



Condensed Consolidated Interim Financial Statements  
(Expressed in U.S. dollars)

**For the three and nine months ended September 30, 2017 and 2016**

(Unaudited)

## **NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed interim financial statements, the financial statements must be accompanied by a notice indicating that the condensed interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim financial statements of the Company have been prepared and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

# BLACK IRON INC.

Condensed Consolidated Interim Financial Statements  
(Expressed in U.S. dollars)

For the three and nine months ended September 30, 2017 and 2016

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# BLACK IRON INC.

Condensed Consolidated Interim Statement of Financial Position  
(Expressed in U.S. dollars)

	<b>September 30, 2017</b>	December 31, 2016
	(unaudited)	
<b>ASSETS</b>		
Current		
Cash	\$ 1,537,593	\$ 3,244,395
Amounts receivable and prepaid expenses	288,657	42,579
Investment in Euro Sun Mining Inc. (Note 4)	3,875,587	2,257,997
Total current assets	5,701,837	5,544,971
Equipment	10,175	11,143
Exploration and evaluation assets	1	1
Total assets	\$ 5,712,013	\$ 5,556,115
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	\$ 435,677	\$ 393,395
Total current liabilities	435,677	393,395
Shareholders' Equity		
Common shares	67,457,612	67,457,612
Share based payments (Note 6)	942,344	784,408
Accumulated other comprehensive income (loss)	1,012,956	(899,208)
Deficit	(64,136,576)	(62,180,092)
Total shareholders' equity	5,276,336	5,162,720
Total shareholders' equity and liabilities	\$ 5,712,013	\$ 5,556,115

Commitments and contingencies (Note 9)

Approved by the Board of Directors on November 8, 2017:

"BRUCE HUMPHREY", Director

"JOHN DETMOLD", Director

*The accompanying notes are an integral part of these condensed consolidated interim financial statements.*

# BLACK IRON INC.

Condensed Consolidated Interim Statement of Loss and Comprehensive (Income) Loss  
(Expressed in U.S. dollars)  
(Unaudited)

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
<b>Expenses</b>				
Consulting and management fees	\$ 291,746	\$ 207,430	\$ 812,686	\$ 643,024
Professional fees (recovery)	(24,120)	588,096	(1,134)	617,953
General office expenses	79,356	54,642	168,396	111,994
Stock-based compensation (Note 6)	44,122	12,353	187,358	41,454
Travel expenses	73,332	8,613	162,304	16,274
Shareholder communications and filing fees	7,402	10,405	33,387	33,878
Exploration and evaluation expenses (Note 3)	177,338	122,904	463,102	490,702
Gain on sale of equipment	-	-	-	(3,128)
Loss on foreign exchange	(70,751)	3,002	(133,979)	65,646
Change in fair value of warrant liability (Note 5)	-	(21,365)	-	(53,800)
Change in fair value of warrants investment (Note 4)	(16,180)	94,789	294,574	(527,147)
Interest income	(650)	(155)	(788)	(9,186)
Loss for the period	\$ 561,595	\$ 1,080,714	\$ 1,985,906	\$ 1,427,664
<b>Other comprehensive (income) loss:</b>				
Change in fair value of investment (Note 4)	(815,518)	370,080	(1,912,164)	(883,764)
Total comprehensive (income) loss for the period	\$ (253,923)	\$ 1,450,794	\$ 73,742	\$ 543,900
<b>Loss for the period attributable to:</b>				
Owners of the parent	561,595	1,080,714	1,985,906	1,421,342
Non-controlling interest (Note 7)	-	-	-	6,322
	\$ 561,595	\$ 1,080,714	\$ 1,985,906	\$ 1,427,664
<b>Basic and diluted loss per share attributable to the parent</b>				
Weighted average number of common shares outstanding - basic and diluted	159,740,519	159,740,519	159,740,519	159,757,490

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

# BLACK IRON INC.

## Condensed Consolidated Interim Statement of Changes in Shareholders' Equity (Expressed in U.S. dollars) (Unaudited)

	Common Shares		Compensation Options	Share Based Payments	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Equity attributable to owners of Black Iron Inc.	Non-Controlling Interest (Note 7)	Total Shareholders' Equity
	#	\$	\$	\$	\$	\$	\$	\$	\$
Balance, December 31, 2016	159,740,519	67,457,612	-	784,408	(62,180,092)	(899,208)	5,162,720	-	5,162,720
Loss for the period	-	-	-	-	(1,985,906)	-	(1,985,906)	-	(1,985,906)
Other comprehensive income for the period	-	-	-	-	-	1,912,164	1,912,164	-	1,912,164
Contributions by and distributions to owners:									
Stock option plan (Note 6)	-	-	-	159,044	-	-	159,044	-	159,044
Expiry of vested options	-	-	-	(29,422)	29,422	-	-	-	-
Deferred share units (Note 6)	-	-	-	28,314	-	-	28,314	-	28,314
<b>Balance, September 30, 2017</b>	<b>159,740,519</b>	<b>67,457,612</b>	<b>-</b>	<b>942,344</b>	<b>(64,136,576)</b>	<b>1,012,956</b>	<b>5,276,336</b>	<b>-</b>	<b>5,276,336</b>
Balance, December 31, 2015	159,890,519	67,520,956	158,332	1,551,719	(61,444,044)	8,025	7,794,988	5,619,451	13,414,439
Loss for the period	-	-	-	-	(1,421,342)	-	(1,421,342)	(6,322)	(1,427,664)
Other comprehensive income for the period	-	-	-	-	-	883,764	883,764	-	883,764
Contributions by and distributions to owners:									
Repurchase and cancellation of common shares	(150,000)	(63,344)	-	-	59,576	-	(3,768)	-	(3,768)
Stock option plan	-	-	-	13,399	-	-	13,399	-	13,399
Cancellation of vested options	-	-	-	(305,119)	305,119	-	-	-	-
Expiry of compensation options	-	-	(158,332)	-	158,332	-	-	-	-
Deferred share units	-	-	-	28,055	-	-	28,055	-	28,055
<b>Total contributions by and distributions to owners</b>	<b>(150,000)</b>	<b>(63,344)</b>	<b>(158,332)</b>	<b>(263,665)</b>	<b>523,027</b>	<b>-</b>	<b>37,686</b>	<b>-</b>	<b>37,686</b>
Change in ownership interests that do not result in a change of control (Note 7)	-	-	-	-	(34,106)	-	(34,106)	(5,613,129)	(5,647,235)
<b>Balance, September 30, 2016</b>	<b>159,740,519</b>	<b>67,457,612</b>	<b>-</b>	<b>1,288,054</b>	<b>(62,376,465)</b>	<b>891,789</b>	<b>7,260,990</b>	<b>-</b>	<b>7,260,990</b>

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

# BLACK IRON INC.

Condensed Consolidated Interim Statement of Cash Flows  
(Expressed in U.S. dollars)  
(Unaudited)

	Nine months ended September 30, 2017	Nine months ended September 30, 2016
<b>CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>		
Loss for the period	\$ (1,985,906)	\$ (1,427,664)
Adjustment for:		
Stock-based compensation (Note 6)	187,358	41,454
Change in value of warrant liability (Note 5)	-	(53,800)
Change in value of warrant investment (Note 4)	294,574	(527,147)
Interest income	(788)	(9,186)
Depreciation	4,869	19,589
Non cash settlement of finders' fees (Note 4)	-	816,972
(Gain) on sale of equipment	-	(3,128)
Net cash (outflow) before working capital changes	(1,499,893)	(1,142,910)
Net change in non-cash working capital	(203,838)	(375,787)
Cash used in operating activities	(1,703,731)	(1,518,697)
<b>FINANCING ACTIVITIES</b>		
Share repurchase	-	(3,768)
Net cash used in financing activities	-	(3,768)
<b>INVESTING ACTIVITIES</b>		
Purchase of equipment	(3,901)	(11,970)
Proceeds on equipment disposal	-	10,674
Interest received	788	9,186
Purchase of investment (Note 4)	-	(3,214,143)
Acquisition of non-controlling interest (Note 7)	-	(5,647,235)
Cash (used in) investing activities	(3,113)	(8,853,488)
Effect of exchange rate changes on cash	42	(92)
CHANGE IN CASH	(1,706,802)	(10,376,045)
CASH, beginning of period	3,244,395	14,054,345
CASH, end of period	\$ 1,537,593	\$ 3,678,300

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# BLACK IRON INC.

Notes to Condensed Consolidated Interim Financial Statements  
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## 1. Nature of operations:

Black Iron Inc. (the "Company") was incorporated under the laws of the Province of Ontario, Canada by Articles of Incorporation dated June 29, 2010. The principal activity of the Company is the exploration and development of ferrous metals in Ukraine namely the Shymanivske iron ore project located in Kryvyi Rih, Ukraine. In light of depressed iron ore prices in 2016, the Company made an investment in Euro Sun Mining Inc. ("Euro Sun") to supplement the Shymanivske project. The head office of the Company is located at 65 Queen Street West, Suite 805, Toronto, Ontario, M5H 2M5, Canada.

As at September 30, 2017, Black Iron Inc. held 100% of the shares of Black Iron (Cyprus) Limited (see Note 7) which in turn holds a 100% interest in Shymanivske Steel LLC. The consolidated financial statements include the consolidated financial statements of the Company and its subsidiaries which are listed in the following table:

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	Country of incorporation	Percentage of equity interest	
		September 30, 2017	December 31, 2016
Black Iron (Cyprus) Limited	Cyprus	100	100
Shymanivske Steel LLC	Ukraine	100	100
Zelenivske Steel LLC	Ukraine	100	100

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## 2. Basis of presentation:

(a) Statement of compliance:

The condensed consolidated interim financial statements are in compliance with IAS 34, *Interim Financial Reporting*. Accordingly, certain information and disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed. These condensed consolidated interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2016.

# BLACK IRON INC.

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## 2. Basis of presentation (continued):

(b) Significant accounting policies:

The unaudited condensed consolidated interim financial statements were prepared using the same accounting policies and methods as those used in the Company's consolidated financial statements for the year ended December 31, 2016.

## 3. Exploration and evaluation assets and expenditures:

Exploration expenditures for the period were as follows:

	<b>Three months ended September 30, 2017</b>	Three months ended September 30, 2016	<b>Nine months ended September 30, 2017</b>	Nine months ended September 30, 2016
Description				
Land acquisition and surface rights	\$ 11,173	\$ -	\$ 27,061	\$ -
Preliminary economic assessment	62,833	-	62,833	-
Engineering studies	8,585	-	28,697	-
Permitting	-	2,013	-	8,083
Consulting and technical	74,577	97,510	283,589	394,559
Travel	2,102	2,649	9,006	11,191
Legal support	4,858	882	8,746	12,009
Field office support & administration	13,210	19,850	43,170	64,860
<b>Total expenditures</b>	<b>\$ 177,338</b>	<b>\$ 122,904</b>	<b>\$ 463,102</b>	<b>\$ 490,702</b>

The Company's principal activity is the exploration and development of its Shymanivske project. Although the Company continues to make expenditures and advancement on the Shymanivske project, the Company has assessed that due to the ongoing political and economic crises in the Ukraine, reversal of the impairment recorded in the year ended December 31, 2015 is not considered appropriate as of the end of the current period.

# BLACK IRON INC.

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## 4. Investment in Euro Sun Mining Inc.:

Changes in the investment in Euro Sun during the period were as follows:

	Common shares		Warrants		Total
	#	\$	#	\$	\$
Initial investment on May 19, 2016 (i)	3,145,940	2,040,578	1,572,970	1,009,132	3,049,710
Warrants transferred in consideration of professional services received in connection with investment in Euro Sun (ii)	-	546,554	(786,485)	(816,972)	(270,418)
Gain on disposal of warrants	-	-	-	312,406	312,406
Acquisition of additional common shares in Euro Sun (iii)	201,500	189,900	-	-	189,900
Mark-to-market loss on value of warrants recorded in the statement of loss and comprehensive loss (iv)	-	-	-	(116,368)	(116,368)
Adjustment to carrying value of common shares recorded in other comprehensive loss (iv)	-	(907,233)	-	-	(907,233)
<b>Balance, December 31, 2016</b>	<b>3,347,440</b>	<b>1,869,799</b>	<b>786,485</b>	<b>388,198</b>	<b>2,257,997</b>
Mark-to-market loss on value of warrants recorded in the statement of loss and comprehensive loss (iv)	-	-	-	(294,574)	(294,574)
Adjustment to carrying value of common shares recorded in other comprehensive loss (iv)	-	1,912,164	-	-	1,912,164
<b>Balance, September 30, 2017</b>	<b>3,347,440</b>	<b>3,781,963</b>	<b>786,485</b>	<b>93,624</b>	<b>3,875,587</b>

(i) On May 19, 2016, the Company acquired 3,145,940 units of the issued and outstanding shares of Euro Sun Mining Inc. ("Euro Sun") a company listed on the Toronto Stock Exchange (TSX), for total consideration of CAD\$4,000,000 (\$3,049,710), of which CAD\$2,676,422 (\$2,040,578) was allocated to the common shares and CAD\$1,323,578 (\$1,009,132) was allocated to the warrants. Each unit consisted of one common share and one half of one common share purchase warrant. On September 12, 2016, Euro Sun consolidated its shares 18.164 to one existing share. Post share consolidation, each whole warrant allows the Company to acquire one common share of Euro Sun at a price of CAD\$2.18 for a period of two years from the date of issuance. The warrant exercise period may be accelerated if the common shares for Euro Sun trade at a price above CAD\$2.72 for a period of 20 consecutive trading days. The Company has classified the investment in common shares as available for sale with changes in fair value of the shares included in other comprehensive income. The investment in the warrants is accounted for as a derivative and changes in the fair value of the warrants are included in profit and loss. The fair value of the warrants on the acquisition date of CAD\$1,323,578 (\$1,009,132) was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 382%, based on the historic volatility of Euro Sun's share prices, weighted average risk - free interest rate of 0.62%, and a time to expiry of 2 years.

# BLACK IRON INC.

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## 4. Investment in Euro Sun Mining Inc. (continued):

(ii) On July 7, 2016, the Company agreed to transfer ownership of 786,485 of the Euro Sun warrants to 2518322 Ontario Inc., an unrelated entity, as consideration for services provided in connection with the successful introduction, negotiation and completion of the acquisition of units of Euro Sun (“transaction costs”). The fair value of the warrants transferred on July 7, 2016 of CAD\$1,060,757 (\$816,972) was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 389%, based on the historic volatility of Euro Sun’s share prices, weighted average risk - free interest rate of 0.47%, and a time to expiry of 1.9 years. Of the \$816,972, \$270,418 is included in professional fees in the Company’s statement of comprehensive loss and \$546,554 has been recognised against the investment in common shares, reflecting the allocation of the transaction costs between the common shares and warrants acquired.

(iii) During the year ended December 31, 2016, the Company purchased an additional 201,500 common shares of Euro Sun for total consideration of CAD\$250,231 (\$189,900).

(iv) As at September 30, 2017, the fair value of the shares was CAD\$4,719,890 (\$3,781,963) (2016 - \$1,869,799) based on the closing price of the shares on September 30, 2017. The fair value of the remaining 786,485 warrants held at September 30, 2017 of CAD\$116,843 (\$93,624) (2016 - \$388,198) was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 76.9%, based on the historic volatility of Euro Sun share prices, weighted average risk - free interest rate of 1.14%, and a time to expiry of 0.6 years. The total change in fair value of the warrants for the period ending September 30, 2017 was \$294,574.

## 5. Warrant liability:

Warrant liability transactions during the period were as follows:

	Nine months ended September 30, 2017		Year ended December 31, 2016	
	Number of warrants	Fair value	Number of warrants	Fair value
Balance, beginning of period	17,680,000	-	17,680,000	54,212
Expired	(17,680,000)	-	-	-
Change in fair value	-	-	-	(54,212)
Balance, end of period	-	-	17,680,000	-

# BLACK IRON INC.

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## 5. Warrant liability (continued):

On February 20, 2014, in connection with a private placement financing, the Company issued 17,680,000 warrants entitling the holder to purchase one common share of the Company at a price of CAD\$0.25 until February 20, 2017. The grant date fair value of the warrants of \$897,991, was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 105.7%, risk-free interest rate of 1.02% and an expected life of 3 years. Share issue costs of \$109,155 were allocated to the warrants and are included in the statement of loss. Warrants that have their exercise prices denominated in other than the Company's functional currency are accounted for as a derivative liability and are recorded at the fair value at each reporting date with the change in fair value for the period recorded in the statement of loss for the period.

The fair value of the warrants of \$nil, as of December 31, 2016, was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 117.0%, risk-free interest rate of 0.43% and an expected life of 0.1 years.

On February 20, 2017, the warrants expired, unexercised.

## 6. Stock-based compensation:

	Number of stock options	Weighted average exercise price CAD	Carrying amount of Options	Number of DSU	Weighted average exercise price CAD	Value of DSU	Total Carrying Amount
Balance, December 31, 2015	11,576,250	\$ 0.22	\$ 1,524,044	1,117,185	\$ 0.03	\$ 27,675.00	\$ 1,551,719
Granted	100,000	0.05	16,749	1,320,314	0.04	37,132	53,881
Expired	(2,203,750)	0.61	(821,192)	-	-	-	(821,192)
Balance, December 31, 2016	9,472,500	0.13	719,601	2,437,499	0.03	64,807	784,408
Granted	3,425,000	0.11	159,044	375,782	0.10	28,314	187,358
Expired	(160,000)	0.30	(29,422)	-	-	-	(29,422)
Balance, September 30, 2017	12,737,500	0.12	849,223	2,813,281	0.04	93,121	942,344

Option Plan:

The Company maintains a stock option plan pursuant to which the Company may grant stock options up to 10% of the number of issued and outstanding common shares of the Company at the time of the stock option grant. The 10% limit includes both the stock option plan and any other share compensation plan. The terms and conditions of each option granted under the Plan are determined by the Board upon the recommendations of the Compensation Committee.

# BLACK IRON INC.

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## 6. Stock-based compensation (continued):

Option Plan (continued):

During the nine months ended September 30, 2017, the Company granted 3,425,000 (Q3 - 2016 – nil) options. The weighted average grant date fair value of options granted during the nine months ended September 30, 2017 was measured using the Black-Scholes option pricing model. The following inputs were used in the measurement of fair values at grant date: expected dividend yield of 0%, expected volatility of 126.7%, weighted average risk - free interest rate of 0.86%, an expected forfeiture rate of 4.7% and a weighted average expected life of 2.87 years. The weighted average grant-date fair value of options granted during the nine months ended September 30, 2017 was \$0.06. Of the 3,425,000 options granted by the Company, 2,925,000 vest in eight equal quarterly instalments commencing on the date of grant, with the remaining 500,000 vesting immediately. During the nine months ended September 30, 2017, options vested with a total value of \$159,044 (Q3 - 2016 – \$13,399).

At September 30, 2017, outstanding options to acquire common shares of the Company were as follows:

Expiry Date	Options Exercise Price (CAD\$)	Options Outstanding	Options Exercisable	Grant date estimated fair value vested \$
November 6, 2017	0.15	930,000	930,000	93,697
February 4, 2018	0.45	100,000	100,000	28,165
September 6, 2018	0.18	200,000	200,000	23,089
September 10, 2018	0.20	900,000	900,000	112,234
November 18, 2018	0.18	150,000	150,000	17,025
January 8, 2019	0.17	3,750,000	3,750,000	373,290
July 28, 2020	0.05	3,182,500	3,182,500	42,684
January 4, 2021	0.05	100,000	87,500	1,595
February 8, 2022	0.09	500,000	500,000	22,703
February 16, 2022	0.12	2,725,000	1,021,875	128,690
May 31, 2022	0.11	200,000	50,000	6,051
		12,737,500	10,871,875	849,223

Subsequent to September 30, 2017, 930,000 options with exercise prices of \$0.15 expired, unexercised.

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## 6. Stock-based compensation (continued):

Deferred Share Units (“DSU”) Plan:

On June 23, 2015, the Company adopted a DSU plan for the benefit of non-executive directors which provided the Company with the ability to issue DSUs from treasury and reserve for issuance an aggregate of up to 3,000,000 common shares of the Company. The DSUs are deferred and will be redeemed in the form of one common share for each DSU held on the date the participant ceases to be an eligible director. During the nine months ended September 30, 2017, the Company granted 375,782 (Q3 - 2016 – 918,064) DSUs with a fair value of \$28,314 (Q3 - 2016 - \$28,055).

## 7. Non-controlling interest:

As at December 31, 2015, Metinvest B.V. (“Metinvest”), owned 49% of the outstanding shares of BKI Cyprus, the Company's subsidiary, which in turn owns a 100% interest in each of Shymanivske Steel LLC and Zelenivske Steel LLC.

On January 15, 2016, the Company completed the acquisition of Metinvest's 49% interest in BKI Cyprus for \$5,647,235, increasing its ownership from 51% to 100% and unencumbered the cash previously held jointly. The carrying value of BKI Cyprus on January 15, 2016 was \$11,455,366 resulting in the Company recognizing a decrease in NCI of \$5,613,129 and a decrease in retained earnings of \$34,106 attributable to owners of the Company.

The following summarizes the changes in the non-controlling ownership interest in BKI Cyprus for 2016:

	\$
Balance, December 31, 2015	5,619,451
Share of loss for the period	(6,322)
Share of assets acquired from non-controlling interest	(5,613,129)
<b>Balance, December 31, 2016</b>	<b>-</b>

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## 8. Related party disclosures:

Key management personnel compensation:

In addition to their contracted fees, executive officers participate in the Company's stock option program (Note 6) and are entitled to participate in the share compensation plan. The Company also has a deferred share unit plan which provides non-executive directors with the ability to redeem annual director compensation through the issuance of common shares of the Company. Certain executive officers are subject to mutual termination notices ranging from three to twelve months. Key management personnel compensation paid comprised:

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	<b>Nine months ended September 30, 2017</b>	Nine months ended September 30, 2016
Short term employee benefits	<b>\$ 700,252</b>	\$ 651,599
Share-based payments	<b>151,219</b>	39,002
	<b>\$ 851,471</b>	\$ 690,601

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Included in the above amounts is \$172,053 (Q3 - 2016 - \$169,323) paid according to a contract for business and operational consulting services with Forbes & Manhattan, Inc., a company which Mr. Stan Bharti (a former director and current executive officer of the Company) is the Executive Chairman and Mr. Matt Simpson is Chief Executive Officer. Officers and Directors had 1,887,500 (Q3 - 2016 – 975,000) options vest during the period.

The Company is party to certain management contracts. These contracts require payments of approximately \$2.1 million upon the occurrence of a change in control of the Company, as defined by each officer's respective consulting agreement. The Company is also committed to payments upon termination of approximately \$687,000 pursuant to the terms of these contracts.

These transactions, occurring in the normal course of operations, are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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For the three and nine months ended September 30, 2017 and 2016

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## 9. Commitments and contingencies:

### *Arbitration Claim*

Since July 2011, the Company has been involved in various disputes with regulatory and government bodies related to ecology, work permissions and surface right matters in the Ukrainian court system. Up until March of 2017, the Company had limited success in resolving these disputes within the Ukrainian court system. As a result, the Company initiated an arbitration claim against Ukraine under the Agreement between the Government of Canada and the Government of Ukraine for the Promotion and Protection of Investments. A Notice of Claim was submitted by the Company to the Ukrainian Government on June 27, 2014. Arbitrators have not yet been appointed and discussions between the Company and the Government of Ukraine resulted in the ecology legal cases being resolved in March 2017. Meaningful progress is also being made to resolve the surface right disputes including grant by the Kryvyi Rih City Council in March 2017 for Shymanivske Steel to initiate a land allotment process.

### *Ukrainian Business Environment*

Ukraine's political and economic situation has undergone significant change since the Government's decision not to sign the Association Agreement and the Deep and Comprehensive Free Trade Agreement with the European Union in late November 2013. Political and social unrest, which escalated into violent conflicts in February 2014 and continue to date in the eastern regions of Ukraine roughly 450 kilometers from the Shymanivske project, resulted in the Ukrainian parliament initiating elections for a new President. It also led to the deepening of the ongoing economic crisis, widening of the state budget deficit, depletion of the National Bank of Ukraine's foreign currency reserves, and as a result, a further downgrading of Ukraine's sovereign debt credit ratings. The final resolution and the effects of the political and economic crisis are difficult to predict but seem to be stabilizing with bailouts being provided by the International Monetary Fund based on ongoing reforms being successfully implemented.

While management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances, a continuation of the current unstable business environment could negatively affect the Company's results and financial position in a manner not currently determinable. These consolidated financial statements reflect management's current assessment of the impact of the Ukrainian business environment on the operations and the financial position of the Company. The future business environment may differ from management's assessment.

### *Other Matters*

A former officer of the Company has initiated a legal action seeking approximately CAD\$1.1 million for a change of control payment in connection with Metinvest's investment in the Company's subsidiary in 2014. The Company does not believe the change of control payment is due to the former officer and the Company intends to defend the matter vigorously as it believes the former officer's claim is without merit.