



Consolidated financial statements  
(Expressed in U.S. dollars)

**For the years ended December 31, 2021 and 2020**

## **Independent Auditor's Report**

To the Shareholders of Black Iron Inc.

### **Opinion**

We have audited the consolidated financial statements of Black Iron Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in shareholders' equity (deficiency) and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### **Basis for opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Material uncertainties related to going concern**

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss during the year ended December 31, 2021 and, as of that date, the Company had an accumulated deficit. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that material uncertainties exist that cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

We draw attention to Note 1 in the consolidated financial statements, which indicates that in February 2022, Ukraine was subject to what has been described as an invasion and an act of war. Management has advised that all Company work in Ukraine had been halted. The Company's status as a going concern is contingent upon the situation being stabilized such that the Company may continue its activities in Ukraine.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matter
<p data-bbox="310 835 816 867"><i>Change in Functional Currency – Note 3</i></p> <p data-bbox="310 888 857 1119">On January 1, 2021, the Company changed the functional currency of its Canadian entity from US dollars to Canadian dollars. This change was made as it was determined that the Canadian dollar was now the predominant currency influencing expenses for the Canadian entity.</p> <p data-bbox="310 1140 837 1203">This change was applied to the consolidated financial statements prospectively.</p> <p data-bbox="310 1224 857 1717">As a result of the change to the functional currency of the Canadian entity, the treatment of the Company's warrants changed. Prior to the change in the Canadian entity's functional currency, certain warrants issued by the Company did not qualify for classification as equity and were recorded as a derivative liability, as the exercise price was not denominated in the entity's functional currency. With the change in functional currency for the Canadian entity, the exercise price of these warrants is now denominated in the Canadian entity's functional currency and as such, these warrants now qualify for classification as equity.</p> <p data-bbox="310 1738 813 1866">Existing warrants recorded as liabilities on January 1, 2021, the date of change in the functional currency, were reclassified as equity at their then estimated fair value.</p>	<p data-bbox="878 888 1406 951">Our audit procedures included, but were not limited to:</p> <ul data-bbox="878 972 1435 1570" style="list-style-type: none"> <li>- Challenging the reasonableness of the key assumptions used by management in assessing functional currency;</li> <li>- Obtaining the working papers prepared by management to reflect the change in functional currency and assessing whether the change was properly applied;</li> <li>- Considering the impact of the change in functional currency on the treatment of the Company's warrants;</li> <li>- Challenging the reasonableness of the key assumptions used by management in reclassifying warrants as equity instruments; and</li> <li>- Assessing the adequacy and completeness of the relevant financial statement disclosures.</li> </ul>

## Warrants – Note 9

During 2020, the Company issued 30,000,000 warrants for facilitating and supporting the negotiations of a non-binding financing from a global investment bank. The warrants contain certain vesting conditions. The warrants continue to be outstanding during the year ended December 31, 2021.

Management has performed the valuation of the warrants using a valuation model. We considered the recognition of these warrants in connection with the vesting requirements to be a key audit matter as it involved management's judgement in determining the timing and likelihood of the vesting conditions being met.

Our audit procedures included, but were not limited to:

- Reviewing the key terms and conditions of the warrants issued;
- Obtaining the valuation model prepared by management and assessing whether the model was appropriate for valuing the warrants issued;
- Challenging the reasonableness of the key assumptions used by management in the model to calculate the fair value of the warrants;
- Challenging the reasonableness of the key assumptions used by management in the assessment of the likelihood and timing of vesting requirements being met; and
- Assessment of adequacy and completeness of the relevant financial statement disclosures.

## Other information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Responsibilities of management and those charged with governance for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's

ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner of the audit resulting in this independent auditor's report is Glen McFarland.

**McGovern Hurley LLP**



**Chartered Professional Accountants  
Licensed Public Accountants**

Toronto, Ontario  
March 7, 2022

# BLACK IRON INC.

Consolidated financial statements  
(Expressed in U.S. dollars)

For the year ended December 31, 2021 and 2020

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# BLACK IRON INC.

Consolidated statements of financial position  
(Expressed in U.S. dollars)

	December 31, 2021	December 31, 2020
<b>ASSETS</b>		
Current		
Cash	\$ 5,694,803	\$ 1,665,600
Amounts receivable and prepaid expenses	692,090	83,084
Total current assets	6,386,893	1,748,684
Prepaid and other (Note 11)	-	41,619
Equipment	7,002	4,195
Total assets	\$ 6,393,895	\$ 1,794,498
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities (Note 6 and Note 10)	\$ 1,736,532	\$ 611,218
Total current liabilities	1,736,532	611,218
Non-current		
Warrant liability (Note 9)	-	6,521,549
Conversion option of convertible debenture (Note 11)	-	270,585
Liability component of convertible debenture (Note 11)	-	90,187
Loan payable (Note 12)	-	31,417
Total liabilities	1,736,532	7,524,956
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
Common shares (Note 7)	84,092,549	72,563,431
Share based payments reserve (Note 8)	1,421,078	1,259,540
Warrant reserve (Note 9)	4,544,623	2,288
Accumulated other comprehensive loss	(17,681)	-
Accumulated deficit	(85,383,206)	(79,555,717)
Total shareholders' equity (deficiency)	4,657,363	(5,730,458)
Total shareholders' equity and liabilities	\$ 6,393,895	\$ 1,794,498

Nature of operations and going concern (Note 1)  
Commitments and contingencies (Note 10 and Note 13)

Approved by the Board of Directors on March 7, 2022

"BRUCE HUMPHREY", Director

"JOHN DETMOLD", Director

# BLACK IRON INC.

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

	Year ended December 31, 2021	Year ended December 31, 2020
Expenses		
Consulting and management fees (Note 10)	\$ 1,616,374	\$ 754,394
Professional fees expense	689,425	139,350
General office expenses	170,734	167,926
Exploration and evaluation expenses (Note 5)	2,658,981	695,708
Share-based compensation (Note 8 and Note 10)	338,309	794,605
Travel expenses	40,702	22,864
Shareholder communications and filing fees	290,349	140,035
Change in fair value of warrant liability (Note 9)	-	5,657,561
Change in fair value of conversion option (Note 11)	(7,664)	62,777
Finance costs (Note 11)	52,528	331,985
Accretion (Note 11)	5,458	380,554
Loss (gain) on foreign exchange	6,967	(65,205)
Other income (Note 12)	(15,955)	-
Gain on sale of asset	(14,608)	-
Interest income	(4,111)	(4,709)
Net loss for the year	<u>\$ 5,827,489</u>	<u>\$ 9,077,845</u>
Other comprehensive loss		
Items that may be subsequently classified to net loss:		
Cumulative exchange translation adjustments	22,402	-
Total other comprehensive loss	<u>22,402</u>	<u>-</u>
Comprehensive loss for the year	<u>\$ 5,849,891</u>	<u>\$ 9,077,845</u>
Basic and diluted loss per share (Note 14)	(\$0.02)	(\$0.04)
Weighted average number of common shares outstanding - basic and diluted (Note 14)	282,164,092	226,009,275

# BLACK IRON INC.

Consolidated statements of changes in shareholders' equity (deficiency)  
(Expressed in U.S. dollars)

	Common shares		Share based payments	Accumulated deficit	Warrants	Accumulated other comprehensive loss	Total shareholders' equity (deficiency)
	#	\$	\$	\$	\$	\$	\$
Balance, December 31, 2019	186,299,159	68,321,728	548,791	(70,604,863)	3,020	-	(1,731,324)
Net loss for the year	-	-	-	(9,077,845)	-	-	(9,077,845)
Stock option expiry (Note 8)	-	-	(68,705)	68,705	-	-	-
Stock option forfeiture (Note 8)	-	-	(5,092)	5,092	-	-	-
Stock option exercise (Note 8)	750,000	37,785	(10,060)	-	-	-	27,725
Stock option vesting (Note 8)	-	-	528,095	-	-	-	528,095
Deferred share units (Note 8)	-	-	266,511	-	-	-	266,511
Warrant exercise (Note 9)	10,936,193	1,341,712	-	-	(732)	-	1,340,980
Warrant liability expiry (Note 9)	-	-	-	53,194	-	-	53,194
Conversion of debt to shares (Note 11)	25,419,816	1,851,798	-	-	-	-	1,851,798
Private placement (Note 7)	36,534,420	1,109,525	-	-	-	-	1,109,525
Cost of issue (Note 7)	-	(99,117)	-	-	-	-	(99,117)
<b>Balance, December 31, 2020</b>	<b>259,939,588</b>	<b>72,563,431</b>	<b>1,259,540</b>	<b>(79,555,717)</b>	<b>2,288</b>	<b>-</b>	<b>(5,730,458)</b>
<b>Opening balance, January 1, 2021 (Note 3)</b>	-	-	-	-	-	<b>4,721</b>	<b>4,721</b>
<b>Net loss and comprehensive loss</b>	-	-	-	<b>(5,827,489)</b>	-	<b>(22,402)</b>	<b>(5,849,891)</b>
<b>Stock option plan (Note 8)</b>	-	-	<b>268,095</b>	-	-	-	<b>268,095</b>
<b>Stock option exercise (Note 8)</b>	<b>2,837,000</b>	<b>404,854</b>	<b>(174,170)</b>	-	-	-	<b>230,684</b>
<b>Stock option forfeiture (Note 8)</b>	-	-	<b>(13,614)</b>	-	-	-	<b>(13,614)</b>
<b>Deferred share units (Note 8)</b>	-	-	<b>81,227</b>	-	-	-	<b>81,227</b>
<b>Warrant exercise (Note 9)</b>	<b>9,358,333</b>	<b>2,697,106</b>	-	-	<b>(2,231,392)</b>	-	<b>465,714</b>
<b>Warrants reclassified (Note 9)</b>	-	-	-	-	<b>6,521,549</b>	-	<b>6,521,549</b>
<b>Warrant grant (Note 9)</b>	-	-	-	-	<b>252,178</b>	-	<b>252,178</b>
<b>Conversion of debt to shares (Note 11)</b>	<b>2,590,627</b>	<b>358,588</b>	-	-	-	-	<b>358,588</b>
<b>Prospectus financing (Note 7)</b>	<b>28,750,000</b>	<b>9,134,959</b>	-	-	-	-	<b>9,134,959</b>
<b>Cost of issue (Note 7)</b>	-	<b>(1,066,389)</b>	-	-	-	-	<b>(1,066,389)</b>
<b>Balance, December 31, 2021</b>	<b>303,475,548</b>	<b>84,092,549</b>	<b>1,421,078</b>	<b>(85,383,206)</b>	<b>4,544,623</b>	<b>(17,681)</b>	<b>4,657,363</b>

# BLACK IRON INC.

Consolidated statements of cash flows  
(Expressed in U.S. dollars)

	Year ended December 31, 2021	Year ended December 31, 2020
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	\$ (5,827,489)	\$ (9,077,845)
Adjustment for:		
Share-based compensation (Note 8)	338,309	794,605
Interest income	(4,111)	4,709
Change in fair value of warrant liability (Note 9)	-	5,657,561
Change in fair value of conversion option of the convertible debenture (Note 11)	(7,664)	62,777
Accretion (Note 11)	5,458	380,554
Non-cash financing costs (Note 11)	139,792	139,792
Other income (Note 12)	(15,955)	-
Depreciation	3,186	3,282
Net cash outflow before working capital changes	(5,368,474)	(2,034,565)
Net change in non-cash working capital	411,924	319,767
Cash used in operating activities	(4,956,550)	(1,714,798)
<b>FINANCING ACTIVITIES</b>		
Private placement (Note 7 and Note 9)	9,134,959	1,306,546
Share issuance costs (Note 7 and Note 9)	(814,211)	(99,117)
Convertible debenture (Note 11)	-	353,442
Convertible debenture issuance costs (Note 11)	-	(69,115)
Warrant exercise (Note 9)	465,714	737,450
Option exercise (Note 8)	230,684	27,725
Loan proceeds (Note 12)	15,905	31,417
Loan repayment (Note 12)	(31,367)	-
Cash provided by financing activities	9,001,684	2,288,348
<b>INVESTING ACTIVITIES</b>		
Purchase of equipment	(5,993)	(4,757)
Interest received	4,111	4,709
Cash used in investing activities	(1,882)	(48)
Effect of exchange rate changes on cash	(14,049)	103,254
CHANGE IN CASH	4,029,203	676,756
CASH, beginning of year	1,665,600	988,844
CASH, end of year	\$ 5,694,803	\$ 1,665,600
<b>SUPPLEMENTAL INFORMATION:</b>		
Finder warrants issued	\$ 252,178	\$ -

# BLACK IRON INC.

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

For the years ended December 31, 2021 and 2020

## 1. Nature of operations and going concern

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. The head office of the Company is located at 198 Davenport Road, Toronto, Ontario, M5R 1J2, Canada.

As at December 31, 2021, Black Iron Inc. held 100% of the shares of Black Iron (Cyprus) Limited which in turn holds a 100% interest in Shymanivske Steel LLC.

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

	Country of incorporation	Percentage of equity interest	
		December 31, 2021	December 31, 2020
Black Iron (Cyprus) Limited	Cyprus	100	100
Shymanivske Steel LLC	Ukraine	100	100

These consolidated financial statements were prepared on a going concern basis of presentation, which contemplates the realization of assets and settlement of liabilities as they become due in the normal course of operations for the next fiscal year.

For the year ended December 31, 2021, the Company incurred a net loss of \$5,827,489 and as at December 31, 2021, reported an accumulated deficit of \$85,383,206 and working capital of \$4,650,361, including \$5,694,803 in cash. The Company has no current source of operating cash flow, and there can be no assurances that sufficient funding, including adequate financing, will be available to explore and develop its property and to cover general and administrative expenses necessary for the maintenance of a public company. The Company's status as a going concern is contingent upon raising the necessary funds through the issuance of equity or debt.

In February 2022, Ukraine was subject to an invasion and an act of war. As of the date of approval of these consolidated financial statements, all Company work in Ukraine had been halted. The Company's status as a going concern is contingent upon the situation being stabilized such that the Company may continue its activities in Ukraine.

These matters represent material uncertainties that cast significant doubt about the ability of the Company to continue as a going concern.

These consolidated financial statements do not reflect adjustments to the carrying value of assets and liabilities or reported expenses and consolidated statement of financial position classifications that would be necessary if the going concern assumption was not appropriate. These adjustments could be material.

The business of exploring for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. Major expenses may be required to establish ore reserves, to develop metallurgical processes, to acquire construction and operating permits and to construct mining and processing facilities. The recoverability of the amounts shown as assets of the Company is dependent upon the Company obtaining the necessary financing to complete the exploration of its property, the discovery of economically recoverable reserves and future profitable operations.

# BLACK IRON INC.

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

For the years ended December 31, 2021 and 2020

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## 1. Nature of operations and going concern (continued)

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of operations of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, indigenous claims, and non-compliance with regulatory, social and environmental requirements. The Company's property interests may also be subject to increases in taxes and royalties, renegotiation of contracts, political uncertainty and currency exchange fluctuations and restrictions.

## 2. Basis of presentation

### Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The consolidated financial statements were authorized for issue by the Board of Directors on March 7, 2022.

### Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, unless otherwise disclosed. The consolidated financial statements have been prepared on an accrual basis except for cash flow information.

## 3. Significant accounting policies

### Consolidation

The consolidated financial statements comprise the financial statements of Black Iron Inc. and its subsidiaries for the years ended December 31, 2021 and 2020.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases.

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are de-consolidated from the date control ceases. The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-company balances, income and expenses and unrealized gains and losses resulting from intra-company transactions are eliminated in full upon consolidation.

# BLACK IRON INC.

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

For the years ended December 31, 2021 and 2020

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## 3. Significant accounting policies (continued)

### Functional currency and foreign currency transactions

On January 1, 2021, the Company changed the functional currency of its Canadian entity from US dollars to Canadian dollars. This change was made as it was determined that the Canadian dollar was now the predominant currency influencing expenses for the Canadian entity as the Company intends to fund the Shymanivske project from Canadian funds raised. This change was applied to the consolidated financial statements prospectively. The functional currency of the subsidiaries continue to be the US dollar. The consolidated financial statements continue to be presented in US dollars. All amounts have been rounded to the nearest dollar, unless otherwise indicated.

As a result of the change to the functional currency of the Canadian entity, the treatment of the Company's warrants changed. Prior to the change in the Canadian entity's functional currency, the warrants issued by the Company did not qualify for classification as equity and were recorded as a derivative liability, as the exercise price was not denominated in the Canadian entity's functional currency of the US dollar. As such, these warrants were classified as warrant liabilities and were recorded at the estimated fair value at each reporting date, computed using the Black-Scholes valuation method. Changes in fair value of each period were included in income or loss for the period. With the change in functional currency for the Canadian entity, the exercise price of these warrants is now denominated in the Canadian entity's functional currency and as such, these warrants now qualify for classification as equity. Existing warrants recorded as liabilities on January 1, 2021, the date of change in the functional currency, were reclassified as equity at their then estimated fair value. There were no changes in the value of these warrants recorded through the consolidated statement of loss for the year ended December 31, 2021.

Transactions in foreign currencies are translated into the entities' functional currency at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the consolidated statement of financial position dates. Non-monetary items in a foreign currency are measured in terms of historical cost and are translated using the exchange rates on the dates of the initial transactions. All differences are taken to the consolidated statements of loss in the periods in which they arise.

Assets and liabilities of entities with functional currencies other than the US dollar are translated into the presentation currency at the period end rates of exchange, and the results of their operations are translated at the average rates of exchange for the period. The resulting translation adjustments are recognized in other comprehensive loss as cumulative exchange translation adjustments. There is no tax impact on this translation.

### Financial instruments

#### Financial assets

##### *Initial recognition and measurement*

Non-derivative financial assets within the scope of IFRS 9 are classified and measured as "financial assets at fair value", as either FVPL or FVOCI, and "financial assets at amortized costs", as appropriate. The Company determines the classification of financial assets at the time of initial recognition based on the Company's business model and the contractual terms of the cash flows.

Amounts receivable are initially recognized when they are originated. All other financial assets are recognized initially at fair value plus, in the case of financial assets not at FVPL, directly attributable transaction costs on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

# BLACK IRON INC.

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

For the years ended December 31, 2021 and 2020

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### 3. Significant accounting policies (continued)

Financial assets with embedded derivatives are considered in their entirety when determining their classification at FVPL or at amortized cost.

#### ***Subsequent measurement – Financial assets at amortized cost***

After initial recognition, financial assets measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate (“EIR”) method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statements of loss. The Company has classified cash and amounts receivable as financial assets measured at amortized cost.

#### ***Subsequent measurement – Financial assets at FVPL***

Financial assets measured at FVPL include financial assets management intends to sell in the short term and any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial assets measured at FVPL are carried at fair value in the consolidated statements of financial position with changes in fair value recognized in other income or expense in the consolidated statements of loss.

#### ***Subsequent measurement – Financial assets at FVOCI***

Financial assets measured at FVOCI are non-derivative financial assets that are not held for trading and the Company has made an irrevocable election at the time of initial recognition to measure the assets at FVOCI.

After initial measurement, investments measured at FVOCI are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income or loss in the consolidated statements of comprehensive loss. When the investment is sold, the cumulative gain or loss is not reclassified to profit or loss.

Dividends from such investments are recognized in other income in the consolidated statements of loss when the right to receive payments is established.

#### ***Derecognition***

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the Company no longer retains substantially all the risks and rewards of ownership.

#### ***Impairment of financial assets***

The Company’s only financial assets subject to impairment are amounts receivable, which are measured at amortized cost. The Company has elected to apply the simplified approach to impairment as permitted by IFRS 9, which requires the expected lifetime loss to be recognized at the time of initial recognition of the receivable. To measure estimated credit losses, amounts receivable have been grouped based on shared credit risk characteristics, including the number of days past due. An impairment loss is reversed in subsequent periods if the amount of the expected loss decreases and the decrease can be objectively related to an event occurring after the initial impairment was recognized.

# BLACK IRON INC.

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

For the years ended December 31, 2021 and 2020

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## 3. Significant accounting policies (continued)

### Financial liabilities

#### *Initial recognition and measurement*

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVPL as is the case for held for trading or derivative instruments, or the Company has opted to measure the financial liability at FVPL on initial recognition. The Company's financial liabilities include accounts payable and accrued liabilities, warrant liability, liability component of convertible debenture and the conversion option of the convertible debenture. Accounts payable and accrued liabilities, the liability component of convertible debenture, and the loan payable are each measured at amortized cost, while the warrant liability and conversion option of the convertible debenture are measured at FVPL. All financial liabilities are recognized initially at fair value and in the case of long-term debt, net of directly attributable transaction costs.

#### *Subsequent measurement – Financial liabilities at amortized cost*

After initial recognition, financial liabilities measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR.

#### *Subsequent measurement – Financial liabilities at FVPL*

Financial liabilities measured at FVPL include financial liabilities management intends to sell in the short term and any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial liabilities measured at FVPL are carried at fair value in the consolidated statements of financial position with changes in fair value recognized in other income or expense in the consolidated statements of loss.

#### *Derecognition*

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires with any associated gain or loss recognized in other income or expense in the consolidated statements of loss.

### Provisions

#### General

Provisions are recognized when (a), the Company has a present obligation (legal or constructive) as a result of a past event, and (b), it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the consolidated statement of operations, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

# BLACK IRON INC.

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

For the years ended December 31, 2021 and 2020

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## 3. Significant accounting policies (continued)

### Rehabilitation provision

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed or the ground / environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining assets to the extent that it was incurred prior to the production of related ore. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in the consolidated statement of operations as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur. For closed sites, changes to estimated costs are recognized immediately in the consolidated statement of operations.

### **Cash**

Cash in the consolidated statements of financial position comprises cash at banks.

### **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.

### **Exploration and evaluation expenditures**

Exploration and evaluation expenditures comprise costs of initial search for mineral deposits and performing a detailed assessment of deposits that have been identified as having economic potential.

Exploration and evaluation costs are expensed as incurred and included in the consolidated statement of loss and until technical feasibility and commercial viability of extraction of reserves are demonstrable. Once a mine development decision has been made by the Company, subsequent expenditures incurred to develop the mine are capitalized to mine development assets. Exploration and evaluation costs include an allocation of administration and salary costs as determined by management.

### **Common shares**

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

# BLACK IRON INC.

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

For the years ended December 31, 2021 and 2020

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## 3. Significant accounting policies (continued)

### Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### Share-based payment transactions

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received.

The Company has established a stock option plan to grant non-transferable equity settled options to purchase common shares to directors, officers, employees of and consultants to the Company. The number of common shares reserved for issuance will not exceed 10% of the total issued and outstanding common shares of the Company. The Company has the ability to grant for a maximum period of ten years from the date of grant.

Stock options vest over periods ranging from immediate to two years. The fair value of each option is measured at the date of grant using the Black-Scholes option pricing model and recorded as a compensation expense in the period the options are vested, or the performance is complete. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

Any consideration paid on exercise of stock options is credited to share capital. On expiry, any amount related to the initial value of the stock option is recorded to deficit.

# BLACK IRON INC.

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

For the years ended December 31, 2021 and 2020

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## 3. Significant accounting policies (continued)

### Deferred share unit plan

Directors are granted Deferred Share Units (“DSUs”) under the terms of the Company’s DSU Plan. The fair value of DSUs at the time of award is determined with reference to the weighted average trading price of the Company’s common shares over the five trading days immediately preceding the date of award. The fair value of the DSUs, which are settled in common shares of the Company, is recognized as a share-based compensation expense with a corresponding increase in the share-based payment reserve.

### Warrant liabilities

Certain warrants issued prior to January 1, 2021 had an exercise price denominated in Canadian dollars, and therefore, did not qualify for classification as equity as their exercise price was not in the Company’s former functional currency of the US dollar. These warrants were recorded as warrant liabilities and were recorded at the estimated fair value at each reporting date, computed using the Black-Scholes valuation method. Changes in fair value of each period were included in income or loss for the period. On January 1, 2021, with the change in functional currency of the Company’s Canadian parent entity, these warrants have met the requirement to be reclassified as equity instruments and have been reclassified in these consolidated financial statements at their estimated fair value on the date of reclassification.

### Compound financial instruments (debentures)

Compound financial instruments issued by the Company prior to January 1, 2021 comprised convertible notes that were converted to share capital at the option of the holder.

The number of shares issued changed in response to the fair value of the shares at the time of conversion. Therefore, the conversion feature of the compound financial instrument did not qualify for classification as equity. The conversion feature of the compound financial instrument was considered a derivative liability and was 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 was 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 was revalued at each period end with changes in fair value included in income or loss for the period. The liability component was measured at amortized cost using the EIR method.

# BLACK IRON INC.

Notes to the consolidated financial statements  
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For the years ended December 31, 2021 and 2020

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## 3. Significant accounting policies (continued)

### Future accounting standards not yet effective

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after January 1, 2022. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended in January 2020 to provide a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments clarify that the classification of liabilities as current or noncurrent is based solely on a company’s right to defer settlement at the reporting date. The right needs to be unconditional and must have substance. The amendments also clarify that the transfer of a company’s own equity instruments is regarded as settlement of a liability, unless it results from the exercise of a conversion option meeting the definition of an equity instrument. The amendments are effective for annual periods beginning on January 1, 2023.

IAS 1 – IAS 1 was amended in February 2021. The IASB issued ‘Disclosure of Accounting Policies’ with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments are effective for year ends beginning on or after January 1, 2023.

IAS 8 – Accounting policies, changes in accounting estimates and errors (“IAS 8”) was amended in February 2021. The IASB issued ‘Definition of Accounting Estimates’ to help entities distinguish between accounting policies and accounting estimates. The amendments are effective for year ends beginning on or after January 1, 2023.

IAS 37 – Provisions, Contingent Liabilities, and Contingent Assets (“IAS 37”) was amended. The amendments clarify that when assessing if a contract is onerous, the cost of fulfilling the contract includes all costs that relate directly to the contract – i.e. a full-cost approach. Such costs include both the incremental costs of the contract (i.e. costs a company would avoid if it did not have the contract) and an allocation of other direct costs incurred on activities required to fulfill the contract – e.g. contract management and supervision, or depreciation of equipment used in fulfilling the contract. The amendments are effective for annual periods beginning on January 1, 2022.

IAS 16 – Property, Plant and Equipment (“IAS 16”) was amended. The amendments introduce new guidance, such that the proceeds from selling items before the related property, plant and equipment is available for its intended use can no longer be deducted from the cost. Instead, such proceeds are to be recognized in profit or loss, together with the costs of producing those items. The amendments are effective for annual periods beginning on January 1, 2022.

# BLACK IRON INC.

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

For the years ended December 31, 2021 and 2020

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## 4. Critical judgements 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 consolidated 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.

### Significant judgments in applying accounting policies and accounting estimates and judgements

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

(i) 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. See Note 15.

(ii) Contingencies and estimates

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 judgement and estimates of the outcome of future events. See Note 13.

Certain contingencies also exist in the Company's assessment of its ability to continue as a going concern and require the exercise of significant judgement by management to assess the ability of the Company to continue as a going concern. See Note 1.

(iii) Mineral resource estimates

The figures for mineral resources are determined in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects", 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.

# BLACK IRON INC.

Notes to the consolidated financial statements  
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For the years ended December 31, 2021 and 2020

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## 4. Critical judgements and estimation uncertainties (continued)

### Significant judgments in applying accounting policies and accounting estimates and judgements (continued)

#### (iv) Share-based payments and warrants

Management determines costs for share-based payments and warrants using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant 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. Similar calculations are made in order to value warrants. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

#### (v) Estimation of decommissioning and restoration costs and the timing of expenditure

The cost estimates are updated annually during the life of a mine to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations) and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

#### (vi) Functional currency

Functional currency is the currency of the primary economic environment in which the Company and each of its subsidiaries operate. If indicators of the primary economic environment are mixed, then management uses its judgement to determine the functional currency that most faithfully represents the economic effect of underlying transactions, events and conditions. See Note 3.

#### (vii) Fair value of financial instruments

Certain financial instruments, warrant liability and conversion option of convertible debentures, were measured at fair value. The estimated fair value of financial instruments, by their very nature, are subject to measurement uncertainty. The Company estimated fair value using valuation techniques that were appropriate in the circumstances and for which sufficient data were available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable input.

#### (viii) Allowance for credit losses

The allowance for credit losses has been assessed by the Company's management based on the age of the amounts uncollected as at the end of the reporting period and management's experiences regarding the likelihood of payment. The allowance is assessed at the end of each reporting period and adjusted so that the net amounts receivable reflects the expected future collection of accounts.

# BLACK IRON INC.

Notes to the consolidated financial statements  
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For the years ended December 31, 2021 and 2020

## 5. Exploration and evaluation expenditures

Exploration and evaluation expenditures for the years presented were as follows:

	Year ended December 31, 2021	Year ended December 31, 2020
Consulting and technical	\$ 1,028,371	\$ 503,312
Feasibility study	1,106,500	-
Surface rights and consulting	185,815	103,436
Field office support and administration	152,346	63,442
Travel	25,078	6,228
Professional fees	1,214	19,290
Environmental	159,657	-
	<b>\$ 2,658,981</b>	<b>\$ 695,708</b>

The Company's principal activity is the exploration and development of its Shymanivske project. The Company's mining permit for the Shymanivske project expires in 2024.

## 6. Accounts payable and accrued liabilities

	December 31, 2021	December 31, 2020
Trade payables	\$ 827,708	\$ 555,630
Accruals	908,824	55,588
	<b>\$ 1,736,532</b>	<b>\$ 611,218</b>

Trade payables and accruals are non-interest bearing, unsecured and due on demand.

# BLACK IRON INC.

Notes to the consolidated financial statements  
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For the years ended December 31, 2021 and 2020

## 7. Share capital

### Authorized

Unlimited number of common shares without par value.

	Number of Common shares	Amount
Balance, December 31, 2019	186,299,159	\$ 68,321,728
Warrant exercise	10,936,193	737,450
Warrant valuation	-	604,262
Option exercise	750,000	27,725
Option valuation	-	10,060
Debenture conversion	25,419,816	1,851,798
Private placement	36,534,420	1,109,525
Cost of issue	-	(99,117)
Balance, December 31, 2020	259,939,588	\$ 72,563,431
Warrant exercise	9,358,333	465,714
Warrant valuation	-	2,231,392
Option exercise	2,837,000	230,684
Option valuation	-	174,170
Debenture conversion	2,590,627	358,588
Prospectus financing	28,750,000	9,134,959
Cost of issue	-	(1,066,389)
Balance, December 31, 2021	303,475,548	\$ 84,092,549

On May 8, 2020, the Company closed a non-brokered private placement financing of 36,534,420 units at a price of CAD\$0.05 per unit for gross proceeds of \$1,151,546 (CAD\$1,826,721). Each unit is comprised of one common share and one-third of one common share purchase warrant. Each whole warrant is exercisable to acquire one common share at a price of CAD\$0.06 for a period of three years from the date of issue (see Note 9). The Company paid cash and non-cash commissions and other expenses of \$80,768 (CAD\$113,602) in relation to this private placement.

On July 21, 2021, the Company closed a short form prospectus offering of 28,750,000 common shares, raising gross proceeds of \$9,134,959 (CAD\$11,500,000) at a price of CAD\$0.40 per common share. The Company paid cash commissions of \$814,211 (CAD\$1,025,011) and issued 1,340,201 finder warrants related to this prospectus financing. The finder warrants are exercisable to acquire one common share of the Company at a price of CAD\$0.40 for a period of two years from the date of issue (see Note 9).

During the year ended December 31, 2021, the Company issued 2,590,627 shares on conversion for a final portion of the outstanding convertible debenture (25,419,816 shares converted for the year ended December 31, 2020) (Note 11).

# BLACK IRON INC.

Notes to the consolidated financial statements  
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For the years ended December 31, 2021 and 2020

## 8. Share-based payments reserve

	Number of stock options	Weighted average exercise price CAD	Carrying amount of options	Number of DSU	Weighted average exercise price CAD	Carrying amount of DSU	Total carrying amount
Balance, December 31, 2019	9,907,500	\$ 0.07	\$ 334,996	5,474,481	\$ 0.05	\$ 213,795	\$ 548,791
Granted	9,042,500	0.07	528,095	3,566,367	0.09	266,511	794,606
Expired	(3,395,000)	-	(68,705)	-	-	-	(68,705)
Forfeited	(187,500)	0.08	(5,092)	-	-	-	(5,092)
Exercised	(750,000)	-	(10,060)	-	-	-	(10,060)
Balance, December 31, 2020	14,617,500	\$ 0.07	\$ 779,234	9,040,848	\$ 0.07	\$ 480,306	\$ 1,259,540
<b>Granted</b>	<b>1,750,000</b>	<b>0.07</b>	<b>268,095</b>	<b>285,206</b>	<b>\$ 0.14</b>	<b>81,227</b>	<b>349,322</b>
<b>Exercised</b>	<b>(2,837,000)</b>	<b>0.06</b>	<b>(174,170)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(174,170)</b>
<b>Forfeited</b>	<b>(450,000)</b>	<b>0.20</b>	<b>(13,614)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(13,614)</b>
<b>Balance, December 31, 2021</b>	<b>13,080,500</b>	<b>\$ 0.12</b>	<b>\$ 859,545</b>	<b>9,326,054</b>	<b>\$ 0.14</b>	<b>\$ 561,533</b>	<b>\$ 1,421,078</b>

### 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 year ended December 31, 2021, the Company granted 1,750,000 stock options (9,042,500 granted for the year ended December 31, 2020) and options vested with a total value of \$268,095 (\$528,095 for the year ended December 31, 2020).

350,000 of the options granted by the Company during the year ended December 31, 2021 vest in eight equal quarterly instalments commencing on the date of grant, 300,000 in four equal installments over 12 months commencing three months from the grant date, 450,000 option will vest subject to the Company reaching target share prices, and 650,000 vested immediately.

The weighted average exercise price of options exercised in the year ended December 31, 2021 was CAD\$0.10.

Subsequent to the year ended December 31, 2021, 150,000 options expired unexercised.

# BLACK IRON INC.

Notes to the consolidated financial statements  
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For the years ended December 31, 2021 and 2020

## 8. Share-based payments reserve (continued)

At December 31, 2021, 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 (\$)	Grant date share price	Black-Scholes Inputs			
						Expected volatility based on historical share prices	Expected life (yrs)	Expected dividend yield	Risk-free interest rate
16-Feb-22	0.12	1,725,000	1,725,000	114,858	0.05	126%	5	0%	0.79%
31-Oct-23	0.08	300,000	-	14,987	0.08	135%	5	0%	2.42%
5-Dec-23	0.06	150,000	150,000	4,806	0.06	139%	5	0%	2.21%
9-Jan-24	0.05	1,950,000	1,950,000	52,960	0.05	114%	5	0%	1.82%
4-Mar-24	0.07	200,000	200,000	7,648	0.07	117%	5	0%	1.46%
18-Oct-24	0.08	250,000	250,000	9,051	0.08	109%	5	0%	1.56%
11-Mar-25	0.07	150,000	150,000	4,957	0.07	138%	5	0%	0.55%
15-Jun-25	0.10	4,323,000	4,323,000	261,197	0.10	133%	5	0%	0.36%
7-Aug-25	0.15	2,582,500	1,986,875	120,988	0.14	135%	5	0%	0.32%
1-Mar-26	0.42	150,000	150,000	-	0.44	120%	5	0%	0.81%
1-Mar-26	0.38	300,000	150,000	71,313	0.44	120%	5	0%	0.81%
18-May-26	0.48	350,000	350,000	108,741	0.45	118%	5	0%	0.95%
13-Aug-26	0.37	50,000	12,500	11,747	0.37	113%	5	0%	0.84%
5-Nov-26	0.31	300,000	-	33,970	0.31	114%	5	0%	1.36%
13-Dec-26	0.21	300,000	300,000	58,556	0.21	112%	3	0%	1.00%
		13,080,500	11,697,375	\$ 875,779					

## 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 year ended December 31, 2021, the Company granted 259,164 DSUs with a fair value of \$81,227 based on the quoted market price of the Company's common shares at the date of grant (3,566,367 DSUs with a grant date fair value of \$266,511 during the year ended December 31, 2020). As the DSUs will be settled in shares, the value of the DSUs is recorded in share-based payments reserve at the time of issue.

# BLACK IRON INC.

Notes to the consolidated financial statements  
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## 9. Warrants and warrant liability

At December 31, 2021, outstanding warrants to acquire common shares of the Company were as follows:

Number outstanding	Number exercisable	Grant date	Expiry date	Exercise price (CAD)	Estimated fair value at grant date	Grant date share price	Expected volatility	Expected life (yrs)	Expected dividend yield	Risk-free interest rate
55,000	55,000	29-Mar-19	29-Mar-22	\$ 0.09	\$ 1,556	\$0.06	122%	3	0%	1.45%
13,081,395	13,081,395	27-Sep-19	27-Sep-23	\$ 0.11	\$ 569,100	\$0.08	116%	4	0%	1.47%
3,384,991	3,384,991	24-Apr-20	24-Apr-24	\$ 0.08	\$ 95,813	\$0.06	117%	4	0%	0.38%
2,678,141	2,678,141	8-May-20	8-May-23	\$ 0.06	\$ 42,735	\$0.08	110%	3	0%	0.26%
30,000,000	-	22-Dec-20	22-Dec-25	\$ 0.31	\$ 6,883,852	\$0.35	129%	5	0%	0.20%
1,340,201	1,340,201	21-Jul-21	21-Jul-23	\$ 0.40	\$ 252,177	\$0.43	105%	2	0%	0.46%
50,539,728	20,539,728				\$ 7,845,233					

Based on management's assessment, the vesting conditions for the 30,000,000 warrants granted on December 22, 2020 and included in the table above are not expected to be met. Management has estimated the fair value of these warrants based on information available. No value was recorded in the consolidated financial statements for these warrants at December 31, 2021, as vesting is not expected as at the date of these consolidated financial statements.

### Warrant liability

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

Warrant liability transactions during the years presented were as follows:

	Number of Warrants	Fair value (\$)
Balance, December 31, 2019	26,357,590	1,227,878
Granted	15,563,131	292,834
Exercised	(10,911,195)	(603,530)
Expired	(2,531,666)	(53,194)
Change in fair value during the year	-	5,657,561
Balance, December 31, 2020	28,477,860	6,521,549
Reclassified from liability to equity	(28,477,860)	(6,521,549)
<b>Balance, December 31, 2021</b>	-	-

On January 1, 2021, the Company changed its functional currency for its Canadian entity from US dollars to Canadian dollars. As a result of this change, the Company's warrant liability was extinguished and reclassified as equity. See Note 3.

# BLACK IRON INC.

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## 9. Warrants and warrant liability (continued)

### Warrants

Warrant transactions during the periods presented were as follows:

	Number of Warrants	Fair value (\$)
Balance, December 31, 2019	105,000	3,020
Exercised	(25,000)	(732)
Granted	30,000,000	-
Balance, December 31, 2020	30,080,000	2,288
Exercised	(9,358,333)	(2,231,392)
Reclassified from liability to equity	28,477,860	6,521,549
Granted	1,340,201	252,178
<b>Balance, December 31, 2021</b>	<b>50,539,728</b>	<b>4,544,623</b>

## 10. Related party transactions

### Key management personnel compensation

In addition to their contracted fees, executive officers participate in the Company's stock option program (Note 8) and are entitled to participate in the share compensation plan. The Company also has a DSU 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:

	Year ended December 31, 2021	Year ended December 31, 2020
Short term employee benefits	\$ 1,578,801	\$ 737,654
Share-based payments	240,423	690,279
	<b>\$ 1,819,224</b>	<b>\$ 1,427,933</b>

Officers and directors had 1,162,500 options vest during the year ended December 31, 2021 (6,913,500 for the year ended December 31, 2020).

The Company is party to certain management contracts. These contracts require payments of approximately \$3.0 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 \$646,000 pursuant to the terms of these contracts. As triggering events have not yet taken place, no amounts have been provided for these items.

As at December 31, 2021, the Company had \$601,633 (December 31, 2020 - \$434,375) of 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.

# BLACK IRON INC.

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For the years ended December 31, 2021 and 2020

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## 11. 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 (\$339,649).

The Convertible Security was secured by all of the assets of the Company and bore interest at 10% per annum and matured on September 26, 2021. The Convertible Security included covenants typical and customary for secured convertible securities of this nature.

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, valued at \$569,100 on the date of issue (see Note 9). The warrants were initially recorded as a warrant liability. When the Company changed the functional currency of its Canadian entity from US dollars to Canadian dollars, the warrant liability was represented as equity warrants on January 1, 2021 at their then estimated fair value of \$2,924,601.

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 Company issued to Lind a second convertible security (the "Second Tranche") under the Agreement with a face value of CAD\$498,000 (\$353,639) on April 24, 2020, representing a principal amount of CAD\$400,475 (\$284,327) and a prepaid interest amount of CAD\$83,000 (\$59,000).

The Company issued Lind 3,384,991 warrants related to the Second Tranche. These warrants are exercisable for a term of 48 months at an exercise price of CAD\$0.08 per share, valued at \$95,813 on the date of issue (see Note 9). The warrants were initially recorded as a warrant liability. When the Company changed the functional currency of its Canadian entity from US dollars to Canadian dollars, the warrant liability was represented as equity warrants on January 1, 2021 at their then estimated fair value of \$783,423.

The Company paid Lind closing costs of CAD\$14,525 (\$10,312) associated with the Second Tranche.

The Second Tranche was secured by all of the assets of the Company and bears interest at 10% per annum and matures on April 23, 2022. The Second Tranche included covenants typical and customary for secured convertible securities of this nature.

On the date of issuance, the Convertible Security and the Second Tranche were accounted for as a compound financial instrument with a liability component and conversion option component classified as two separate liabilities, as well as the warrant liability component (Note 9).

The Convertible Security and the Second Tranche were fully converted to equity during the year ended December 31, 2021. During the year ended December 31, 2021, the Company issued 2,590,627 shares on conversion of the outstanding convertible debenture (Note 7), converting CAD\$456,711 (\$358,588) of the face value of the convertible security to shares.

# BLACK IRON INC.

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For the years ended December 31, 2021 and 2020

## 11. Convertible debenture (continued)

The Convertible Security and the Second Tranche were converted to common shares of the Company at a rate of no more than 1/20<sup>th</sup> of the face value of the Convertible Security and the Second Tranche 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.

On the date of issuance, the fair value of the conversion features was estimated using a Binomial option pricing model using the following assumptions: expected dividend yield of 0%, weighted average expected volatility of 109% based on historical volatility of the Company's common shares, risk-free rate of 0.15%, and weighted average expected life of 0.75 years.

The fair value of the liability components was estimated using a weighted average discount rate of 157% based on the estimated discount rate of comparable debt. The discount on the liability components was being accreted over the term of the Convertible Security and the Second Tranche, utilizing effective interest rate method at a 157% weighted average discount rate. For the year ended December 31, 2021, accretion of the discount totaled \$5,404 (\$380,554 for year ended December 31, 2020).

On bifurcation of the various components of the compound financial instrument on issuance date, it was determined that a loss arose on the transaction in the amount of \$399,000. The Company has deferred this amount as prepaid and other asset and realized the loss over the term of the Convertible Security. On conversion and extinguishment of the debenture in 2021, the remaining balance of this prepaid and other asset was expensed.

### Liability component of convertible debenture

Liability component as at December 31, 2019	\$	172,762
Issuance		11,267
Accretion		380,554
Conversion		(482,806)
Effect of foreign exchange currency difference		8,410
Liability component as at December 31, 2020		90,187
Accretion		5,458
Conversion		(95,591)
Effect of foreign exchange currency difference		(54)
<b>Liability component as at December 31, 2021</b>	<b>\$</b>	<b>-</b>

### Conversion option of convertible debenture

Liability component as at December 31, 2019	\$	1,318,525
Issuance		177,247
Change in fair value		62,777
Conversion		(1,368,992)
Effect of foreign exchange currency difference		81,028
Liability component as at December 31, 2020		270,585
Change in fair value		(7,664)
Conversion		(262,997)
Effect of foreign exchange currency difference		76
<b>Conversion option as at December 31, 2021</b>	<b>\$</b>	<b>-</b>

# BLACK IRON INC.

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For the years ended December 31, 2021 and 2020

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## 12. Loan payable

In April 2020, the Company received a CAD\$40,000 (\$31,809) Canadian Emergency Business Account (“CEBA”) loan. In January 2021, the Company received an additional CAD\$20,000 (\$15,905). The CEBA loan is from the Government of Canada and is interest free through December 31, 2022, after which any unpaid balance is converted to a five-year interest-bearing term loan. Repaying the loan balance in full on or before December 31, 2022 will result in loan forgiveness of up to CAD\$20,000. The CAD\$40,000 (\$31,367) unforgiveable portion of the loan was repaid in October 2021.

The forgivable portion of the loan in the amount of CAD\$20,000 (\$15,955) has been recognized in other income on the consolidated statement of loss for the year ended December 31, 2021.

## 13. Commitments and contingencies

### Legal

A former officer of the Company had initiated legal action seeking compensation for a change of control payment in connection with Metinvest B.V.’s investment in the Company’s subsidiary in 2014. This matter was settled subsequent to December 31, 2021.

### 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.

### Contracts

See Note 10.

### Going Concern

See Note 1.

### Perpetual Iron Inc.

On December 22, 2020, the Company issued 30,000,000 non-transferrable warrants to Perpetual Iron Inc. for facilitating and supporting the negotiations of a non-binding \$100 million royalty. The warrants do not vest until certain conditions are met. 10,000,000 warrants vest upon entering a binding definitive agreement with the investor and the remaining 20,000,000 warrants vest upon the Company’s initial draw on the financing facility. If no binding definitive agreement is reached within two years, all warrants will be voided. Additionally, the Company will make a \$4.0 million dollar payment to Perpetual Iron contingent on the Company entering a binding agreement and making an initial draw on the financing facility. Neither the warrants nor the fee have been included in the consolidated financial statements at December 31, 2021 and 2020 as management has estimated that the vesting conditions are not expected to be met.

# BLACK IRON INC.

Notes to the consolidated financial statements  
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For the years ended December 31, 2021 and 2020

## 13. Commitments and contingencies (continued)

### Novel Coronavirus

The Company's operations could be significantly adversely affected by the effects of a widespread global outbreak of a contagious disease, including the recent outbreak of respiratory illness caused by COVID-19. The Company cannot accurately predict the impact COVID-19 will have on its operations and the ability of others to meet their obligations with the Company, including uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected countries. In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company's operations and ability to finance its operations.

## 14. Loss per share

Basic loss per share amounts are calculated by dividing the net loss for the year by the weighted average number of common shares outstanding during the year. Basic and diluted weighted average number of shares for the year ended December 31, 2021 was 282,164,092 (226,009,275 for the year ended December 31, 2020).

The diluted loss per share for the years ended December 31, 2021 and 2020 exclude share purchase options, DSUs, warrants, and the conversion option of debenture of the Company as they were determined to be anti-dilutive. For the year ended December 31, 2021, basic and diluted loss per share was \$0.02 (\$0.04 for the year ended December 31, 2020).

## 15. Income taxes

(i) Provision for income taxes

Major items causing the Company's effective tax rate to differ from the combined Canadian federal and provincial statutory rate of 26.5% (2020 – 26.5%) were as follows:

	2021	2020
Accounting loss before income tax	\$ 5,827,489	\$ 9,077,845
Canadian Statutory Tax Rate	26.50%	26.50%
Expected income tax recovery based on statutory rate	\$ (1,544,000)	\$ (2,406,000)
Adjustment to expected income tax benefit:		
Stock based compensation	90,000	211,000
Expenses not deducted for tax purposes	(1,000)	1,617,000
Other	(234,000)	61,000
Change in benefit of tax assets not recognized	1,689,000	517,000
Deferred income tax provision (recovery)	\$ -	\$ -

# BLACK IRON INC.

Notes to the consolidated financial statements  
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## 15. Income taxes (continued)

### (ii) Temporary differences

Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:

	2021	2020
Non-capital loss carry-forwards - Canada	\$ 49,907,000	\$ 45,462,000
Other - Canada	782,000	108,000
Mineral property costs - Ukraine	2,499,000	2,403,000
Non-capital loss carry-forwards - Cyprus	1,261,000	1,110,000
Non-capital loss carry-forwards - Ukraine	1,988,000	1,640,000
<b>Total</b>	<b>\$ 56,437,000</b>	<b>\$ 50,723,000</b>

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can use the benefits.

### (iii) Tax loss carry-forwards

The non-capital losses for Canadian income tax purposes of approximately \$49,907,000 expire between 2031 to 2041.

The non-capital losses for Cyprus can be carried forward for five years.

The Company carries on most of its operations in Ukraine. The Ukrainian tax system is characterized by numerous taxes; frequently changing legislation which may be applied retroactively; contradictory and wide interpretation of the law, and uncertain administrative practices of the tax authorities. All assessments of tax received by the Company have been accrued in these consolidated financial statements. While management believes that it has provided adequately for tax liabilities, based on its interpretations of applicable tax legislation, official pronouncements and court decisions, the relevant tax authorities could disagree and assess additional tax, the effect of which could be material to these consolidated financial statements.

## 16. Financial risk management objectives and policies

The Company's financial instruments comprise cash, amounts receivable, accounts payable and accrued liabilities, warrant liability, liability component of convertible debenture, conversion option of convertible debenture, and loan payable.

The main risks that could adversely affect the Company's financial assets, liabilities or future cash flows are credit risk, liquidity risk and market risk.

Management reviews policies for managing each of these risks, which are summarized below.

The following discussion also includes a sensitivity analysis that is intended to illustrate the sensitivity to changes in market variables on the Company's financial instruments and show the impact on income or loss and shareholders' equity, where applicable. The sensitivity has been prepared for the year ended December 31, 2021 using the amounts of other financial assets and liabilities held as at the consolidated statement of financial position date.

# BLACK IRON INC.

Notes to the consolidated financial statements  
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## 16. Financial risk management objectives and policies (continued)

### Credit risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets. With respect to credit risk arising from financial assets of the Company, which comprise cash and amounts receivable, the Company's exposure to credit risk arises from default of counterparty, with a maximum exposure equal to the carrying amount of these instruments. Cash balances are held with high credit quality financial institutions. The credit risk of the Company is considered minimal.

### Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. The Company has procedures with the objective of managing such risk, such as monitoring cash flow on a continuous basis through short and medium-term cash planning and maintaining sufficient cash. The Company expects to complete future equity financings, as required and available.

The Company's financial liabilities at December 31, 2021 and 2020 include accounts payable and accrued liabilities that were based on contractual undiscounted payments that are all due in less than one year, the convertible debenture (Note 11) and the loan payable. The warrant liability as at December 31, 2020 has been reclassified to warrant reserve on January 1, 2021 upon the change of the Company's functional currency (Note 3).

### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rate and equity prices will affect the Company's income or the value of its holdings of financial instruments. The Company is exposed to foreign currency risk and equity price risk.

Foreign currency risk is created by fluctuations in the fair value or cash flows of financial instruments due to changes in foreign exchange rates and exposure as a result of investment in its subsidiaries.

A portion of the Company's transactions are carried out in other transactional currencies including the Canadian dollar and Ukrainian Hryvnia ("UAH") which are subject to currency fluctuations. The following summarizes the US dollar amounts of assets and liabilities denominated in other currencies at December 31, 2021:

		CAD		UAH
Cash	\$	5,680,452	\$	8,533
Amounts receivable		294,498		20,314
Accounts payable and accrued liabilities		(1,709,560)		(23,065)
	\$	4,265,390	\$	5,782

A \$0.01 strengthening or weakening of the US dollar against the Canadian dollar at December 31, 2021 would result in an increase or decrease in the operating loss of \$59,000. A \$0.01 strengthening or weakening of the US dollar against the UAH would result in an increase or decrease in operating loss of approximately \$1,600.

The Company has no interest rate risk as there are no outstanding bank borrowings and no interest rate exposure, as the Company finances its operations primarily through share offerings.

# BLACK IRON INC.

Notes to the consolidated financial statements  
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For the years ended December 31, 2021 and 2020

## 16. Financial risk management objectives and policies (continued)

### Capital management

The capital of the Company consists of shareholders' equity (deficiency).

The Company's capital management objectives, policies and processes have remained unchanged during the years ended December 31, 2021 and 2020.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the Toronto Stock Exchange ("TSX") which requires adequate working capital or financial resources such that, in the opinion of TSX, the listed issuer will be able to continue as a going concern. TSX will consider, among other things, the listed issuer's ability to meet its obligations as they come due, as well as its working capital position, quick asset position, total assets, capitalization, cash flow and earnings as well as disclosures in the consolidated financial statements regarding the listed issuer's ability to continue as a going concern.

## 17. Financial instruments

	Hierarchy level	December 31, 2021		December 31, 2020	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities:					
Warrant liability	2	\$ -	\$ -	\$ 6,521,549	\$ 6,521,549
Conversion option of convertible debentures	3	-	-	270,585	270,585

A fair value hierarchy prioritizes the methods and assumptions used to develop fair value measurements for those financial assets where fair value is recognized on the consolidated statements of financial position. These have been prioritized into three levels.

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – Inputs for the asset or liability that are not based on observable market data.

Fair value amounts represent point-in-time estimates and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and are a matter of significant judgement.

The fair values of other short-term financial instruments, including cash, amounts receivable, and accounts payable and accrued liabilities, approximate their carrying values due to the short period of time to maturity. The warrant liability (Note 9) and the conversion option of the convertible debenture (Note 11) have been classified as level two within the fair value hierarchy and include inputs that are observable other than quoted prices.

During the years ended December 31, 2021 and 2020, there were no transfers between the levels within the fair value hierarchy.