

**BLACK IRON INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

**Date: March 26, 2018**

This Management Discussion and Analysis ("MD&A") relates to the financial condition and results of operations of Black Iron Inc. together with its subsidiaries (collectively, "Black Iron" or the "Company") as at and for the year ended December 31, 2017. This MD&A should be read in conjunction with the Company's consolidated financial statements and related notes as at and for the year ended December 31, 2017. The consolidated financial statements and related notes of Black Iron have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Unless otherwise noted, all references to currency in this MD&A are in U.S. dollars.

Certain information contained in the MD&A is forward-looking which involves risks and uncertainties. The forward-looking information is not based on historical fact, but is rather based on the current plans, objectives, goals, strategies, estimates, assumptions and projections about the Company's industry, business and future financial results. Actual results could differ materially from the results contemplated by this forward-looking information due to a number of factors, including those set forth in this MD&A and under the "Cautionary Statement Regarding Forward Looking Information" and "Risk Factors" sections.

The MD&A was prepared in accordance with the requirements set out in National Instrument 51-102 — *Continuous Disclosure Obligations* of the Canadian Securities Administrators.

Matt Simpson, the Company's Chief Executive Officer, is a qualified person as defined under National Instrument 43-101- *Standards of Disclosure for Mineral Projects* ("NI 43-101") guidelines and has reviewed the scientific and technical information contained in this MD&A.

The audit committee of the board of directors of the Company has reviewed this MD&A and the consolidated financial statements for the year ended December 31, 2017, and Black Iron's board of directors approved these documents prior to their release.

## **Overview**

Black Iron was incorporated on June 29, 2010 pursuant to the provisions of the *Business Corporations Act* (Ontario). On October 25, 2010, Black Iron completed the acquisition of Geo-Alliance Ore East Ltd. (since renamed Black Iron (Cyprus) Ltd. ("BKI Cyprus")) which serves as an investment holding company for two Ukrainian subsidiaries: Shymanivske Steel LLC ("Shymanivske") and Zelenivske Steel LLC ("Zelenivske"). The total consideration paid for BKI Cyprus including capitalized transaction costs was \$22,934,931 and the acquisition was accounted for as an asset acquisition. During 2014, Black Iron closed a development arrangement with Metinvest whereby BKI Cyprus issued additional shares in exchange for an investment of \$20 million and a commitment to finance half of the equity required to construct the mine. On January 15, 2016, the Company bought back the 49% interest in BKI Cyprus from Metinvest for \$5.6 million. During the buy-out negotiation process, the parties agreed to assign no value to the Shymanivske property. As such, the Black Iron board of directors considered the close of the buy-out transaction to be a trigger to record an impairment charge against the Shymanivske property due to the implied valuation of the project.

Shymanivske holds an iron ore mining extraction permit over 2.56 square kilometers of land which expires on November 1, 2024 (the "Shymanivske Project" or the "Project"). Shymanivske's extraction permit can be renewed in 20 year increments. The Shymanivske Project is located near the city of Kryvyi Rih, in the Dnepropetrovsk Region of Ukraine in close proximity to two large producing iron ore mines.

The Project is currently at the exploration and evaluation stage. On December 14, 2017, Black Iron released its re-scoped Preliminary Economic Assessment (“PEA”), completed on the Shymanivske Project (“the Project”). The re-scoped PEA is based on a two-phased build out of the mine and production plant with the first phase operation producing 4 million tonnes per year (“MTpa”) of ultra high-grade 68% iron concentrate expanding to 8MTpa starting in the fifth year of production. By phasing the build, the up-front construction costs of the Project are significantly reduced thus increasing the projected returns from the Project and making it easier to secure the financing required for construction. The Project exhibits compelling projected economics due to its proximity to major infrastructure including, railway, electrical power and a deep-sea port coupled with a local highly skilled work force. The PEA is preliminary in nature, and it includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. There is no certainty that the PEA will be realized.

A long-term iron ore benchmark price of US\$61.88/t for products containing 62% iron was used in the re-scoped PEA and adjusted using the three-month average trailing spot iron premium of \$7.21 per 1% Fe above 62% as of November 7, 2017. Since mid-2017, the spread between 62% iron content index and the 65% iron content has increased substantially compared to more typical and historic levels. This is a prominent shift in the iron ore market and recognizes “value in quality” or iron ore products. This shift has been driven by Chinese steelmakers in a concerted effort to increase productivity, reduce costs and more importantly, reduce greenhouse gas emissions. As demand for higher quality feedstocks increases, premiums are expected to follow suit. It is generally agreed that this trend will be sustainable in the longer term. Furthermore, a comparison of the published Platts 65% CFR North China composition for impurities and the Project’s concentrate was made. This comparison found that the Project’s concentrate is well below the Min-Max impurity range covered by the Platts benchmark suggesting that the Project’s concentrate is of a superior quality. Based on this pricing for a low impurity, premium 68% iron content product, the Project forecasts a pre-tax unlevered internal rate of return (“IRR”) of 42.6% and a net present value (“NPV”) of \$2,115 million, using a 10% discount rate. The after-tax unlevered IRR using this price and premium is 36.1% and NPV is \$1,662 million. Additional details on the re-scoped PEA can be found on the Company’s website ([www.blackiron.com](http://www.blackiron.com)) and SEDAR ([www.sedar.com](http://www.sedar.com)).

The Company has recently resolved its previously disclosed environmental legal cases and is making significant progress towards resolving the surface rights land cases initiated by the Company. Notwithstanding the recent progress that has been made, the Company has historically not been successful using Ukraine’s court system to resolve its legal matters. Accordingly, on December 29, 2014, the Company commenced an international arbitration process against the Government of Ukraine under the Agreement between the Government of Canada and the Government of Ukraine for the Promotion and Protection of Investments to resolve its legal disputes. Arbitrators have not yet been appointed. Please see “Financial Commitments, Contingencies and Litigation – Legal Matters” below for more information.

During a period of low iron ore prices, to utilize the excess cash held by the Company on May 19, 2016, the Company acquired 3,145,940 units (“Units”) of Euro Sun Mining Inc. (“Euro Sun”) (after a share consolidation of 18.164 to 1 on September 12, 2016), or 6.3% of the issued and outstanding shares on a partially diluted basis, at a price of CAD\$1.27 per Unit for total consideration of CAD\$4 million. Each Unit was comprised of one Euro Sun common share and one-half of a Euro Sun common share purchase warrant. Euro Sun has since been listed onto the main board of the Toronto Stock Exchange (“TSX”) under the ticker symbol “ESM”. Euro Sun holds permits for the second largest gold deposit in Europe. As part of this transaction, Black Iron’s CEO joined Euro Sun’s board of directors. Since making the initial investment, Black Iron has bought and sold ESM shares as disclosed in its financial statements. As of the date hereof, Black Iron holds 3,148,840 Euro Sun shares and 786,485 Euro Sun warrants with a strike price of CAD\$2.18 and an expiry date of May 19, 2018.

## **Outlook**

With the rebound in iron ore prices coupled with greater clarity on the military-conflict being constrained to the Eastern part of Ukraine, roughly 450 kilometers from Black Iron's Shymanivske Project, Black Iron management is refocusing all efforts on advancing the Shymanivske Project into production. Over the last year, iron ore prices have averaged \$70 per tonne, hitting a high of \$95 per tonne in February and are currently holding stable at approximately \$77 per tonne as of early March. Further, Ukraine's exchange rate has depreciated from 8 UAH:US \$1, as used in the 2014 Bankable Feasibility Study ("BFS"), to approximately 28 UAH: US \$1. As experienced by other Ukraine iron ore miners such as London publicly listed Ferrexpo, Black Iron expects that the current exchange rate will result in lower operating and capital costs to construct the Project. On December 14, 2017, Black Iron released its new PEA for the Project that was based on a much more favorable exchange rate and phased development plan starting with 4MTpa production ramping up to 8MTpa using self-generated cash to fund the expansion. In addition to having favourable exchange rates and low highly skilled labour costs, Black Iron benefits from not needing to build any major infrastructure such as railways, power lines or a port as these are all in existence within very close proximity to the ore body allowing us to build the mine in a scalable manner while still achieving favourable economic returns.

In November 2017, Black Iron contracted Mr. Bill Hart as Senior Vice President Corporate Development. Mr. Hart has extensive international experience selling iron ore to steel mills and trading houses and his main responsibility will be to solicit interest for companies to invest in the construction of the Shymanivske Project. As was successfully done back in 2014, Black Iron has initiated discussions with several steel mills and trading houses to solicit interest in prepaid offtake and/or a joint equity development partner to significantly reduce the amount of equity that needs to be raised in the public markets to build the mine. Several companies have signed non-disclosure agreements and have initiated due diligence on the Project. Additionally, Black Iron has initiated discussions with potential debt financing providers.

Finally, management continues to make good progress in securing the necessary surface rights with city of Kryviy Rih, the State Forestry Department and the Ministry of Defense of Ukraine to acquire the land necessary for the open pit, processing plant, tailings and waste rock stockpiles. The land allotment study required to be in a position to lease the land from the Kryviy Rih City Council is approximately 50% complete and the State Forestry Department has submitted their proposal to Ukraine's Cabinet of Ministers in support of transferring the land plots required by the Company to the city of Kryviy Rih. Multiple discussions have been held, year to date, with high ranking Ukrainian Government officials including the First Deputy Prime Minister and Deputy Minister of Defence, both of whom are supportive of the Project and are now reviewing options for the land transfer.

## **Fourth Quarter Highlights**

- On November 8, 2017, Black Iron announced the contracting of Mr. Bill Hart as Senior Vice President Corporate Development. As an experienced iron ore marketer, Mr. Hart will primarily be responsible for soliciting interest for companies to invest in the construction of the Project pursuant to an offtake or constructing financing agreement.
- On December 14, 2017, Black Iron filed its re-scoped PEA report for phased build, showing post tax 36.1% IRR and NPV of US\$1.6 billion.
- As at December 31, 2017, the Company had working capital of \$3,795,519, including cash of \$838,278 (see "Liquidity and Capital Resources" section).

## **Ukraine Business Environment**

Ukraine's political and economic environment 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 escalated into violent conflicts in February 2014 and continue to date in the eastern regions of Ukraine. 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 the Ukrainian 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 and a recent upgrade in Ukraine's sovereign risk rating to B- (stable).

The front line of conflict in Ukraine is located approximately 450 km away from the Project site and has not geographically advanced since the invasion occurred four years ago. During this entire period, the iron ore mines surrounding the Project continued to operate as usual. It is Black Iron management's view that it is highly unlikely that the front line will further advance given Russia's indication that their main objectives were achieved during the initial invasion. Major international companies are also starting to share the view that it is safe to invest again in Ukraine. For example, ArcelorMittal which owns an iron ore mine and steel mill located only one km north of the Project recently announced their intention to invest \$1.1 billion into their operation over the next few years of which the European Bank for Reconstruction and Development is contributing \$350 million. These large investments validate that business conditions are normalizing in Ukraine.

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 business environment could negatively affect the Company's results and financial position in a manner not currently determinable. The 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.

### Selected Annual Information

	2017	2016	2015
	\$	\$	\$
Net loss	2,907,483	1,747,364	25,549,386
Comprehensive loss	1,575,236	2,654,597	25,549,386
Loss per share, basic and diluted	0.02	0.01	0.14
Total assets	4,201,265	5,556,115	14,126,148
Total non-current liabilities	-	-	54,212

In 2015, the Company recorded an impairment charge on exploration and evaluation assets of \$22,934,930.

### Selected Quarterly Financial Information

<b>Three months ended</b>	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
	\$	\$	\$	\$
Loss for the period	921,577	561,595	704,880	719,431
Total comprehensive loss (income)	1,501,494	(253,923)	(375,330)	702,995
Loss per share	0.01	0.00	0.00	0.00

<b>Three months ended</b>	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
	\$	\$	\$	\$
Loss (income) for the period	319,700	1,080,714	(112,892)	459,842
Total comprehensive loss (income)	2,110,697	1,450,794	(1,366,736)	459,842
Loss (income) per share	0.00	0.01	(0.00)	0.00

Black Iron is an exploration and evaluation stage company and does not have any revenues. It is expected to incur losses in the development of its business due to its accounting policy to expense exploration & evaluation costs as well as for associated management and general administration. The income recorded in the three-month period ended June 30, 2016 is due to the change in fair value of Black Iron's investment in Euro Sun Mining Inc.

## Results of Operations for the Company for the three months and year ended December 31, 2017

### Selected Financial Information

	<b>Three months ended December 31, 2017</b>	Three months ended December 31, 2016	<b>Year ended months ended December 31, 2017</b>	Year ended months ended December 31, 2016
	\$	\$	\$	\$
Loss for the period	<b>921,577</b>	319,700	<b>2,907,483</b>	1,747,364
Comprehensive loss for the period	<b>1,501,494</b>	2,110,697	<b>1,575,236</b>	2,654,597
Loss per share	<b>0.01</b>	0.00	<b>0.02</b>	0.01
General and administrative:				
Consulting and management fees	<b>307,892</b>	204,496	<b>1,120,578</b>	847,520
Professional fees (recovery)	<b>3,702</b>	(180,127)	<b>2,568</b>	437,826
General office expenses	<b>124,649</b>	55,686	<b>293,045</b>	164,552
Travel expenses	<b>23,661</b>	2,592	<b>185,965</b>	18,866
Shareholder communications and filing fees	<b>45,968</b>	1,593	<b>79,355</b>	35,471
Change in provision	-	(250,000)	-	(250,000)
	<b>505,872</b>	<b>(165,760)</b>	<b>1,681,511</b>	<b>1,254,235</b>
Exploration and evaluation expenditures:				
Surface rights and consulting	<b>4,398</b>	2,570	<b>31,459</b>	4,827
Preliminary economic assessment	<b>201,680</b>	-	<b>293,210</b>	-
Permitting	-	567	-	8,650
Consulting and technical	<b>75,869</b>	76,950	<b>359,458</b>	471,509
Travel	<b>1,941</b>	-	<b>10,947</b>	11,191
Legal support	<b>(2,598)</b>	7,717	<b>6,148</b>	19,726
Field office support & administration	<b>28,128</b>	15,693	<b>71,298</b>	78,296
	<b>309,418</b>	103,497	<b>772,520</b>	594,199
Non-cash:				
Stock-based compensation	<b>30,509</b>	12,427	<b>217,867</b>	53,881
Change in fair value of warrant liability	-	(412)	-	(54,212)
Change in fair value of warrants investment	<b>67,572</b>	331,109	<b>362,146</b>	(196,038)
Change in fair value of investment	<b>579,917</b>	1,790,997	<b>(1,332,247)</b>	907,233
	<b>677,998</b>	2,134,121	<b>(752,234)</b>	710,864

## **Three months ended December 31, 2017**

### **Expenses**

#### ***General and Administrative***

Consulting and management fees are \$103,396 higher than the comparable three-month period in the prior year, mainly as a result of the appointment of a new president in the first quarter of 2017.

Professional fees of \$3,702 during the three months ended December 31, 2017, are lower than typically incurred due to a recovery of legal fees incurred in the fourth quarter of 2016. A recovery of professional fees of \$180,127 in the three months ended December 31, 2016 was the result of the reclassification during the quarter of \$270,418 incurred in connection with the Euro Sun investment (included in other comprehensive loss).

General office expenses of \$124,649 in the three months ended December 31, 2017 include rent and office related expenses along with marketing expenses. The Company shares office space with several other resource companies and pays its proportionate share of expenses. During the three months ended December 31, 2016, the Company recorded a general office expense of \$55,686. The increase in expenses in the current year is primarily the result of increased marketing activity.

Travel expenses were \$23,661 during the three months ended December 31, 2017 compared with \$2,592 in the same period in the prior year. The increase from the prior year is mainly the result of increased investor relations activity.

Shareholder communications and filing fees were \$45,968 during the three months ended December 31, 2017 compared with \$1,593 in the same period in the prior year.

During the three months ended December 31, 2016, the Company recorded a recovery relating to the reversal of a provision for an out-of-pocket cost reimbursement for a finder's fee contract of \$250,000 (see "Financial Commitments, Contingencies and Litigation" section).

#### ***Exploration and Evaluation Expenditure***

The Company recorded exploration and evaluation expenses of \$309,418 during the three months ended December 31, 2017. This expenditure was primarily for consulting and technical fees related to the Shymanivske Project as required primarily for land acquisition. In addition, the Company incurred expenses related to a new 43-101 compliant PEA on the Company's Shymanivske Project. This is \$205,921 higher than the same period in the prior year as the Company has re-focused efforts on getting the Shymanivske Project to production.

#### ***Non-Cash Items***

No options were issued during the three months ended December 31, 2017 and 930,000 options expired, unvested during this period. No options were issued, and no options expired during the three months ended December 31, 2016. All options vest in eight equal quarterly installments. The vesting of options resulted in an expense during the three months ended December 31, 2017 of \$30,509 compared with \$12,427 during the three months ended December 31, 2016. In addition, the Company granted 101,563 deferred share units ("DSUs") to directors of the Company valued at \$9,715 compared with 406,250 DSUs valued at \$9,077 granted during the three months ended December 31, 2016.

On May 19, 2016, the Company acquired 3,145,940 Units of Euro Sun. The Units consisted of one common share of Euro Sun and one half of one common share purchase warrant with an exercise price of CAD\$2.18 and an expiry date of May 19, 2018. Of the 1,572,970 warrants acquired, 786,485 were transferred to 2518322 Ontario Inc. as consideration for services provided in connection with the successful introduction, registration and completion of the acquisition of Units of Euro Sun. The Company has designated the investment in the common shares portion as available for sale and records the investment at the estimated fair value at each reporting date with changes in the fair value of the shares included in other comprehensive income. The changes in estimated fair value of the warrants, a derivative instrument, are included in income or loss for the period. The change in fair value of the warrants, estimated using the Black-Scholes option pricing model, for the three months ended December 31, 2017 was a loss of \$67,572 (Q4 2016 – \$331,109). The change in fair value of the shares for the three months ended December 31, 2017 was a loss of \$579,917 (Q4 2016 – \$1,790,997).

## **Year ended December 31, 2017**

### **Expenses**

#### ***General and Administrative***

Consulting and management fees are \$273,058 higher than the prior year, mainly as a result of the appointment of a new president in the first quarter of 2017.

The Company recorded professional fees of \$2,568 during the year ended December 31, 2017 this amount includes a recovery of \$89,000 of legal fees incurred in the fourth quarter of 2016. On July 7, 2016, the Company agreed to transfer ownership of 786,485 Euro Sun warrants to a private company as consideration for services received in connection with the acquisition of Units of Euro Sun. The fair value of the warrants on the date of transfer was \$816,972. Of this amount, \$270,418 was included in professional fees in the Company's statement of loss for the year ended December 31, 2016 with the remainder being expensed through change in fair value of the Euro Sun investment (included in other comprehensive loss). Professional fees in both 2016 and 2017 also include fees accrued for audit services and legal fees. Professional fees during the year ended December 31, 2016 were \$437,826.

General office expenses of \$293,045 in the year ended December 31, 2017 include rent and office related expenses along with marketing expenses. The Company shares office space with several other resource companies and pays its proportionate share of expenses. During the year ended December 31, 2016, the Company recorded a general office expense of \$164,552. The lower expense in the prior year was due mainly to credit notes received for disputed general and administrative costs that were accrued in 2015.

Travel expenses were \$185,965 during the year ended December 31, 2017 compared with \$18,866 in the same period in the prior year. The increase over the prior year is due mainly to increased investor relations activities.

Shareholder communications and filing fees were \$79,355 during the year ended December 31, 2017 compared with \$35,471 in the same period in the prior year.

During the year ended December 31, 2016, the Company recorded a recovery relating to the reversal of a provision for an out-of-pocket cost reimbursement for a finder's fee contract of \$250,000 (see "Financial Commitments, Contingencies and Litigation" section).

#### ***Exploration and Evaluation Expenditure***

The Company recorded exploration and evaluation expenses of \$772,520 during the year ended December 31, 2017. This expenditure was primarily for consulting and technical fees related to the Shymanivske Project as required primarily for land acquisition. In addition, the Company incurred expenses related to a new 43-101 compliant PEA on the Company's Shymanivske Project. This is \$178,321 higher than the same period in the prior year as the Company has re-focused efforts on getting the Shymanivske Project to production.

### ***Non-Cash Items***

The Company granted 3,425,000 options to officers and consultants of the Company during the year ended December 31, 2017 and 1,090,000 options expired, unvested during this period. During the year ended December 31, 2016, the Company issued 100,000 options and 2,203,750 options were cancelled or expired. Of the 3,425,000 options granted during 2017, 2,925,000 vest in eight equal quarterly installments with the remaining 500,000 vesting immediately. The vesting of options resulted in an expense during the year ended December 31, 2017 of \$217,867 compared with \$53,881 during the year ended December 31, 2016. In addition, the Company granted 477,345 deferred share units (“DSUs”) to directors of the Company valued at \$38,029 compared with 1,320,314 DSUs valued at \$37,132 granted during the year ended December 31, 2016.

On May 19, 2016, the Company acquired 3,145,940 Units of Euro Sun. The Units consisted of one common share of Euro Sun and one half of one common share purchase warrant with an exercise price of CAD\$2.18 and an expiry date of May 19, 2018. Of the 1,572,970 warrants acquired, 786,485 were transferred to 2518322 Ontario Inc. as consideration for services provided in connection with the successful introduction, registration and completion of the acquisition of Units of Euro Sun. The Company has designated the investment in the common shares portion as available for sale and records the investment at the estimated fair value at each reporting date with changes in the fair value of the shares included in other comprehensive income. The changes in estimated fair value of the warrants, a derivative instrument, are included in income or loss for the period. The change in fair value of the warrants, estimated using the Black-Scholes option pricing model, for the year ended December 31, 2017 was a loss of \$362,146 (2016 – gain of \$196,038). The change in fair value of the shares for the year ended December 31, 2017 was a gain of \$1,332,247 (2016 – loss of \$907,233).

### ***Liquidity and Capital Resources***

The recovery of the amounts expended for resource properties are dependent on the ability of the Company to obtain necessary financing to complete the development of the Shymanivske Project or other potential projects and attain future profitable production. The Company’s financial success will depend on its ability to raise financing to construct potential projects. At present, the Company has no established sources of income and the success of its exploration and development programs will be contingent upon the Company’s ability to raise sufficient equity financing on terms favourable to the Company. The Company does not expect to generate any internal cash flows to help finance the development costs of the Shymanivske Project.

As at December 31, 2017, the Company had working capital of \$3,795,519 compared with working capital of \$5,151,576 as at December 31, 2016 including cash of \$838,278 (2016 - \$3,244,395). On January 15, 2016, the Company announced that it had negotiated with Metinvest to buy back its 49% interest in BKI Cyprus for \$5.6 million which gave the Company full access to the cash previously jointly held in Cyprus and the Ukrainian subsidiaries. Working capital, as at December 31, 2017, also includes investments in Euro Sun with a fair value of \$3,228,067 (2016 - \$2,257,997) (see explanation below). The Company’s primary cash flow needs are for development of its mining and exploration permits, administrative expenses and working capital. The Company will maintain its excess working capital in a combination of Canadian and U.S. dollars which will only be converted to Ukrainian Hryvnia as required. The Company maintains most of its cash reserves, including those of the Cyprus subsidiary, at a large reputable Canadian commercial bank in high quality short term deposits, cash equivalents or cash.

## ***Cash Flows***

### ***Three months ended December 31, 2017***

During the three months ended December 31, 2017, operating activities before working capital changes used cash of \$822,754 compared with a use of cash of \$518,780 during the three months ended December 31, 2016. Expenditures in both periods were primarily related to consulting and management fees and for consulting and technical work on the Shymanivske Project. Expenditures during the three months ended December 31, 2017 also included costs associated with an order of magnitude economic estimate and a new preliminary economic assessment. Cash used in investing activities during the three months ended December 31, 2017 was \$398 and related mainly to equipment purchases of \$1,255, partially offset by interest income of \$857. Cash used by investing activities during the three months ended December 31, 2016 was \$24,948 and related mainly to the purchase of common shares of Euro Sun. Cash used by investing activities also included interest income of \$357 and cash received from equipment disposals of \$162 in the three months ended December 31, 2016.

### ***Year ended December 31, 2017***

During the year ended December 31, 2017, operating activities before working capital changes used cash of \$2,322,647 compared with a use of cash of \$1,661,690 during the year ended December 31, 2016. Expenditures in both periods were primarily related to consulting and management fees and for consulting and technical work on the Shymanivske Project. Expenditures during the year ended December 31, 2017 also included costs associated with an order of magnitude economic estimate and a new preliminary economic assessment. Cash used by financing activities in the year ended December 31, 2016 of \$3,768 related to the purchase of shares under the normal course issuer bid to buy back and cancel a portion of its common shares through the facilities of the TSX. Cash used by investing activities during the year ended December 31, 2017 was \$3,511 and related mainly to the purchase of equipment which was partially offset by interest income of \$1,645. Cash used by investing activities during the year ended December 31, 2016 was \$8,878,436. Of this amount, \$5,647,235 related to the repurchase of the 49% interest in BKI Cyprus and \$3,239,610 related to the investment in Euro Sun. Cash used by investing activities also included interest income of \$9,543 on cash balances and cash received from equipment disposals of \$10,836 which was partially offset by equipment purchases of \$11,970.

## ***Operating Segments***

The Company has concluded that it has only one material operating segment (the development of its Ukrainian mining and exploration permits) for financial reporting purposes.

## **Off-Balance Sheet Arrangements**

There are no off-balance sheet arrangements, with the exception of operating leases noted below.

## **Financial Commitments, Contingencies and Litigation**

### **Leases**

The Company has two leases in Ukraine: 1) office space in Kryvyi Rih, Ukraine for an annual rent of approximately \$10,000 and 2) lease of a secure warehouse to store drill cores totaling 1,254 square meters for an annual rent including security fees of approximately \$6,600. Both leases may be terminated on 30 days' notice.

### **Management Contracts**

The Company is party to certain management contracts. These contracts require payments of approximately \$2.1 million to the officers of the Company upon the occurrence of a change in control of the Company, as such term is defined by each officer's respective consulting agreement. The Company is also committed to payments upon termination of approximately \$684,000 pursuant to the terms of these contracts.

## Provisions

During the year ended December 31, 2016, the Company reduced a \$500,000 provision for a travel cost reimbursement under a finder's fee agreement to \$250,000 to reflect management's best estimate of the amount which is owing.

## Legal Matters

### *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 meaningful discussions between the Company and the Government of Ukraine continue. During pre-trial settlement of the dispute, discussions between the Company and the Government of Ukraine resulted in the ecology cases being resolved, namely the Company obtained permission to perform engineering and exploration activity at the Shymanivske deposit. The Company continues its efforts to obtain surface rights including obtaining approval granted by the Kryvyi Rih City Council in March 2017 for Shymanivske Steel to initiate a land allotment process.

### *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 the Metinvest's investment on the Company's subsidiary in 2014. The Company does not believe the change of control payment is due to the former officer. The Company intends to defend the matter vigorously as it believes the former officer's claim is without merit.

## **Related Party Transactions**

During the year ended December 31, 2017, the Company paid or accrued \$1,121,488 (2016 - \$875,711) of management compensation relating to officers and directors of the Company. Included in this amount is \$231,442 (2016 - \$225,483) 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.

All the related party transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed by the related parties.

## **Critical Judgments and Estimation Uncertainties:**

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates and these differences could be material.

### **(a) Significant judgments in applying accounting policies**

The areas which require management to make significant judgments in applying the Company's accounting policies in determining carrying values include, but are not limited to:

#### **(i) Impairment of exploration and evaluation properties**

While assessing whether any indications of impairment or reversal of impairment exist for exploration and evaluation properties, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of exploration and evaluation properties. Internal sources of information include the manner in which exploration and evaluation properties are being used or are expected to be used and indications of expected economic performance of the assets.

#### **(ii) Income taxes and recoverability of potential deferred tax assets**

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

#### **(iii) Contingencies**

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

#### **(iv) Impairment of financial assets**

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of investments classified as available-for-sale, an evaluation is made as to whether a decline in fair value is significant or prolonged based on an analysis of indicators such as market price of the investment and significant adverse changes in the technological, market, economic or legal environment in which the investee operates. If an available-for-sale financial asset is impaired, an amount equal to the difference between its carrying value and its current fair value is transferred from AOCI and recognized in the consolidated statement of operations. Reversals of impairment charges in respect of equity instruments classified as available-for-sale are not recognized in the consolidated statement of operations.

**(b) Significant accounting estimates and assumptions**

The areas which require management to make significant estimates and assumptions in determining carrying values include, but are not limited to:

(i) Mineral resource estimates

The figures for mineral resources are determined in accordance with NI 43-101, issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as metal prices and market conditions could have a material effect in the future on the Company's financial position and results of operation.

(ii) Share-Based Payments and Warrants, including warrants held for sale

Management determines costs for share-based payments and the fair value of shares and warrants held for sale using market-based valuation techniques. The fair value of the market-based and performance-based share awards or shares and warrants held for sale are determined at the date of grant or each reporting date using generally accepted valuation techniques. Assumptions are made, and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Changes in these assumptions affect the fair value estimates. Similar calculations are made in order to value warrants, including warrants held for sale. Such judgments and assumptions are inherently uncertain and there is no guarantee that estimated amounts, in particular the amounts of assets held for sale, will be realized. As at September 30, 2017, the Company included the estimated fair value of warrants held for sale of \$93,624 in investment in Euro Sun in the statement of financial position.

**Disclosure Controls and Procedures**

Management of the Company is responsible for establishing and maintaining disclosure controls and procedures. Management has designed such disclosure controls and procedures, or caused them to be designed under its supervision, to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to the Chief Executive Officer and the Chief Financial Officer by others within those entities.

The CEO and CFO have certified that they have designed disclosure controls and procedures (or caused them to be designed under their supervision) and they are operating effectively to provide reasonable assurance that material information relating to the issuer and its consolidated subsidiaries is made known to them by others within those entities as of December 31, 2017.

## **Internal Control over Financial Reporting**

Black Iron's management, including the CEO and CFO, is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR"). Under their supervision, the Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's internal control over financial reporting includes policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions, acquisitions and dispositions of the assets of the Company;
- Provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the annual or interim financial statements.

The CEO and CFO have certified that internal controls over financial reporting have been designed and are operating effectively to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS as at December 31, 2017. Management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission on Internal Control 2013 ("COSO 2013") Framework to design the Company's internal control over financial reporting.

There were no changes in the Company's ICFR that occurred during 2017 that has materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting.

## **Limitations of Controls and Procedures**

The Company's management, including the Chief Executive Officer and Chief Financial Officer, believe that disclosure controls and procedures and internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the controls. The design of any control system also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

## **Risk Factors**

Investing in the Company involves risks that should be carefully considered. The business of the Company is speculative due to the high-risk nature of iron ore mining and exploration in Ukraine. Investors should be aware that there are various risks, that could have a material adverse effect on, among other things, title to the projects, permitting, the operating results, earnings, business and condition (financial or otherwise) of the Company. For a listing of risk factors, investors should refer to the Company's Annual Information Form filed on SEDAR.

## **Additional Information and Continuous Disclosure**

Additional information, including the Company's press releases, has been filed electronically through the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com).

## **Outstanding Share Data**

As at the date of this MD&A, the Company has:

- a) 159,740,519 common shares outstanding;
- b) 11,807,500 stock options outstanding with expiry dates ranging from September 6, 2018 to May 31, 2022 with exercise prices ranging from CAD\$0.05 to CAD\$0.20. If exercised, 11,707,500 shares would be issued for proceeds of CAD\$1,417,375.
- c) 2,914,844 DSUs outstanding with no fixed expiry.

## **Cautionary Statement Regarding Forward-Looking Information**

Except for statements of historical fact relating to Black Iron certain information contained herein constitutes forward-looking information. Forward-looking information is based on what management believes to be reasonable assumptions, opinions and estimates of the date such statements are made based on information available to them at that time, including those factors discussed in the section entitled "Risk Factors" in the Company's most recent annual information form or as may be identified in the Company's public disclosure from time to time, as filed under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com). Forward-looking information may include, but is not limited to, statements with respect to the Shymanivske project, preparation of a PEA, expected economic forecasts, timing for PEA, the Company's ability to obtain the requisite land rights for the Shymanivske project, prices of commodities, performance of the Company's securities, geo-political situation in Ukraine, and future plans for the Company's development. Generally, forward looking information can be identified by the use of forward-looking terminology 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". Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking information, including but not limited to: general business, economic, competitive, geopolitical and social uncertainties; the actual results of current exploration activities; other risks of the mining industry and the risks described in the annual information form of the Company. Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward looking information. The Company does not undertake to update any forward-looking information, except in accordance with applicable securities laws.