Tacora Resources Inc.

Consolidated Financial Statements
For the three months ended March 31, 2021 and 2020
(unaudited)

Consolidated balance sheets

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

	Notes	Mar 31, 2021	Dec 31, 2020
Current assets			
Cash	2	126,490	119,564
Restricted cash, escrow	2	123	259
Receivables	3	6,148	2,351
Inventories	4	12,146	8,045
Transportation deposits, current portion	9	7,827	8,487
Prepaid expenses and other current assets	5	10,110	5,848
Total current assets		162,844	144,554
Non-current assets			
Property, plant & equipment, net	7, 10	225,600	168,322
Intangible assets subject to amortization	8	27,782	26,436
Transportation deposits	9	4,631	5,241
Security Deposits	9	3,414	3,377
Financial assurance deposit	10	6,472	6,392
Total non-current assets		267,899	209,768
TOTAL ASSETS		430,743	354,322
Current liabilities			
Current maturities of long-term debt	11	28,880	25,700
Current maturities of lease liabilities	11	7,585	7,423
Accounts payable		18,963	14,977
Accrued liabilities		37,073	35,885
Derivative liability	13	77,375	80,952
Total current liabilities		169,876	164,937
Non-current liabilities			
Long-term debt	11	104,433	112,067
Lease liabilities	11	26,567	28,546
Long-term royalties payable	17	18,815	0
Rehabilitation obligation	10	32,469	37,630
Total Non-Current Liabilities		182,284	178,243
TOTAL LIABILITIES		352,160	343,180
NET ASSETS		78,583	11,142

Consolidated balance sheets

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

	Notes	Mar 31, 2021	Dec 31, 2020
Shareholder's equity			
Capital stock	12	263,350	225,332
Accumulated deficit		(184,992)	(214,512)
Equity attributable to owners of the Company		78,358	10,820
Non-controlling interest		225	322
TOTAL EQUITY		78,583	11,142

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

Consolidated statements of income and comprehensive income

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

	Notes	Three Months Ended	
		Mar 31, 2021	Mar 31, 2020
Revenue		133,766	48,990
Cost of Sales	15	73,101	50,277
Depreciation and amortization		5,570	3,488
Gross profit (loss)		55,095	(4,775)
Other expenses			
Selling, general, and administrative expenses	16	1,718	935
Sustainability and other community expenses		199	396
Depreciation expense		9	17
Operating income (loss)		53,169	(6,123)
Other income/(expense)			
Other income / (expense)		191	(81)
(Loss) gain on derivative instruments	13, 14	(18,234)	14,772
Unwinding of present value discount: asset retirement obligation		(193)	(162)
Interest expense	11	(4,713)	(5,278)
Interest income		101	228
NALCO Tax		(140)	(106)
Foreign exchange gain		(585)	(1,503)
Total other (expense) income		(23,573)	7,870
Income before income taxes		29,596	1,747
Income Taxes	18	76	-
Net income and comprehensive income		29,520	1,747

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 - unaudited)

	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**
Net income	-	1,747	1,747	44	1,791
Balance at Mar 31, 2020	**150,232**	**(142,367)**	**7,865**	**162**	**8,027**
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	-	29,520	29,520	-	29,520
Net income attributable to non-controlling interest, net of tax	-	-	-	58	58
Distributions to non-controlling interest	-	-	-	(155)	(155)
Balance at Mar 31, 2021	**263,350**	**(184,992)**	**78,358**	**225**	**78,583**

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 - unaudited)

	Notes	Three Months Ended Mar 31, 2021	Mar 31, 2020
Cash Flows from operating activities			
Net income		29,520	1,747
Less net income attributable to non-controlling interest		58	44
Items not affecting cash:			
Depreciation	7	5,351	3,559
Amortization of intangible asset	8	228	215
Foreign exchange transaction (gain) loss		56	551
Loss from forward contracts	13, 14	18,233	(10,687)
Change in fair value of long-term borrowings	11	204	-
Accretion of debt interest	11	-	1,135
Interest accretion of asset retirement obligation	10	193	162
Changes in non-cash operating working capital:			
Trade accounts receivable	3	(3,579)	1,779
Inventory	4	(4,101)	(3,054)
Prepaid expenses and other	5	(4,137)	2,355
Accounts payable		3,987	8,523
Accrued expenses		168	1,178
Net cash inflow from operating activities		46,181	7,507
Cash Flows from investing activities			
Purchases of mining property, land, plant & equipment	7, 10	(9,578)	(2,206)
Intangible assets subject to amortization	8	(1,575)	(745)
Transportation deposit	9	1,271	976
Commodity forward contract settlements	13	(22,761)	(11,752)
Net cash outflow from investing activities		(32,643)	(13,727)
Cash Flows from financing activities			
Credit for equity issuance costs		18	-
Knoll Lake distributions to non-controlling interest		(155)	-
Principal payments on long-term debt, including vendor financed leases	11	(6,475)	(2,070)
Net cash outflow from financing activities		(6,612)	(2,070)
Net increase (decrease) in cash		6,926	(8,290)
Cash			
Beginning		119,564	44,292
Ending		126,490	36,002
Supplemental disclosures			
Cash paid for interest		5,056	4,503
Equipment acquired through vendor financed leases		-	731

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 - unaudited)

Note 1 – Basis of Presentation

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") IAS 34 Interim Financial Reporting (IAS 34), as issued by the International Accounting Standards Board (IASB).

This financial report does not include all the notes of the type normally included in the annual financial statements. Accordingly, this report should be read in conjunction with the annual financial statements for the year ended December 31, 2020. The accounting policies adopted are consistent with those of the previous financial period and corresponding interim reporting period, with the exception of the new policy below.

Acquisitions

Under the acquisition method of accounting for business combinations, the purchase consideration is allocated to the identifiable assets acquired and liabilities and contingent liabilities assumed (the identifiable net assets) on the basis of their fair value at the date of acquisition, which is the date on which control is obtained.

The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree, the fair value of any asset or liability resulting from a contingent consideration arrangement and any equity interests issued by the Company.

Note 2 - 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 Mar 31, 2021	As at Dec 31, 2020
Cash at bank	126,490	119,564
Restricted cash, escrow	123	259

Restricted cash of $123 thousand as of March 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.

Notes to the consolidated financial statements

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

Note 3 – Accounts Receivable

Accounts receivable consist of the following:

	As at Mar 31, 2021	As at Dec 31, 2020
Trade receivables	6,148	2,351
Balance per consolidated balance sheet	6,148	2,351

Tacora's trade receivables all relate to a single customer. For the quarter ended March 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 are current and are generally settled within four months.

Note 4 – Inventories

Inventories consist of the following:

	As at Mar 31, 2021	As at Dec 31, 2020
Consumable inventories	9,028	5,693
Work in process inventories	1,779	-
Finished concentrate inventories	1,339	2,352
Balance per consolidated balance sheet	12,146	8,045

Note 5 – Prepaid expenses and other current assets

Prepaid expenses consist of the following:

	As at Mar 31, 2021	As at Dec 31, 2020
Other miscellaneous prepaid expenses	6,001	1,384
Sales tax	4,065	4,420
Miscellaneous deposits	44	44
Balance per consolidated balance sheet	10,110	5,848

Notes to the consolidated financial statements

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

Note 6 - Related-party balances

Transactions with related parties for the period ended March 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:

	Three months ended March 31,	
	2021	2020
Salaries	1,037	415
Deferred Compensation	18	10
Other benefits	13	15
Total	1,068	440

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

Note 7 –Property, plant and equipment

	Mining and Processing Equipment	Railcars and Rails	Vehicles	Right of Use Assets	Assets under construction	Asset Retirement Obligation and Other	Total
As of Dec 31, 2019	49,709	1,981	422	50,370	31,401	31,020	164,903
Additions	-	-	-	-	15,087	-	15,087
Disposals	(1,005)	-	(146)	(362)	-	-	(1,513)
Transfer	24,667	436	-	3,204	(27,945)	-	362
Changes to environmental rehabilitation provision (Note 10)	-	-	-	-	-	5,272	5,272
Accumulated depreciation	(7,436)	(122)	(90)	(7,925)	-	(216)	(15,789)
As of Dec 31, 2020	65,935	2,295	186	45,287	18,543	36,076	168,322
Additions	-	-	-	-	67,854	-	67,854
Disposals	-	-	-	-	-	-	-
Transfer	643	-	-	-	(643)	-	-
Changes to environmental rehabilitation provision (Note 10)	-	-	-	-	-	(5,354)	(5,354)
Accumulated depreciation	(1,972)	(31)	(17)	(2,124)	-	(1,078)	(5,222)
As of Mar 31, 2021	64,606	2,264	169	43,163	85,754	29,644	225,600

Refer to note 11 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 8 – 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 will be payable 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 C$500,000 per month plus the expenditures for fixed cost is expensed as incurred.

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.

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

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	761	-	761
Accumulated amortization	(270)	-	(270)
Upfront payment recovery	-	(16)	(16)
As of March 31, 2020	20,095	4,769	24,864
As of Dec 31, 2020	21,975	4,461	26,436
Additions	1,630	-	1,630
Accumulated amortization	(229)	-	(229)
Upfront payment recovery	-	(55)	(55)
As of March 31, 2021	23,376	4,406	27,782

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

New Millennium Iron Corp. port access amortization is calculated based on a rate per tonne shipped.

Note 9 – Deposits

Transportation deposits consist of the following:

	As at Mar 31, 2021	As at Dec 31, 2020
Québec North Shore and Labrador Railway Company, Inc., transportation deposit	12,458	13,728
Less current portion	(7,827)	(8,487)
Balance per consolidated balance sheet	4,631	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, 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.

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

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 Mar 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 10 – 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 $6.3

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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. 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. Tacora's environmental rehabilitation provision of $37.6 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 1.21%.

	As at Mar 31, 2021	As at Dec 31, 2020
Opening balance	37,630	31,706
Additions/changes in estimates	-	-
Interest accretion	193	652
Change in inflation/discount rates	(5,354)	5,272
Balance per consolidated balance sheet	32,469	37,630

Notes to the consolidated financial statements

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

Note 11 – Debt

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

	As at Mar 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	4,510	4,882
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 thousand 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	54,073	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 thousand until December 31, 2020 when that payment increases to $560 thousand for sixty months, on the maturity date of November 15, 2023 the Company shall repay the remaining balance anticipated to be $41.8 million	49,353	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 thousand until November 2020 when the principal payment increases to $200 thousand 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	25,377	28,010
	133,313	137,767
Less current maturities of long term debt	28,880	25,700
Long term debt	104,433	112,067

Notes to the consolidated financial statements

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

	As at Mar 31, 2021	As at Dec 31, 2020
Financing secured by equipment financed, under an interest free note to be paid in monthly installments of $3 thousand beginning February 2019 until maturity in January 2023	51	61
Financing secured by equipment financed, with a 5.99% annual interest rate paid monthly in the amount of $215 thousand beginning June 2019 until maturity in May 2025	9,475	9,972
Financing secured by equipment financed, with a 7.09% annual interest rate paid quarterly in the amount of $70 thousand beginning July 2019 until maturity in April 2024	752	808
Financing secured by equipment financed, with a 5.99% annual interest rate paid monthly in the amount of $126 thousand beginning July 2019 until maturity in June 2025	5,644	5,933
Financing secured by equipment financed, with a 5.99% annual interest rate paid monthly in the amount of $128 thousand beginning August 2019 until maturity in July 2025	5,845	6,137
Financing secured by equipment financed, with a 5.99% annual interest rate paid monthly in the amount of $58 thousand beginning September 2019 until maturity in August 2025	2,697	2,830
Financing secured by equipment financed, with a 5.99% annual interest rate paid monthly in the amount of $116 thousand beginning October 2019 until maturity in September 2025	5,484	5,748
Financing secured by equipment financed, with a 7.09% annual interest rate paid quarterly in the amount of $299 thousand beginning October 2019 until maturity in July 2024	3,456	3,692
Financing secured by equipment financed, with a 7.09% annual interest rate paid quarterly in the amount of $7 thousand beginning December 2019 until maturity in September 2024	86	92
Financing secured by equipment financed, with a 5.99% annual interest rate paid monthly in the amount of $12 thousand beginning February 2020 until maturity in January 2026	608	635
Financing secured by equipment financed, with a 5.5% annual interest rate paid quarterly in the amount of $23 thousand beginning December 2020 until maturity in September 2023	216	236
Down payment costs amortized over the life of the debt	(162)	(175)
	34,152	35,969
Less current maturities of lease liabilities	7,585	7,423
Long term lease liabilities	26,567	28,546

Covenants

The term loan and the infrastructure loans contain the following covenants as of March 31, 2021:

1) The Borrower shall, at all times, have cash and/or cash equivalents of not less than $34.5 million (the “Minimum Cash Balance”) to be reduced by, if the Government of Newfoundland requires the Borrower to provide the Financial Assurance Deposit (as opposed to a bond or other form of security), any cash collateral provided as same.
2) Minimum Reserve Base Ratio. As at the end of each fiscal year (including the fiscal year in which the Closing Date occurs), the Reserve Base Ratio shall not be less than 10.00:1:00.

As of March 31, 2021, Tacora is in compliance with all financial covenants.

Notes to the consolidated financial statements

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

The term loan and the infrastructure loans were amended on December 11, 2020. The loss associated with the amendment of the loans was $10.2 million due to the revaluation of the debt balance.

As part of the amendments, the following covenants will be calculated beginning with the first fiscal quarter in 2021.

1) Senior Debt to EBITDA Ratio. The Senior Debt to EBITDA Ratio shall not exceed:
   (i) 4.00:1.00 as at the end of each fiscal quarter ending March 31, 2021; and
   (ii) 3.00:1.00 as at the end of each fiscal quarter falling on or after June 30, 2021.

2) Minimum Debt Service Coverage Ratio. The Debt Service Coverage Ratio shall not be less than
   (i) 0.75:1.00 as at the end of each fiscal quarter falling on March 31, 2021; and
   (ii) 1.00:1.00 as at the end of each fiscal quarter falling on June 30, 2021, September 30, 2021, December 31, 2021 and March 31, 2022; and
   (iii) 1.50:1.00 as at the end of each fiscal quarter falling on and after June 30, 2022.

Additionally, both the Term Loan and Infrastructure Loans contain other covenants that limit or restrict Tacora's ability to make capital expenditures; incur indebtedness; permit liens on property; enter into transactions with affiliates; make restricted payments or investments; enter into mergers, acquisitions or consolidations; conduct asset sales; pay dividends or distributions and enter into other specific transactions or activities.

The Term Loan and Infrastructure Loans are secured by substantially all the Company's assets.

Note 12 – Equity

	Shares Authorized	Shares Issued	2020
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	0.272
Balance as of March 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

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

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;

- 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 17 – Sydvaranger Mine.

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	2,000,000	1.80
Exercised	-	-
Cancelled	-	-
Options exercisable as of March 31, 2021	3,826,000	1.44

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 March 31, 2021 or December 31, 2020.

Note 13 – Derivative liability

Tacora will be exposed to fluctuations in iron ore market prices and dry bulk freight costs related to iron ore sales. The Company does not generally believe commodity price hedging would provide a long-term benefit to shareholders, however, from time to time or as required by debt agreements, Tacora 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 three months ended March 31, 2021 and year ended December 31, 2020. In December 2020, the Company completed a buy-back of 150,000 hedges 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.

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

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

Based on the maturity dates of the contracts noted above, the entire derivative liability has been classified as current.

Note 14 – 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).

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

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.

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:

	December 31, 2020				
	Level 1	Level 2	Level 3	Total	Carrying Amount
Derivative liability	—	80,952	—	80,952	80,952
Notes payable	—	—	4,882	4,882	4,882

	March 31, 2021				
	Level 1	Level 2	Level 3	Total	Carrying Amount
Derivative liability	—	77,375	—	77,375	77,375
Notes payable	—	—	4,510	4,510	4,510
Royalties payable	—	—	18,815	18,815	18,815

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

Notes to the consolidated financial statements

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

Note 15 – Cost of sales

	Three Months Ended	
	March 31, 2021	March 31, 2020
Mining	14,334	10,529
Processing	19,728	17,590
Logistics	25,804	16,002
General and Administration	2,944	2,525
Royalties	10,291	3,631
Total expenses by function	73,101	50,277

Note 16 – Selling general and administrative expenses

	Three Months Ended	
	March 31, 2021	March 31, 2020
Salaried wages and benefits	1,276	376
Professional fees	183	258
Insurance	165	2
Travel	14	221
Other	80	78
Total expenses by function	1,718	935

Note 17 – Acquisition of Sydvaranger Mine

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.

As consideration for the acquisition of Sydvaranger AS, Sydvaranger Mining AS, a wholly owned subsidiary of the Company, assumed a royalty agreement ("Royalty Agreement") between the recipient, OMF Fund II H ("Orion Mine Finance" or "Orion") and the Payor, Sydvaranger Mining AS, with a purchase price of $26.2 million, issued 7.2 million common shares in Tacora Resources Inc. to Orion and 13.9 million common shares in Tacora Resources Inc. to Titlis Mining AS.

Due to the recent closing of the acquisition, the complete valuation and initial purchase price accounting for the business combination is not available as at the date of release of these financial statements, and the Company has not yet finalized the evaluation of the fair value of assets and liabilities acquired including any intangible assets. As a result, the Company has preliminarily recorded property, plant and equipment of $61.9 million, along with a liability for the fair value of the contingent consideration in connection with the Royalty Agreement of $18.8 million.

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

Note 18– 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. Because have significant non-capital loss carry forwards, which was utilized to offset taxable income for the quarter ended March 31, 2021, and we incurred losses during the quarter ended March 31, 2020, and we did not record a significant tax provision as of March 31, 2021, March 31, 2020. Deferred tax asset was not recognized on such losses, which if not utilized will expire between 2037 and 2040.

Note 19– Subsequent events

2026 Notes

On May 11, 2021, Tacora issued $175 million aggregate principal amount of 8.250% Senior Secured Notes due 2026 ("2026 Notes"). Tacora received net proceeds of approximately $169.8 million after fees of approximately $5.2 million related to underwriting and third-party expenses. Approximately $143.6 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 and certain fees payable in connection with early repayment. The balance of the net proceeds will be used for working capital and other corporate purposes. The 2026 Notes will pay interest 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 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 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 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 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 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.

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, the 2026 Notes collateral agent, the Hedge Provider and Tacora entered into the Jarvis Hedge Facility Intercreditor Agreement with respect to the shared collateral. The obligations under the Jarvis Hedge Agreement secured by the shared collateral on a pari passu basis with the 2026 Notes shall be limited to a maximum of $50.0 million, and amounts owing to the Hedge Provider in excess of $50.0 million (i) will be secured on a second-priority basis, ranking subordinate to the 2026 Notes, on the shared collateral, and (ii) require Tacora to pay cash to the Hedge Provider, which will not constitute shared collateral.

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.

Supplemental Consolidating Balance Sheet Information As of March 31, 2021

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

	Restricted Subsidiaries	Unrestricted Subsidiaries	Consolidated Total
Current assets			
Cash	126,305	185	126,490
Restricted cash, escrow	123	0	123
Receivables	5,930	218	6,148
Inventories	12,146	0	12,146
Transportation deposits, current portion	7,827	0	7,827
Prepaid expenses and other current assets	9,948	162	10,110
Total current assets	162,279	565	162,844
Non-current assets			
Property, plant & equipment, net	163,755	61,845	225,600
Intangible assets subject to amortization	27,782	0	27,782
Transportation deposits	4,631	0	4,631
Security Deposits	3,414	0	3,414
Financial assurance deposit	6,472	0	6,472
Notes Receivable - Tacora Norway	41,624	0	41,624
Total non-current assets	247,678	61,845	309,523
TOTAL ASSETS	409,957	62,410	472,367
Current liabilities			
Current maturities of long-term debt	28,880	0	28,880
Current maturities of lease liabilities	7,585	0	7,585
Accounts payable	18,963	0	18,963
Accrued liabilities	35,102	1,971	37,073
Derivative liability	77,375	0	77,375
Total current liabilities	167,905	1,971	169,876
Non-current liabilities			
Long-term debt	104,433	0	104,433
Lease liabilities	26,567	0	26,567
Rehabilitation obligation	32,469	0	32,469
Long-term royalties payable	0	18,815	18,815
Notes Payable - Tacora Resources Inc	0	41,624	41,624
Total Non-Current Liabilities	163,469	60,439	223,908
TOTAL LIABILITIES	331,374	62,410	393,784
NET ASSETS	78,583	0	78,583

Supplemental Consolidating Balance Sheet Information
As of March 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	0	263,350
Accumulated deficit	(184,992)	0	(184,992)
Equity attributable to owners of the Company	78,358	0	78,358
Non-controlling interest	225	0	225
TOTAL EQUITY	78,583	0	78,583

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 interim unaudited 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 March 31, 2021 and results of operations for the three month period ending March 31, 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. 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.

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. As of March 31, 2021, the Company has raised approximately $398 million to bring the Scully Mine to full production, of which 43% was debt and 57% was equity.

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 2020.

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).

During the 2020 fiscal year, the Company continued its focus on ramping up production at the Scully Mine. On July 20, 2020, Mr. Thierry Martel was appointed to the positions of Director, President and Chief Executive Officer of Tacora Resources Inc. Mr. Martel was previously employed by Rio Tinto and he has considerable operating experience with iron ore mining operations in Labrador. 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 first 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 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 $40.0 million in sustaining and incremental improvement projects in 2021 and $25 million in sustaining and improvement projects in 2022.

In addition to these notable accomplishments, Tacora was 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, the Company had not had a single confirmed case of COVID-19 at the Scully Mine.

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 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. Our historical consolidated financial statements included in this offering memorandum do not include any financial information of the Sydvaranger Mine. As of the issue date of the notes, Tacora Norway, Sydvaranger Mining and its subsidiaries will be designated as "Unrestricted Subsidiaries" and will not be subject to any of the restrictive covenants in the Indenture.

Overview of steel and iron ore markets

Overall, global crude steel production in 2020 fell 0.8% year over year to 1,858Mt, as steel output was disturbed by the ongoing impact of COVID-19, compared to production growth in 2019 of 3.1% year over year to 1,873Mt. China, the world's largest producer of crude steel, produced an estimated 1,056Mt of crude steel in 2020, a new record, which represents approximately 57% of worldwide production. China's crude steel production in 2020 grew 6.0% year over year, as demand remained relatively strong despite the global pandemic, compared to production growth in 2019 of 6.9% year over year.

At the end of 2020, demand for steel has been revised slightly upward due to countries such as Japan, US, India, and others implementing economic stimulus measures and the anticipated easing of COVID-19 restrictions around the globe. Government stimulus packages are being adopted in many countries. For instance, the stimulus package in Germany is currently $157 billion and economic aid an additional $90 billion.

AME estimates finished steel demand for 2020 was 1,748Mt. This equates to a decline of 0.8% for the 2020 year, with an expected return to growth of 4.9% for the 2021 year. Steel demand will be supported by the infrastructure, residential buildings, mechanical equipment, and automotive (and other transport) industries. However, for developed economies this heavily relies on government stimulus packages in infrastructure projects while emerging economies such as China and India have twenty-year plans to bring its population out of poverty via urbanization policies and the construction of 'mega cities'.

Global iron ore demand increased by 1.8% in 2020 to 2,244Mdmt and is expected to grow to 2,335Mdmt by 2024 according to AME. This compares to a 1.9% increase year over year in 2019 to 2,204Mdmt. The economic impact of the COVID-19 pandemic and corresponding containment policies have severely impacted demand across the global economy with finished steel, and iron ore, no exception. Policy responses from governments to the pandemic are likely to favor spending on fixed asset and infrastructure projects, which will lead to recoveries in demand for steel. Deficit spending is likely to fund these stimulus programs given the historically low interest rates seen worldwide, a palatable outcome politically given the low cost of debt funding. Concentrated stimulus programs targeting infrastructure have been initiated in both China and the US with many economies in the world likely to follow, which poses a potential upside to medium term iron ore demand.

Despite the slowdown, China is expected to continue to dominate global steel production and for the first time exceeded the long awaited 1Btpa production level in 2020. By 2024, China's share of global steel production is forecast to decline slightly to around 50% as India's crude steel production experiences robust growth. However, China will remain comfortably above the 1Btpa level with estimated production of around 1.04Bt in 2024. Due to China's current and expected level of steel production, it will remain the largest iron ore consumer over the medium term. In line with its expected steel production, China's iron ore demand is expected to decline to 1,292Mdmt by 2024, as domestic policies drive an increase in EAF steelmaking, which require scrap steel and high grade iron ore to make Direct Reduced Iron ("DRI") as the primary feedstocks for the EAF steelmaking process.

Demand growth from 2021-2024 for iron ore will be driven by emerging countries, particularly India. The pace of India's ramp-up in crude steel production will have a large impact on iron ore demand growth, with steel production set to be dominated by BF/BOF and Direct Reduced Iron ("DRI") technology, both requiring iron ore as the main ferrous feed.

The global supply of iron ore did not keep pace with the demand for iron ore in 2020 as supply was reduced 0.3% year over year to 2,158Mt. In the major producing region of the Pilbara in Australia, mining was considered an essential service and therefore mines continued to operate at capacity through COVID-19 restrictions. In the first half of 2020, Brazilian miners suffered closures at certain sites with Vale halting production at the Conceição, Cauê and Periquito mines at the Itabira complex in the south-east of the country. As a result, iron ore spot prices experienced a material increase in 2020. During the first quarter of 2021, the average Platts 65% Fe price increased to $191 per dmt, a 30.8% increase from the average price for the fourth quarter 2020 and an 84.7% increase from the average price for the first quarter of 2020.

We expect iron ore prices (Platts 65% Fe and Platts 62% Fe North China CFR) will remain high in 2021. In the medium term, we expect iron ore prices to moderate. In 2020, China experienced an iron demand boom that drastically contrasts with a slump in the rest of the world. As the COVID-19 pandemic became demonstrably contained within the 1st quarter 2020, the Chinese government stepped in to stimulate the economy. Significant investment in infrastructure projects substantially renewed strength in manufacturing activity and steel production, increasing demand for iron ore. The country experienced an accelerated run-rate in construction to make up for the loss at the outset of the year.

The COVID-19 pandemic was a significant roadblock for Brazil's iron ore operations and resulted in global supply disruption. The rapid spread of the virus in Itabira saw infection rates of approximately 12% of Vale's workers. In response, the company was required to send sick employees and those who had been in contact with them home – running on minimum staff numbers and reducing productivity rates. The iron ore volumes were also affected by mine shutdowns and heavier than usual rains that resulted in flooding. The combination of supply disruption and unprecedented demand from China resulted in a price spike as discussed above.

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 65.5% and low in impurities such as silica averaging 2.7% in 2020, 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 March 31, 2021, Tacora had $251.9 million in revenues awaiting final pricing, with the final price to be determined in the following reporting periods. Comparatively, as of March 31, 2020, Tacora had $106.0 million in revenues awaiting final pricing.

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 three-month period ended March 31, 2021, 5.5 million tonnes of material was mined, compared to 3.8 million tonnes of material mined the prior year. The increase is primarily due to an increase in waste mined of 1.1 million tonnes during the three months ended March 31, 2021 compared to the same period in 2020. 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 3.0 million tonnes of ore during the three-month period ended March 31, 2021, compared to 2.7 million tonnes of ore in the same period of the prior year. The plant achieved an average mill operating time of approximately 67% for the three-months ended March 31, 2021, which was the same average mill operating time when compared to the three-months ended March 31, 2020. Mill operating time is calculated 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 small increase in ore processed was driven by an increase in average mill throughput rates. Factors contributing to the increased feed rates included ore hardness, mill power efficiency, and process control stabilization. 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 49.8% during the three-months ended March 31, 2021 compared to an average iron recovery of 55.2% during the three-months ended March 31, 2020. The decrease in iron recovery is mainly due to the ore quality which contained a higher manganese content in the crude ore, 3.55% vs. 3.1% respectively for the compared periods. When there is an increase in impurities (Mn) in the crude ore, it requires the beneficiation circuits to reject more Manganese which also caused more iron to be rejected, driving down overall iron recovery.

Based on the foregoing, the Scully Mine produced 0.8 million tonnes of 65.6% Fe high-grade iron ore concentrate during the three-month period ended March 31, 2021 compared to 0.7 million tonnes of 65.6% high-grade iron ore concentrate during the three month period ended March 31, 2020.

Currency

The USD is the Company's reporting and functional currency, excluding Knoll Lake whose functional currency is Canadian dollars, which is 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 "Risk Factors", 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 adjustments 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, oil and gas fuel 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

Three months ended March 31, 2021 compared to three months ended March 31, 2020

	Three Months Ended March 31,		Increase	Percent
($ in millions, except IODEX)	**2021**	**2020**	**(Decrease)**	**Change**
Revenue	$ 133.8	$ 49.0	$ 84.8	173.1%
Cost of sales	78.7	53.8	24.9	46.3%
Gross profit (loss)	55.1	(4.8)	59.9	(1,247.9%)
Operating expenses	1.9	1.3	0.6	46.2%
Operating income (loss)	53.2	(6.1)	59.3	(972.1%)
Non-operating (loss) income	(23.7)	7.9	(31.6)	(400.0%)
Net income	$ 29.5	$ 1.8	$ 27.7	1,538.9%
Third party shipments (tonnes)(unaudited)	802,703	673,849	128,854	19.1%

Revenue

Realized price for the three months ended March 31, 2021 compared to three months ended March 31, 2020

	Three Months Ended March 31,		Increase	Percent
($ per dmt sold)	**2021**	**2020**	**(Decrease)**	**Change**
Average index P62	$ 166.9	$ 88.9	$ 78.0	87.7%
Fixed sales/timing	(0.9)	0.4	(1.3)	325.0%
Premium over P62	14.0	8.7	5.3	60.9%
Gross realized price	180.0	98.0	82.0	83.7%
Freight and other costs	(24.4)	(20.1)	(4.3)	(21.4%)
Provisional pricing adjustments	12.2	(4.4)	16.6	(377.3%)
Other	(1.1)	(0.8)	(0.3)	(37.5%)
Net realized price	$ 166.7	$ 72.7	$ 94.0	129.3%

For the three months ended March 31, 2021, our revenue was approximately $133.8 million, an increase of $84.8 million, or 173.1%, from our revenue of $49.0 million for the three months ended March 31, 2020. The increased revenue was primarily impacted by a 129.3% increase in the net realized price applicable to concentrate pricing for the three months ended March 31, 2021 compared to the same period in 2020 in addition to an increase in shipments of 128.9 thousand tonnes.

Cost of sales

Cost of Sales per dmt sold for the three months ended March 31, 2021 compared to three months ended March 31, 2020

	Three Months Ended March 31,		Increase	Percent
($ per dmt sold)	**2021**	**2020**	**(Decrease)**	**Change**
Mining	$ 17.9	$ 15.6	$ 2.3	14.7%
Processing	24.6	26.1	(1.5)	(5.7%)
Logistics	32.1	23.7	8.4	35.4%
General and Administration	3.7	3.7	0.0	0.0%
Royalties	12.8	5.4	7.4	137.0%
Cash cost of sales	91.1	74.5	16.6	22.3%
Depreciation and Amortization	6.9	5.2	1.7	32.7%
Cost of sales	$ 98.0	$ 79.7	$ 18.3	23.0%

For the three months ended March 31, 2021, our cost of sales were approximately $78.7 million, an increase of $24.9 million, or 46.3%, from our cost of sales of $53.8 million for the same period in 2020. The continued ramp-up of the plant resulted in increased shipments of concentrate resulting in higher cost of sales. The increases in logistics and royalty costs are partially due to the rates being impacted by the P62 iron ore price which has increased by 87.7% as compared to March 31, 2020.

We believe our cost of sales will continue to increase but our cost of sales per dmt sold will begin to decrease as we continue the 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 (loss)

For the three months ended March 31, 2021, our gross profit was approximately $55.1 million, an increase of $59.9 million, or 1,247.9%, from our gross loss of $4.8 million for the three months ended March 31, 2020. The increase in our gross profit for the three months ended March 31, 2021 was primarily due to the increase in net realized selling price of 129.3%, partially offset by an increase in cost of sales as discussed above.

Operating expenses

For the three months ended March 31, 2021, our operating expenses were approximately $1.9 million, an increase of $0.6 million, or 46.2%, over our operating expenses of $1.3 million for the three months ended March 31, 2020. As a percentage of revenue, operating expenses decreased from 2.7% during the three months ended March 31, 2020 to 1.4% for the same period in 2021. The decrease in operating expenses as a percentage of revenue is driven by the increase in revenue, partially offset by the increase in operating expenses. The overall increase in operating expenses is primarily attributable to higher salaried wages and benefits due to additional employees. We believe selling, general and administrative expenses as a percent of revenue will continue to decrease as we ramp up our production capacity.

Operating income (loss)

Our operating income for the three months ended March 31, 2021 was approximately $53.2 million, an increase of $59.3 million, or 972.1%, from our operating loss of $6.1 million for the three months ended March 31, 2020. This increase is primarily a function of the increase in our gross profit as discussed above.

Non-operating income (loss)

For the three months ended March 31, 2021, our non-operating loss was approximately $23.7 million, an increase of $31.6 million, or 400.0%, from our non-operating income of $7.9 million for the three months ended March 31, 2020. The increase in our non-operating loss for the three months ended March 31, 2021 primarily resulted from an increased net loss on our derivative instruments of $33.0 million as compared to the three months ended March 31, 2020. The increase in our net loss on our commodity forward contracts was due to the continued increase in iron ore prices throughout 2020 and 2021.

Net income (loss)

For the three months ended March 31, 2021, our net income was approximately $29.5 million, an increase of $27.7 million, or 1,538.9%, from our net income of $1.8 million for the three months ended March 31, 2020. The increase in our net income for the three months ended March 31, 2021 is primarily attributable to the increase in gross profit margin resulting from the increase in revenue, partially offset by increased non-operating loss due to a net loss on our commodity forward contract, 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:

	As of March 31, 2021	**As of December 31, 2020**
Current assets		
Cash	$126,490	$119,564
Restricted cash, escrow	$123	$259
Receivables	$6,148	$2,351
Inventories	$12,146	$8,045
Transportation deposits, current portion	$7,827	$8,487
Prepaid expenses and other current assets	$10,110	$5,848
	$162,844	$144,554
Current liabilities		
Current maturities of long-term debt	$28,880	$25,700
Current maturities of leased liabilities	$7,585	$7,423
Accounts payable	$18,963	$14,977
Accrued liabilities	$37,073	$35,885
Current derivative liability	$77,375	$80,952
	$169,876	$164,937
Working capital/(deficiency)	**$(7,032)**	**$(20,383)**

As of March 31, 2021, the Company had a working capital deficiency of $7,032 compared to a working capital deficiency of $20,383 as of December 31, 2020.

The Company’s current assets as at March 31, 2021 increased by $18.3 million since December 31, 2020. The increase was mainly due to cash flows from operations of $47.8 million.

The Company’s current liabilities as at March 31, 2021 increased by $4.9 million since December 31, 2020. The increase was mainly due to an increase in current maturities of long-term debt of $3.2 million, an increase in accounts payable and accrued liabilities of $5.2 million partially offset by a decrease of current derivative liabilities of $3.6 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)	Three Months Ended March 31, 2021	2020	Increase (Decrease)	Percent Change
Mining	$ 17.9	$ 15.6	$ 2.3	14.7%
Processing	24.6	26.1	(1.5)	(5.7%)
Logistics	32.1	23.7	8.4	35.4%
General and Administration	3.7	3.7	0.0	0.0%
FOB Cash Costs Pointe Noire	78.3	69.1	9.2	13.3%
Royalties	12.8	5.4	7.4	137.0%
Depreciation and Amortization	6.9	5.2	1.7	32.7%
Cost of sales	$ 98.0	$ 79.7	$ 18.3	23.0%

The Scully Mine shipped an aggregate amount of approximately 0.8 million tonnes of concentrate at a blended average FOB Cash Costs Pointe Noire of $78.3 per tonne for the three months ended March 31, 2021, compared to 0.7 million tonnes of concentrate at a blended average of $69.1 per tonne for the three months ended March 31, 2020. The increase in blended average FOB Cash Costs Pointe Noire primarily resulted from the increase in logistics costs due to the rail rates being impacted by the P62 iron ore price which has increased by 87.7% as compared to March 31, 2020.

Once the Scully Mine is fully ramped-up, we estimate our FOB Cash Costs Pointe Noire will be approximately $40 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, unwinding of present value discount on asset retirement obligations and foreign currency exchange gains. Adjusted EBITDA is further adjusted to exclude realized gains or losses on derivative instruments, 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:

	Three Months Ended March 31,	
($ in thousands)	**2021**	**2020**
Net Income	$ 29,520	$ 1,747
Unrealized mark-to-market on derivative instruments	(3,577)	(26,101)
Consolidated Net Income	$ 25,943	$ (24,354)
Interest expense	4,713	5,278
Income tax	76	-
Depreciation and amortization	5,772	3,667
Foreign exchange gain	585	1,503
EBITDA	$ 37,089	$ (13,906)
Other income / expense	(191)	81
Interest income	(101)	(228)
Realized loss on derivative instruments	21,810	11,330
NALCO Tax	140	106
Adjusted EBITDA	$ 58,747	$ (2,617)

Cash flows

The following discussion summarizes the significant activities impacting our cash flows during the three months ended March 31, 2021 and 2020.

Cash flows from operating activities

Cash flows generated by operating activities was $46.2 million for the three months ended March 31, 2021 compared to $7.5 million for the same period of 2020. Net cash used by operating assets and liabilities was $7.7 million for the three months ended March 31, 2021 compared with net cash generated by operating assets and liabilities of $10.8 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 $27.7 million.

Cash flows from investing activities

Net cash used by investing activities increased to $32.6 million for the three months ended March 31, 2021 compared with $13.7 million for the same period in 2020. Capital expenditures for the acquisition of property, plant and equipment increased by $7.4 million for the three months ended March 31, 2021 due to capital projects planned in 2021 to continue the ramp-up of the Scully Mine. Net cash used for commodity forward contract settlements increased by $11.0 million during the three months ended March 31, 2021 due to an increase in iron ore prices during 2020 and continued into 2021. Net cash used for commodity forward contracts were driven by the requirement to hedge in December 2018 and December 2020, which was a provision within our senior secured debt.

Cash flows from financing activities

Net cash used by financing activities during the three months ended March 31, 2021 was $6.6 million compared to $2.1 million for the three months ended March 31, 2020. The increase in net cash used by financing activities was primarily driven by increased principal payments on our senior secured debt.

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 November 15, 2018 (the “Infra Loans Closing Date”), the Company closed on an Infrastructure Loan (the “Infra Loan 1”) in the amount of $50.0 million which matures on November 15, 2025 (the “Maturity Date”). Also, on the Infra Loans Closing Date, the Company closed on an additional Infrastructure Loan (the “Infra Loan 2”) in the amount of $40.0 million which matures on the Maturity Date. On the Infra Loans Closing Date, the Company received $70.0 million as its initial drawdown which was comprised of $50.0 million from Infra Loan 1 and $20.0 million from Infra Loan 2. On May 15, 2019, the Company received the balance of the Infra Loan 2 or $20.0 million (the “Final Infra Drawdown”). During the 180 period between the Infra Loans Closing Date and the Final Infra Drawdown, the Company was required to pay the Lender a monthly standby fee (the “Standby Fee”) in the amount of $0.2 million. The Standby Fee was payable monthly in arrears on the last banking day of each calendar month, for a total of five calendar months in an aggregate amount of $1.0 million. Prior to or concurrent with the Company’s receipt of the Final Infra Drawdown, the Company shall paid the Lender a drawdown fee in the amount equal to 2% of the amount of the Final Infra Drawdown or $0.4 million.

The Company shall commence repaying Infra Loan 1 six months from the Infra Loans Closing Date by making monthly payments in the amount of $0.5 million for a total of eighteen monthly payments in an aggregate amount of $9.0 million; and thereafter, until the Maturity Date, monthly payments in the amount of $1.0 million for a total of sixty monthly payments in an aggregate amount of $60.0 million; and on the Maturity Date shall pay to the Lender any remaining amounts outstanding under the Infra Loan 1 which is anticipated to be approximately $38.6 million at the Maturity Date. The Company may prepay all amounts owing under Infra Loan 1 such that the Lender earns a yield of 13.75% over a minimum of forty-two (42) months from the Infra Loans Closing Date.

The Company shall commence repaying Infra Loan 2 six months from the Infra Loans Closing Date by making monthly payments in the amount of $0.28 million for a total of eighteen monthly payments in an aggregate amount of $5.04 million; and thereafter, until the Maturity Date, monthly payments in the amount of $0.56 million for a total of sixty monthly payments in an aggregate amount of $33.6 million; and on the Maturity Date shall pay to the Lender any remaining amounts outstanding under the Infra Loan 2 which is anticipated to be approximately $41.8 million at the Maturity Date. The Company may prepay all amounts owing under Infra Loan 2 such that for the first 18 months following the Closing Date, the Lender earns a yield of 12.75% over a minimum of thirty-six months from the Closing Date; and (ii) thereafter, the Lender earns a yield of 12.75% over a minimum of forty-eight (48) months from the Infra Loans Closing Date.

On November 15, 2018 (the “Term Loan Closing Date”), the Company closed on a Term Loan (the “Term Loan”) in the amount of $30.0 million which matures on November 15, 2023 (the “Term Loan Maturity Date”). On the Term Loan Closing Date, the Company received $30.0 million with an interest rate of 11.0% per annum. The Company shall repay the aggregate principal amount under the Term Loan as follows: (a) commencing on the first anniversary of the Term Loan Closing Date and ending twelve months thereafter, monthly installments each equal to $0.1 million; and (b) thereafter commencing on the second anniversary of the Term Loan Closing Date and continuing until the Term Loan Maturity Date, monthly installments each equal to $0.2 million. Commencing the first calendar month following the Term Loan Closing Date, the Borrower shall pay, on the same day of each calendar month, all accrued and unpaid interest to the date of payment; and the aggregate principal amount of $17.3 million under the Term Loan, shall be repayable by the Company on the Term Loan Maturity Date.

The Infra Loan 1, Infra Loan 2 and Term Loan are secured by all assets of the Company, contain financial covenants and other covenants that limit or restrict our ability to make capital expenditures; incur indebtedness; permit liens on property; enter into transactions with affiliates; make restricted payments or investments; enter into mergers, acquisitions or consolidations; conduct asset sales; pay dividends or distributions and enter into other specified transactions and activities. The Company’s ability to borrow funds within the terms of the agreements are dependent upon the continued compliance with the financial and other covenants. As of March 31, 2021, the Company was in compliance with all terms and conditions of its debt agreements.

On December 15, 2020, Tacora agreed to amend the terms of its Infra Loan 1, Infra Loan 2 and Term Loan. The amendment modified the maturity date of Infra Loan 1 and Infra Loan 2 to November 15, 2023. Two additional principal payments are now required for the Term Loan in the amount of $2.0 million dollars each for the months ending March 2021 and June 2021. Beginning September 2021 six quarterly payments will be made in the amount of $5.0 million each, these payments will be applied against Infra Loan 2 at the loan’s maturity date. The Company has agreed to pay an incremental monthly fee equal to $1/12^{th}$ of 1.00% of the aggregate outstanding principal amount of the loans if the Senior Debt to EBITDA Ratio is greater than 3.00:1.00, as tested at the end of each fiscal quarter commencing December 31, 2020. The amendment also made modifications to the minimum debt service coverage ratio financial covenant so that the first measurement of this covenant starts at March 31, 2021 instead of December 31, 2020.

Liquidity and capital resources

As of March 31, 2021, our cash and cash equivalents totaled $126.6 million. Our total cash balance represents a 5.8% increase from the balance as of December 31, 2020. This increase was driven primarily from increased cash flow from operations.

As of March 31, 2021, the outstanding principal amount of our long-term debt was approximately $133.3 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. For example, IODEX prices experienced a sustained increase during 2020. This positively impacted our revenue and our cash flows from operating activities. We expect the price of iron ore to remain high in 2021; 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 senior secured 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

Foreign exchange risk

Tacora’s operations and cash flows may be influenced by the United States dollar/Canadian dollar exchange rate due to Tacora’s operations in Canada. Operating costs may be influenced by the transactions denominated in currencies other than the United States dollar, primarily the Canadian dollar.

In any particular year, currency fluctuations may have a significant impact on Tacora’s financial results. A strengthening of the United States dollar against the Canadian dollar will have a positive effect on Tacora’s underlying earnings. However, a strengthening of the United States dollar does reduce the value of non-United States dollar denominated net assets and, therefore, would correspondingly reduce total equity.

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.

Tacora does not generally believe commodity price hedging would provide a long-term benefit to shareholders. Tacora may, however, hedge certain commitments in the future with an emphasis on mitigating commodity price risk during the ramp up of the Scully Mine. Tacora is also required to hedge a portion of its annual production in connection with the 2018 Financing Transactions.

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 the three months ended March 31, 2021 was its Chief Executive Officer, Executive Vice President and Chief Financial Officer, and its Vice President and General Manager. The remuneration for the Company's key management during the three months ended March 31, 2021 was $1,068, consisting of $1,037 in salaries, $18 in deferred compensation and $13 in 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 at 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 has 235,700,480 Common Shares, 2,739,000 Class A Non-Voting Shares, and 1,080,750, Class B Non-Voting Shares issued and outstanding. As of March 31, 2021, the Company has 3,826,000 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.

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 at 443.7 Mt at an average grade of 34.8% Fe and 2.58% 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 Tonnage (dry)**	**Fe**	**Mn**	**Concentrate Tonnage**	**Fe Conc.**	**Mn Conc.**	**SiO_2 Conc.**	**Total Weight Recovery**	**Total Fe Recovery**
	k dmt	**%**	**%**	**k dmt**	**%**	**%**	**%**	**%**	**%**
Proven	145,030	35.06	2.41	51,042	66.16	1.17	2.55	35.19	66.42
Probable	298,643	34.72	2.67	103,863	65.75	1.51	2.59	34.78	65.85
Total P&P	443,672	34.83	2.58	154,905	65.89	1.39	2.58	34.91	66.04

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 February 2014 depletion surface merged with an updated Lidar dated September 2017.

(3)Mineral Reserves are estimated at a cut-off grade of 27% weight recovery for all subunits except subunit 52 which is 30%. In addition, subunit 34 must have a ratio of weight recovery to iron of at least 1.

(4)Mineral Reserves are estimated using a long-term iron reference price (Platts 62%) of $60/dmt and an exchange rate of 1.25 C$/$. A Fe concentrate price adjustment of $9/dmt was added as an iron grade premium.

(5)Bulk density of ore is variable but averages 3.33 t/m3.

(6)The average strip ratio is 0.87:1.

(7)The Mineral Reserve includes a 3.4% 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 43101.

(9)Reference points are, for the crude ore tonnage, at the mill feed and for the concentrate tonnage, at the concentrate silo loadout.

Depletion

The table below summarizes the actual production tonnages mined and concentrate produced through March 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
Three months ended March 31, 2021	2,943	37.1	3.55	808	65.6	1.93	2.41	28.20	49.80

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 at and for the period ended March 31, 2021 are included in Note 2 of the annual audited consolidated financial statements and Note 1 of the Company's financial statements for the three months ended March 31, 2021.

Subsequent events

Subsequent to the preparation of the Company's financial statements for the three months ended March 31, 2021, certain subsequent events have had an impact on the Company, including the refinance of our senior secured debt. Further details with respect to these subsequent events are included in Note 19 of the unaudited consolidated financial statements included elsewhere in this MD&A.