible for capitalization as it was focused on the advancement of its financing plan rather than the development of the Kami Project. Accordingly, costs incurred with respect to the Kami Project subsequent to November 15, 2014 have generally been recorded as project maintenance expenses in the Company's operating expenses.

Estimates:

Management considers the following areas to be those where critical accounting policies affect the significant estimates used in the preparation of the Company's consolidated financial statements.

### *Carrying value and recoverability of mineral properties*

The carrying amount of the Company's mineral properties does not necessarily represent present or future values, and the Company's mineral properties have been accounted for under the assumption that the carrying amount will be recoverable. Recoverability is dependent on various factors, including the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development and upon future profitable production or proceeds from the disposition of the mineral properties themselves. Additionally, there are numerous geological, economic, environmental and regulatory factors and uncertainties that could impact management's assessment as to the overall viability of the Kami Project or to the ability to generate future cash flows necessary to cover or exceed the carrying value of the Company's mineral properties.

Mineral properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Management is required to assess at each reporting date whether there is any indication that an asset may be impaired. Where such an indication exists, the asset's recoverable amount is compared to its carrying value, and an impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Impairment losses are recognized in profit or loss in the statement of comprehensive loss. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows, or cash-generating units ("CGU"). In determining value in use of a given asset or CGU, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Management has determined that an indication that the capitalized mineral properties may not be recoverable has occurred in 2016. The Company determined the recoverable amount of the mineral properties using the value in use calculation which was assessed using cash flow projections, which take into account the capital costs to be incurred to complete the Kami Project over the expected construction timeline, as well as the cash generated from subsequent sales of the Kami Project's iron ore production based on the re-scoped project assumptions. The key assumptions used in this calculation include the Kami Project's capital cost, estimated production volume, the long-term iron ore sales price, the long-term Canadian and US dollar exchange rate, expected operating costs, as well as discount rates which are based on estimates of the risks associated with the projected cash flows based on the best information available as of the date of the impairment test. The Company determined that the recoverable amount exceeded the carrying amounts and therefore, no impairment was recorded.

To the extent that any of management's assumptions change, there could be a significant impact on the Company's future financial position, operating results and cash flows.

### *Fair value of warrants and stock options*

Determining the fair value of stock options requires the estimation of stock price volatility, the expected forfeiture rate and the expected term of the underlying instruments. Determining the fair value of warrants requires the estimation of stock price volatility. Any changes in the estimates or inputs utilized to determine fair value could result in a significant impact on the Company's future operating results.

#### *Fair value estimates of financial liabilities*

The determination of the fair value of the liability component of the convertible debt required management to make estimates of the interest rate that the Company would have obtained for a similar secured loan without a conversion feature.

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

The standards that are considered to be relevant to the Company's operations that are issued, but not yet effective, up to the date of issuance of the Company's consolidated financial statements are disclosed below:

#### Financial instruments

IFRS 9, *Financial Instruments* ("IFRS 9"), which represents the completion of the first part of a three-part project to replace IAS 39, *Financial Instruments: Recognition and Measurement*, with a new standard. IFRS 9 introduces new requirements for the classification and measurement of financial assets and introduces additional changes relating to financial liabilities. In addition IFRS 9 includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. The Company intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The impact of the adoption of this standard has yet to be determined.

#### Revenues from contracts with customers

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), which establishes principles for reporting and disclosing the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled to in exchange for those goods and services.

IFRS 15 provides a single model in order to depict the transfer of promised goods or services to customers, and supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenue*, and a number of revenue-related interpretations (IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and SIC-31, *Revenue - Barter Transactions Involving Advertising Service*). IFRS 15 will be effective for the Company's fiscal year beginning on January 1, 2018, with earlier application permitted. The impact of the adoption of this standard has yet to be determined.

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### Leases

IFRS 16, *Leases* ("IFRS 16"), which specifies how an entity will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low monetary value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 applies to annual reporting periods beginning on or after January 1, 2019, with earlier application permitted only if IFRS 15, *Revenue from Contracts with Customers* has also been applied. The impact of the adoption of this standard has yet to be determined.

### **Capital disclosures**

The Company's objective in managing capital, consisting of equity, with cash being its primary component, is to ensure sufficient liquidity to fund: development and other Kami Project activities; general and administrative expenses; working capital; and capital expenditures.

Management regularly monitors the Company's capital structure and makes adjustments thereto based on funds available to the Company for the acquisition, exploration and development of mineral properties. The Board of Directors has not established quantitative return on capital criteria for capital management, but rather relies upon the expertise of the management team to sustain the future development of the business.

The properties in which the Company currently has an interest are in the development stage, and the Company does not generate any revenue. Accordingly, the Company is dependent upon sources of external financing to fund both the Kami Project and its other costs. While the Company endeavours to minimize dilution to its shareholders, management has in the past engaged in dilutive financial transactions, such as private placements, and may engage in dilutive arrangements in the future.

The Company's policy on dividends is to retain cash to keep funds available to finance the activities required to advance the Company's Kami Project. Although the Company is not subject to any capital requirements imposed by any regulators or by any other external source, Alderon has provided confirmation to HBIS Group with respect to the use of the Initial Investment proceeds.

### **Financial instruments and risk management**

As of December 31, 2016, financial instruments are comprised of cash and cash equivalents, restricted investments, short-term investments, receivables, payables and accrued liabilities, amounts due to related parties and convertible debt.

The carrying values of the Company's cash and cash equivalents, restricted investments, short-term investments, receivables, payables and accrued liabilities and amounts due to related parties approximate their fair values due to their short-term maturities or to the prevailing interest rates of the related instruments, which are comparable to those of the market. The determination of fair value of the convertible debt as of December 31, 2016 is based on a discounted cash flow model using the current market interest rate that the Company could have obtained for a similar secured loan without a conversion option.

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The fair values of the Company's financial assets and liabilities, together with the carrying values included in the consolidated statement of financial position, as of December 31, 2016 are presented below. In the following table, receivables exclude sales tax credits, and payables and accrued liabilities exclude sales tax credits payable.

| <b>As of December 31, 2016</b>   | <b>Carrying value</b> | <b>Fair value</b> |
|----------------------------------|-----------------------|-------------------|
|                                  | <b>\$</b>             | <b>\$</b>         |
| <b>Financial assets</b>          |                       |                   |
| Cash and cash equivalents        | 8,854,646             | 8,854,646         |
| Restricted investments           | 21,000,000            | 21,000,000        |
| Short-term investments           | 1,253,365             | 1,253,365         |
| Receivables                      | 212,638               | 212,638           |
| <b>Financial liabilities</b>     |                       |                   |
| Payables and accrued liabilities | (9,958,430)           | (9,958,430)       |
| Due to related parties           | (350,746)             | (350,746)         |
| Convertible debt                 | (21,411,871)          | (20,247,086)      |
|                                  | <b>(400,398)</b>      | <b>764,387</b>    |

The Company is exposed in varying degrees to certain risks arising from financial instruments, as discussed below.

*Liquidity risk*

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

As discussed above, our capital management objectives include working to ensure that we have sufficient liquidity to fund Company activities that are directly and indirectly related to the advancement of the Kami Project.

The Company endeavours to ensure that it will have sufficient liquidity in order to meet short to medium-term business requirements and all financial obligations as those obligations become due. Historically, sufficient liquidity has been provided predominantly through external financing initiatives, including strategic, traditional and flow-through private placements to investors and institutions. Alderon is actively engaged in discussions to raise the necessary capital to meet its funding requirements for the Kami Project, including debt and equity financing. The Company will continue to rely upon sources of external financing in future periods until such time as commercial production commences, notwithstanding the Company's successful capital-raising activities, as discussed in "Corporate activities". There is no assurance that financing of sufficient amounts or on terms acceptable to the Company will be available.

*Credit risk*

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

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The Company's receivables consist primarily of sales tax credits, which are due from Canadian federal and provincial tax agencies. Additionally, the Company's cash and cash equivalents, restricted investments and short-term investments are held in deposit at high-credit quality Canadian financial institutions. As a result, management considers the risk of non-performance related to accounts receivable, cash and cash equivalents, restricted investments and short-term investments to be minimal.

*Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Fluctuations of market interest rates have little impact on the Company's financial results since the Company does not have variable rate debt as of December 31, 2016. Changes in market interest rates do not have an impact on interest expense related to the Amended Note because the rate of the Amended Note is fixed.

**Risk factors**

The exploration of mineral deposits involves significant risks and uncertainties, which even a combination of careful evaluation, experience and knowledge may not eliminate. A comprehensive list of risk factors relating to our business is provided under the heading, "Risk factors", in the Company's Annual Report for the year ended December 31, 2016, which is available on SEDAR, at [www.sedar.com](http://www.sedar.com). Certain of the more prominent risk factors that may materially affect the Company's future performance, in addition to those referred to above, are listed hereunder.

*Alderon depends on a single mineral project.*

The Kami Property accounts for all of Alderon's mineral resources and exclusively represents the current potential for the future generation of revenue. Mineral exploration and development involves a high degree of risk that even a combination of careful evaluation, experience and knowledge cannot eliminate and few properties that are explored are ultimately developed into producing mines. Any adverse development affecting the Kami Property will have a material adverse effect on our business, prospects, financial position, results of operations and cash flows.

*The successful start of mining operations at, and the development of, the Kami Project into a commercially viable mine cannot be assured.*

Development of mineral properties involves a high degree of risk and few properties that are explored are ultimately developed into producing mines. The commercial viability of a mineral deposit is dependent upon a number of factors which are beyond Alderon's control, including the attributes of the deposit, commodity prices, government policies and regulation and environmental protection. Fluctuations in the market prices of minerals may render resources and deposits containing relatively lower grades of mineralization uneconomic.

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There are numerous activities that need to be completed in order to successfully commence development and production at the Kami Project, including, without limitation: optimizing the mine plan; recruiting and training personnel; having available funds to finance construction and development activities; avoiding potential increases in costs; negotiating contracts for railway transportation and port loading and handling; updating, renewing and obtaining, as required, all necessary permits, including, without limitation, environmental permits; and handling any other infrastructure issues. There is no certainty that we will be able to successfully complete these activities, since most of these activities require significant lead times, and we will be required to manage and advance these activities concurrently in order to begin production. A failure or delay in the completion of any one of these activities may delay production, possibly indefinitely, at the Kami Project and would have a material adverse effect on our business, prospects, financial position, results of operations and cash flows.

As such, there can be no assurance that Alderon will be able to complete development of the Kami Project at all, on time or in accordance with any budgets due to, among other things, the delivery and installation of plant and equipment and cost overruns, or that the current personnel, systems, procedures and controls will be adequate to support operations. Failure to successfully complete these events as expected would have a material adverse effect on our business, prospects, financial position, results of operations and cash flows.

There is no assurance that Alderon will ever achieve production or that the Company will ever be profitable if production is achieved.

*Alderon does not have any ownership in, or rights to use the Wabush Scully Mine*

The current PEA is based on the successful acquisition of the Scully Mine Property by the Kami LP in order to allow it to proceed with the execution of the Kami Project according to the strategy described in the Technical Report. With respect to the current status of the Wabush Mine, since May 20, 2015 Wabush Mines and related subsidiaries and affiliates (the "Wabush CCAA Parties") have been in proceedings under the Companies' Creditors Arrangement Act (the "CCAA"). In the CCAA proceedings, FTI Consulting Canada Inc. (the "Monitor") has been appointed as the monitor for the purpose of overseeing the proceedings and arranging for the orderly liquidation of assets.

At the present time, Kami LP does not have any rights to use or access the pit at the Scully Mine or any related infrastructure. There is no certainty that Kami LP will successfully acquire the Scully Mine and related infrastructure. It remains possible that a third party will acquire the Scully Mine and related infrastructure from the CCAA process. If such an event were to occur, Kami LP would have to negotiate an arrangement with such third party. It is also possible that a third-party purchaser may attempt to restart mining operations at the Scully Mine, which would be inconsistent with Kami LPs planned use of the depleted pit. In addition, neither Alderon nor Kami LP has acquired any environmental or other permits to dispose of its tailings into the Scully pit and there is no certainty that such permits would be acquired. If Kami LP is unable to acquire or gain access to the Scully Mine, or fail to obtain the required permits, this will impact the viability of the Kami Project.

Subsequent to the year ended December 31, 2016, the Company submitted a binding offer to purchase certain assets related to the Wabush Scully Mine. Refer to "Subsequent event".

*Alderon currently relies on only two customers for 100% of its expected iron ore concentrate production.*

Alderon currently relies on two significant customers for 100% of the Alderon expected output of 8 Mt of iron ore concentrate annually once the commencement of commercial production occurs. Alderon has entered into the Off-Take Agreement with HBIS Group, a related party who owns 25% of The Kami LP and 19.9% of the Company's common shares. As part of this agreement, upon the commencement of commercial production, HBIS Group is obligated to purchase 60% of the actual annual production from the Kami Property, up to a maximum of 4.8 Mt of the first 8.0 Mt of iron ore concentrate produced annually at the Kami Property. In addition, the Company entered into the Glencore Agreement with respect to an off-take transaction pursuant to which Glencore will acquire all of actual annual production from the Kami Project that has not been allocated to HBIS Group. As noted above, Glencore will be obligated to purchase upon the commencement of commercial production, 40% of the actual annual production from the Kami Project up to a maximum of 3.2 million tonnes of the first 8.0 million tonnes of iron ore concentrate produced annually at the Kami Project.

As a result of reliance on these two customers for the entirety of Alderon's iron ore production, Alderon could be subject to adverse consequences if HBIS Group or Glencore breach their purchase commitments.

*Titles and other rights to the Kami Property cannot be guaranteed and may be subject to prior unregistered agreements, transfers or claims and other defects.*

Alderon cannot guarantee that title to the Kami Property will not be challenged. Alderon may not have, or may not be able to obtain, all necessary surface rights to develop the Kami Property. Title insurance generally is not available for mineral properties, and our ability to ensure that we have obtained secure claim to individual mineral properties or mining concessions comprising the Kami Property may be severely constrained. The Kami Property may be subject to prior unregistered agreements, transfers or claims, and title may be affected by, among other things, undetected defects. We have not conducted surveys of all of the claims in which we hold direct or indirect interests. A successful challenge to the precise area and location of these claims could result in our being unable to operate on all or part of the Kami Property as permitted or being unable to enforce our rights with respect to all or part of the Kami Property. This could result in Alderon not being compensated for its prior expenditures relating to the property. In addition, Alderon's ability to continue to explore and develop the property may be subject to agreements with other third parties including agreements with aboriginal groups. For instance, Alderon has concluded agreements with the Innu Nation of Labrador and the NunatuKavut pursuant to which these groups will provide their support for the Kami Project in return for certain benefits.

*Alderon needs to enter into contracts with external service providers.*

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. In order to develop a mine at the Kami Project, we will need to negotiate and conclude various agreements with external service providers for rail transportation and port loading and handling, and these are important determinants that affect capital and operating costs. The inability to conclude any such agreements could have a material adverse effect on the Company's financial position, results of operations and cash flows and render the development of a mine on the Kami Project unviable.

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*Alderon's activities are subject to environmental laws and regulations that may increase Alderon's costs of doing business and restrict the Company's operations.*

All of our exploration, potential development and production activities in Canada are subject to regulation by governmental agencies under various environmental laws, including with respect to air emissions, discharges into water, management of waste, management of hazardous substances, protection of natural resources, antiquities and endangered species and reclamation of lands disturbed by mining operations. Compliance with environmental laws and regulations may require significant capital outlays on behalf of Alderon and may cause material changes or delays in our intended activities. There can be no assurance that future changes in environmental regulations will not adversely affect our business, and it is possible that future changes in these laws or regulations could have a significant adverse impact on some portion of our business, causing us to re-evaluate those activities at that time. Failure to comply with applicable environmental laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulator or judicial authorities, causing operations to cease or to be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions.

*Alderon may experience difficulty attracting and retaining qualified management and technical personnel to meet the needs of its anticipated growth.*

We are dependent on the services of key executives, including our Non-Executive Chairman and Chief Executive Officer, Chief Financial Officer and other highly skilled and experienced executives and personnel focused on managing Alderon's interests and the advancement of the Kami Property and on identifying new opportunities for growth and funding. Due to our relatively small size, the loss of these persons or our inability to attract and retain additional highly skilled employees, on a timely basis or at all, required for the development of our activities may have a material adverse effect on our business or future operations.

We also anticipate that, as we bring the Kami Project into production and, where appropriate, acquire additional mineral rights, we will experience significant growth in our operations. We expect this growth to create new positions and responsibilities for management and technical personnel and to increase demands on our operating and financial systems. There can be no assurance that we will successfully meet these demands and effectively attract and retain additional qualified personnel to manage our anticipated growth. The failure to attract such qualified personnel to manage growth would have a material adverse effect on our business, financial position, results of operations and cash flows.

*The Company does not have financial resources sufficient to cover all of its commitments for the coming year, therefore, material uncertainties exist that may cast significant doubt upon the Company's ability to continue as a going concern.*

Alderon currently has limited financial resources, no cash inflows from production and negative operating cash flows. Although Alderon has completed the engineering work required to commence construction at the Kami Project, the commencement of construction of the Kami Project is subject to the completion of the Company's financing plan.

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The Company does not have financial resources sufficient to cover all of its commitments for the coming year and must secure sufficient funding to meet its existing commitments. In addition, further development and exploration of the Kami Property depends upon Alderon's ability to obtain financing through strategic partnerships, equity or debt financings, production-sharing arrangements or other dilutive or non-dilutive means. There is no assurance that Alderon will be successful in obtaining required financing on acceptable terms, or at all. If Alderon is unable to obtain additional financing it may consider other options, such as (i) selling assets, (ii) selling equity, or (iii) selling interests in the Kami Property. If Alderon raises additional funding by issuing additional equity securities or other securities that are convertible into equity securities, such financings may substantially dilute the interest of existing or future shareholders. Sales or issuances of a substantial number of securities, or the perception that such sales could occur, may adversely affect the prevailing market price of Alderon's common shares. With any additional sale or issuance of equity securities, investors will suffer dilution of their voting power and may experience dilution in earnings per share. Failure to obtain additional financing could result in an indefinite postponement of further exploration and development of the Kami Property and will have a material adverse effect on Alderon's business, prospects, financial position, results of operations and cash flows.

Alderon is pursuing a financing strategy for the Kami Project that includes obtaining a senior debt facility to complete the construction and start-up of the Kami Project. The completion of the financing plan has taken longer than anticipated. There can be no assurance that Alderon will receive commitments from lenders for a senior debt facility or that Alderon will be able to negotiate binding agreements with respect to a senior debt facility. There can be no assurance that the Company will successfully conclude a senior debt facility or any of its financing strategy. These conditions and events indicate material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. The failure of Alderon to enter into the senior debt facility on reasonable terms, or at all, could delay construction and start-up of the Kami Project. The Company may be unable to continue its operations, which would have a material adverse effect on Alderon's business, financial position, results of operations and cash flows.

If the going concern assumption were not appropriate, adjustments to the carrying value of assets and liabilities, reported expenses and consolidated statement of financial position classifications would be necessary. Such adjustments could be material.

*Alderon has a history of losses and expects to incur losses for the foreseeable future.*

Alderon has incurred losses since its inception and expects to incur losses for the foreseeable future. We expect to continue to incur losses unless and until such time as the Kami Project enters into commercial production and generates sufficient revenues to fund continuing operations. The development of the Kami Project will require the commitment of substantial financial resources. The amount and timing of expenditures will depend on a number of factors, including the progress of ongoing exploration, evaluation and development, the results of consultant analysis and recommendations, the rate at which operating losses are incurred, the execution of any agreements with strategic partners and our acquisition of additional properties. Some of these factors are beyond our control. There can be no assurance that Alderon will ever achieve profitability.

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*Our securities are subject to price volatility.*

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations that have not been necessarily related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that fluctuations in our share price will not occur. It may be anticipated that any quoted market for our common shares will be subject to market trends generally, notwithstanding any potential success in creating revenues, cash flows or earnings. The value of our common shares will be affected by such volatility.

### **Subsequent event**

The following event occurred subsequent to the year ended December 31, 2016:

On March 27, 2017, the Company submitted a binding offer (the "Offer") to purchase certain assets related to the Scully Mine located north of the Town of Wabush in Newfoundland and Labrador that would be required for the Company to dispose of the tailings produced from the Kami Project as described in the PEA (the "Scully Assets"). As consideration for the Scully Assets, the Company has offered to pay \$1,000,000 and assume certain liabilities and obligations associated with ownership and operation of the Scully Assets. The Company paid a deposit in the amount of \$250,000 which shall be applied against the purchase price on closing.

The Offer was submitted in connection with formal sale procedures developed by Wabush Mines, Wabush Resources Inc., Wabush Iron Co. Limited, Wabush Lake Railway Company Limited (collectively, the "Vendors") in consultation with FTI Consulting Canada Inc. (the "Monitor"). In accordance with the sale procedures, all offers were due before 5:00 p.m. (Toronto time) on March 27, 2017. The Vendors, in consultation with the Monitor, will review all offers that were submitted and determine whether to accept any of the offers. In the event that the Company's Offer is rejected, the deposit shall be returned to the Company.

If the Company's Offer is accepted, the closing of any transaction related to the acquisition of the Scully Assets is subject to numerous conditions including the execution of a definitive agreement on terms acceptable to the Vendors and the Company, receipt of regulatory approvals, receipt of court approval, and other conditions customary to a transaction of this nature. There is no certainty that the Company's Offer will be accepted, or if the Offer is accepted, that a transaction to acquire the Scully Assets will be successfully concluded.

### **Internal control over financial reporting**

Management of Alderon is responsible for establishing and maintaining an adequate system of internal control, including internal controls over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the CEO and CFO and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. It includes those policies and procedures that:

- a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of Alderon,
- b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of Alderon are being made only in accordance with authorizations of management and Alderon's directors, and

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- c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Alderon's assets that could have a material effect on the annual financial statements or interim financial reports.

Alderon's management, including its CEO and CFO, believe that due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of Alderon's internal control over financial reporting as of December 31, 2016, based on the criteria set forth in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management believes that, as of December 31, 2016, Alderon's internal control over financial reporting is effective.

During the year ended December 31, 2016, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

#### **Additional information**

Additional information relating to the Company, including the Company's Annual Report for the year ended December 31, 2016 is available on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **Approval**

The Board of Directors of Alderon Iron Ore Corp. has approved the information and disclosures contained in this MD&A.