

Tacora Resources Inc.

Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

INDEPENDENT AUDITOR'S REPORT

To the Audit Committee of
Tacora Resources Inc.:

Opinion

We have audited the consolidated financial statements of Tacora Resources Inc. and subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income and comprehensive income, changes in equity, and cash flows for the years then ended, the related notes to the consolidated financial statements, and supplemental schedules (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern at least, but not limited to, twelve months from the end of the reporting period, 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 to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

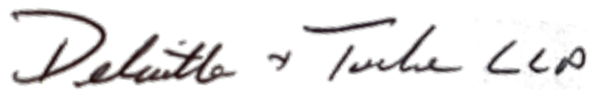
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and

therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk 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. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- 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. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

A handwritten signature in cursive script that reads "Deloitte & Touche LLP". The signature is written in dark ink and is positioned above a faint, light-colored circular stamp or watermark.

April 7, 2022

Consolidated balance sheets

(expressed in thousands of US Dollars, except where otherwise noted)

	Notes	Dec 31, 2021	Dec 31, 2020
Current assets			
Cash	5	34,883	119,823
Receivables	6	10,530	2,351
Inventories	7	19,029	8,045
Transportation deposits, current portion	12	7,740	8,487
Prepaid expenses and other current assets	8	4,641	5,848
Total current assets		76,823	144,554
Non-current assets			
Property, plant & equipment, net	10, 13	290,386	168,322
Intangible assets subject to amortization	11	37,809	26,436
Transportation deposits	12	901	5,241
Security Deposits	12	3,414	3,377
Financial assurance deposit	13	6,410	6,392
Total non-current assets		338,920	209,768
TOTAL ASSETS		415,743	354,322
Current liabilities			
Current maturities of long-term debt	14	2,950	25,700
Current maturities of lease liabilities	14	9,859	7,423
Accounts payable		11,718	14,977
Accrued liabilities	15	41,402	35,885
Derivative liability	19	-	80,952
Total current liabilities		65,929	164,937
Non-current liabilities			
Long-term debt	14	166,581	112,067
Lease liabilities	14	38,365	28,546
Long-term royalties payable	23	23,088	-
Deferred tax liability	16	5,355	-
Rehabilitation obligation	13	35,197	37,630
Total non-current liabilities		268,586	178,243
TOTAL LIABILITIES		334,515	343,180
NET ASSETS		81,228	11,142

Consolidated balance sheets

(expressed in thousands of US Dollars, except where otherwise noted)

	Notes	Dec 31, 2021	Dec 31, 2020
Shareholder's equity			
Capital stock	17	263,350	225,332
Accumulated deficit		(182,391)	(214,512)
Equity attributable to owners of the Company			
Non-controlling interest		269	322
TOTAL EQUITY			
		81,228	11,142

Should be read in conjunction with the notes to the consolidated financial statements

The consolidated financial statements were approved by a directors' resolution on April 7, 2022 and signed on their behalf by:


Joseph A. Broking II
President and Chief Executive Officer

Consolidated statements of income and comprehensive income

(expressed in thousands of US Dollars, except where otherwise noted)

	Notes	Years Ended	
		Dec 31, 2021	Dec 31, 2020
Revenue			
Cost of sales	21	446,051	299,223
Gross profit		118,234	59,716
Other expenses			
Selling, general, and administrative expenses	22	5,818	3,772
Sustainability and other community expenses		840	744
Operating income		111,576	55,200
Other income (expense)			
Other expense		(4,334)	(3,084)
Loss on debt extinguishment	14	(15,247)	-
Loss on derivative instruments	19, 20	(42,829)	(90,097)
Unwinding of present value discount: asset retirement obligation	13	(615)	(652)
Interest expense	14	(18,047)	(31,490)
Interest income		246	424
NALCO Tax		(560)	(492)
Foreign exchange gain		21	107
Total other (expense)		(81,365)	(125,284)
Income (loss) before income taxes		30,211	(70,084)
Current income tax (expense)	16	(542)	(110)
Deferred income tax recovery	16	2,554	-
Net income (loss) and comprehensive income (loss)		32,223	(70,194)
Net income and comprehensive income attributable to non-controlling interest, net of tax		102	204
Net income (loss) and comprehensive income (loss) attributable to Tacora Resources, Inc.		32,121	(70,398)

Should be read in conjunction with the notes to the consolidated financial statements

Consolidated statement of changes in equity

(expressed in thousands of US Dollars, except where otherwise noted)

	Capital stock	Accumulated deficit	Equity attributable to owners of the parent	Non-controlling interest	Total equity
Balance at Dec 31, 2019	150,232	(144,114)	6,118	118	6,236
Issuance of common shares	77,000	-	77,000	-	77,000
Cost of common share issuance	(1,900)	-	(1,900)	-	(1,900)
Net loss attributable to owners of the parent	-	(70,398)	(70,398)	-	(70,398)
Net income attributable to non-controlling interest, net of tax	-	-	-	204	204
Balance at Dec 31, 2020	225,332	(214,512)	10,820	322	11,142
Balance at Dec 31, 2020	225,332	(214,512)	10,820	322	11,142
Issuance of common shares	38,000	-	38,000	-	38,000
Credit to cost of common share issuance	18	-	18	-	18
Net income attributable to owners of the parent	-	32,121	32,121	-	32,121
Net income attributable to non-controlling interest, net of tax	-	-	-	102	102
Distributions to non-controlling interest	-	-	-	(155)	(155)
Balance at Dec 31, 2021	263,350	(182,391)	80,959	269	81,228

Should be read in conjunction with the notes to the consolidated financial statements

Consolidated statement of cash flow

(expressed in thousands of US Dollars, except where otherwise noted)

	Notes	Years Ended	
		Dec 31, 2021	Dec 31, 2020
Cash Flows from operating activities			
Net income (loss)		32,121	(70,398)
Less net income attributable to non-controlling interest		102	204
Adjustments to reconcile to net income:			
Depreciation	10	21,236	15,382
Amortization of intangible asset	11	1,193	907
Foreign exchange transaction (gain) loss		(19)	(131)
Change in fair value of derivative liability	19, 20	42,219	90,097
Prepayment penalty on long-term borrowings	14	15,247	-
Change in fair value of long-term borrowings	14	294	11,287
Accretion of debt interest	14	-	3,462
Unwinding of present value discount: asset retirement obligation	13	615	652
Change in deferred tax losses	16	(2,554)	
Loss on disposal of property and equipment	10	1,270	1,010
Changes in non-cash operating working capital:			
Trade accounts receivable	6	(7,909)	3,650
Other receivables	6	(270)	-
Inventory	7	(10,984)	(3,884)
Prepaid expenses and other	8	1,169	4,196
Accounts payable		(8,809)	10,013
Accrued liabilities	15	14,958	14,323
Net cash inflow from operating activities		99,879	80,770
Cash Flows from investing activities			
Purchases of mining property, land, plant & equipment	10, 13	(53,370)	(13,552)
Acquisition of intangible assets subject to amortization	11	(12,568)	(2,193)
Transportation deposit	12	5,089	4,491
Change in restricted cash, escrow	5	260	-
Cash acquired from Sydvaranger acquisition	23	741	-
Commodity forward contract settlements	19	(132,612)	(59,386)
Net cash outflow from investing activities		(192,460)	(70,640)
Cash Flows from financing activities			
Proceeds from issuance of common shares	17	-	77,000
Credits (payments) for equity issuance costs	17	18	(1,900)
Proceeds from long-term borrowings	14	166,581	-
Prepayment penalty on long-term borrowings	14	(15,247)	-
Knoll Lake distributions to non-controlling interest		(155)	-
Principal payments on long-term debt, including vendor financed leases	14	(143,297)	(9,958)
Net cash inflow from financing activities		7,900	65,142
Net (decrease) increase in cash		(84,681)	75,272
Cash			
Beginning		119,564	44,292
Ending		34,883	119,564
Supplemental disclosures			
Cash paid for interest		15,522	31,200
Property and equipment acquired through accounts payable		5,551	-
Assets acquired through vendor financed leases		12,921	987

Should be read in conjunction with the notes to the consolidated financial statements

Notes to the consolidated financial statements

(expressed in thousands of US Dollars, except where otherwise noted)

Note 1 - Corporate information

Tacora Resources Inc. along with its subsidiaries (collectively, the “Company” or “Tacora”) are in the business of identifying, mining and processing iron ore mineral reserves and resources.

Tacora was formed under the *Business Corporations Act* (British Columbia) on January 12, 2017 and is incorporated in British Columbia, Canada. Tacora’s registered office is located at Suite 1700, Park Place, 666 Burrard Street, Vancouver, BC V6C 2X8 Canada with its principal place of business located at 3400 De L’Eclipse, Suite 630, Brossard, QC J4Z 0P3 Canada. The controlling and ultimate parent of Tacora is Protterra M&M MGCA B.V.

On July 18, 2017, Tacora completed the acquisition (the “Acquisition”) of substantially all of the assets associated with the Scully Mine located north of the Town of Wabush, Newfoundland and Labrador, Canada (the “Scully Mine”). The acquisition was made pursuant to an asset purchase agreement (the “APA”) dated June 2, 2017 among Tacora, MagGlobal LLC, Wabush Iron Co. Limited, Wabush Resources Inc. and Wabush Lake Railway Company Limited pursuant to a court supervised process under the *Companies’ Creditors Arrangement Act (Canada)* (“CCAA”). Tacora commenced commercial production at of its key asset, the Scully Mine, a long-life, large-scale open pit operation, in June 2019.

On January 13, 2021, pursuant to a share purchase agreement between the seller, Sydvaranger AS and the purchaser, Tacora Resources Inc., the Company completed the acquisition of 100% of the share capital of Sydvaranger Mining AS (the “Sydvaranger Mine” or “Sydvaranger”). The Sydvaranger Mine is a long lived, large scale iron ore open pit, mineral processing plant and port with its concentrator and port facilities in the town of Kirkenes, Norway and the mines are 8 kilometers to the south near the town of Bjørnevatn, Norway. As a result of the acquisition, Tacora has the option to restart the Sydvaranger Mine which is shovel ready and fully permitted in a tier 1 jurisdiction. Sydvaranger is currently under a care and maintenance program.

Note 2 – Summary of significant accounting policies

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The consolidated financial statements comply with IFRS, including all International Accounting Standards (“IAS”) in force and all related interpretations issued by the International Financial Reporting Interpretations Committee.

The accounting policies set out below have been applied consistently to the year presented in these consolidated financial statements, unless otherwise stated.

The accompanying consolidated financial statements and notes of Tacora for the years ended December 31, 2021 and 2020 were authorized for issuance on April 7, 2022.

Basis for preparation

The consolidated financial statements were prepared using the historical cost method except for the revaluation of certain financial assets and financial liabilities which have been measured at fair value. Transactions, balances, and unrealized gains on transactions between Tacora and its subsidiaries have been eliminated when preparing the consolidated financial statements.

The consolidated financial statements are presented in United States dollars (“USD”). All amounts disclosed in the notes to the consolidated financial statements are in USD, unless otherwise noted.

Use of estimates

Notes to the consolidated financial statements

(expressed in thousands of US Dollars, except where otherwise noted)

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. Certain amounts included in or affecting these consolidated financial statements and related disclosures must be estimated, requiring management to make certain assumptions with respect to values or conditions which cannot be known with certainty at the time the consolidated financial statements are prepared. Management evaluates these estimates on an ongoing basis, utilizing historical experience, consultation with experts and other methods it considers reasonable in the particular circumstances. Any effects on Tacora's business, financial position or results of operations resulting from revisions to these estimates are recorded in the period in which the facts that give rise to the revision become known.

Consolidation

The consolidated subsidiaries are all entities over which Tacora has the power to govern financial and operating policies. Tacora controls an entity when it is exposed, or has the right to variable returns from its interest in the entity and is capable of affecting returns through its power over the entity. Where Tacora's participation in subsidiaries is less than 100%, the share attributed to outside shareholders is reflected as non-controlling interest.

Subsidiaries are consolidated in full from the date on which control is transferred to Tacora and up to the date it loses that control.

As at December 31, 2021, the subsidiaries included in the consolidated financial statements of Tacora were as follows:

	Country of incorporation	Ownership percentage %	Functional currency
Tacora Resources LLC	United States	100%	US Dollars
Knoll Lake Minerals Limited	Canada	58.2%	Canadian Dollars
Tacora Norway AS	Norway	100%	Norwegian Krone
Sydvaranger Mining AS	Norway	100%	Norwegian Krone
Sydvaranger Eiendom AS	Norway	100%	Norwegian Krone
Sydvaranger Materiell AS	Norway	100%	Norwegian Krone
Sydvaranger Drift AS	Norway	100%	Norwegian Krone
Sydvaranger Malmtransport AS	Norway	100%	Norwegian Krone
Bjornevatn Naeringspark AS	Norway	100%	Norwegian Krone

As part of the acquisition in 2017, Tacora acquired common shares representing a 58.2% interest in Knoll Lake Minerals Limited ("Knoll Lake"). The common shares of Knoll Lake are not considered a core asset to the mining operations of the Scully Mine. The ownership interest in Knoll Lake relates to a legacy asset that was included as one of several ancillary assets acquired as part of the acquisition. Nil consideration was allocated to the common shares of Knoll Lake. For the year ended December 31, 2021 and 2020, Knoll Lake had no operating activities. Knoll Lake is not considered a material subsidiary of Tacora for the periods ended December 31, 2021 and 2020. Cumulative translation adjustments from foreign exchange translation of Knoll Lake's operations as of December 31, 2021 and 2020 are immaterial to the consolidated financial statements.

All intra-group assets and liabilities, revenues, expenses and cash flows relating to intra-group transactions are eliminated.

Revenue Recognition

Notes to the consolidated financial statements

(expressed in thousands of US Dollars, except where otherwise noted)

The Company recognizes revenue from sales of concentrate when control of the concentrate passes to the customer, which occurs upon delivery to the stockpile. Revenue is measured based on the consideration to which the Company expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties.

For all the sales contracts, the sales price is determined provisionally at the date of sale, with the final pricing determined at a mutually agreed date (generally between 3 to 4 months from the date of the sale), at a quoted market price at that time. All subsequent mark-to-market adjustments in iron prices are recognized as embedded derivative pricing adjustments at fair value from contracts with customers and recorded in sales up to the date of final settlement.

Price changes for revenue awaiting final pricing at the balance sheet date could have a material effect on future revenues. As at December 31, 2021, there was \$111.4 million (December 31, 2020: \$173.6) in revenues that were awaiting final pricing.

Cash and restricted cash

Cash consists of cash in bank and restricted cash held as collateral.

Inventories

Inventories of iron ore concentrate are measured and valued at the lower of average production cost and net realizable value. Net realizable value is the estimated selling price of the concentrate in the ordinary course of business based on the prevailing selling prices on the reporting date. Production costs that are inventoried include the costs directly related to bringing the inventory to its current condition and location, such as materials, labor and manufacturing overhead costs.

Supplies and spare parts are valued at lower of cost or net realizable value.

Foreign currency translation

Functional and presentation currency

The amounts included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in USD, which is Tacora's presentation currency and the functional currency of its operations.

Foreign currency translation

The financial statements of entities that have a functional currency different from USD are translated into USD as follows:

- assets and liabilities at the closing rate at the date of the balance sheet; and
- income and expenses at the average rate of the reporting period.

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than the operator's functional currency are recognized in the statement of income.

Business Combinations

Assets acquired and liabilities assumed as part of a business combination are generally recorded at their fair value at the date of acquisition. The excess of purchase price over the fair value of assets acquired and

Notes to the consolidated financial statements

(expressed in thousands of US Dollars, except where otherwise noted)

liabilities assumed is recorded as goodwill. Determining fair value of identifiable assets, particularly intangibles, personal and real property, and liabilities acquired also requires management to make estimates, which are based on all available information and in some cases assumptions with respect to the timing and amount of future revenues and expenses associated with an asset. Accounting for business acquisitions requires management to make judgments as to whether a purchase transaction is a multiple element contract, meaning that it includes other transaction components such as a settlement of a preexisting relationship. This judgment and determination affects the amount of consideration paid that is allocable to assets and liabilities acquired in the business purchase transaction.

Asset acquisition

If a transaction does not meet the definition of a “business” under IFRS, the transaction is recorded as an asset acquisition. Net identifiable assets acquired and liabilities assumed are measured at the fair value of the consideration paid, plus any transaction costs, based on their relative fair value at the acquisition. No goodwill and no deferred tax asset or liabilities arising from the assets acquired and liabilities assumed are recognized upon acquisition of the assets.

Intangible assets subject to amortization

Intangible assets are related to port access and are recorded at cost. The assets are amortized on a rate per tonne shipped from the port or over the useful life of the asset on a straight-line basis. The estimated useful life of the intangible assets are estimated to be between nine and twenty-five years.

Intangible assets are subject to impairment tests when events or circumstances indicate that carrying value is not recoverable. Impairment losses are recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. Management determined that there were no indicators of impairment as of December 31, 2021 and 2020.

Financial assets and liabilities

Financial assets and financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities at amortized cost. Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expenses over the corresponding year. The effective interest rate is the rate that exactly discounts estimated future cash payments over the expected life of the financial liability, or, where appropriate, a shorter year, to the net carrying amount on initial recognition.

The Company has classified accounts payable, accrued liabilities and long-term debt as other financial liabilities.

Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss, amortized cost, or fair value through other comprehensive income. The Company determines the classification of its financial assets at initial recognition.

- a) Fair value through profit or loss – financial assets are classified as fair value through profit or loss if they do not meet the criteria of amortized cost or fair value through other comprehensive income. Changes in fair value are recognized in the statement of income (loss).
- b) Amortized cost – financial assets are classified at amortized cost if both of the following criteria are met and the financial assets are not designated as at fair value through profit and loss: 1) the objective of the Company’s business model for these financial assets is to collect their contractual cash flows; and 2) the asset’s contractual cash flow represents solely payments of principal and interest.

The Company has classified cash, and restricted cash as financial assets using amortized cost.

Notes to the consolidated financial statements

(expressed in thousands of US Dollars, except where otherwise noted)

Derivatives

Derivative assets and liabilities, comprising the commodity forward contracts, do not qualify as hedges, or are not designated as hedges and, accordingly, are classified as financial assets or liabilities at fair value through profit or loss.

Derecognition of financial assets and liabilities

Financial assets are derecognized when the contractual rights to receive cash flows from the assets expire or when the Company no longer retains substantially all of the risks and rewards of ownership and does not retain control over the financial asset. Any interest in such derecognized financial assets that is created or retained by the Company is recognized as a separate asset or liability. Gains and losses on derecognition are generally recognized in the consolidated statement of loss, with the exception of gains and losses on equity instruments designated at fair value through other comprehensive income, which are not reclassified to the consolidated statement of operations upon derecognition.

For financial liabilities, derecognition occurs when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in the consolidated statement of loss.

Royalties

Tacora is party to a single amended and restated consolidation of mining leases (the “Mining Lease”) with a lessor pursuant to which Tacora was granted the exclusive contractual right to explore, investigate, develop, produce, extract, remove by open pit or other method of mining, smelt, reduce and otherwise process, make merchantable, store, sell and ship all iron ore products from a mine on a parcel of land located near Wabush, Newfoundland and Labrador on which the Scully Mine is located. The Mining Lease is effective for a term extending to and including May 20, 2055; however, the Mining Lease may be cancelled by Tacora generally on six months’ written notice.

At the commencement of shipping iron ore products, Tacora is required to pay an earned royalty fee per metric tonne ranging from 4.2% to 7.0% of Net Revenues less certain deductible expenses, in accordance with the calculation as defined in the Mining Lease. To the extent that Tacora has not commenced or ceases the shipping of iron ore products and the sum of the earned royalty fee in a given calendar quarter is less than C\$0.8 million, Tacora is required to pay a minimum quarterly royalty of C\$0.8 million (of which 20 percent is withheld and remitted to the Province of Newfoundland and Labrador). Any minimum quarterly royalty payments during the calendar years of 2017 and 2018 were recoverable against future earned royalties on sales of iron ore products from the leased land during the 2018 and 2019 calendar years. Any amount which Tacora paid the lessor related to minimum quarterly royalty payments subsequent to 2019, other than in payment of earned royalties, shall be recoverable against earned royalties in the same calendar year.

Exploration and evaluation

Exploration and evaluation expenditures comprises costs that are directly attributable to:

- researching and analyzing exploration data;
- conducting geological studies, exploratory drilling and sampling;
- examining and testing extraction and treatment methods; and/or
- compiling pre-feasibility and feasibility studies.

In accordance with IFRS 6 “Exploration for and Evaluation of Mineral Resources”, the criteria for the capitalization of evaluation costs are applied consistently from period to period. Subsequent recovery of the carrying value for evaluation costs depends on successful development, sale or other partnering arrangements of the undeveloped project. If a project does not prove viable, all irrecoverable costs associated with the project net of any related impairment provisions are charged to the statement of profit and loss. No exploration or evaluation costs were capitalized in 2021 or 2020.

Notes to the consolidated financial statements

(expressed in thousands of US Dollars, except where otherwise noted)

Basin development costs

Costs incurred to prepare mine basins, before production begins, are capitalized. These capitalized costs are amortized on a cost basis by dividing the total development costs by the estimated recoverable quantities of minerals. The resulting cost is multiplied by the quantities extracted each year to determine the annual depletion expense. The productive phase is deemed to have begun when saleable material is extracted (produced) from the basin, regardless of level of production. Costs incurred during the production phase are recognized in cost of sales.

Property, plant, and equipment

Once a mining project has been determined to be commercially viable and approval to mine has been granted, expenditure other than that on land, buildings, plant, equipment and capital work in progress is capitalized under “Mining properties and leases”. Mineral reserves may be asserted for an undeveloped mining project before its commercial viability has been fully determined. Evaluation costs may continue to be capitalized during the period between declaration of mineral reserves and approval to mine as further work is undertaken in order to refine the development case to maximize the project’s returns. Costs of evaluation of a processing plant or material processing equipment prior to approval to develop or construct are capitalized under “Construction in process”, provided that there is a high degree of confidence that the project will be deemed to be commercially viable.

Costs which are necessarily incurred while commissioning new assets, in the period before they are capable of operating in the manner intended by management, are capitalized. Development costs incurred after the commencement of production are capitalized to the extent they are expected to give rise to a future economic benefit. Interest on borrowings related to construction or development projects is capitalized at the rate payable on project-specific debt, if applicable, or at Tacora’s cost of borrowing until the point when substantially all the activities that are necessary to make the asset ready for its intended use are complete.

Property, plant, and equipment is recorded at historical cost, as defined in IAS 16, “Property, Plant and Equipment,” less accumulated depreciation (except for land, which is not depreciated) and accumulated impairment losses. Costs include expenses directly attributable to the asset acquisition. Depreciation is calculated over the estimated useful lives as follows:

Asset type	Useful lives
Vehicles	3 – 5 years
Right of use assets	3 – 10 years
Mining and processing equipment	3 – 20 years
Railcars and rails	5 – 20 years

Assets within operations for which production is not expected to fluctuate significantly from one year to another or which have a physical life shorter than the related mine are depreciated on a straight line basis.

Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when future economic benefits associated with the item are likely and the cost of the item can be reliably measured. The carrying amount of replaced parts are derecognized and charged to loss on disposal. Repairs and maintenance are recognized in the statement of profit or loss in the year they are incurred. Major improvements are depreciated over the remaining useful life of the related asset.

Property, plant, and equipment is subject to impairment tests when events or circumstances indicate that carrying value is not recoverable. Impairment losses are recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. Management determined that there were no indicators of impairment as of December 31, 2021 and 2020.

Notes to the consolidated financial statements

(expressed in thousands of US Dollars, except where otherwise noted)

Leases

The Company assesses, at the inception of a contract, whether a contract is, or contains, a lease. A lease is a contract in which the right to control the use of an identified asset is granted for an agreed upon period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date.

Lease liabilities:

Lease liabilities are initially recorded as the present value of the non-cancellable lease payments over the lease term and discounted at the Company's incremental borrowing rate. Lease payments include fixed payments and such variable payments that depend on an index or a rate; less any lease incentives receivable.

The lease liability is subsequently measured at amortized cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of exercising a purchase, extension or termination option. When the lease liability is re-measured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, with any difference recorded in the consolidated statement of loss and comprehensive loss.

Right-of-use assets:

The right-of-use assets are measured at cost, which comprises the initial lease liability, lease payments made at or before the lease commencement date, initial direct costs and restoration obligations less lease incentives. The right-of-use assets are subsequently measured at amortized cost. The assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option.

Right-of-use assets are assessed for impairment in accordance with the requirements of IAS 36, "Impairment of assets".

The Company, on a lease by lease basis, also exercises the option available for contracts comprising lease components as well as non-lease components, not to separate these components. Extension and termination options exist for the Company's property lease of the premises. The Company re-measures the lease liability, when there is a change in the assessment of the inclusion of the extension option in the lease term, resulting from a change in facts and circumstances.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the consolidated statement of loss and comprehensive loss. Short-term leases are leases with a lease term of twelve months or less. Low-value assets comprise office equipment.

Provisions

Provisions are recognized when Tacora has a present obligation, legal or constructive, as a result of a past event, that is likely required to be settled and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the

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(expressed in thousands of US Dollars, except where otherwise noted)

present obligation, its carrying amount is the present value of those cash flows.

Provisions for legal claims are recognized when Tacora has a present obligation, legal or constructive, as a result of past events, an outflow of economic resources is likely to be required to settle the obligation and the amount can be reasonably estimated.

Environmental rehabilitation

Mining, extraction, and processing activities normally give rise to obligations for environmental rehabilitation. A provision for environmental rehabilitation is recognized at the time of environmental disturbance at the present value of expected rehabilitation work. Rehabilitation work can include decommissioning activities, removal or treatment of waste materials, land rehabilitation, as well as monitoring and compliance with environmental regulations. Tacora's provision is management's best estimate of the present value of the future cash outflows required to settle the liability and is dependent on the requirements of the relevant authorities and management's environmental policies.

Taxation

Tacora is subject to income tax in numerous jurisdictions. Income tax on the statement of profit or loss consists of current and deferred tax.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at period-end, adjusted for amendments 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 in the financial statements and the amount recorded for the computation of taxable income except when these differences arise on the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit. These temporary differences result in deferred tax assets and liabilities, which are included in the consolidated balance sheet. Tacora will recognize deferred tax assets for all deductible temporary differences, tax credits, and unused tax losses, to the extent that it is probable that future taxable profits will be available against which these can be used. 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.

Capital stock

Tacora's issued and outstanding common shares are classified as capital stock under equity. Incremental costs directly attributable to the issuance of new common shares are included in equity as a deduction from the consideration received, net of tax. Contributions for capital stock increases due to the issuance of new common shares are recognized directly as an integral part of capital.

Share-based compensation

The Company offers a stock option plan for certain employees. The stock options shall vest, and may be exercised in whole or in part, only upon a liquidity event as defined in the stock option agreement. The Company does not recognize compensation cost for the stock options until the liquidity event is deemed probable.

Going concern

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(expressed in thousands of US Dollars, except where otherwise noted)

The consolidated financial statements have been prepared on a going concern basis. Tacora manages its capital to ensure that Tacora will be able to continue in operation as a going concern and acquire, explore, and develop mineral resource properties for the benefit of its stakeholders.

Note 3 - Critical accounting judgments and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience, consultation with experts and other methods management considers reasonable in the particular circumstances. Actual results may differ from these estimates.

The accounting policies discussed below are considered by management to be critical to an understanding of Tacora's financial statements as their application places the most significant demands on management's judgment.

Business combinations

Assets acquired and liabilities assumed as part of a business combination are generally recorded at their fair value at the date of acquisition. The excess of purchase price over the fair value of assets acquired and liabilities assumed is recorded as goodwill. Determining fair value of identifiable assets, particularly intangibles, and liabilities acquired also requires management to make estimates, which are based on all available information and in some cases assumptions with respect to the timing and amount of future revenues and expenses associated with an asset. Accounting for business acquisitions requires management to make judgments as to whether a purchase transaction is a multiple element contract, meaning that it includes other transaction components such as a settlement of a preexisting relationship. This judgment and determination affects the amount of consideration paid that is allocable to assets and liabilities acquired in the business purchase transaction.

Mineral reserves and resources

Estimates of the quantities of proven and probable mineral reserves and measured, indicated and inferred mineral resources form the basis for our life of mine plans, which are used for a number of important business and accounting purposes, including our impairment analysis. Mineral reserves and resources are based on engineering data, estimated future prices, estimated future capital spending and estimated future production rates. We estimate our iron ore mineral reserves and resources based on information compiled by "qualified persons" as defined in accordance with the requirements of the Canadian Securities Administrators' National Instrument 43-101 - *Standards of Disclosure for Mineral Projects*. These life of mine plans also include assumptions about our ability to obtain and renew our mining and operating permits. Tacora expects that, over time, its mineral reserves and resources estimates will be revised upward or downward based on updated information such as the results of future drilling, testing and production levels, and may be affected by changes in iron ore prices.

Environmental rehabilitation

Decommissioning and restoration costs are a normal consequence of mining. The majority of these expenditures are incurred at the end of the mine's life. In determining the provision, consideration is given to the future costs to be incurred, the timing of these future costs, and estimated cost of inflation. The cost of decommissioning and restoration is uncertain and can vary in response to many factors including changes to the relevant legal and regulatory requirements. The expected timing of expenditures can change in response to changes in the life of mine. These estimates are reviewed annually and adjusted where necessary to ensure that the most current data is used.

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(expressed in thousands of US Dollars, except where otherwise noted)

Uncertainty due to COVID-19

In late December 2019, a novel coronavirus (“COVID-19”) was identified and subsequently spread worldwide. On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a pandemic creating an unprecedented global health and economic crisis.

During the fourth quarter of 2021, the COVID-19 Omicron variant was reported to the World Health Organization. The Omicron variant rapidly increased the proportion of COVID-19 cases globally. The duration and full financial effect of the COVID-19 pandemic is unknown at this time, as are the measures required in the future to attempt to reduce the spread of COVID-19.

The Company has closely monitored the potential impact of COVID-19 on its business. Should the duration, spread or intensity of the COVID-19 pandemic deteriorate in the future, there could be a potentially material and negative impact on the Company’s business, notably due to the following: a potential curtailment or total shut down of operations by government; potential loss of contractor manpower at its mining site; the potential of a Company employee falling ill and causing a disruption to the mine site; a potential impact on the ability to procure and transport critical supplies and parts to the sites; and a potential impact on the ability of the Company to transport iron ore to generate revenues. If any of these events were triggered, the result could be a complete shutdown of the Company’s mining site for an undetermined period.

To minimize this risk, the following actions have been taken: a policy has been instituted supporting employees to work from home where practical; preliminary screenings at site; any employees or contractors showing potential signs of COVID-19 will be placed into self-isolation; and special arrangements at the sites have been implemented to maximize social distancing. The Company is treating the threat of a COVID-19 outbreak very seriously. Should the COVID-19 cause a prolonged interruption of site operations, this could impact the Company’s ability to conduct its operations, have a potentially adverse effect on its business, and/or could result in an impairment of asset values.

As of the date of these statements, there has not been a significant impact on the Company’s operations as a result of COVID-19.

Note 4 - Financial risk management

Financial risk management objective

Tacora is exposed to a number of financial risks which are considered within the overall Tacora risk management framework. The key financial risks are commodity price risk, credit risk, liquidity risk and capital management risk, which are each discussed in detail below. The Board of Directors and senior management look to ensure that Tacora has an appropriate capital structure which enables it to manage the risks faced by the organization through the commodities cycle. The general approach to financial risks is to ensure that the business is robust enough to enable exposures to float with the market. Tacora may, however, choose to fix some financial exposures when it is deemed appropriate to do so.

Commodity price risk

Tacora has agreed to sell all of its production from the Scully Mine to one counterparty, Cargill International Trading Pte Ltd. (“Cargill”) with a term expiring December 31, 2024, with an option to extend the term until December 31, 2035 with a rolling options to extend the agreement for the life of the Scully Mine at Cargill’s sole discretion. Cargill is selling the Tacora product into the global seaborne iron ore market at prevailing market prices and incurring dry bulk freight costs to deliver the product to its intended destination at prevailing market freight rates. Therefore, Tacora will be exposed to fluctuations in iron ore market prices and dry bulk freight costs related to iron ore sales. Price decreases in the iron ore

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commodity market and/or cost increases for dry bulk freight rates could negatively affect net sales and therefore earnings.

In March 2020, Tacora and Cargill agreed to amend certain terms of the Cargill / Tacora: Iron Ore Sale and Purchase Contract that provide, among other things, for the following: (i) the grant to Cargill of rolling options to extend the agreement for the life of the Scully Mine; (ii) clarification that Cargill has rights to sell all of the tons produced from the Scully Mine including any and all expansions; and (iii) certain adjustments to the definition of margin amount (as defined in the agreement) whereby the shipment margin amount in respect of each relevant shipment may be either negative or positive. On each calculation date, all valuations of the shipment margin amount for all shipments for which the final purchase price has not been determined shall be netted to result in a single positive or negative value (the "Margin Amount"). If that value is positive and greater than \$7.5 million, then Buyer shall be entitled to hold margin equal to but no greater than that Margin Amount less \$5.0 million, and if that value is negative and less than -\$5.0 million, then Seller shall be entitled to hold margin equal to but no greater than that Margin Amount. In determining which party makes a payment to the other, any Margin Amount (if any) already held by one party shall be taken into account and netted. The receiving party shall raise a debit note for the relevant amount which shall be settled by the paying party within 5 Working Days. These changes to the definition of Margin Amount shall cease to apply at midnight Singapore time on 31st December 2021. At that time, the definition of Margin Amount shall revert to the following: if that value is positive and greater than \$5.0 million, then Buyer shall be entitled to hold margin equal to but no greater than that Margin Amount and if that value is negative and less than -\$5.0 million, then Seller shall be entitled to hold margin equal to but no greater than that Margin Amount.

Tacora believes commodity price hedging could provide a long-term benefit to shareholders. Therefore, Tacora may hedge certain commitments in the future with an emphasis on mitigating commodity price risk during the ramp up of the Scully Mine.

In October 2021, Tacora entered into monthly average index P62 fixed price contracts with Cargill that provided for the following key terms:

	Strike Price USD\$	Volume (dmt)
Settlement dates between Jan 1, 2022 and Jun 30, 2022	123.00	1,200,000
Settlement dates between Jul 1, 2022 and Sept 30, 2022	99.20	150,000
Settlement dates between Jul 1, 2022 and Sept 30, 2022	105.40	150,000

Given the expectation that Tacora will physically settle these contracts, this arrangement will be treated as part of our own use and therefore are not treating the fixed nature of this pricing as a derivative under IFRS 9. As a result, the impacts of the agreement with Cargill will be recorded in revenue.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. Tacora may be exposed to credit risk from its customer receivables and from its financing activities, including deposits with banks and financial institutions, other short-term investments, interest rate and currency derivative contracts and other financial instruments.

Liquidity and capital risk management

Tacora's objective when managing capital is to safeguard the business as a going concern while maximizing returns for shareholders. In a cyclical and capital intensive industry, such as the mining industry, maintaining a strong balance sheet and a sound financial risk management framework are desirable to preserve financial flexibility and generate shareholder value through the cycle. In practice,

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(expressed in thousands of US Dollars, except where otherwise noted)

this involves regular reviews by the Board of Directors and senior management. These reviews take into account Tacora's strategic priorities, economic and business conditions and opportunities that are identified to invest across all points of the commodities cycle and focus on shareholder return while also striving to maintain a strong balance sheet.

The table below analyzes the Company's financial liabilities into relevant maturity groupings based on the remaining period to maturity at the consolidated balance sheet date. The amounts below are gross amounts, so they include principal and interest.

	Within 1 Year	1 to 2 Years	2 to 5 Years	Over 5 Years	Total
Accounts payable and accrued liabilities	53,120	-	-	-	53,120
Debt	17,304	14,521	209,216	-	241,041
Lease liabilities	15,143	15,488	32,879	2,084	65,594
Rehabilitation obligation	-	-	-	35,197	35,197
Total	85,567	30,009	242,095	37,281	394,952

To maintain a strong balance sheet, Tacora considers various financial metrics, overall level of borrowings and their maturity profile, and other leverage ratios such as net debt to EBITDA.

Note 5 - Cash

Tacora maintains its cash in bank accounts which, at times, may exceed insured limits. Tacora has not experienced any losses in such accounts.

Cash consists of the following:

	As at Dec 31, 2021	As at Dec 31, 2020
Cash at bank	34,761	119,564
Restricted cash, escrow	122	259
Total	34,883	119,823

Restricted cash of \$122 as of December 31, 2021 and \$259 as of December 31, 2020 is held as collateral for one letter of credit required for environmental reclamation and Tacora's credit card program.

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(expressed in thousands of US Dollars, except where otherwise noted)

Note 6 – Accounts Receivable

Accounts receivable consist of the following:

	As at Dec 31, 2021	As at Dec 31, 2020
Trade receivables	10,260	2,351
Other receivables	270	-
Balance per consolidated balance sheet	10,530	2,351

Tacora's trade receivables all relate to a single customer. For the years ended December 31, 2021 and the year ended December 31, 2020, no specific provision was recorded on any of the receivables. The receivables at the end of both periods were current and are generally paid in a timely manner.

Note 7 – Inventories

Inventories consist of the following:

	As at Dec 31, 2021	As at Dec 31, 2020
Consumable inventories	15,026	5,693
Work-in-process inventories	2,250	-
Finished concentrate inventories	1,753	2,352
Balance per consolidated balance sheet	19,029	8,045

For the years ended December 31, 2021 and the year ended December 31, 2020, no specific adjustment was recorded for any of the inventory.

Note 8 – Prepaid expenses and other current assets

Prepaid expenses consist of the following:

	As at Dec 31, 2021	As at Dec 31, 2020
Prepaid sales tax	1,312	4,420
Other miscellaneous prepaid expenses	3,087	1,228
Prepaid insurance	198	156
Miscellaneous deposits	44	44
Balance per consolidated balance sheet	4,641	5,848

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Note 9 - Related-party balances

Transactions with related parties for the years ended December 31, 2021 and 2020, were as follows:

Compensation of key management personnel

Tacora considers its directors and officers to be key management personnel. Payroll related expenses incurred related to key management personnel are set forth as follows:

	Year Ended	
	2021	2020
Salaries	1,523	1,650
Deferred compensation	36	37
Other benefits	44	53
Total	1,603	1,740

There were no material related party receivables or payables for the years ended December 31, 2021 and the year ended December 31, 2020, respectively.

Note 10 –Property, plant and equipment

A summary of property, plant and equipment is as follows:

	Mining and Processing Equipment	Basin Development	Right of Use Assets	Assets Under Construction	Asset Retirement Cost	Total
As of Dec 31, 2019	52,112	-	50,370	31,401	31,020	164,903
Additions	-	-	-	15,087	-	15,087
Disposals	(1,151)	-	(362)	-	-	(1,513)
Transfer	25,103	-	3,204	(27,945)	-	362
Changes to environmental rehabilitation provision (Note 10)	-	-	-	-	5,272	5,272
Accumulated depreciation	(7,648)	-	(7,925)	-	(216)	(15,789)
As of Dec 31, 2020	68,416	-	45,287	18,543	36,076	168,322
Additions	-	-	-	147,520	-	147,520
Disposals	(1,307)	-	(390)	(569)	-	(2,266)
Transfer	26,600	17,383	15,564	(59,547)	-	-
Changes to environmental rehabilitation provision (Note 10)	-	-	-	-	(3,049)	(3,049)
Accumulated depreciation	(7,851)	(1,065)	(9,534)	-	(1,691)	(20,141)
As of Dec 31, 2021	85,858	16,318	50,927	105,947	31,336	290,386

Basis development costs were incurred to prepare mine basins before production began and were capitalized. These capitalized costs are being amortized on a cost basis by dividing the total development costs by the estimated recoverable quantities of minerals.

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Refer to note 14 for information on non-current assets pledged as security.

The Company leases various pieces of mobile equipment, all of which are considered right of use assets.

Note 11 – Intangible assets subject to amortization

Port access

In May 2018, the Company executed an agreement with Société ferroviaire et portuaire de Pointe-Noire s.e.c. (“SFPPN”) with an effective date of June 1, 2018 and a termination date of December 31, 2044 setting out the terms on which SFPPN will grant the Company guaranteed access to SFPPN’s equipment, throughput and storage capacity necessary to transport iron ore to the port infrastructure. Under the SFPPN Agreement, the Company is required to contribute, to certain capital expenditures up to an aggregate amount of C\$48.9 million, inclusive of C\$10 million which was paid in 2018. Capital expenditures totaling C\$16.3 million and C\$2.8 million were paid in 2019 and 2020, respectively and C\$7.8 million was paid in 2021 and the balance will be due by the end of 2022. The capital expenditures will allow SFPPN to enhance the current existing infrastructure required for the Company’s guaranteed access to SFPPN’s facilities, which include railway and Wabush Yard infrastructure. The SFPPN Agreement contains customary default clauses, which include if the Company ceases the operations of the Scully Mine for a continuous period of more than twelve months and does not provide SFPPN with a date for the resumption of operations that is within the following twelve months.

The C\$48.9 million that the Company is required to contribute to SFPPN for certain capital expenditures is and will be classified as an intangible asset on the consolidated balance sheet and amortized. There may be other expenditures that the Company is required to make that the Company will classify in this regard. Amortization of these costs are recorded through cost of sales.

The Company has executed an assignment of contractual rights agreement pursuant to which New Millennium Iron Corp. (“NML”) will assign to the Company 6.5 million metric tonnes of NML’s port capacity with the Sept-Iles Port Authority (the “Port Authority”) in exchange for an upfront payment in the amount of C\$4.0 million payable on the closing date of the assignment and an ongoing fee of C\$0.10 per tonne of iron ore shipped by the Company through the port facilities pursuant to a contract to be entered into directly with the Port Authority over a 20-year period following the assignment. The Company recognizes the benefit of the prepayment based on tonnes shipped as a reduction of cost of goods sold. In connection with the assignment, the Company has assumed part of NML’s “take or pay” obligations related to the assigned 6.5 million metric tonnes of port capacity. The portion of the “take or pay” obligation that was payable to NML prior to the Company shipping ore from the port was added to the upfront payment amount. The upfront payment entitles the Company to a discount of C\$0.25 per tonne shipped until the upfront payment is recovered by the Company. The Company, NML and the Port Authority have entered into an agreement whereby the Port Authority consented to the assignment of capacity and agreed to enter into a direct agreement with the Company in respect of the 6.5 million metric tonnes of port capacity assigned by NML to the Company on terms substantially similar to those contained in the existing agreement between NML and the Port Authority. This agreement will provide the Company with direct access to port facilities that are capable of loading cape-size vessels, which are larger and more cost efficient than smaller baby-cape and Panamax alternatives. All port agreements between NML, the Port Authority and Tacora in respect of the assigned capacity were fully executed and complete as of December 31, 2018.

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Intangible assets consist of the following:

	SFPPN Intangible Asset	New Millennium Iron Corp. Port Access	Total
As of Dec 31, 2019	19,604	4,785	24,389
Additions	3,278	-	3,278
Accumulated amortization	(907)	-	(907)
Upfront payment recovery	-	(324)	(324)
As of Dec 31, 2020	21,975	4,461	26,436
Additions	12,777	-	12,777
Accumulated amortization	(1,192)	-	(1,192)
Upfront payment recovery	-	(212)	(212)
As of Dec 31, 2021	33,560	4,249	37,809

The gross carrying amount of intangible assets as of December 31, 2021 was \$40.2 million with accumulated amortization of \$2.4 million compared to the gross carrying amount of \$27.6 with accumulated amortization of \$1.2 million as of December 31, 2020.

SFPPN amortization is calculated using straight line over the life of the asset, through December 31, 2044.

New Millennium Iron Corp. port access up-front payment recovery is calculated based on a rate per tonne shipped.

Note 12 – Deposits

Transportation deposits consist of the following:

	As at Dec 31, 2021	As at Dec 31, 2020
Québec North Shore and Labrador Railway Company, Inc., transportation deposit	8,641	13,728
Less current portion	(7,740)	(8,487)
Long-term balance per consolidated balance sheet	901	5,241

On November 3, 2017, the Company entered into a life-of-mine transportation agreement (“QNS&L Rail Agreement”) with Québec North Shore and Labrador Railway Company, Inc. (“QNS&L”). The QNS&L Rail Agreement provides that QNS&L will carry iron ore concentrate produced at the Scully Mine on Tacora-supplied railcars between Wabush Lake Junction in Labrador City, Newfoundland and Labrador to the Sept-Iles Junction in Sept-Iles, Québec, a distance of approximately 500 km. Under the terms of the QNS&L Rail Agreement, QNS&L has agreed, among other things, to haul minimum monthly tonnages of iron ore (and any surplus iron ore that QNS&L agrees to haul for the benefit of the Company), ensure available transportation capacity, lead and actively participate in appropriate operations management and coordination procedures between QNS&L and the Company and supply sufficient labour, locomotives,

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assets and infrastructure as necessary to provide the rail transportation services contemplated. The QNS&L Rail Agreement also prescribes various capacity and volume commitments on the part of each of QNS&L and the Company, and sets forth specific maximum and minimum monthly tonnages of iron ore that may be tendered for transportation in any month. In the event that the Company fails to meet the minimum monthly tonnage requirements during a given month, the Company will be required to pay QNS&L, as liquidated damages, an amount equal to the deficit volume multiplied by the base rate applicable during that month, and which increases over time, other than where the failure to meet such minimum tonnage is as a result of a force majeure event; and provided further that, in the event that the Company suspends production at the Scully Mine for a period of more than one calendar year, the obligation to pay any such liquidated damages will be suspended until the resumption of production.

The QNS&L Rail Agreement required the Company to provide advance payments to QNS&L totaling C\$20.0 million, of which C\$3.0 million was paid on November 10, 2017 and C\$17.0 million was paid on November 14, 2018. These advance payments are required by QNS&L to secure the locomotive equipment and infrastructure capacity to meet the Company's anticipated haulage volumes on the QNS&L rail line. The Company will recover the advance payments from QNS&L by means of a special credit per wet metric tonne hauled.

Security deposits consist of the following:

	As at Dec 31, 2021	As at Dec 31, 2020
Western Labrador Railway, Cash collateral in an amount equal to three months	339	339
Komatsu Financial, 5% of total purchase price of equipment financed until paid in full	2,282	2,282
Caterpillar Financial, 10% of total purchase price of equipment financed until 24 months of consecutive mining operations	756	756
9356-0563 Quebec Inc, Prepaid rent applicable to the minimum rent of the 13th, 14th, 25th, 26th, and 37th months of a 5 year office lease in Montreal, Quebec	37	-
Balance per consolidated balance sheet	3,414	3,377

Note 13 – Environmental rehabilitation

Pursuant to a Mine Rehabilitation and Closure Financial Assurance Fund Agreement between the Province of Newfoundland and Labrador and Tacora dated July 17, 2017, Tacora was required to deliver an initial cash payment to the Newfoundland Exchequer Account in respect of a Financial Assurance Fund in the amount of C\$36.8 million concurrently with the closing of the transactions under the APA. The funds are held in trust for the special purposes set out by the *Mining Act* (Newfoundland) and held in a special purpose account. Prior to start-up activities of the Scully Mine, an additional cash payment in the amount of C\$4.9 million was required to be remitted to this special purpose account by Tacora.

In 2019, Tacora executed a surety bond in the amount of C\$41.7 million which meets the entire financial assurance requirement contained in Tacora's mining permits with Newfoundland and Labrador. Newfoundland and Labrador accepted the surety bond and Tacora was reimbursed by the province for the cash financial assurance payment held in escrow in the amount of C\$36.8 million. A deposit of \$6.4

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million was required to secure the surety bond.

In addition, Tacora had provided two letters of credit in favour of the Government of Canada (Ministry of Fisheries and Oceans) for an aggregate of \$0.2 million in respect of environmental reclamation matters. During 2021, one letter of credit was closed and the total amount of the remaining letter of credit was reduced to \$0.05 million. Environmental liabilities are initially recognized at the present value of estimated costs to be incurred to extinguish the liability. The timing of the actual rehabilitation expenditure is dependent upon a number of factors such as the life and nature of the asset. As of December 31, 2021, Tacora's environmental rehabilitation provision of \$35.2 million was measured at the expected value of future cash flows, discounted to the present value using a current a risk-free pre-tax discount rate of 1.68%.

The carrying value of the environmental rehabilitation obligation is as follows:

	As at Dec 31, 2021	As at Dec 31, 2020
Opening balance	37,630	31,706
Interest accretion	615	652
Change in inflation/discount rates	(3,048)	5,272
Balance per consolidated balance sheet	35,197	37,630

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Note 14 – Debt

The carrying value, terms and conditions of Tacora's debt at December 31, 2021 and 2020 are as follows:

	As at Dec 31, 2021	As at Dec 31, 2020
Unsecured interest free note to be paid quarterly based on tons shipped from the mine to the port, maturity date is based upon when the note is paid in full, debt is recorded at fair value, \$0.69 will be paid for each ton shipped which will be allocated between principal and interest	2,950	4,882
Senior secured notes secured by substantially all of the Company's Canadian assets at a 8.25% annual rate, interest due in semi-annual installments to May 15, 2026, principal payment due May 15, 2026	166,581	-
Infrastructure 1 Loan secured by substantially all the Company's assets at a 13.4% annual rate to be paid monthly in the amount of \$500 until December 31, 2020 when that payment increases to \$1.0 million for sixty months, on the maturity date of November 15, 2023 the Company shall repay the remaining balance anticipated to be \$38.6 million	-	55,377
Infrastructure 2 Loan secured by substantially all the Company's assets at a 12.3% annual rate which had an additional draw in May 2019, of \$20 million, financing to be paid monthly in the amount of \$280 until December 31, 2020 when that payment increases to \$560 for sixty months, on the maturity date of November 15, 2023 the Company shall repay the remaining balance anticipated to be \$41.8 million	-	49,498
Term Loan secured by substantially all the Company's assets at a 11% annual rate, interest rate which shall be calculated and paid monthly, commencing in November 2019 the Company shall begin making monthly principal payments of \$125 until November 2020 when the principal payment increases to \$200 for thirty-six months, on the maturity date of November 15, 2023 the Company shall repay the remaining balance anticipated to be \$17.3 million	-	28,010
	169,531	137,767
Less current maturities of long term debt	2,950	25,700
Long term debt	166,581	112,067

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(expressed in thousands of US Dollars, except where otherwise noted)

	As at Dec 31, 2021	As at Dec 31, 2020
Financing secured by equipment financed, under an interest free note to be paid in monthly installments of \$2 beginning February 2019 until maturity in January 2023	30	61
Financing secured by equipment financed, with a 5.99% annual interest rate paid monthly in the amount of \$215 beginning June 2019 until maturity in May 2025	7,938	9,972
Financing secured by equipment financed, with a 7.09% annual interest rate paid quarterly in the amount of \$70 beginning July 2019 until maturity in April 2024	578	808
Financing secured by equipment financed, with a 5.99% annual interest rate paid monthly in the amount of \$126 beginning July 2019 until maturity in June 2025	4,749	5,933
Financing secured by equipment financed, with a 5.99% annual interest rate paid monthly in the amount of \$128 beginning August 2019 until maturity in July 2025	4,942	6,137
Financing secured by equipment financed, with a 5.99% annual interest rate paid monthly in the amount of \$58 beginning September 2019 until maturity in August 2025	2,287	2,830
Financing secured by equipment financed, with a 5.99% annual interest rate paid monthly in the amount of \$116 beginning October 2019 until maturity in September 2025	4,669	5,748
Financing secured by equipment financed, with a 7.09% annual interest rate paid quarterly in the amount of \$299 beginning October 2019 until maturity in July 2024	2,725	3,692
Financing secured by equipment financed, with a 7.09% annual interest rate paid quarterly in the amount of \$7 beginning December 2019 until maturity in September 2024	70	92
Financing secured by equipment financed, with a 5.99% annual interest rate paid monthly in the amount of \$12 beginning February 2020 until maturity in January 2026	525	635
Financing secured by equipment financed, with a 5.5% annual interest rate paid quarterly in the amount of \$23 beginning December 2020 until maturity in September 2023	154	236
Financing secured by equipment financed, with a 5.49% annual interest rate paid monthly in the amount of \$18 beginning May 2021 until maturity in April 2027	973	-
Financing secured by equipment financed, with a 5.49% annual interest rate paid monthly in the amount of \$43 beginning June 2021 until maturity in May 2027	2,389	-
Financing secured by equipment financed, with a 5.49% annual interest rate paid monthly in the amount of \$28 beginning July 2021 until maturity in June 2027	1,590	-
Financing secured by equipment financed, with a 5.49% annual interest rate paid monthly in the amount of \$62 beginning September 2021 until maturity in August 2027	3,587	-
Financing secured by equipment financed, with a 5.49% annual interest rate paid monthly in the amount of \$61 beginning October 2021 until maturity in September 2027	3,624	-
Down payment costs amortized over the life of the debt	(126)	(175)
Sydvaranger terminal lease agreement	7,520	-
	48,224	35,969
Less current maturities of lease liabilities	9,859	7,423
Long term lease liabilities	38,365	28,546

Notes to the consolidated financial statements

(expressed in thousands of US Dollars, except where otherwise noted)

On May 11, 2021, Tacora issued \$175 million aggregate principal amount of 8.250% Senior Secured Notes due May 15, 2026 (“2026 Notes”). Tacora received net proceeds of approximately \$169.5 million after fees of approximately \$5.5 million related to underwriting and third-party expenses. Approximately \$128.2 million of the net proceeds from the issuance of the 2026 Notes were used to repay our Infrastructure 1 Loan, Infrastructure 2 Loan, Term Loan principal balance in addition to a prepayment penalty of approximately \$15.3 million. Subsequent to the issuance date, Tacora has paid approximately \$2.9 million in fees for additional third-party expenses related to the closing of the 2026 Notes. The balance of the net proceeds was used for working capital and other corporate purposes. Interest on the 2026 Notes will be payable semi-annually in arrears on May 15th and November 15th of each year beginning on November 15, 2021, and will mature on May 15, 2026, unless earlier redeemed or repurchased.

On or after May 15, 2023, Tacora may on any one or more occasions redeem all or a part of the 2026 Notes, upon not less than 30 nor more than 60 days’ notice, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest, if any, on the 2026 Notes redeemed, to the applicable date of redemption, if redeemed during the twelve-month period beginning on May 15 of the years indicated below, subject to the rights of holders of the 2026 Notes on the relevant record date to receive interest on the relevant interest payment date:

Year	Percentage
2023	104.125%
2024	102.063%
2025 and thereafter	100.000%

At any time prior to May 15, 2023, Tacora may, on any one or more occasions, redeem up to 40% of the aggregate principal amount of the 2026 Notes issued under the Indenture, upon not less than 30 nor more than 60 days’ notice, at a redemption price equal to 108.250% of the principal amount of the 2026 Notes redeemed, plus accrued and unpaid interest, if any, to, but not including, the date of redemption (subject to the rights of holders of the 2026 Notes on the relevant record date to receive interest on the relevant interest payment date), with an amount not greater than the net cash proceeds of an equity offering by Tacora; *provided*, that:

- (1) at least 60% of the aggregate principal amount of the 2026 Notes originally issued under the Indenture (excluding 2026 Notes held by Tacora and its Subsidiaries) remains outstanding immediately after the occurrence of such redemption; and
- (2) the redemption occurs within 180 days of the date of the closing of such equity offering.

At any time prior to May 15, 2023, Tacora may on any one or more occasions redeem all or a part of the 2026 Notes, upon not less than 30 nor more than 60 days’ notice, at a redemption price equal to 100% of the principal amount of the 2026 Notes redeemed, plus the applicable premium as of, and accrued and unpaid interest, if any, to, but not including, the date of redemption (subject to the rights of holders of 2026 Notes on the relevant record date to receive interest due on the relevant interest payment date).

The indenture governing the 2026 Notes restricts Tacora’s ability to create certain liens, to enter into sale leaseback transactions and to consolidate, merge, transfer or sell all, or substantially all assets. It also contains provisions requiring that Tacora make an offer to purchase the 2026 Notes from holders upon a change of control under certain specified circumstances, as well as other customary provisions.

Notes to the consolidated financial statements

(expressed in thousands of US Dollars, except where otherwise noted)

Note 15 – Accrued liabilities

Accrued liabilities consist of the following:

	As at Dec 31, 2021	As at Dec 31, 2020
Sales tax payable	-	5,398
Royalties payable	6,196	10,202
Interest payable	2,856	141
Payroll accruals	3,015	2,758
Realized hedging accrual	-	5,454
Fixed price agreement collateral received (note 19)	11,631	-
Accounts payable accruals	17,479	11,530
Miscellaneous accrued liabilities	225	402
Balance per consolidated balance sheet	41,402	35,885

Note 16 - Taxation

Tacora is subject to income tax in numerous jurisdictions. Income tax on the statement of profit or loss consists of current and deferred tax. No deferred tax asset has been recognized on the net deductible temporary difference given no history of profits.

The following table reconciles the expected income tax (recovery) / expense at the statutory income tax rate of 30% which is the combined federal and NL tax rate (2020: 30%) to the amounts recognized in the consolidated statements of income:

	Year Ended	
	2021	2020
Net income reflected in consolidated statements of income	30,211	(69,746)
Expected income tax expense (recovery)	9,063	(20,924)
Permanent differences	482	(82)
Adjustments related to prior year balances	1,004	-
Unrecognized deferred tax assets	(9,777)	19,963
Foreign exchange	(679)	1,143
Other	(2,105)	10
Income tax (recovery) expense	(2,012)	110

Notes to the consolidated financial statements

(expressed in thousands of US Dollars, except where otherwise noted)

The following table summarizes deductible temporary differences for which no deferred tax asset has been recognized:

	Year Ended	
	2021	2020
Hedges	-	80,952
Fixed assets, intangibles and other	(32,971)	6,042
Loss on debt modification	-	11,287
Non-capital loss carry forwards	231,854	122,227
Total unrecognized deductible temporary differences	198,883	220,508

Deferred tax losses of \$2.5 million were recognized in 2021 (2020 – nil).

As of December 31, 2021 the company has total non-capital losses of \$231.9 million (2020 - \$122.2 million). Deferred tax asset was not recognized on such losses, which if not utilized will expire between 2037 and 2040.

Note 17 – Equity

	Shares Authorized	Shares Issued	Total (\$)
Ordinary Shares:			
Common - no par value	214,622,085	214,622,085	225,331
Restricted Shares:			
Class A	3,300,000	2,739,000	0.273
Class B	3,300,000	1,080,750	0.273
Balance as of Dec 31, 2020	221,222,085	218,441,835	225,332

	Shares Authorized	Shares Issued	Total (\$)
Ordinary Shares:			
Common - no par value	235,700,480	235,700,408	263,350
Restricted Shares:			
Class A	3,300,000	2,739,000	0.273
Class B	3,300,000	1,080,750	0.273
Balance as of Dec 31, 2021	242,300,480	239,520,158	263,350

Restricted Shares

Tacora currently has 2,739,000 Class A Non-Voting Shares and 1,080,750 Class B Non-Voting Shares outstanding. In connection with and prior to closing on a liquidity event as defined in the shareholders agreement, the following capital changes will be implemented:

- All of the 2,739,000 Class A Non-Voting Shares will be converted into Common Shares on a one-for-one basis;

Notes to the consolidated financial statements

(expressed in thousands of US Dollars, except where otherwise noted)

- All of the 1,080,750 Class B Non-Voting Shares will be (i) subject to the achievement of a defined valuation, converted into Common Shares on a one-for-one basis or (ii) redeemed for nominal consideration by the Company;

Ordinary Shares

On January 12, 2021, 21.1 million shares of common stock were issued for \$38 million as described in Note 23 – Acquisition of Sydvaranger Mining AS.

Stock Options

The Company offers a stock option plan for certain employees.

	Number of Stock Options	Weighted- Average Exercise Price
Options exercisable as of Dec 31, 2019	431,000	1.00
Granted	1,395,000	1.00
Exercised	-	-
Cancelled	-	-
Options exercisable as of Dec 31, 2020	1,826,000	1.00
Granted	2,040,000	1.80
Exercised	-	-
Cancelled	(1,640,500)	-
Options exercisable as of Dec 31, 2021	2,225,500	1.55

The stock options shall vest, and may be exercised in whole or in part, only upon a liquidity event as defined in the stock option agreement. The Company does not recognize compensation cost for the stock options until the liquidity is deemed probable. No amounts have been recognized as of December 31, 2021 or December 31, 2020.

Note 18 – Commitments and contingencies

At December 31, Tacora's commitments were comprised of the following payments:

	2021	2020
Payments due in one year	49,075	37,936
Payments due in one to five years	10,238	10,210
Payments due later than five years ¹	90,471	92,749

(1) Includes Tacora's environmental rehabilitation provision (Note 13)

Mining leases and royalties

Notes to the consolidated financial statements

(expressed in thousands of US Dollars, except where otherwise noted)

Tacora is party to the Mining Lease pursuant to which Tacora was granted the exclusive contractual right to explore, investigate, develop, produce, extract, remove by open pit or other method of mining, smelt, reduce and otherwise process, make merchantable, store, sell and ship all iron ore products from a mine on a parcel of land located near Wabush, Newfoundland and Labrador on which the Scully Mine is located. The Mining Lease is effective for a term extending to and including May 20, 2055; however, the Mining Lease may be cancelled by Tacora generally on six months' written notice.

At the commencement of shipping iron ore products, Tacora is required to pay an earned royalty fee per metric tonne ranging from 4.2% to 7.0% of Net Revenues less certain deductible expenses, in accordance with the calculation as defined in the Mining Lease. To the extent that Tacora has not commenced or ceases the shipping of iron ore products and the sum of the earned royalty fee in a given calendar quarter is less than C\$0.8 million, Tacora is required to pay a minimum quarterly royalty of C\$0.8 million (of which 20 percent is withheld and remitted to the Province of Newfoundland and Labrador). There were no prepaid royalties at December 31, 2021.

Royalties paid in the years ended December 31, 2021 and 2020 were approximately \$36.1 million and \$14.0 million, respectively. Accrued royalties in the amount of \$6.2 million and \$10.2 million were recorded in other accrued expenses at December 31, 2021 and 2020, respectively.

Transportation services

Tacora is committed to purchasing transportation services that will require minimum annual payments of approximately \$46.5 million. In the event Tacora suspends production and shipments of iron ore at the Scully mine for any reason for a period longer than one year, the obligation to pay minimum annual payments is suspended.

Note 19 – Derivative liability

Tacora will be exposed to fluctuations in iron ore market prices and dry bulk freight costs related to iron ore sales and believes commodity price hedging could provide a long-term benefit to shareholders. Therefore, Tacora may hedge certain commitments in the future with an emphasis on mitigating commodity price risk during the ramp up of the Scully Mine. The Company may use cash-settled commodity forward contracts to hedge the market risk associated with the sales of iron ore. These derivatives may be used with respect to a portion of the Company's iron ore sales. Independent of any hedging activities, price decreases in the iron ore market or price increases in dry bulk freight costs could negatively affect revenue and therefore earnings.

Iron ore derivatives are marked to market and recognized as an asset or liability at fair value, with changes in fair value reflected in net income unless the Company qualifies for, and elects hedge accounting. If the Company qualifies for and elects hedge accounting, the effective gains and losses for iron ore derivatives designated as cash flow hedges of forecasted sales of iron ore are recognized in accumulated other comprehensive income, a component of Shareholder's Equity on the Balance Sheet and reclassified into revenue in the same period as the earnings recognition of the associated underlying transaction. Gains and losses on these designated derivatives arising from either hedge ineffectiveness or related to components excluded from the assessment of effectiveness are recognized in current income as they occur. In 2018, and as required by our senior secured debt agreements, the Company had entered into iron ore commodity forward contracts. The Company has not elected hedge accounting for any of the commodity forward contracts for the years ended December 31, 2021 and 2020. In December 2020, the Company completed a buy-back of 150,000 tonnes hedged with settlement dates in January, February and March 2021 in addition to entering into new commodity forward contracts with settlement dates between February 2021 and December 2021.

Notes to the consolidated financial statements

(expressed in thousands of US Dollars, except where otherwise noted)

The following presents a summary of information pertaining to the commodity forward contracts (in metric tonnes):

	Calls USD\$	Puts USD\$	Swaps USD\$	Call Volume (dmt)	Put Volume (dmt)	Swap Volume (dmt)
Settlement dates between Jan 1, 2020 and Dec 31, 2020	56.50	50.00	-	528,000	880,000	-
Settlement dates between Jan 1, 2020 and Dec 31, 2020	59.00	50.00	-	528,000	880,000	-
Settlement dates between Jan 1, 2020 and Dec 31, 2020	56.50	50.00	-	264,000	440,000	-
Settlement dates between Jan 1, 2021 and July 31, 2021	56.50	50.00	-	219,975	496,000	-
Settlement dates between Jan 1, 2021 and July 31, 2021	59.00	50.00	-	237,600	496,000	-
Settlement dates between Jan 1, 2021 and July 31, 2021	56.50	50.00	-	136,425	248,000	-
Settlement dates between Feb 1, 2021 and Mar 31, 2021	-	-	144.45	-	-	308,000
Settlement dates between Apr 1, 2021 and Jul 31, 2021	-	-	134.45	-	-	344,000
Settlement dates between Aug 1, 2021 and Dec 31, 2021	-	-	109.45	-	-	1,000,000

As of December 31, 2021, all commodity forward contracts have been settled.

Jarvis Hedge Facility

On May 11, 2021, Tacora and SAF Jarvis 2 LP (the “Hedge Provider”) established a new credit arrangement in the form of a commodity derivatives facility (the “Jarvis Hedge Facility”) to support the existing commodity derivatives contracts of Tacora (as assigned by SAF Jarvis 1 LP to the Hedge Provider) which are scheduled to mature from time to time on or before December 31, 2021, and potential new commodity derivatives contracts.

Pursuant to the Jarvis Hedge Facility, Tacora granted the Hedge Provider a security interest in the shared collateral between the holders of the 2026 Notes and the Hedge Provider and thereby reduced the amount of cash collateral required to be posted by the Company directly to the Hedge Provider on a first-priority basis.

On May 11, 2021, Tacora and the Hedge Provider entered into customary International Swaps and Derivatives Association (“ISDA”) agreements to reflect the terms of the Jarvis Hedge Facility and related documentation.

The Jarvis Hedge Facility and any ISDA agreements governing hedge transactions shall include customary termination rights including a cross-default termination right in respect of other indebtedness of Tacora, including the 2026 Notes.

Notes to the consolidated financial statements

(expressed in thousands of US Dollars, except where otherwise noted)

Tacora entered into monthly average index P62 fixed price contracts with Cargill that provided for the following key terms:

	Strike Price USD\$	Volume (dmt)
Settlement dates between Jan 1, 2022 and Jun 30, 2022	123.00	1,200,000
Settlement dates between Jul 1, 2022 and Sept 30, 2022	99.20	150,000
Settlement dates between Jul 1, 2022 and Sept 30, 2022	105.40	150,000

Given the expectation that Tacora will physically settle these contracts, this arrangement will be treated as part of our own use and therefore are not treating the fixed nature of this pricing as a derivative under IFRS 9. As a result, the impacts of the agreement with Cargill will be recorded in revenue.

Note 20 – Financial instruments

The fair value hierarchy groups the financial instruments into Levels 1 to 3 based on the degree to which the fair value is observable. Details of each level are discussed below:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial risk factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit and liquidity risk

The Company's credit risk is primarily attributable to trade receivables from a single customer. The maximum exposure of credit risk is best represented by the carrying amount of financial instruments. The Company considers credit risk negligible due to customer payments being received within three days of receipt of the invoice.

The Company's cash and restricted cash are held with an established Tier-1 Canadian financial institution, and consequently management believes that the credit risk with respect to this financial instrument is low and that the Company has no significant concentration of credit risk arising from operations.

The Company monitors the expected settlement of financial assets and liabilities on an ongoing basis; there are no significant payables that are outstanding past their due dates.

The Company undergoes an in-depth budgeting process each year which is supplemented by a continuous detailed cash forecasting process. If necessary, the Company may seek financing for capital projects or general working capital purposes.

The amounts of cash and cash equivalents, trade and other receivables, trade accounts payables, accrued liabilities and leases approximate their fair value due to their short maturity. Derivative liabilities are measured at fair value with changes recognized through profit and loss.

Notes to the consolidated financial statements

(expressed in thousands of US Dollars, except where otherwise noted)

The following fair value tables present information about the fair value of Tacora's assets and liabilities measured on a recurring basis as of the dates indicated:

	Dec 31, 2021				Carrying Amount
	Level 1	Level 2	Level 3	Total	
Accounts receivable	—	10,530	—	10,530	10,530
Notes payable	—	—	2,950	2,950	2,950
Lease liabilities	—	—	7,520	7,520	7,520
Royalties payable	—	—	23,088	23,088	23,088

	Dec 31, 2020				Carrying Amount
	Level 1	Level 2	Level 3	Total	
Accounts receivable	—	2,351	—	2,351	2,351
Derivative liability	—	80,952	—	80,952	80,952
Notes payable	—	—	4,882	4,882	4,882

During the years ended December 31, 2021 and 2020, there were no transfers between Level 1, Level 2 and Level 3 fair value measurements.

Note 21 – Cost of sales

	Year Ended	
	2021	2020
Mining	60,789	41,697
Processing	91,046	70,395
Logistics	107,244	76,808
General and administration	14,201	10,768
Royalties	32,146	23,550
Depreciation and amortization	22,391	16,289
Total expenses by function	327,817	239,507

Note 22 – Selling general and administrative expenses

	Year Ended	
	2021	2020
Salaried wages and benefits	3,029	1,687
Professional fees	1,221	903
Insurance	688	518
Contract services	358	231
Other	349	135
Travel	136	239
Depreciation	37	59
Total expenses by function	5,818	3,772

Notes to the consolidated financial statements

(expressed in thousands of US Dollars, except where otherwise noted)

Note 23 – Acquisition of Sydvaranger Mining AS

On January 13, 2021, pursuant to a share purchase agreement between the seller, Sydvaranger AS and the purchaser, Tacora Resources Inc., the Company completed the acquisition of 100% of the share capital of Sydvaranger Mining AS (the “Sydvaranger Mine” or “Sydvaranger”). The Sydvaranger Mine is a long lived, large scale iron ore open pit, mineral processing plant and port with its concentrator and port facilities in the town of Kirkenes, Norway and the mines are 8 kilometers to the south near the town of Bjørnevatn, Norway. As a result of the acquisition, Tacora has the option to restart the Sydvaranger Mine which is shovel ready and fully permitted in a tier 1 jurisdiction. Sydvaranger is currently under a care and maintenance program.

The fair value of the total purchase consideration and purchase price allocation was determined as follows:

	Jan 13, 2021
Equity consideration issued (Sydvaranger)	25,000
Equity consideration issued (Orion)	13,000
Royalty agreement	19,134
Interest-bearing debt assumed	430
Total purchase consideration	57,564
Fair value of mineral reserves	17,082
Fair value of property, plant and equipment	49,107
Deferred tax liability	(7,909)
Fair value of other net liabilities acquired	(716)
Total purchase allocation	57,564

Note 24– Subsequent events

On February 16, 2022, Tacora issued an additional \$50 million aggregate principal amount of 8.250% Senior Secured Notes due 2026 (“2026 Notes”). Tacora received net proceeds of approximately \$46.4 million after fees of approximately \$3.6 million related to underwriting and third-party expenses. The net proceeds will be used for working capital and other corporate purposes.

In March 2022, Tacora entered into additional monthly average index P62 fixed price contracts with Cargill that provided for the following key terms:

	Strike Price USD\$	Volume (dmt)
Settlement dates between Jul 1, 2022 and Sept 30, 2022	157.00	300,000
Settlement dates between Oct 1, 2022 and Dec 31, 2022	150.75	300,000

In March 2022, Tacora entered an agreement with Atlantic Canada Opportunities Agency (“ACOA”) for repayable assistance under the Regional Economic Growth through Innovation Program – Jobs and Growth Fund to support the expansion of our Manganese Reduction Circuit project from six to eight lines in the amount of C\$3,300,000. The assistance will be repaid over ten years starting in July 2023 and will not incur interest charges.

Supplemental Consolidating Balance Sheet Information

As of December 31, 2021

(expressed in thousands of US Dollars, except where otherwise noted)

	Restricted Subsidiaries	Unrestricted Subsidiaries	Consolidated Total
Current assets			
Cash	34,057	826	34,883
Receivables	10,260	270	10,530
Inventories	18,997	32	19,029
Transportation deposits, current portion	7,740	-	7,740
Prepaid expenses and other current assets	4,505	136	4,641
Total current assets	75,559	1,264	76,823
Non-current assets			
Property, plant & equipment, net	204,071	86,315	290,386
Intangible assets subject to amortization	37,809	-	37,809
Transportation deposits	901	-	901
Security Deposits	3,414	-	3,414
Financial assurance deposit	6,410	-	6,410
Notes Receivable - Tacora Norway	48,387	-	48,387
Total non-current assets	300,992	86,315	387,307
TOTAL ASSETS	376,551	87,579	464,130
Current liabilities			
Current maturities of long-term debt	2,950	-	2,950
Current maturities of lease liabilities	9,859	-	9,859
Accounts payable	11,326	392	11,718
Accrued liabilities	41,119	283	41,402
Total current liabilities	65,254	675	65,929
Non-current liabilities			
Long-term debt	166,581	-	166,581
Lease liabilities	30,845	7,520	38,365
Rehabilitation obligation	35,197	-	35,197
Deferred tax liability	-	5,355	5,355
Long-term royalties payable	-	23,088	23,088
Notes Payable - Tacora Resources Inc	-	48,387	48,387
Total Non-Current Liabilities	232,623	84,350	316,973
TOTAL LIABILITIES	297,877	85,025	382,902
NET ASSETS	78,674	2,554	81,228

Supplemental Consolidating Balance Sheet Information

As of December 31, 2021

(expressed in thousands of US Dollars, except where otherwise noted)

	Restricted Subsidiaries	Unrestricted Subsidiaries	Consolidated Total
Shareholder's equity			
Capital stock	263,350	-	263,350
Accumulated deficit ¹	(184,945)	2,554	(182,391)
Equity attributable to owners of the Company	78,405	2,554	80,959
Non-controlling interest	269	-	269
TOTAL EQUITY	78,674	2,554	81,228

¹ Deferred income tax recovery recognized by the unrestricted subsidiary in 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (UNAUDITED)

Annual MD&A

The following management's discussion and analysis of financial condition and results of operations ("MD&A") is prepared as of the date of the Tacora audited consolidated financial statements (Financial Statements") and is intended to assist readers in understanding the financial performance and financial condition of Tacora. This MD&A provides information concerning Tacora's financial condition at December 31, 2021 and results of operations for the 52-week period ending December 31, 2021 ("Fiscal 2021").

All of the financial information contained within the MD&A is expressed in thousands of United States dollars, except where otherwise noted. The following abbreviations are used throughout this document: USD or US\$ (United States dollar), CAD or C\$ (Canadian dollar), Mt (metric tonnes), wmt (wet metric tonnes), dmt (dry metric tonnes), Mtpa (million tonnes per annum), Btpa (billion tonnes per annum) and M (million).

This MD&A should be read in conjunction with the Financial Statements, including the related notes thereto.

Cautionary note regarding forward-looking information

Some of the information in this MD&A contains forward-looking information, such as statements regarding the Company's future plans and objectives that are subject to various risks and uncertainties. This information is based on management's reasonable assumptions and beliefs in light of the information currently available to it and is provided as of the date of this MD&A and the Company cannot assure investors that such information will prove to be accurate, and actual results and future events could differ materially from those anticipated in such information as a result of various factors. Factors that could cause actual performance to differ from our current expectations include changes to the market price of iron ore, difficulties in implementing our plans to increase iron ore production, interruptions of our production or in necessary infrastructure, and other market and business factors. The results for the periods presented are not indicative of the results that may be expected for any future periods. The Company does not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise. We caution that the list of risk factors and uncertainties is not exhaustive and other factors could also adversely affect our results. Investors are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such information.

Company overview

The Company is in the business of identifying, mining and processing iron ore mineral reserves and resources. The mining of iron ore at the Scully Mine is the Company's main business at this time; however, other revenue streams may be added in the future. The Company's future performance is largely tied to the continued operation of the Scully Mine, other prospective business opportunities, the overall market for iron ore, and operating through the COVID-19 pandemic.

On July 18, 2017, the Company completed the acquisition of the Scully Mine, an iron ore mine and processing facility located north of the Town of Wabush in Newfoundland and Labrador, Canada, together with the Wabush Lake Railway. Tacora completed the acquisition of the assets of the Scully Mine and the Wabush Lake Railway pursuant to the asset purchase agreement ("APA") pursuant to a process under the Companies' Creditors Arrangement Act (Canada). Under the APA, Tacora paid a total cash purchase price of \$1.6 million plus cash cure costs in an amount of \$8.2 million, for an aggregate purchase price of \$9.8 million. For further information about the acquisition, see Note 1 to the Company's audited consolidated financial statements for Fiscal 2021.

Following the completion of a Feasibility Study (NI 43-101) for the Scully Mine in December 2017, as prepared by G Mining Services, Inc. (“GMS”) and Ausenco, the Company focused on opportunities to finance the restart of the Scully Mine. On November 27, 2018, Tacora announced it had closed on \$212 million in private equity and senior secured debt financing, which together with up to \$64 million in mining equipment debt financing, fully funded the restart of the Scully Mine. In addition, during the course of the 2018 fiscal year, the Company amended the Cargill Offtake Agreement and finalized certain port access agreements and rail/transportation agreements in anticipation of the successful restart of the Scully Mine.

As the Company progressed into the 2019 fiscal year, it restarted mining operations and commercial production at the Scully Mine. On May 25, 2019, ore was delivered to the crusher and the first mill was successfully started up on May 28, 2019. During June 2019, the Company successfully commissioned its concentrator and produced its first wet concentrate, undertook its first mine blast and celebrated its first loaded train. On August 30, 2019, the Company announced that its first seaborne vessel shipment of iron ore concentrate produced at the Scully Mine departed the Port of Sept-Iles, Quebec, with a payload of 69,770 wmt of premium concentrate bound for a customer in Europe. Throughout the remainder of the 2019 fiscal year, the Company continued the process of ramping up commercial production (including bringing all six mills into operation).

The Company’s short-term strategy is to improve the Scully Mine and achieve name plate production capacity of six Mtpa of high-grade iron ore concentrate in the second half of 2022, on a run rate basis. As the Scully Mine begins to generate positive cash flow from operations, Tacora expects to focus on strengthening its balance sheet and pursuing growth opportunities. Tacora also has a significant opportunity to expand capacity at the Scully Mine and further optimize operations, particularly as the current mill layout provides potential to double capacity and improve anticipated iron recovery from approximately 66% to greater than 75%. Tacora expects to invest \$35 million in sustaining and improvement projects in 2022.

On January 13, 2021, the Company completed the acquisition of 100% of the share capital of Sydvaranger Mining AS (the “Sydvaranger Mine” or “Sydvaranger”). The Sydvaranger Mine is a long-life, large-scale iron ore open pit, mineral processing plant and port. The concentrator and port facilities are located in the town of Kirkenes, Norway and the mines are 8 kilometers to the south near the town of Bjørnevatn, Norway. As a result of the acquisition, Tacora has the option to restart the Sydvaranger Mine which is shovel ready and fully permitted in a tier 1 jurisdiction. Sydvaranger is currently under a care and maintenance program. A third-party Feasibility Study for the Sydvaranger Mine issued in October 2019 provided an overview of an Environmental and Social Impact Assessment being conducted on the mine by Ramboll in accordance with the International Finance Corporation Performance Standards and Sectoral Environmental, Health & Safety Guidelines. Ramboll’s assessment identified no risks that were critical or could not be managed operationally.

On October 22, 2021, Mr. Joe Broking was appointed to the positions of Director, President and Chief Executive Officer of Tacora Resources Inc. Mr. Broking has worked in senior executive positions at Tacora since formation, including most recently as Executive Vice President and Chief Financial Officer of the Company.

In addition to these notable accomplishments, Tacora has been able to successfully navigate through the COVID-19 pandemic while preserving the health and safety of both our workforce and our Company for the long term. The COVID-19 pandemic caused its fair share of challenges, as disruptions in the supply of critical spare parts, consumables and contract labor contributed to a slower than expected ramp up of operations at the Scully Mine. However, Tacora was able to implement the requisite COVID-19 protocols and thanks to our dedicated workforce has continued to operate throughout the pandemic.

Overview of steel and iron ore markets

The Association for Mineral Exploration (“AME”) estimates that global crude steel production for 2021 was 1,982Mt, up 5.2%, as steel output was disturbed by the ongoing impact of COVID-19. China, the world’s largest producer of crude steel, produced an estimated 946Mt of crude steel in 2021, which represents approximately 48% of worldwide production.

Steel demand is supported by the many strong stimulus projects globally as governments sought to undo the damage caused by widespread lockdowns. China's steel demand has cooled during the fourth quarter, due to the slowing momentum in the real estate sector and the Chinese government cap on steel production is expected to be achieved. AME expects China's steel demand in 2021 and 2022 to remain unchanged and increase 1.5%, respectively.

AME estimates finished steel demand for 2021 was 1,845Mt. This equates to an increase of 4.3% over 2020, with demand expected to remain strong as a result of continued stimulus spending. Other growth areas are Europe's automotive industry which is estimated to have increased by 9% in 2021 and to grow 12.1% in 2022. Europe has significant decarbonisation targets which directly impact its automotive industry. In the long term, growth remains strong in India and the Southeast Asian region. Growth in China is slowing, however, due to its large population, it still contributes enormously to global steel demand. Significant government infrastructure and property development will also support demand, along with the desirability for individuals to seek higher living standards via urbanisation.

Iron ore demand in 2021 is estimated to have grown by over 2.6% to reach 2,357Mt as global steel production increased strongly on the back of widespread government stimulus measures. Over the medium term, iron ore demand will grow at a Compound Annual Growth Rate ("CAGR") of 0.9% to reach 2,438Mt by 2025.

Iron ore demand growth over the medium term will be driven by emerging countries. India's demand is forecast to grow at a CAGR of 7.3% to 236Mt by 2025, while Vietnamese demand is forecast to grow at a CAGR of 9% to 35.5Mt. The pace of India's ramp-up in crude steel production will have a large impact on iron ore demand growth, with the country's steel production set to be dominated by blast furnace/basic oxygen furnace and direct reduced iron technology, both of which require iron ore as the main ferrous feed.

Key drivers for iron ore demand in the long term include the emerging economies of India, Vietnam and the Philippines. Indian iron ore demand is driven by government policies intended to lift Indian crude steel production from 153Mt in 2025 to 255Mtpa by 2030. Steelmaking capacity development in India will focus on blast furnace/basic oxygen furnace steelmaking and direct reduction iron, which are the major sources of iron ore demand. India is already a global pioneer in the construction of integrated steel mills that utilise co-located blast furnace/direct reduced iron/basic oxygen furnace/electric arc furnace infrastructure, which provides benefits across the entire production chain.

After shrinking for the first time in five years in 2020 to 2,180Mt, global iron ore supply is estimated to have surged by over 7.5% in 2021 to reach 2,343Mt.

AME estimates the iron ore price (62% Fe North China CFR) will average US\$125/t in 2022 and will normalize from their current elevated levels to average \$72/t by 2024 and will rise to a long-term average of \$84/t by 2040 as a result of growing global populations and increased industrialization.

Since mid-2016, the market has seen a general widening of the pricing spread between 62% Fe fines and 65% Fe fines, driven by increased demand for high value-in-use ferrous products. High grade fines and pellets allow for reduced coking coal consumption and are required for the "greener" electric arc furnace steelmaking process. If the premium were based on iron content alone, it would be approximately 4.8%. However, the spread peaked at the end of 2018 at over 31%, lowering to 16% by end of 2021. In the long-term, the spread is expected to increase above current levels to 24% by 2024 on the back of a continued push for high quality iron products by steel makers.

We compete with small and large traditional iron ore mining companies in Canada, Australia and Brazil. However, because we produce a high-quality product with high iron levels and low impurity levels, we achieve favorable value-in-use pricing relative to commodity and sub-commodity grade producers. Value-in-use is a term used to describe the adjustments made against a benchmark price to account for differences in ore quality.

The costs incurred at a steel mill are influenced, to an extent, by differing ore chemistries. The premium and discount applied to the benchmark price for a specific ore is calculated from the difference in iron content to the benchmark and the impurity levels relative to trigger grades (e.g., silica levels over 5.5%). Key impurities considered are silica, alumina, phosphorus and sulphur. A high iron content feed with low impurities is typically preferred by steelmakers, as higher Fe reduces transport costs on a Fe unit basis and increases the iron content yield. Silica levels above 5.5% are considered high and can raise the blast furnace slag volumes and the fuel rate (and, in turn, the coke consumption rate).

Due to changing environmental regulations globally and the need to reduce CO₂ emissions, coupled with the limited supply of high-grade iron ore, we believe the favorable value in use adjustment or premium achieved for our iron ore product sales is sustainable and may increase in the future.

Key financial drivers

Iron ore price

The price of iron ore concentrate is the most significant factor determining the Company's financial results. As such, cash flow from operations and the Company's development may, in the future, be significantly adversely affected by a decline in the price of iron ore. The iron ore concentrate price fluctuates daily and is affected by a number of industry and macroeconomic factors beyond the control of the Company.

Due to the high-quality nature of our iron ore concentrate, which is high in iron averaging 65.7% and low in impurities such as silica averaging 2.4% in 2021, the Company's iron ore sales attract a premium over the IODEX 62% Fe CFR China Index ("P62") widely used as the reference price in the industry. As such, the Company quotes and sells its products on the high-grade IODEX 65% Fe CFR China Index ("P65"). The premium captured by the P65 index is attributable to steel mills recognizing that higher iron ore grades offer a benefit in the form of efficiency or output optimization while also significantly decreasing CO₂ emissions per tonne of steel produced.

Tacora's iron ore sales contracts are structured on a provisional pricing basis, with the final sales price determined using the iron ore price indices on or after the vessel's arrival to the port of discharge. The Company recognizes revenues from iron ore sales when unit train shipments from the Scully Mine are delivered and unloaded at the port. The estimated gross consideration in relation to the provisionally priced shipments is accounted for using the average P62 iron ore price at the time the unit train is unloaded, plus 60% of the estimated P65 premium over the P62 price at the time the unit train is unloaded. Once the vessel arrives at its destination, the impact of the iron ore price movements, compared to the marked to market price over the quotational period is accounted for as a provisional pricing adjustment to revenue. As of December 31, 2021, Tacora had \$111.4 million in revenues awaiting final pricing, with the final price to be determined in the following reporting periods. Comparatively, as of December 31, 2020, Tacora had \$173.6 million in revenues awaiting final pricing.

Tacora believes commodity price hedging could provide a long-term benefit to shareholders. During the fourth quarter 2021, Tacora entered into monthly average index P62 fixed price contracts with Cargill to help mitigate commodity price risk during the ramp up of the Scully Mine. A total of 1.5 million tonnes were fixed with settlement dates between January 1, 2022 and September 30, 2022.

Ocean freight is an important component of the Company's pricing formula and is subtracted from the gross consideration as Tacora's concentrate is shipped into the seaborne iron ore market. The common reference route for dry bulk material from the Americas to Asia is the Tubarao to Qindao route which encompasses 11,000 miles. The freight cost per tonne associated with this route is captured in the C3 Baltic Capesize Index ("C3"), which is considered the reference ocean freight cost for iron ore shipped from the Americas to the Far East. There is no index for the route between the port of Sept-Iles, Canada and China. The route from Sept-Iles to the Far East totals approximately 14,000 miles and is subject to different weather conditions during the winter season, therefore the freight cost per tonne associated with this voyage is generally higher than the C3 price.

Production volume

Maintaining a high level of total material mined, plant throughput and iron recovery, as well as managing costs is critical in keeping our production costs low and determining our financial results. We invest heavily in maintaining our equipment and training our employees to ensure that the mine and plant remain fully operational.

During the twelve-month period ended December 31, 2021, 25.6 million tonnes of material was mined, compared to 22.2 million tonnes of material mined the prior year. The increase is mainly due to the acquisition of two additional haul trucks and the increased utilization of trucks and dig units, 4% and 9% respectively. In order to attain name-plate iron ore concentrate production of 6Mtpa, the Company estimates it will need to achieve at least 32.0 million tonnes of total material mined on an annual basis.

The plant processed 10.8 million tonnes of ore during the twelve-month period ended December 31, 2021, compared to 10.5 million tonnes of ore in the prior year. The plant achieved an average mill operating time of approximately 62% for the year ended December 31, 2021 compared to approximately 64% in the comparable prior year period. We calculate mill operating time by subtracting the number of hours of mill downtime from the number of total hours in the year and dividing by the number of total hours in the year. The increase in ore processed is mainly due to the ability to achieve higher throughput rates in the mills. In order to attain name-plate iron ore concentrate production of 6Mtpa, the Company estimates it will need to achieve an overall mill operating time of at least 88% which will allow it to process 17.5 million tonnes of ore on an annual basis.

The Scully Mine achieved an average iron recovery of 51% during the twelve-month period ended December 31, 2021 compared to an average iron recovery of 54% during the prior year. The decrease in iron recovery is driven by higher feed grade that did not transfer to an increase in weight recovery because of increased fine iron which isn't recovered well by our current flowsheet. Additionally, the final concentrate grade was higher in 2021 compared to 2020 which resulted in more rejection of iron to achieve a higher quality product.

Based on the foregoing, the Scully Mine produced 3.2 million tonnes of 65.7% Fe high-grade iron ore concentrate during the twelve-month period ended December 31, 2021 compared to 3.0 million tonnes of 65.5% high-grade iron ore concentrate during the prior year.

Currency

The USD is the Company's reporting and functional currency, excluding Knoll Lake whose functional currency is Canadian dollars and Sydvaranger whose functional currency is Norwegian Krone, which are translated to USD in the consolidated financials statements of the Company. Our costs of goods sold at the Scully Mine are mainly incurred in Canadian dollars. Consequently, the Company's operating results and cash flows are influenced by changes in the exchange rate for the Canadian dollar against the U.S. dollar. Therefore, the Company is exposed to foreign currency fluctuations as its mining, mineral processing, rail and port operating expenses are mainly incurred in Canadian dollars. Currently, the Company has no currency hedging contracts in place and therefore has exposure to foreign exchange rate fluctuations. The strengthening of the U.S. dollar would positively impact the Company's net income and cash flow while the strengthening of the Canadian dollar would reduce its operating margin and cash flow.

Apart from these key drivers and the risk factors noted under "Risks", management is not aware of any other trends, commitments, events or uncertainties that would have a material effect on the Company's business, financial condition or results of operations.

Key income statement measures

Revenue

Revenue is driven by the amount of product delivered to customers, global iron ore spot prices, certain customer specific discounts and premiums and a variety of other factors, such as commodity prices, freight costs and the iron and moisture content of our finished products.

Cost of sales

Our cost of sales includes production cost such as labor, maintenance, petroleum-based products and utilities, as well as royalties, depreciation and amortization. Our royalty agreement requires us to pay a royalty fee based on the revenue we earn, which is payable quarterly. We believe our cost of labor will grow in line with the expansion of our operations and productive capacity. All of our production labor expenses are governed by collective bargaining agreements. We are, however, susceptible to fluctuations in the electricity, bunker c and diesel costs, which are used to operate our production facilities and mining equipment.

Operating expenses

Our operating expenses consist primarily of selling, general and administrative expenses, which we believe will remain stable as a percentage of revenue as we expand our operations and production capacity in the years to come.

Results of operations

Year ended December 31, 2021 compared to year ended December 31, 2020

(\$ in millions, except shipments)	Years Ended Dec 31,		Increase (Decrease)	Percent Change
	2021	2020		
Revenue	\$ 446.1	\$ 299.2	\$ 146.9	49.1%
Cost of sales	327.8	239.5	88.3	36.9%
Gross profit	118.3	59.7	58.6	98.2%
Operating expenses	6.7	4.5	2.2	48.9%
Operating income	111.6	55.2	56.4	102.2%
Non-operating loss	(79.5)	(125.6)	46.1	36.7%
Net income (loss)	\$ 32.1	\$ (70.4)	\$ 102.5	145.6%
Third party shipments (tonnes)	3,132,342	2,950,889	181,453	6.1%

Revenue

Realized price for the year ended December 31, 2021 compared to year ended December 31, 2020

(\$ per dmt sold)	Years Ended Dec 31,		Increase (Decrease)	Percent Change
	2021	2020		
Average index P62	\$ 160.1	\$ 108.8	\$ 51.3	47.2%
Fixed sales/timing	(0.1)	(6.7)	6.6	98.5%
Premium over P62	15.4	7.9	7.5	94.9%
Gross realized price	175.4	110.0	65.4	59.5%
Freight and other costs	(31.4)	(19.6)	(11.8)	(60.2%)
Provisional pricing adjustments	2.9	11.7	(8.8)	(75.2%)
Other	(4.5)	(0.7)	(3.8)	(542.9%)
Net realized price	\$ 142.4	\$ 101.4	\$ 41.0	40.4%

For the year ended December 31, 2021, our revenue was approximately \$446.1 million, an increase of \$146.9 million, or 49.1%, from our revenue of \$299.2 million for the year ended December 31, 2020. The

increase in our revenue was attributable to the continued ramp up of production which resulted in an increase of 0.2 million tonnes shipped. The increased revenue resulting from such shipments was also impacted by a 40.4% increase in the net realized price applicable to concentrate pricing for the year ended December 31, 2021 compared to 2020.

Cost of sales

Cost of sales for the year ended December 31, 2021 compared to year ended December 31, 2020

(\$ in millions)	Years Ended Dec 31,		Increase (Decrease)	Percent Change
	2021	2020		
Mining	\$ 60.8	\$ 41.7	\$ 19.1	45.8%
Processing	91.0	70.4	20.6	29.3%
Logistics	107.2	76.8	30.4	39.6%
General and administration	14.2	10.8	3.4	31.5%
Royalties	32.2	23.5	8.7	37.0%
Cash cost of sales	305.4	223.2	82.2	36.8%
Depreciation and amortization	22.4	16.3	6.1	37.4%
Cost of sales	\$ 327.8	\$ 239.5	\$ 88.3	36.9%

For the year ended December 31, 2021, our cost of sales were approximately \$327.8 million, an increase of \$88.3 million, or 36.9%, compared to our cost of sales of \$239.5 million for the year ended December 31, 2020. The continued ramp-up of the plant resulted in increased shipments of concentrate resulting in higher cost of sales.

Mining costs increased by \$19.1 million primarily due to increased spending on equipment maintenance and contract labor. Processing costs increased by \$20.6 million due to short-term investments to increase the reliability of the assets and fixed costs necessary to produce at a 6mtpa run rate. These short-term investments are expected to go away and the fixed costs are expected to remain consistent leading to lower costs per tonne as production increases.

Logistics costs increased by \$30.4 million partially due to an increase in the pricing premium included in the logistics costs. A portion of our rail costs are linked to the P62 index which on average increased \$51.3 per tonne as compared to the prior year. Our royalty is based on revenue and due to the increase in revenue in the current year, as mentioned above, we saw an increased royalties expense of \$8.7 million.

We believe our cost of sales will continue to increase, but we also expect our cost of sales per dmt sold will continue to decrease as we ramp up shipments from the Scully Mine.

Further, we believe our cost of labor at the Scully Mine will grow in line with the expansion of our operations and production capacity. Our production labor expenses are governed by a collective bargaining agreement. We expect that utilities, including electricity, bunker c and diesel fuel costs may increase over the next five years. To counter these potential increases, we assess process improvements on a continuous basis as well as monitor price forecasts for commodities to evaluate opportunities to hedge our exposure regarding commodity price risk.

Gross profit

For the year ended December 31, 2021, our gross profit was approximately \$118.3 million, an increase of \$58.6 million, or 98.2%, from our gross profit of \$59.7 million for the year ended December 31, 2020. The increase in our gross profit for the year ended December 31, 2021 was primarily due to the continued ramp-up of the plant resulting in increased shipments of concentrate as well as an increase in realized pricing and revenue as mentioned above. We also believe that cost of sales will increase at a rate slower than

revenue for the reasons also discussed above, and therefore we expect gross profit margin will continue to improve going forward.

Operating expenses

For the year ended December 31, 2021, our operating expenses were approximately \$6.7 million, an increase of \$2.2 million, or 48.9%, over our operating expenses of \$4.5 million for the year ended December 31, 2020. The increase in operating expenses is primarily attributable to additional headcount costs as we ramp-up the Scully Mine. We believe selling, general and administrative expenses as a percent of revenue will decrease as we ramp up our production capacity.

Operating income

Our operating income for the year ended December 31, 2021 was approximately \$111.6 million, an increase of \$56.4 million, or 102.2%, from our operating income of \$55.2 million for the year ended December 31, 2020. This increase is primarily a function of the increase in our gross profit as discussed above.

Non-operating loss

For the year ended December 31, 2021, our non-operating loss was approximately \$79.5 million, a decrease of \$46.1 million, or 36.7%, from our non-operating loss of \$125.6 million for the year ended December 31, 2020. The decrease in our non-operating loss for the year ended December 31, 2021 primarily resulted from a decrease in our loss on derivative instruments of \$47.3 million compared to the prior year. We also had a decrease in our interest expense of \$13.4 million compared to the prior year due to the refinancing of our senior secured debt with a favorable bond issuance. This was offset by a one-time loss on debt extinguishment cost of \$15.2 million.

Net income (loss)

For the year ended December 31, 2021, our net income was approximately \$32.1 million, an increase of \$102.5 million, or 145.6%, from our net loss of \$70.4 million for the year ended December 31, 2020. The increase in our net income for the year ended December 31, 2021 is primarily attributable to the increase in gross profit margin resulting from the increase in revenue as well as a decrease in non-operating loss due to lower net losses on our commodity forward contract and partially offset by higher debt costs, as discussed above.

Non-IFRS financial measures

The Company has identified certain measures that it believes will assist understanding of the financial performance of the business. As the measures are not defined under IFRS, they may not be directly comparable with other companies' similar measures. The non-IFRS measures are not intended to be a substitute for, or superior to, any IFRS measures of performance but management has included them as these are considered to be important measures used within the business for assessing performance. These measures are explained further below.

Working capital

This MD&A refers to "working capital", which is not a recognized measure under IFRS. This non-IFRS liquidity measure does not have a standardized meaning prescribed by IFRS and is therefore unlikely to be comparable to a similar measure presented by other issuers. "working capital" is defined by the Company as current assets less current liabilities. Management uses this measure internally to better assess performance trends. Management understands that a number of investors and others who follow the Company's business assess performance in this way. This data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

The Company's working capital is as follows:

(\$ in millions)	As of Dec 31, 2021	As of Dec 31, 2020
Current assets		
Cash	\$ 34.9	\$ 119.9
Receivables	10.5	2.3
Inventories	19.0	8.0
Transportation deposits, current portion	7.7	8.5
Prepaid expenses and other current assets	4.7	5.9
	76.8	144.6
Current liabilities		
Current maturities of long-term debt	2.9	25.7
Current maturities of leased liabilities	9.9	7.4
Accounts payable	11.7	15.0
Accrued liabilities	41.4	35.9
Current derivative liability	0.0	81.0
	65.9	165.0
Working capital/(deficiency)	\$ 10.9	\$ (20.4)

As of December 31, 2021, the Company had working capital of \$10.9 million compared to a working deficiency of \$20.4 million as of December 31, 2020.

The Company's current assets as of December 31, 2021 decreased by \$67.8 million since December 31, 2020. The decrease was mainly due to cash outflows of \$132.6 million for the settlement of realized commodity forward contracts.

The Company's current liabilities as of December 31, 2021 decreased by \$99.1 million since December 31, 2020. The decrease was mainly due to the decrease in current derivative liabilities of \$81.0 million and a decrease in current maturities of long-term debt of \$22.8 million.

FOB Cash Costs Pointe Noire

FOB Cash Costs Pointe Noire is a supplemental financial measure that is not prepared in accordance with IFRS. We define FOB Cash Costs Pointe Noire as cost of sales less royalties, depreciation and amortization divided by tonnes sold.

(\$ per dmt sold)	Years Ended Dec 31,		Increase (Decrease)	Percent Change
	2021	2020		
Mining	\$ 20.0	\$ 14.1	\$ 5.9	41.8%
Processing	29.2	23.9	5.3	22.2%
Logistics	33.7	26.0	7.7	29.6%
General and administration	4.3	3.7	0.6	16.2%
FOB Cash Costs Pointe Noire	87.2	67.7	19.5	28.8%
Royalties	10.3	8.0	2.3	28.8%
Depreciation and amortization	7.1	5.5	1.6	29.1%
Cost of sales	\$ 104.6	\$ 81.2	\$ 23.4	28.8%

The Scully Mine shipped an aggregate amount of approximately 3.1 million tonnes of concentrate at a blended average FOB Cash Costs Pointe Noire of \$87.2 per tonne for the year ended December 31, 2021, compared to 3.0 million tonnes of concentrate at a blended average of \$67.7 per tonne for the year ended December 31, 2020.

Mining costs increased by \$5.9 per dmt primarily due to increased spending on equipment maintenance and contract labor. Processing costs increased by \$5.3 per dmt due to short-term investments to increase the reliability of the assets and fixed costs necessary to produce at a 6mtpa run rate. These short-term investments are expected to go away and the fixed costs are expected to remain consistent leading to lower costs per tonne as production increases.

Logistics costs increased by \$7.7 per dmt partially due to an increase in the pricing premium included in the logistics costs. A portion of our rail costs are linked to the P62 index which on average increased \$51.3 per tonne as compared to the prior year. Our royalty is based on revenue and due to the increased revenue in the current year we saw increased royalties expense of \$2.3 per dmt.

Once the Scully Mine is fully ramped-up, we estimate our FOB Cash Costs Pointe Noire will be approximately \$42 per tonne on a blended average basis subject to the P62 iron ore price which impacts the cost of logistics.

We believe our calculation of FOB Cash Costs Pointe Noire is useful to management and investors for analyzing and benchmarking performance and it facilitates comparison of our results among our peer iron ore mining operations. Our projections related to FOB Cash Costs Pointe Noire are based on assumptions related to various factors, including, but not limited to, commodity prices and production costs. These costs are subject to change and such changes may affect our projections of FOB Cash Costs Pointe Noire. In addition, the assumptions and estimates underlying our future FOB Cash Costs Pointe Noire are inherently uncertain and, although we consider them to be reasonable as of the date of this MD&A, they are subject to regulatory, business and economic risks and uncertainties that could cause actual results to differ materially from our estimated future FOB Cash Costs Pointe Noire contained herein. The timing of events and the magnitude of their impact might differ from those assumed in preparing our future FOB Cash Costs Pointe Noire estimates, and this may have a material negative effect on our financial performance and on our ability to meet our financial obligations. Our estimated future FOB Cash Costs Pointe Noire contained herein may not be indicative of our future financial performance and our results may differ materially from those presented herein. Inclusion of our estimated future FOB Cash Costs Pointe Noire should not be regarded as a representation by any person that such future FOB Cash Costs Pointe Noire will be achieved.

EBITDA and Adjusted EBITDA

EBITDA is defined as net income before interest expense (net), income taxes, depreciation and amortization, unrealized mark-to-market on derivative instruments and foreign currency exchange gains. Adjusted EBITDA is further adjusted to exclude realized gains or losses on derivative instruments, unwinding of present value discount on asset retirement obligations, NALCO Tax expense, interest income and other infrequent or unusual transactions and is used by management to measure operating performance of the business. EBITDA and Adjusted EBITDA are supplemental measures of our performance and our ability to service debt that are not required by or presented in accordance with IFRS. EBITDA and Adjusted EBITDA are not measurements of our financial performance under IFRS and should not be considered as alternatives to net income or other performance measures derived in accordance with IFRS, or as alternatives to cash flow from operating activities as measures of our liquidity. In addition, our measurements of EBITDA and Adjusted EBITDA may not be comparable to similarly titled measures of other companies. Management believes that the presentation of EBITDA and Adjusted EBITDA included in this MD&A provide useful information to investors regarding our results of operations because they assist in analyzing and benchmarking the performance and value of our business.

EBITDA and Adjusted EBITDA have limitations as analytical tools, and you should not consider such measures either in isolation or as substitutes for analyzing our results as reported under IFRS. Some of these limitations are:

- EBITDA and Adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital needs;
- EBITDA and Adjusted EBITDA do not reflect our interest expense or the cash requirements necessary to service interest or principal payments on our debt;
- EBITDA and Adjusted EBITDA do not reflect our tax expenses, or the cash requirements to pay our taxes;
- EBITDA and Adjusted EBITDA do not reflect historical cash expenditures or future requirements for capital expenditures or contractual commitments;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA and Adjusted EBITDA do not reflect any cash requirements for such replacements; and
- Other companies in our industry may calculate EBITDA and Adjusted EBITDA differently, limiting their usefulness as comparative measures.

Because of these limitations, EBITDA and Adjusted EBITDA should not be considered as discretionary cash available to us to reinvest in the growth of our business or as a measure of cash that will be available to use to meet our obligations.

The following table is a reconciliation of our net income to EBITDA and Adjusted EBITDA:

(\$ in thousands)	Years Ended Dec 31,	
	2021	2020
Net income (loss)	\$ 32,121	\$ (70,398)
Unrealized mark-to-market on derivative instruments	(80,952)	25,355
Consolidated net income	\$ (48,831)	\$ (45,043)
Interest expense	18,047	31,490
Income tax (recovery) expense	(2,012)	110
Depreciation and amortization	22,428	16,289
Foreign exchange loss	(21)	(107)
EBITDA	\$ (10,389)	\$ 2,739
Other expense	20,298	3,940
Interest income	(246)	(424)
Realized loss on derivative instruments	123,781	64,742
NALCO Tax	560	492
Adjusted EBITDA	\$ 134,004	\$ 71,489

Cash flows

The following discussion summarizes the significant activities impacting our cash flows during the years ended December 31, 2021 and 2020.

Cash flows from operating activities

Cash flows generated by operating activities was \$99.9 million for the year ended December 31, 2021 compared to cash flows generated by operating activities of \$80.8 million for the same period in 2020.

The increase in cash generated by operating activities was primarily due to an increase in net income of \$102.5 million partially offset by a reduction in change in fair value of derivative liability of \$47.9 million for the year ended December 31, 2021 compared to the same period in 2020. Net cash used by operating assets and liabilities was \$11.9 million for the year ended December 31, 2021 compared with net cash generated by operating assets and liabilities of \$28.3 million for the same period in 2020.

Cash flows from investing activities

Net cash used by investing activities increased to \$192.5 million for the year ended December 31, 2021 compared to \$70.6 million for the same period in 2020. Capital expenditures for the acquisition of property, plant and equipment were \$53.4 million for the year ended December 31, 2021 due to investments in capital improvements for the Scully Mine of \$42.7 million and capitalized project costs for the Sydvaranger Mine of \$10.6 million. Net cash used for commodity forward contract settlements were \$132.6 million during the year ended December 31, 2021 compared to \$59.4 million for the same period in 2020 due to an increase in average iron ore prices in 2021. Net cash used for commodity forward contracts were driven by the requirement to hedge in December 2018, which was a provision within our senior secured debt.

Cash flows from financing activities

Net cash provided by financing activities during the year ended December 31, 2021 was \$7.9 million compared to \$65.1 million for the year ended December 31, 2020. Cash flows provided by financing activities during the year ended December 31, 2021 included \$166.6 million of proceeds from long-term borrowings as a result of our issuance of senior notes in May 2021 offset by principal payments on long-term debt and prepayment penalty on long-term borrowings of \$158.5 million.

Financing arrangements

Senior secured debt

On July 18, 2017, Tacora closed on an unsecured interest free note payable in the amount of \$9.8 million Canadian dollars. The proceeds of the note were provided to the Province of Newfoundland and Labrador for the purpose of funding the requisite amount of financial assurance required as part of a rehabilitation and closure plan approved by the Province of Newfoundland and Labrador. Tacora will repay the loan through quarterly payments equal to \$0.69 per metric tonne of iron ore concentrate shipped from the Scully Mine. The note will terminate on the date upon which the entirety of the loan amount has been repaid and no interest will accrue on the loan. The fair value of the debt upon initial recognition was measured at \$6.0 million. The debt is subsequently re-measured at amortized cost.

On May 11, 2021, Tacora issued \$175 million aggregate principal amount of 8.250% Senior Secured Notes due May 15, 2026 ("2026 Notes"). Tacora received net proceeds of approximately \$169.5 million after fees of approximately \$5.5 million related to underwriting and third-party expenses. Approximately \$128.2 million of the net proceeds from the issuance of the 2026 Notes were used to repay the Term Loan, Infra Loan 1 and Infra Loan 2 in addition to a prepayment penalty of approximately \$15.3 million. Subsequent to the issuance date, we have paid approximately \$2.9 million in fees for additional third-party expenses related to the closing of the 2026 Notes. The balance of the net proceeds was or will be used for working capital and other corporate purposes. Interest on the 2026 Notes will be payable semi-annually in arrears on May 15th and November 15th of each year beginning on November 15, 2021, and will mature on May 15, 2026, unless earlier redeemed or repurchased.

On or after May 15, 2023, Tacora may on any one or more occasions redeem all or a part of the 2026 Notes, upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest, if any, on the 2026 Notes redeemed, to the applicable date of redemption, if redeemed during the twelve-month period beginning on May 15 of the years indicated below, subject to the rights of holders of the 2026 Notes on the relevant record date to receive interest on the relevant interest payment date:

Year	Percentage
2023	104.125%
2023	102.063%
2025 and thereafter	100.000%

At any time prior to May 15, 2023, Tacora may, on any one or more occasions, redeem up to 40% of the aggregate principal amount of the 2026 Notes issued under the Indenture, upon not less than 30 nor more than 60 days' notice, at a redemption price equal to 108.250% of the principal amount of the 2026 Notes redeemed, plus accrued and unpaid interest, if any, to, but not including, the date of redemption (subject to the rights of holders of the 2026 Notes on the relevant record date to receive interest on the relevant interest payment date), with an amount not greater than the net cash proceeds of an equity offering by Tacora; provided, that:

- (1) at least 60% of the aggregate principal amount of the 2026 Notes originally issued under the Indenture (excluding 2026 Notes held by Tacora and its Subsidiaries) remains outstanding immediately after the occurrence of such redemption; and
- (2) the redemption occurs within 180 days of the date of the closing of such equity offering.

At any time prior to May 15, 2023, Tacora may on any one or more occasions redeem all or a part of the 2026 Notes, upon not less than 30 nor more than 60 days' notice, at a redemption price equal to 100% of the principal amount of the 2026 Notes redeemed, plus the applicable premium as of, and accrued and unpaid interest, if any, to, but not including, the date of redemption (subject to the rights of holders of 2026 Notes on the relevant record date to receive interest due on the relevant interest payment date).

The indenture governing the 2026 Notes restricts our ability to create certain liens, to enter into sale leaseback transactions and to consolidate, merge, transfer or sell all, or substantially all of our assets. It also contains provisions requiring that Tacora make an offer to purchase the 2026 Notes from holders upon a change of control under certain specified circumstances, as well as other customary provisions.

Contractual obligations and commitments

In the ordinary course of business, we enter into agreements under which we are obligated to make legally enforceable future payments. These agreements include those related to borrowing money, leasing equipment and purchasing goods and services.

The table below summarizes our contractual obligations and commitments as of December 31, 2021:

(\$ in millions)	Within 1 Year	1 to 2 Years	2 to 5 Years	Over 5 Years
Accounts payable and accrued liabilities	53,120	-	-	-
Debt	17,304	14,521	209,216	-
Lease liabilities	15,143	15,488	32,879	2,084
Rehabilitation obligation	-	-	-	35,197
Total	85,567	30,009	242,095	37,281

In addition, we have entered into other material agreements, the payments of which are not included in the table above. These include:

Transportation agreement

On November 3, 2017, the Company entered into a life-of-mine transportation agreement ("QNS&L Rail Agreement") with Québec North Shore and Labrador Railway Company, Inc. ("QNS&L"). The QNS&L Rail Agreement provides that QNS&L will carry iron ore concentrate produced at the Scully Mine on

Tacora-supplied railcars between Wabush Lake Junction in Labrador City, Newfoundland and Labrador to the Sept-Iles Junction in Sept-Iles, Québec, a distance of approximately 500 km. Under the terms of the QNS&L Rail Agreement, QNS&L has agreed, among other things, to haul minimum monthly tonnages of iron ore (and any surplus iron ore that QNS&L agrees to haul for the benefit of the Company), ensure available transportation capacity, lead and actively participate in appropriate operations management and coordination procedures between QNS&L and the Company and supply sufficient labour, locomotives, assets and infrastructure as necessary to provide the rail transportation services contemplated. The QNS&L Rail Agreement also prescribes various capacity and volume commitments on the part of each of QNS&L and the Company and sets forth specific maximum and minimum monthly tonnages of iron ore that may be tendered for transportation in any month. In the event that the Company fails to meet the minimum monthly tonnage requirements during a given month, the Company will be required to pay QNS&L, as liquidated damages, an amount equal to the deficit volume multiplied by the base rate applicable during that month and which increases over time, other than where the failure to meet such minimum tonnage is as a result of a force majeure event; and provided further that, in the event that the Company suspends production at the Scully Mine for a period of more than one calendar year, the obligation to pay any such liquidated damages will be suspended until the resumption of production.

The QNS&L Rail Agreement required the Company to provide advance payments to QNS&L totaling C\$20.0 million, of which C\$3.0 million was paid on November 10, 2017 and C\$17.0 million was paid on November 14, 2018. These advance payments are required by QNS&L to secure the locomotive equipment and infrastructure capacity to meet the Company's anticipated haulage volumes on the QNS&L rail line. The Company is recovering the advance payments from QNS&L by means of a special credit per wet metric tonne hauled.

Port access

In May 2018, the Company executed an agreement with Société ferroviaire et portuaire de Pointe-Noire s.e.c. ("SFPPN") with an effective date of June 1, 2018 and a termination date of December 31, 2044 setting out the terms on which SFPPN will grant the Company guaranteed access to SFPPN's equipment, throughput and storage capacity necessary to transport iron ore to the port infrastructure. Under the SFPPN Agreement, the Company is required to contribute, to certain capital expenditures up to an aggregate amount of C\$48.9 million, inclusive of C\$10 million that was paid in 2018. Capital expenditures totaling C\$16.3 million and C\$2.8 million were paid in 2019 and 2020, respectively and C\$7.8 million was paid in 2021 and the balance will be due by the end of 2022. The capital expenditure will allow SFPPN to enhance the current existing infrastructure required for the Company's guaranteed access to SFPPN's facilities, which include railway and Wabush Yard infrastructure. From the date of the completion of the 2018 financing transactions and until the commencement of the Company's railcars shipment to SFPPN in March 2019, the Company was required to make a monthly payment of C\$500,000 in consideration of the capacity SFPPN allotted to the Company. Beginning in April 2019, the Company began monthly payments to SFPPN of C\$2.5 million which is based on the Company's share of fixed costs, operational costs, profit margins, compensation rate and applicable taxes. The SFPPN Agreement also provides that the 451 railcars owned by SFPPN and located at the Scully Mine will be leased to the Company under a lease and maintenance agreement for nominal consideration, provided that the Company contracts exclusively with SFPPN for the maintenance of such railcars. The Company will have the option to purchase any or all of the railcars at a price of C\$2,725 per railcar upon 10 days' prior written notice to SFPPN, which will terminate the required maintenance arrangement with SFPPN. The SFPPN Agreement contains customary default clauses, which include if the Company ceases the operations of the Scully Mine for a continuous period of more than twelve months and does not provide SFPPN with a date for the resumption of operations that is within the following twelve months.

The C\$48.9 million that the Company is required to contribute to SFPPN for certain capital expenditures is and will be classified as an intangible asset on the consolidated balance sheet and amortized. There

may be other expenditures that the Company is required to make that the Company will classify in this regard.

The Company has executed an assignment of contractual rights agreement pursuant to which New Millennium Iron Corp. (“NML”) will assign to the Company 6.5 million metric tonnes of NML’s port capacity with the Sept-Iles Port Authority (the “Port Authority”) in exchange for an upfront payment in the amount of C\$4.0 million payable on the closing date of the assignment and an ongoing fee of C\$0.10 per tonne of iron ore shipped by the Company through the port facilities pursuant to a contract to be entered into directly with the Port Authority over a 20-year period following the assignment. We recognize the benefit of the prepayment based on tonnes shipped as a reduction of cost of goods sold. In connection with the assignment, the Company has assumed part of NML’s “take or pay” obligations related to the assigned 6.5 million metric tonnes of port capacity. The portion of the “take or pay” obligation that was payable to NML prior to the Company shipping ore from the port was added to the upfront payment amount. The upfront payment entitles the Company to a discount of C\$0.25 per tonne shipped until the upfront payment is recovered by the Company. The Company, NML and the Port Authority have entered into an agreement whereby the Port Authority consented to the assignment of capacity and agreed to enter into a direct agreement with the Company in respect of the 6.5 million metric tonnes of port capacity assigned by NML to the Company on terms substantially similar to those contained in the existing agreement between NML and the Port Authority. This agreement will provide the Company with direct access to port facilities that are capable of loading cape-size vessels, which are larger and more cost efficient than smaller baby-cape and Panamax alternatives. All port agreements between NML, the Port Authority and Tacora in respect of the assigned capacity were fully executed and complete as of December 31, 2018.

Mining lease

Tacora is party to the Mining Lease pursuant to which Tacora was granted the exclusive contractual right to explore, investigate, develop, produce, extract, remove by open pit or other method of mining, smelt, reduce and otherwise process, make merchantable, store, sell and ship all iron ore products from a mine on a parcel of land located near Wabush, Newfoundland and Labrador on which the Scully Mine is located. The Mining Lease is effective for a term extending to and including May 20, 2055; however, the Mining Lease may be cancelled by Tacora generally on six months’ written notice.

At the commencement of shipping iron ore products, Tacora is required to pay an earned royalty fee per metric tonne ranging from 4.2% to 7.0% of Net Revenues less certain deductible expenses, in accordance with the calculation as defined in the Mining Lease. To the extent that Tacora has not commenced or ceases the shipping of iron ore products and the sum of the earned royalty fee in a given calendar quarter is less than C\$0.8 million, Tacora is required to pay a minimum quarterly royalty of C\$0.8 million (of which 20 percent is withheld and remitted to the Province of Newfoundland and Labrador). Any amount which Tacora shall pay the lessor related to minimum quarterly royalty payments, other than in payment of earned royalties, shall be recoverable against earned royalties in the same calendar year.

Royalties paid in the years ended December 31, 2021 and 2020 were approximately \$36.1 million and \$14.0 million, respectively. Accrued royalties in the amount of \$6.2 million and \$10.2 million were recorded in other accrued expenses at December 31, 2021 and December 31, 2020, respectively.

See Note 18 to the Company’s audited consolidated financial statements for Fiscal 2021 for further information regarding the Company’s commitments and contingencies.

Liquidity and capital resources

As of December 31, 2021, our cash and cash equivalents totaled \$34.9 million. Our total cash balance represents a 70.9% decrease from the balance as of December 31, 2020. This decrease was driven

primarily by \$53.4 million spent on capital expenditures and commodity forward contract settlements of \$132.6 million in 2021.

As of December 31, 2021, the outstanding principal amount of our long-term debt was approximately \$169.5 million.

Based on the current level of operations, we believe that cash flow from operations will be adequate to meet our liquidity needs for the immediate and foreseeable future. However, our future liquidity and ability to fund capital expenditures, working capital and debt requirements depend upon our future financial performance, which is subject to many economic, commercial, financial and other factors that are beyond our control. We expect the price of iron ore to remain high in 2022; however if additional liquidity is needed, we may need to raise additional capital, which we may not be able to do on reasonable terms or at all. We may also need to refinance or amend the covenants concerning all or a portion of our existing debt. If we are unable to secure additional capital or, if needed, refinance or amend the covenants concerning our debt on acceptable terms or at all, then we may have insufficient liquidity to carry on our operations and meet our obligations in the future.

Off balance sheet arrangements

We currently are not a party to any material off balance sheet arrangements.

Industry data, forecasts and units of measure

This report contains industry data and forecasts that we obtained from industry publications and surveys, public filings and internal company sources. Industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information. We have not independently verified any of the data from third-party sources, nor have we ascertained the underlying economic assumptions relied upon therein. While we are not aware of any misstatements regarding our industry data presented herein, our estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed in the "Risk Factors" section of this MD&A. We cannot guarantee the accuracy or completeness of such information contained in this MD&A.

Unless otherwise specifically noted, we use SI units (metric), specifically dry tonnes, dmt or DMT, when referring to tonnage. This is a departure from conventional iron ore units which use a relatively unique basis for tonnage identified as a LT or long ton. As such, comparison of unit costs and production figures may not be comparable with those of other competing iron ore producers. Additionally, the contractual requirements for some of our off-take agreements are denominated in wet metric tonnes. For consistency of presentation, in our discussion of these contractual requirements, we have expressed them as DMT based on an assumed 1.6% moisture factor in our concentrate.

Risks

Commodity price risk

Tacora has agreed to sell all of its production of iron ore concentrate to one counterparty, Cargill International Trading Pte Ltd. ("Cargill") pursuant to an offtake agreement with a term expiring December 31, 2024, with rolling options to extend the term for the life of the Scully Mine at Cargill's sole discretion. Cargill is selling the Tacora product into the global seaborne iron ore market at prevailing market prices (priced in United States dollars) and incurring dry bulk freight costs to deliver the product to its intended destination at prevailing market freight rates. Accordingly, Tacora will be exposed to fluctuations in iron ore market prices and dry bulk freight costs related to iron ore sales. Price decreases in the iron ore commodity market and/or cost increases for dry bulk freight rates could negatively affect revenue and therefore earnings.

In March 2020, Tacora and Cargill agreed to amend certain terms of the Cargill / Tacora: Iron Ore Sale and Purchase Contract that provide, among other things, for the following: (i) the grant to Cargill of rolling options to extend the agreement for the life of the Scully Mine; (ii) clarification that Cargill has rights to sell all of the tonnes produced from the Scully Mine including any and all expansions; and (iii) certain adjustments to the definition of margin amount (as defined in the agreement) whereby the shipment margin amount in respect of each relevant shipment may be either negative or positive. On each calculation date, all valuations of the shipment margin amount for all shipments for which the final purchase price has not been determined shall be netted to result in a single positive or negative value (the "Margin Amount"). If that value is positive and greater than \$7.5 million, then Buyer shall be entitled to hold margin equal to but no greater than that Margin Amount less \$5.0 million, and if that value is negative and less than -\$5.0 million, then Seller shall be entitled to hold margin equal to but no greater than that Margin Amount. In determining which party makes a payment to the other, any Margin Amount (if any) already held by one party shall be taken into account and netted. The receiving party shall raise a debit note for the relevant amount which shall be settled by the paying party within 5 Working Days.

Tacora believes commodity price hedging could provide a long-term benefit to shareholders. Therefore, Tacora may hedge certain commitments in the future with an emphasis on mitigating commodity price risk during the ramp up of the Scully Mine.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. In the future, Tacora may be exposed to credit risk from its customer receivables and from its financing activities, including deposits with banks and financial institutions, financial assurance deposit, other short-term investments, interest rate and currency derivative contracts and other financial instruments.

Liquidity and capital risk management

Tacora's primary objective when managing capital is to safeguard the business as a going concern while maximizing returns for shareholders. In a cyclical and capital-intensive industry, such as the mining industry, maintaining a strong balance sheet and a sound financial risk management framework are desirable to preserve financial flexibility and generate shareholder value through the cycle. In practice, this involves regular reviews by the board of directors and senior management of Tacora. These reviews take into account Tacora's strategic priorities, economic and business conditions and opportunities that are identified to invest across all points of the commodities cycle and focus on shareholder return while also striving to maintain a strong balance sheet.

To maintain a strong balance sheet, Tacora considers various financial metrics including net gearing ratio, the overall level of borrowings and their maturity profile, liquidity levels, total capital, cash flow, earnings before interest, depreciation and amortization costs (EBITDA) and other leverage ratios such as net debt to EBITDA.

Related party transactions

Key management compensation

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Company's key management for Fiscal 2021 were its Chief Executive Officer, Executive Vice President and Chief Financial Officer. The remuneration for the Company's key management during Fiscal 2021 was \$1.6 million consisting of \$1.5 million in salaries and \$0.1 million in deferred compensation and other benefits.

Outstanding share data

The Company may authorise an unlimited number of common shares, without par value (“Common Shares”) and an unlimited number of Class A Non-Voting Shares and Class B Non-Voting shares. As of the date of this MD&A, the Company had authorised 235,700,480 Common Shares, 3,300,000 Class A Non-Voting Shares and 3,300,000 Class B Non-Voting Shares and as of December 31, 2021 had 235,700,408 Common Shares, 2,739,000 Class A Non-Voting Shares, and 1,080,750, Class B Non-Voting Shares issued and outstanding. As of December 31, 2021, the Company had 2,225,500 employee stock options outstanding.

Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience, consultation with experts and other methods management considers reasonable in the particular circumstances. Actual results may differ from these estimates.

The accounting policies discussed below are considered by management to be critical to an understanding of Tacora’s financial statements as their application places the most significant demands on management’s judgment.

Mineral reserves and resources

Estimates of the quantities of proven and probable mineral reserves and measured, indicated and inferred mineral resources form the basis for our life of mine plans, which are used for a number of important business and accounting purposes, including our impairment analysis. Mineral reserves and resources are based on engineering data, estimated future prices, estimated future capital spending and estimated future production rates. We estimate our iron ore mineral reserves and resources based on information compiled by “qualified persons” as defined in accordance with the requirements of NI 43-101. These life of mine plans also include assumptions about our ability to obtain and renew our mining and operating permits. Tacora expects that, over time, its mineral reserves and resources estimates will be revised upward or downward based on updated information such as the results of future drilling, testing and production levels, and may be affected by changes in iron ore prices.

Scully Mine

We use our mineral reserve estimates, combined with our estimated annual production levels, to determine the mine closure dates utilized in recording the fair value liability for asset retirement obligations for the Scully Mine, and assess whether there are any indicators of potential impairment of our long lived assets.

The Mineral Reserve for the Scully Mine is estimated with an effective date of January 1, 2021 at 478.9 Mt at an average grade of 34.9% Fe and 2.62% Mn as summarized in the table below. The Mineral Reserve estimate was prepared by GMS. The resource block model was also generated by GMS.

As determined by GMS, the mine design and Mineral Reserve estimate have been completed to a level appropriate for feasibility studies and the Mineral Reserve estimate stated herein is consistent with the CIM definitions and is suitable for public reporting. As such, the Mineral Reserves are based on Measured and Indicated Mineral Resources (“M&I”), and do not include any Inferred Mineral Resources. The Inferred Mineral Resources contained within the mine design are treated as waste. The M&I are inclusive of the Mineral Resources modified to calculate the Mineral Reserves.

Classification	Crude Ore	Fe	Mn	Concentrate	Fe	Mn	SiO ₂	Total	Total Fe
	Tonnage								
	(dry)								
	k dmt	%	%	k dmt	%	%	%	%	%
Proven	136,508	34.97	2.35	45,478	65.60	1.53	3.22	33.32	62.49
Probable	341,439	34.85	2.72	113,577	65.60	1.63	3.06	33.26	62.62
Total P&P	478,943	34.89	2.62	159,425	65.60	1.61	3.11	33.29	62.59

Notes:

- (1) The Mineral Reserves were estimated using the CIM Standards for Mineral Resources and Reserves, Definitions and Guidelines prepared by the CIM Standing Committee on Reserve Definitions and adopted by CIM Council May 10th, 2014.
- (2) Mineral Reserves based on December 2020 depletion surface merged with an updated Lidar dated September 2017.
- (3) Mineral Reserves are estimated at a minimum of 20% Lab weight recovery for all sub-units except sub-unit 52 which is 30%. In addition, sub-unit 34 must have a ratio of weight recovery to iron of at least 1.
- (4) Mineral Reserves are estimated using a long-term iron price reference price (Platt's 62)% of USD 70/dmt and an exchange rate of 1.25 CAD/USD. An Fe concentrate price adjustment of USD 12/dmt was added as an iron grade premium net of a USD 5/dmt marketing charge.
- (5) Bulk density of ore is variable but averages 3.20 t/m³.
- (6) The average strip ratio is 0.82:1.
- (7) The Mineral Reserve includes a 5.2% mining dilution and a 97% ore recovery.
- (8) The number of metric tonnes was rounded to the nearest thousand. Any discrepancies in the totals are due to rounding effects; rounding followed the recommendations in NI 43-101.

Depletion

The table below summarizes the actual production tonnages mined and concentrate produced at the Scully Mine through December 31, 2021.

Time Period	Crude Ore Tonnage (dry)	Fe	Mn	Conc. Tonnage	Fe Conc.	Mn Conc.	SiO ₂ Conc.	Total Weight Recovery	Total Fe Recovery
	k dmt	%	%	k dmt	%	%	%	%	%
Start-up through December 31, 2019	3,491	34.98	3.18	936	65.70	1.72	2.71	26.80	50.33
Year ended December 31, 2020	10,469	34.73	3.42	3,009	65.51	1.93	2.66	28.74	54.21
Year ended December 31, 2021	10,758	37.80	3.30	3,182	65.70	1.80	2.39	29.60	51.40

Sydvaranger Mine

The Mineral Reserve for the Sydvaranger Mine is estimated at 171.4 Mt at an average grade of 28.1% FeMag and 0.06% MIS as summarized in the table below. The Mineral Reserve estimate was prepared by AMC Consultants (UK) Limited (“AMC”). The resource block model was generated by Baker Geological Services Ltd.

As determined by AMC, the mine design and Mineral Reserve estimate have been completed to a level appropriate for feasibility studies and the Mineral Reserve estimate stated herein is consistent with the CIM definitions. As such, the Mineral Reserves are based on Measured and Indicated Mineral Resources (“M&I”), and do not include any Inferred Mineral Resources. The Inferred Mineral Resources contained within the mine design are treated as waste. The M&I are inclusive of the Mineral Resources modified to calculate the Mineral Reserves.

Classification	Crude Ore Tonnage (dry)	Fe	MIS	Concentrate Tonnage	Fe Conc.	MIS Conc.	SiO ₂ Conc.	Total Weight Recovery	Total Fe Recovery
	k dmt	%	%	k dmt	%	%	%	%	%
Proven	23,400	30.3	0.01	45,478	65.60	1.53	3.22	33.32	62.49
Probable	148,000	27.80	0.07	113,577	65.60	1.63	3.06	33.26	62.62
Total P&P	171,400	28.1	0.06	159,425	65.60	1.61	3.11	33.29	62.59

Notes:

- (1) Mineral Reserves have been estimated in accordance with the CIM Definition Standards.
- (2) Mineral Reserves are based on a cut-off grade of 7% FeMAG.
- (3) Mineral Resources which are not Mineral Reserves do not have demonstrated economic viability.
- (4) There is 11.6 Mt of material with an MIS grade >0.2% which has been included in the Reserves Estimate.
- (5) Mineral Reserves are estimated at an average long-term iron concentrate price of USD67/t concentrate, at a grade of 68% FeMAG.
- (6) Mineral Reserves are reported effective 1 October 2019.
- (8) Rounding of some figures might lead to minor discrepancies in totals.

Environmental rehabilitation

Decommissioning and restoration costs are a normal consequence of mining. The majority of these expenditures are incurred at the end of the mine’s life. In determining the provision, consideration is given to the future costs to be incurred, the timing of these future costs, and estimated cost of inflation. The cost of decommissioning and restoration is uncertain and can vary in response to many factors including changes to the relevant legal and regulatory requirements. The expected timing of expenditures can change in response to changes in the life of mine. These estimates are reviewed annually and adjusted where necessary to ensure that the most current data is used.

Significant accounting policies

The Company’s significant accounting policies used to prepare the Company’s financial statements as of and for the period ended December 31, 2021 are included in Note 2 of the audited consolidated financial statements included elsewhere in this MD&A.

Subsequent events

On February 16, 2022, Tacora issued an additional \$50 million aggregate principal amount of 8.250% Senior Secured Notes due 2026 (“2026 Notes”). Tacora received net proceeds of approximately \$46.4 million after fees of approximately \$3.6 million related to underwriting and third-party expenses. The net proceeds will be used for working capital and other corporate purposes.

In March 2022, Tacora entered into additional monthly average index P62 fixed price contracts with Cargill that provided for the following key terms:

	Strike Price USD\$	Volume (dmt)
Settlement dates between Jul 1, 2022 and Sept 30, 2022	\$ 157.00	300,000
Settlement dates between Oct 1, 2022 and Dec 31, 2022	\$ 150.75	300,000

In March 2022, Tacora entered an agreement with Atlantic Canada Opportunities Agency (“ACOA”) for repayable assistance under the Regional Economic Growth through Innovation Program – Jobs and Growth Fund to support the expansion of our Manganese Reduction Circuit project from six to eight lines in the amount of C\$3,300,000. The assistance will be repaid over ten years starting in July 2023 and will not incur interest charges.