



Condensed consolidated interim financial statements
(Expressed in U.S. dollars)

For the three and nine months ended September 30, 2019 and 2018

**NOTICE OF NO AUDITOR REVIEW OF
CONDENSED CONSOLIDATED 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 consolidated interim financial statements, the financial statements must be accompanied by a notice indicating that the condensed consolidated interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated 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 consolidated 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, 2019 and 2018

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BLACK IRON INC.

Condensed consolidated interim statements of financial position
(Expressed in U.S. dollars)

	September 30, 2019	December 31, 2018
ASSETS		
Current		
Cash	\$ 1,634,380	\$ 112,205
Amounts receivable and prepaid expenses	69,077	54,535
Investment in Euro Sun Mining Inc. (Note 3)	-	507,110
Total current assets	1,703,457	673,850
Equipment	2,221	2,395
Total assets	\$ 1,705,678	\$ 676,245
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 464,816	\$ 369,395
Total current liabilities	464,816	369,395
Non-current		
Warrant liability (Note 7)	1,054,041	-
Conversion option of convertible debenture (Note 10)	1,358,378	-
Liability component of convertible debenture (Note 10)	117,687	-
Total liabilities	2,994,922	369,395
Shareholders' (deficiency) equity		
Common shares (Note 5)	68,321,728	67,457,612
Share based payments (Note 6)	527,833	750,184
Accumulated other comprehensive loss	-	(1,023,862)
Deficit	(70,138,805)	(66,877,084)
Total shareholders' (deficiency) equity	(1,289,244)	306,850
Total shareholders' equity (deficiency) and liabilities	\$ 1,705,678	\$ 676,245

Nature of operations and going concern (Note 1)
Commitments and contingencies (Note 8 and Note 9)

Approved by the Board of Directors on October 18, 2019:

"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 statements of loss and comprehensive loss
(Expressed in U.S. dollars)

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Expenses				
Consulting and management fees (Note 8)	\$ 221,049	\$ 147,261	\$ 676,066	\$ 801,926
Professional fees expense (recovery)	49,991	13,967	91,602	(105,523)
General office expenses	38,711	63,472	119,406	155,394
Change in fair value of warrants investment (Note 3)	-	1,337	390	26,052
Exploration and evaluation expenses (Note 4)	171,006	131,541	454,460	465,206
Stock-based compensation (Note 6 and Note 8)	22,481	8,216	139,733	37,873
Travel expenses	14,540	42,129	49,687	163,763
Shareholder communications and filing fees	72,809	10,605	248,529	38,773
Change in fair value of warrant liability (Note 7)	(231,046)	-	202,921	-
Financing costs (Note 10)	447,720	-	447,720	-
Accretion (Note 10)	1,426	-	1,426	-
Loss on foreign exchange	782	(79,364)	1,530	216
Interest income	(512)	(2)	(1,494)	(587)
Net loss for the period	\$ 808,957	\$ 339,162	\$ 2,431,976	\$ 1,583,093
Other comprehensive loss (income)				
Loss (gain) on sale of investment (Note 3)	-	20,920	644,251	(146,137)
Change in fair value of investment (Note 3)	-	489,059	(476,284)	1,270,535
Total other comprehensive loss	-	509,979	167,967	1,124,398
Comprehensive loss for the period	\$ 808,957	\$ 849,141	\$ 2,599,943	\$ 2,707,491
Basic and diluted loss per share	\$ -	\$ -	\$ (0.01)	\$ (0.01)
Weighted average number of common shares outstanding - basic and diluted	186,292,909	159,740,519	177,599,262	159,740,519

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

BLACK IRON INC.

Condensed consolidated interim statements of changes in shareholders' equity (deficiency)
(Expressed in U.S. dollars)

	Common shares		Share based payments	Accumulated deficit	Accumulated other comprehensive loss	Total shareholders' equity (deficiency)
	#	\$	\$	\$	\$	\$
Balance, December 31, 2017	159,740,519	67,457,612	879,157	(64,964,457)	433,039	3,805,351
Net loss for the period	-	-	-	(1,583,093)	-	(1,583,093)
Other comprehensive income	-	-	-	-	(1,124,398)	(1,124,398)
Stock option plan (Note 6)	-	-	37,873	-	-	37,873
Expiry of vested options (Note 6)	-	-	(163,488)	163,488	-	-
Balance, September 30, 2018	159,740,519	67,457,612	753,542	(66,384,062)	(691,359)	1,135,733
Balance, December 31, 2018	159,740,519	67,457,612	750,184	(66,877,084)	(1,023,862)	306,850
Net loss for the period	-	-	-	(2,431,976)	-	(2,431,976)
Other comprehensive loss	-	-	-	-	(167,967)	(167,967)
Private placement (Note 5)	26,552,390	912,476	-	-	-	912,476
Share issuance costs (Note 5)	-	(48,360)	-	-	-	(48,360)
Stock option plan (Note 6)	-	-	64,865	-	-	64,865
Expiry of vested options (Note 6)	-	-	(362,084)	362,084	-	-
Deferred share units (Note 6)	-	-	74,868	-	-	74,868
Derecognition of financial assets	-	-	-	(1,191,829)	1,191,829	-
Balance, September 30, 2019	186,292,909	68,321,728	527,833	(70,138,805)	-	(1,289,244)

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

BLACK IRON INC.

Condensed consolidated interim statements of cash flows
(Expressed in U.S. dollars)

	Nine months ended September 30, 2019	Nine months ended September 30, 2018
OPERATING ACTIVITIES		
Loss for the period	\$ (2,431,976)	\$ (1,583,093)
Adjustment for:		
Change in value of warrant investment (Note 3)	390	26,052
Stock-based compensation (Note 6)	139,733	37,873
Interest income	(1,494)	(586)
Fair value of warrant liability (Note 7)	202,921	-
Accretion (Note 10)	1,426	-
Non-cash financing costs (Note 10)	447,720	-
Depreciation	3,532	10,922
Net cash outflow before working capital changes	(1,637,748)	(1,508,832)
Net change in non cash working capital	100,841	(105,863)
Cash used in operating activities	(1,536,907)	(1,614,695)
FINANCING ACTIVITIES		
Private placement (Note 5 and Note 7)	1,191,476	-
Share issuance costs (Note 5 and Note 7)	(45,340)	-
Convertible debenture (Note 10)	1,595,063	-
Net cash provided by financing activities	2,741,199	-
INVESTING ACTIVITIES		
Purchase of equipment	(3,358)	(6,213)
Interest received	1,494	586
Sale of assets classified as FVOCI (Note 3)	338,753	888,704
Cash provided by investing activities	336,889	883,077
Effect of exchange rate changes on cash	(19,006)	(24,501)
CHANGE IN CASH	1,522,175	(756,119)
CASH, beginning of period	112,205	838,278
CASH, end of period	\$ 1,634,380	\$ 82,159
SUPPLEMENTAL INFORMATION:		
Finder warrants	3,020	-

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

BLACK IRON INC.

Notes to the condensed consolidated interim financial statements
(Expressed in U.S. dollars)

For the three and nine months ended September 30, 2019 and 2018

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, 2019, Black Iron Inc. held 100% of the shares of Black Iron (Cyprus) Limited which in turn holds a 100% interest in Shymanivske Steel LLC. On February 7, 2018, Shymanivske Steel LLC and Zeleniviske Steel LLC were amalgamated and continue as Shymanivske Steel LLC.

The condensed consolidated interim financial statements include the interim financial statements of the Company and its subsidiaries which are listed in the following table:

	Country of incorporation	Percentage of equity interest	
		September 30, 2019	December 31, 2018
Black Iron (Cyprus) Limited	Cyprus	100	100
Shymanivske Steel LLC	Ukraine	100	100

BLACK IRON INC.

Notes to the condensed consolidated interim financial statements
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2. Basis of presentation

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 the 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, 2018.

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, 2018, with the exception of the adoption of new accounting pronouncements on January 1, 2019 and new liabilities, as outlined below.

The Company adopted IFRS 16, Leases ("IFRS 16") on January 1, 2019. Adoption of this standard did not have a significant impact on the financial statements.

Warrant liabilities

Warrants issued during the three and nine months ended September 30, 2019 have an exercise price denominated in Canadian dollars, and therefore, do not qualify for classification as equity as their exercise price is not in the Company's functional currency of the US dollar. These warrants have been reclassified as warrant liabilities and are recorded at the estimated fair value at each reporting date, computed using the Black-Scholes valuation method. Changes in fair value of each period are included in income or loss for the period.

Compound financial instruments (debentures)

Compound financial instruments issued by the Company comprise convertible notes that can be converted to share capital at the option of the holder.

The number of shares to be issued changes in response to the fair value of the shares and are valued in a currency that is not the Company's functional currency of US dollars. Therefore, the conversion feature of the compound financial instrument does not qualify for classification as equity. The conversion feature of the compound financial instrument is considered a derivative liability and is measured at fair value using the Black-Scholes valuation method with changes in value being recorded in profit or loss. The liability component of the compound financial instrument is recognized initially at the difference between the fair value of a similar liability that does not have a conversion feature and the fair value of the conversion feature.

Subsequent to initial recognition, the conversion feature is revalued at each period end with changes in fair value included in income or loss for the period. The liability component is measured at amortized cost using the effective interest method.

BLACK IRON INC.

Notes to the condensed consolidated interim financial statements
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3. Investment in Euro Sun Mining Inc.

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

	Common shares		Warrants		Total
	#	\$	#	\$	\$
Balance, December 31, 2017	3,347,440	3,202,015	786,485	26,052	3,228,067
Mark-to-market loss on value of warrants recorded in the statement of loss and comprehensive loss	-	-	-	(25,662)	(25,662)
Adjustment to carrying value of common shares recorded in other comprehensive loss	-	(1,468,558)	-	-	(1,468,558)
Sale of common shares of Euro Sun	(1,907,300)	(1,226,737)	-	-	(1,226,737)
Balance, December 31, 2018	1,440,140	506,720	786,485	390	507,110
Mark-to-market loss on value of warrants recorded in the statement of loss and comprehensive loss (i)	-	-	-	(390)	(390)
Adjustment to carrying value of common shares recorded in other comprehensive loss (i)	-	476,284	-	-	476,284
Sale of common shares of Euro Sun (ii)	(1,440,140)	(983,004)	-	-	(983,004)
Expiration of Euro Sun warrants (i)	-	-	(786,485)	-	-
Balance, September 30, 2019	-	-	-	-	-

(i) As at September 30, 2019, all shares had been sold and fair value of the shares was \$nil (December 31, 2018 - \$506,720). On May 19, 2019, 786,485 warrants expired, and fair value of the warrants was \$nil (December 31, 2018 – 390).

(ii) During the nine months ended September 30, 2019, the Company sold 1,440,140 common shares of Euro Sun for total proceeds of CAD\$448,136 (\$338,753), resulting in a loss on sale of CAD\$851,243 (\$644,251).

BLACK IRON INC.

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4. Exploration and evaluation assets and expenditures

Exploration expenditures for the period were as follows:

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Consulting and technical	\$ 109,762	\$ 77,199	\$ 343,435	\$ 238,652
Surface rights and consulting	30,590	12,326	32,817	80,661
Engineering studies	-	-	-	53,412
Field office support & administration	21,303	40,238	53,495	86,939
Travel	9,351	1,778	24,713	5,542
	\$ 171,006	\$ 131,541	\$ 454,460	\$ 465,206

The Company's principal activity is the exploration and development of its Shymanivske project.

5. Share capital

	Number of Common shares	Amount
Balance, December 31, 2017 and 2018	159,740,519	\$ 67,457,612
Private placement	26,552,390	912,476
Cost of issue	-	(48,360)
Balance, September 30, 2019	186,292,909	\$ 68,321,728

On March 29, 2019, the Company closed a non-brokered private placement financing of 17,508,440 units at a price of CAD\$0.06 per unit for gross proceeds of \$786,100 (CAD\$1,050,506). Each unit is comprised of one common share and one half of one common share purchase warrant. Each whole warrant is exercisable to acquire one common share at a price of \$0.09 for a period of three years from the date of issue (see Note 7). The Company paid non-cash commissions and other expenses of \$12,798 (CAD\$17,178) in relation to this private placement. Directors and officers of the Company participated in the private placement and acquired a total of 3,008,908 units of this private placement for gross proceeds of \$135,000 (CAD\$180,534).

On April 5, 2019, the Company closed a non-brokered private placement financing of 9,043,950 units at a price of CAD\$0.06 per unit for gross proceeds of \$405,376 (CAD\$542,637). Each unit is comprised of one common share and one half of one common share purchase warrant. Each whole warrant is exercisable to acquire one common share at a price of \$0.09 for a period of three years from the date of issue (see Note 7). The Company paid non-cash commissions and other expenses of \$35,562 (CAD\$47,584) in relation to this private placement.

BLACK IRON INC.

Notes to the condensed consolidated interim financial statements
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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, 2017	11,807,500	\$ 0.12	\$ 776,321	2,914,844	\$ 0.05	\$ 102,836	\$ 879,157
Granted	650,000	0.09	56,072	600,000	0.06	26,858	82,930
Expired	(1,350,000)	0.21	(180,512)	-	-	-	(180,512)
Forfeited	(600,000)	0.10	(31,391)	-	-	-	(31,391)
Balance, December 31, 2018	10,507,500	\$ 0.11	\$ 620,490	3,514,844	\$ 0.05	\$ 129,694	\$ 750,184
Granted	2,900,000	0.06	64,865	1,824,220	\$ 0.06	74,868	139,733
Expired	(3,750,000)	0.10	(362,084)	-	-	-	(362,084)
Balance, September 30, 2019	9,657,500	\$ 0.07	\$ 323,271	5,339,064	\$ 0.05	\$ 204,562	\$ 527,833

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, including the Deferred Share Units (“DSU”) plan. The terms and conditions of each option granted under the Plan are determined by the Board upon the recommendations of the Compensation Committee.

During the three and nine months ended September 30, 2019, the Company granted no stock options and 2,900,000 stock options, respectively (no stock options and 100,000 granted for the three and nine months ended September 30, 2018, respectively) and options vested with a total value of \$13,248 and \$64,865, respectively (\$8,216 and \$37,872 for the three and nine months ended September 30, 2018, respectively).

The weighted average grant date fair value of options granted during the nine months ended September 30, 2019 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 127%, weighted average risk - free interest rate of 1.79%, an expected forfeiture rate of 4.7% and a weighted average expected life of 2.9 years. The weighted average grant-date fair value of options granted during the nine months ended September 30, 2019 was \$0.03 per option. The options granted by the Company vest in eight equal quarterly instalments commencing on the date of grant.

BLACK IRON INC.

Notes to the condensed consolidated interim financial statements
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6. Stock-based compensation (continued)

At September 30, 2019, 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
July 28, 2020	0.05	2,982,500	2,982,500	39,219
February 8, 2022	0.09	500,000	500,000	22,703
February 16, 2022	0.12	2,525,000	2,525,000	168,125
May 31, 2022	0.11	200,000	200,000	11,866
October 31, 2023	0.08	300,000	-	14,987
December 5, 2023	0.06	250,000	125,000	6,384
January 9, 2024	0.05	2,700,000	1,012,500	53,600
March 4, 2024	0.07	200,000	75,000	6,387
		9,657,500	7,420,000	\$ 323,271

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 of common shares of the Company up to a maximum of 3,000,000 DSUs. On June 27, 2018, shareholders approved an amendment to the DSU plan pursuant to which the maximum number of DSUs granted cannot exceed 5% of the number of issued and outstanding common shares of the Company at the date of grant, subject to an aggregate maximum number of common shares issuable from all share-based compensation plans of 10%.

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 three and nine months ended September 30, 2019, the Company granted 152,344 and 1,824,220 DSUs, respectively, with a fair value at September 30, 2019 of \$9,233 and \$74,868, respectively (no DSUs granted during the three and nine months ended September 30, 2018). As the DSUs will be settled in shares, the value of the DSUs is recorded in share-based payments at the time of issue.

BLACK IRON INC.

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7. Warrants

At September 30, 2019, outstanding warrants to acquire common shares of the Company were as follows:

Number outstanding	Number exercisable	Grant date	Expiry date	Exercise price	Fair value at grant date	Grant date share price	Expected volatility	Expected life (yrs)	Expected dividend yield	Risk-free interest rate
8,754,220	8,754,220	29-Mar-19	29-Mar-22	\$ 0.09	\$ 184,000	\$ 0.06	122%	3	0%	1.45%
105,000	105,000	29-Mar-19	29-Mar-22	\$ 0.09	\$ 3,020	\$ 0.06	122%	3	0%	1.45%
4,521,975	4,521,975	5-Apr-19	5-Apr-22	\$ 0.09	\$ 95,000	\$ 0.05	122%	3	0%	1.51%
13,081,395	13,081,395	27-Sep-19	27-Sep-23	\$ 0.11	\$ 569,100	\$ 0.08	116%	4	0%	1.47%
26,462,590	26,462,590				\$ 851,120					

Warrant liability

Warrants that have their exercise prices denominated in currencies other than the Company's functional currency of the US dollar, and are non-compensatory, are accounted for as financial liabilities in the consolidated statement of financial position. The change in fair value is recorded in the consolidated statement of loss for the period.

Warrant liability transactions during the period were as follows:

	Number of Warrants	Fair value
Balance, December 31, 2018 and 2017	-	-
Granted	26,462,590	851,120
Change in fair value during the period	-	202,921
Balance, September 30, 2019	26,462,590	1,054,041

On March 29, 2019, the Company issued 8,754,220 warrants as part of a private placement which entitles the holder to purchase one common share of the Company at an exercise price of CAD\$0.09 until March 29, 2022 (see Note 5). The fair value of these warrants of \$184,000 was estimated using the Black-Scholes option pricing model using the following assumptions: expected dividend yield of 0%, expected volatility of 122%, risk-free rate of 1.45%, and expected life of three years.

On March 29, 2019, the Company issued 105,000 finder's warrants as part of a private placement which entitles the holder to purchase one common share of the Company at an exercise price of CAD\$0.09 until March 29, 2022 (see Note 5). The fair value of these warrants of \$3,020 was estimated using the Black-Scholes option pricing model using the following assumptions: expected dividend yield of 0%, expected volatility of 122%, risk-free rate of 1.45%, and expected life of three years.

BLACK IRON INC.

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7. Warrants (continued)

On April 5, 2019, the Company issued 4,521,975 warrants as part of a private placement which entitles the holder to purchase one common share of the Company at an exercise price of CAD\$0.09 until April 5, 2022 (see Note 5). The fair value of these warrants of \$95,000 was estimated using the Black-Scholes option pricing model using the following assumptions: expected dividend yield of 0%, expected volatility of 122%, risk-free rate of 1.51%, and expected life of three years.

On September 27, 2019, the Company issued 13,081,395 warrants as part of the convertible debenture which entitles the holder to purchase one common share of the Company at an exercise price of CAD\$0.11 until September 27, 2023 (see Note 10). The fair value of these warrants of \$569,100 was estimated using the Black-Scholes option pricing model using the following assumptions: expected dividend yield of 0%, expected volatility of 116%, risk-free rate of 1.47%, and expected life of four years.

8. Related party transactions

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:

	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Short term employee benefits	\$ 533,007	\$ 614,911
Share-based payments	95,709	24,071
	\$ 628,716	\$ 638,982

Included in the above amounts is \$168,664 (\$178,312 for the nine months ended September 30, 2018) 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 393,750 options vest during the nine months ended September 30, 2019 (787,500 for the nine months ended September 30, 2018).

Certain directors and officers of the Company are also directors and officers of Euro Sun.

The Company is party to certain management contracts. These contracts require payments of approximately \$2.3 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 \$615,000 pursuant to the terms of these contracts.

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8. Related party transactions (continued)

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.

As at September 30, 2019, the Company had \$109,593 (December 31, 2018 - \$103,541) consulting fees and travel expenses owing to its key management personnel. Such amounts are unsecured, non-interest bearing, with no fixed terms of payment and are due on demand.

These transactions are measured at the amount of consideration established and agreed to by the related parties.

9. Commitments and contingencies

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.

Environmental

The Company's exploration and evaluation activities are subject to laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its activities are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

BLACK IRON INC.

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10. Convertible debenture

On September 18, 2019, the Company executed a convertible security funding agreement (the "Agreement") with Lind Global Macro Fund, LP ("Lind") providing for a secured convertible debenture financing for gross proceeds of up to CAD\$11,000,000 (\$8,306,275).

Pursuant to the Agreement, the Company issued to Lind a convertible security with a face value of CAD\$2,700,000 (\$2,037,890) (the "Convertible Security") on September 27, 2019, representing a principal amount of CAD\$2,250,000 (\$1,698,241) and a prepaid interest amount of CAD\$450,000 (\$339,648). In addition, the Company issued to Lind 13,081,395 warrants exercisable for a term of 48 months at an exercise price of CAD\$0.11 per share (see Note 7). Non-cash financing costs of CAD\$591,900 (\$447,720) associated with this warrant grant were recognized through the consolidated statement of loss. The Company paid Lind a commitment fee of CAD\$78,750 (\$59,438) and legal fees associated with the Convertible Security of CAD\$57,571 (\$43,740).

The Convertible Security may be converted to common shares of the Company at a rate of no more than 1/20th of the face value of the Convertible Security in any given month and at a price per share equal to 85% of the volume weighted average price per share for the five consecutive trading days immediately prior to the conversion date. Lind reserves the right at any time to increase the conversion limit from 1/20th of the face value of the First Closing to CAD\$500,000 per month, providing that increased amount does not exceed 15% of the aggregate trading volume of the shares for the immediately preceding 20 days. The convertible debenture has a term of 24 months from the closing date of September 27, 2019.

The Convertible Security is secured by all the assets of the Company. The Convertible Security includes covenants typical and customary for secured Convertible Securities of this nature. The Company must comply with the covenants on a regular basis.

The convertible debenture is accounted for as a compound financial instrument with its liability component and conversion option component classified as two separate liabilities, as well as the warrant liability component (Note 7). The fair value of the conversion feature was estimated using the Black-Scholes option pricing model using the following assumptions: expected dividend yield of 0%, expected volatility of 100%, risk-free rate of 1.42%, and expected life of two years.

The fair value of the liability component was estimated using a discount rate of 152% based on the discount rate of comparable debt. The discount on the liability component is being accreted over the term of the convertible debenture, utilizing effective interest rate method at a 152% discount rate. For the three and nine months ended September 30, 2019, accretion of the discount totaled \$1,426 (\$nil for three and nine months ended September 30, 2018).

At September 30, 2019, the fair value of the conversion option component was \$1,358,378 and the carrying amount of the liability component was \$117,687.