

Tacora Resources Inc.

Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

INDEPENDENT AUDITORS' REPORT

To the Audit Committee of
Tacora Resources Inc.:

We have audited the accompanying consolidated financial statements of Tacora Resources Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheet as of December 31, 2020, and the related consolidated statements of loss and comprehensive loss, changes in equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

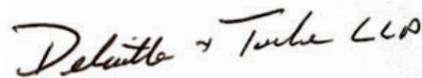
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tacora Resources Inc as of December 31, 2020, and the results of their operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

Predecessor Auditors' Opinion on 2019 Consolidated Financial Statements

The consolidated financials of the Company as of and for the year ended December 31, 2019 were audited by other auditors whose report, dated April 30, 2020, expressed an unmodified opinion on those statements.



April 1, 2021

Consolidated balance sheets

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

	Notes	2020	2019
Current assets			
Cash	5	119,564	44,292
Restricted cash, escrow	5	259	254
Receivables	6	2,351	6,001
Inventories	7	8,045	4,161
Transportation deposits, current portion	12	8,487	6,998
Prepaid expenses and other current assets	8	5,848	10,848
Total current assets		144,554	72,554
Non-current assets			
Property, plant & equipment, net	10, 13	168,322	164,903
Intangible assets subject to amortization	11	26,436	24,389
Transportation deposits	12	5,241	11,221
Security Deposits	12	3,377	3,334
Financial assurance deposit	13	6,392	6,266
Total non-current assets		209,768	210,113
TOTAL ASSETS		354,322	282,667
Current liabilities			
Current maturities of long-term debt	14	25,700	4,399
Current maturities of lease liabilities	14	7,423	6,809
Accounts payable		14,977	4,964
Accrued liabilities		35,885	16,206
Current derivative liability	18	80,952	38,726
Total current liabilities		164,937	71,104
Non-current liabilities			
Long-term debt	14	112,067	121,658
Lease liabilities	14	28,546	35,092
Long-term derivative liability	18	-	16,871
Rehabilitation obligation	13	37,630	31,706
Total Non-Current Liabilities		178,243	205,327
TOTAL LIABILITIES		343,180	276,431
NET ASSETS		11,142	6,236

Consolidated balance sheets

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

	Notes	2020	2019
Shareholder's equity			
Capital stock	16	225,332	150,232
Accumulated deficit		(214,512)	(144,114)
Equity attributable to owners of the Company			
Non-controlling interest		322	118
TOTAL EQUITY			
		11,142	6,236

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

The consolidated financial statements were approved by a directors' resolution on April 1, 2021 and signed on their behalf by:


Thierry Martel
Chief Executive Officer


Joseph A. Broking II
Executive Vice President and Chief Financial Officer

Consolidated statements of loss and comprehensive loss

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

	Notes	Years Ended	
		Dec 31, 2020	Dec 31, 2019
Revenue		299,223	60,049
Cost of Sales	20	223,218	83,379
Depreciation and amortization		16,289	6,885
Gross profit (loss)		59,716	(30,215)
Other expenses			
Selling, general, and administrative expenses	21	3,772	11,325
Sustainability and other community expenses		744	521
Operating income (loss)		55,200	(42,061)
Other income/(expense)			
Other losses		(3,780)	(135)
Write-off of MFC prepaid royalties	17	-	(2,575)
Loss on derivative instruments	18, 19	(90,097)	(54,725)
Unwinding of present value discount: asset retirement obligation		(652)	(617)
Interest expense	14	(31,490)	(17,985)
Interest income		424	1,970
Foreign exchange gain		107	4,068
Total other (expense)		(125,488)	(69,999)
Loss before income taxes		(70,288)	(112,060)
Income Taxes	15	110	440
Net loss and comprehensive loss		(70,398)	(112,500)

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

Consolidated statement of changes in equity

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

	Capital stock	Accumulated deficit	Equity attributable to owners of the parent	Non-controlling interest	Total equity
Balance at Dec 31, 2018	143,001	(31,614)	111,387	118	111,505
Issuance of common shares	7,231	-	7,231	-	7,231
Net loss	-	(112,500)	(112,500)	-	(112,500)
Balance at Dec 31, 2019	150,232	(144,114)	6,118	118	6,236
Balance at Dec 31, 2019	150,232	(144,114)	6,118	118	6,236
Issuance of common shares	77,000	-	77,000	-	77,000
Cost of common share issuance	(1,900)	-	(1,900)	-	(1,900)
Net loss attributable to owners of the parent	-	(70,398)	(70,398)	-	(70,398)
Net income attributable to non-controlling interest, net of tax	-	-	-	204	204
Balance at Dec 31, 2020	225,332	(214,512)	10,820	322	11,142

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

Consolidated statement of cash flow

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

	Notes	Years Ended	
		Dec 31, 2020	Dec 31, 2019
Cash Flows from operating activities			
Net loss		(70,398)	(112,500)
Less net income attributable to non-controlling interest		204	-
Items not affecting cash:			
Depreciation	10	15,382	6,885
Amortization of intangible asset	11	907	434
Foreign exchange transaction (gain) loss		(131)	625
Write-off of prepaid royalties	17	-	2,575
Loss from forward contracts	18, 19	90,097	54,726
Change in fair value of long-term borrowings	14	11,287	-
Accretion of debt interest	14	3,462	-
Interest accretion of asset retirement obligation	13	652	617
Loss on disposal of property and equipment	10	1,010	-
Changes in non-cash operating working capital:			
Trade accounts receivable	6	3,650	(6,001)
Inventory	7	(3,884)	(4,161)
Prepaid expenses and other	8	4,196	(5,882)
Accounts payable		10,013	4,825
Accrued expenses		14,323	11,076
Net cash inflow (outflow) from operating activities		80,770	(46,781)
Cash Flows from investing activities			
Purchases of mining property, land, plant & equipment	10, 13	(13,552)	(75,581)
Intangible assets subject to amortization	11	(2,193)	(14,241)
Transportation deposit	12	4,491	(3,032)
Commodity forward contract settlements	18	(59,386)	(8,252)
Financial assurance deposit	13	-	21,356
Net cash (outflow) from investing activities		(70,640)	(79,750)
Cash Flows from financing activities			
Proceeds from issuance of common shares	16	77,000	7,231
Payments for equity issuance costs	16	(1,900)	-
Proceeds from long-term borrowings	14	-	24,716
Principal payments on long-term debt, including vendor financed leases	14	(9,958)	(3,155)
Net cash inflow from financing activities		65,142	28,792
Net increase (decrease) in cash		75,272	(97,739)
Cash			
Beginning		44,292	142,031
Ending		119,564	44,292

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

Notes to the consolidated financial statements

For the years ended December 31, 2020 and 2019

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

Note 1 - Corporate information

Tacora Resources Inc. along with its subsidiaries (collectively, the “Company” or “Tacora”) are in the business of identifying, mining and processing iron ore mineral reserves and resources. The utilization of iron ore is Tacora’s main strategic objective at this time; however, other revenue streams may be added in the future.

Tacora was formed under the *Business Corporations Act* (British Columbia) on January 12, 2017 and is incorporated in British Columbia, Canada. Tacora’s registered office is located at Suite 1700, Park Place, 666 Burrard Street, Vancouver, BC V6C 2X8 Canada with its principal place of business located at 102 Northeast 3rd Street, Suite 120, Grand Rapids, MN 55744 United States. The controlling and ultimate parent of Tacora is Proterra M&M MGCA B.V.

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

Note 2 – Summary of significant accounting policies

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

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

The accompanying consolidated financial statements and notes of Tacora for the years ended December 31, 2020 and 2019 were authorized for issuance on April 1, 2021.

Basis for preparation

The consolidated financial statements were prepared using the historical cost method. Transactions, balances, and unrealized gains on transactions between Tacora and its subsidiaries have been eliminated when preparing the consolidated financial statements.

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

Use of estimates

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. Certain amounts included in or affecting these consolidated financial statements and related disclosures must be estimated, requiring management to make certain assumptions with respect to values or conditions which cannot be known with certainty at the time the consolidated financial statements are prepared. Management evaluates these estimates on an ongoing basis, utilizing historical experience, consultation with experts and other methods it considers reasonable

Notes to the consolidated financial statements

For the years ended December 31, 2020 and 2019

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

in the particular circumstances. Any effects on Tacora's business, financial position or results of operations resulting from revisions to these estimates are recorded in the period in which the facts that give rise to the revision become known.

Consolidation

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

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

As at December 31, 2020, the subsidiaries included in the consolidated financial statements of Tacora were as follows:

	Country of incorporation	Ownership percentage %	Functional currency
Tacora Resources LLC	United States	100%	US Dollars
Knoll Lake Minerals Limited	Canada	58.2%	Canadian Dollars

As part of the acquisition in 2017, Tacora acquired common shares representing a 58.2% interest in Knoll Lake Minerals Limited ("Knoll Lake"). The common shares of Knoll Lake are not considered a core asset to the mining operations of the Scully Mine. The ownership interest in Knoll Lake relates to a legacy asset that was included as one of several ancillary assets acquired as part of the acquisition. Nil consideration was allocated to the common shares of Knoll Lake. For the year ended December 31, 2020 and 2019, Knoll Lake had no operating activities. Knoll Lake is not considered a material subsidiary of Tacora for the periods ended December 31, 2020 and 2019. Cumulative translation adjustments from foreign exchange translation of Knoll Lake's operations as of December 31, 2020 and 2019 are immaterial to the consolidated financial statements.

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

Revenue Recognition

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

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

Price changes for revenue awaiting final pricing at the balance sheet date could have a material effect on future revenues. As at December 31, 2020, there was \$173.6 million (December 31, 2019: \$55.9) in revenues that were awaiting final pricing.

Notes to the consolidated financial statements

For the years ended December 31, 2020 and 2019

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

Cash and restricted cash

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

Inventories

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

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

Foreign currency translation

Functional and presentation currency

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

Foreign currency translation

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

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

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

Asset acquisition

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

Intangible assets subject to amortization

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

Intangible assets are subject to impairment tests when events or circumstances indicate that carrying value is not recoverable. Impairment losses are recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. Management determined that there were no indicators of impairment as of December 31, 2020 and 2019.

Notes to the consolidated financial statements

For the years ended December 31, 2020 and 2019

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

Financial assets and liabilities

Financial assets and Financial liabilities

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

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

Financial assets

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

a) Fair value through profit or loss – financial assets are classified as fair value through profit or loss if they do not meet the criteria of amortized cost or fair value through other comprehensive income. Changes in fair value are recognized in the statement of income (loss).

b) Amortized cost – financial assets are classified at amortized cost if both of the following criteria are met and the financial assets are not designated as at fair value through profit and loss: 1) the objective of the Company's business model for these financial assets is to collect their contractual cash flows; and 2) the asset's contractual cash flow represents solely payments of principal and interest.

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

Derivatives

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

Derecognition of financial assets and liabilities

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

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

Royalties

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

Notes to the consolidated financial statements

For the years ended December 31, 2020 and 2019

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

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

Exploration and evaluation

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

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

In accordance with IFRS 6 “Exploration for and Evaluation of Mineral Resources”, the criteria for the capitalization of evaluation costs are applied consistently from period to period. Subsequent recovery of the carrying value for evaluation costs depends on successful development, sale or other partnering arrangements of the undeveloped project. If a project does not prove viable, all irrecoverable costs associated with the project net of any related impairment provisions are charged to the statement of profit and loss. No exploration or evaluation costs were capitalized in 2020 or 2019.

Property, plant, and equipment

Once a mining project has been determined to be commercially viable and approval to mine has been granted, expenditure other than that on land, buildings, plant, equipment and capital work in progress is capitalized under “Mining properties and leases”. Mineral reserves may be asserted for an undeveloped mining project before its commercial viability has been fully determined. Evaluation costs may continue to be capitalized during the period between declaration of mineral reserves and approval to mine as further work is undertaken in order to refine the development case to maximize the project’s returns.

Costs of evaluation of a processing plant or material processing equipment prior to approval to develop or construct are capitalized under “Construction in process”, provided that there is a high degree of confidence that the project will be deemed to be commercially viable.

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

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

Notes to the consolidated financial statements

For the years ended December 31, 2020 and 2019

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

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

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

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

Property, plant, and equipment is subject to impairment tests when events or circumstances indicate that carrying value is not recoverable. Impairment losses are recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. Management determined that there were no indicators of impairment as of December 31, 2020 and 2019.

Leases

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

Lease liabilities:

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

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

Right-of-use assets:

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

Notes to the consolidated financial statements

For the years ended December 31, 2020 and 2019

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

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

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

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

Provisions

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

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

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

Environmental rehabilitation

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

Taxation

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

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at period-end, adjusted for amendments to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities in the financial statements and the amount recorded for the computation of taxable income except when these differences arise on the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit. These temporary differences result in deferred tax assets and

Notes to the consolidated financial statements

For the years ended December 31, 2020 and 2019

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

liabilities, which are included in the consolidated balance sheet. Tacora will recognize deferred tax assets for all deductible temporary differences, tax credits, and unused tax losses, to the extent that it is probable that future taxable profits will be available against which these can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Capital stock

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

Share-based compensation

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

Going concern

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

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

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

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

Mineral reserves and resources

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

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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.

Uncertainty due to COVID-19

In late December 2019, a novel coronavirus ("COVID-19") was identified and subsequently spread worldwide. On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a pandemic creating an unprecedented global health and economic crisis. The Company will continue to closely monitor the potential impact of COVID-19 on its business. Should the duration, spread or intensity of the COVID-19 pandemic deteriorate in the future, there could be a potentially material and negative impact on the Company's business, notably due to the following: a potential curtailment or total shut down of operations by government; potential loss of contractor manpower at its mining site; the potential of a Company employee falling ill and causing a disruption to the mine site; a potential impact on the ability to procure and transport critical supplies and parts to the sites; and a potential impact on the ability of the Company to transport iron ore to generate revenues. If any of these events were triggered, the result could be a complete shutdown of the Company's mining site for an undetermined period.

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

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

Note 4 - Financial risk management

Financial risk management objective

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

Foreign exchange risk

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Tacora's operations and cash flows may be influenced by foreign currencies due to the geographic diversity of Tacora's operations and the locations of its operations. Operating costs may be influenced by the transactions denominated in currencies other than the USD.

In any particular year, currency fluctuations may have a significant impact on Tacora's financial results. A strengthening of the USD against the Canadian dollar has a positive effect on Tacora's underlying earnings. However, a strengthening of the USD also reduces the value of non-USD denominated net assets and consequently total equity.

The impact of a 10% change in the USD against the Canadian dollar as December 31, 2020 would have a \$7.5 million impact on earnings.

Commodity price risk

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

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

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

Credit risk

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

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instruments.

Liquidity and capital risk management

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

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

	Within 1 Year	1 to 2 Years	2 to 5 Years	Over 5 Years	Total
Accounts payable and accrued liabilities	50,862	-	-	-	50,862
Debt	41,922	45,633	87,763	-	175,318
Lease liabilities	9,420	9,436	22,086	12	40,954
Rehabilitation obligation	-	-	-	37,630	37,630
Total	102,204	55,069	109,849	37,642	304,764

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

Note 5 - Cash

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

Cash consists of the following:

	As at Dec 31, 2020	As at Dec 31, 2019
Cash at bank	119,564	44,292
Restricted cash, escrow	259	254

Restricted cash of \$259 thousand is held as collateral for one letter of credit required for environmental reclamation and Tacora's credit card program.

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Note 6 – Accounts Receivable

Accounts receivable consist of the following:

	As at Dec 31, 2020	As at Dec 31, 2019
Trade receivables	2,351	6,001
Balance per consolidated balance sheet	2,351	6,001

Tacora's trade receivables all relate to a single customer. For the years ended December 31, 2020 and 2019, no specific provision was recorded on any of the receivables. The receivables at December 31, 2020 are current and are generally settled within four months.

Note 7 – Inventories

Inventories consist of the following:

	As at Dec 31, 2020	As at Dec 31, 2019
Consumable inventories	5,693	2,786
Finished concentrate inventories	2,352	1,375
Balance per consolidated balance sheet	8,045	4,161

Note 8 – Prepaid expenses and other current assets

Prepaid expenses consist of the following:

	As at Dec 31, 2020	As at Dec 31, 2019
Prepaid future port and transportation services	-	2,031
Other miscellaneous prepaid expenses	1,384	1,274
Sales tax	4,420	7,499
Miscellaneous deposits	44	44
Balance per consolidated balance sheet	5,848	10,848

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Note 9 - Related-party balances

Transactions with related parties for the period ended December 31, 2020 and 2019, were as follows:

Compensation of key management personnel

Tacora considers its directors and officers to be key management personnel. Transactions with key management personnel are set forth as follows:

	2020 USD\$	2019 USD\$
Salaries	1,650	954
Deferred Compensation	37	41
Other benefits	53	97
Total	1,740	1,092

There were no material related party receivables or payables as of December 31, 2020 or 2019, respectively.

Note 10 – 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, 2018	26,082	-	105	-	-	26,231	52,418
Additions	25,750	2,032	327	54,680	31,401	4,859	119,049
Disposals	-	-	-	-	-	-	-
Transfer	-	-	-	-	-	-	-
Accumulated depreciation	(2,123)	(51)	(10)	(4,310)	-	(70)	(6,564)
As of Dec 31, 2019	49,709	1,981	422	50,370	31,401	31,020	164,903
Additions	-	-	-	-	15,087	5,272	20,359
Disposals	(1,005)	-	(146)	(362)	-	-	(1,513)
Transfer	24,667	436	-	3,204	(27,945)	-	362
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

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

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

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Note 11 – Intangible assets subject to amortization

Port access

In May 2018, the Company executed an agreement with Société ferroviaire et portuaire de Pointe-Noire s.e.c. (“SFPPN”) with an effective date of June 1, 2018 and a termination date of December 31, 2044 setting out the terms on which SFPPN will grant the Company guaranteed access to SFPPN’s equipment, throughput and storage capacity necessary to transport iron ore to the port infrastructure. Under the SFPPN Agreement, the Company is required to contribute, to certain capital expenditures up to an aggregate amount of C\$48.9 million, inclusive of C\$10 million which was paid in 2018. Capital expenditures totaling C\$16.3 million and C\$2.8 million were paid in 2019 and 2020, respectively and C\$7.8 million 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

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between NML, the Port Authority and Tacora in respect of the assigned capacity were fully executed and complete as of December 31, 2018.

Intangible assets consist of the following:

	SFPPN Intangible Asset	New Millennium Iron Corp. Port Access	Total
As of Dec 31, 2018	7,552	3,030	10,582
Additions	12,311	1,930	14,241
Accumulated amortization	(259)	-	(259)
Upfront payment recovery	-	(175)	(175)
As of Dec 31, 2019	19,604	4,785	24,389
Additions	3,278	-	3,278
Accumulated amortization	(907)	-	(907)
Upfront payment recovery	-	(324)	(324)
As of Dec 31, 2020	21,975	4,461	26,436

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 12 – Deposits

Transportation deposits consist of the following:

	As at Dec 31, 2020	As at Dec 31, 2019
Québec North Shore and Labrador Railway Company, Inc., transportation deposit	13,728	18,219
Less current portion	(8,487)	(6,998)
Non current portion per the consolidated balance sheet	5,241	11,221

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

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

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

Security deposits consist of the following:

	As at Dec 31, 2020	As at Dec 31, 2019
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	2,239
Caterpillar Financial, 10% of total purchase price of equipment financed until 24 months of consecutive mining operations	756	756
Balance per consolidated balance sheet	3,377	3,334

Note 13 – Environmental rehabilitation

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

In 2019, Tacora executed a surety bond in the amount of C\$41.7 million which meets the entire financial assurance requirement contained in Tacora's mining permits with Newfoundland and Labrador. Newfoundland and Labrador accepted the surety bond and Tacora was reimbursed by the province for the cash financial assurance payment held in escrow in the amount of C\$36.8 million. A deposit of \$6.3 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.

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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 Dec 31, 2020	As at Dec 31, 2019
Opening balance	31,706	26,231
Additions/changes in estimates	-	3,840
Interest accretion	652	617
Change in inflation/discount rates	5,272	1,018
Balance per consolidated balance sheet	37,630	31,706

Note 14 – Debt

The carrying value, terms and conditions of Tacora's debt at December 31, 2020 and December 31, 2019 are as follows:

	As at Dec 31, 2020	As at Dec 31, 2019
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	4,882	5,149
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	55,377	52,537
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	49,498	39,997
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	28,010	28,374
	137,767	126,057
Less current maturities of long term debt	25,700	4,399
Long term debt	112,067	121,658

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	As at Dec 31, 2020	As at Dec 31, 2019
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	61	103
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	9,972	11,887
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	808	1,021
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	5,933	7,049
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	6,137	7,263
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	2,830	3,340
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	5,748	6,763
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	3,692	4,596
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	92	113
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	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	236	-
Down payment costs amortized over the life of the debt	(175)	(234)
	35,969	41,901
Less current maturities of lease liabilities	7,423	6,809
Long term lease liabilities	28,546	35,092

Covenants

The term loan and the infrastructure loans contain the following covenants as of December 31, 2020:

- 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.

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As of December 31, 2020, Tacora is in compliance with all financial covenants.

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 15 – Taxation

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

The following table reconciles the expected income tax (expense)/recovery at the statutory income tax rate of 30% which is the combined federal and NL tax rate (2019: 30%) to the amounts recognized in the consolidated statements of income:

	Year Ended	
	2020	2019
Net income reflected in consolidated statements of income	(69,746)	(112,060)
Expected income tax (expense) recovery	(20,924)	(33,618)
Permanent differences	(82)	(9)
Adjustments related to prior year balances	-	-
Unrecognized deferred tax assets	19,963	34,939
Foreign exchange	1,143	(1,188)
Other	10	316
Income Tax Expense	110	440

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

	Year Ended	
	2020	2019
Hedges	80,952	55,597
Fixed assets, intangibles and other	6,042	12,811
Loss on debt modification	11,287	-
Non-capital loss carry forwards	122,227	77,925
Total unrecognized deductible temporary differences	220,508	146,333

As of December 31, 2020 the company has total non-capital losses of \$122.2 million (2019 - \$77.9 million). Deferred tax asset was not recognized on such losses, which if not utilized will expire between 2037 and 2040.

Note 16 – Equity

	Shares Authorized	Shares Issued	2019
Ordinary Shares:			
Common - no par value	165,231,138	165,231,138	150,232
Restricted Shares:			
Class A	3,300,000	2,739,000	0.273
Class B	3,300,000	2,739,000	0.272
Balance as of Dec 31, 2019	171,831,138	170,709,138	150,232

	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

Restricted Shares

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

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- 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

A cash call was declared on March 6, 2020 for \$5.0 million with a price of \$1.00 per share. The cash call was completed April 30, 2020 and 5.0 million shares of common stock were issued as of that date.

A cash call was declared on March 6, 2020 for \$10.0 million with a price of \$1.00 per share. The cash call was completed May 18, 2020 and 10.0 million shares of common stock were issued as of that date.

On December 11, 2020, 34.4 million shares of common stock were issued for \$62.0 million.

Stock Options

The Company offers a stock option plan for certain employees.

	Number of Stock Options	Weighted- Average Exercise Price
Granted	561,000	1.00
Exercised	-	-
Cancelled	(130,000)	-
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

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 in 2020 or 2019.

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Note 17 – Commitments and contingencies

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

	2020	2019
	USD\$	USD\$
Payments due in one year	37,936	31,687
Payments due in one to five years	10,210	10,008
Payments due later than five years ¹	92,749	83,236

(1) Includes Tacora's environmental rehabilitation provision (Note 11)

Mining leases and royalties

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

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

Any minimum quarterly royalty payments during the calendar years of 2017 and 2018 could be recovered against future earned royalties on sales of iron ore products from the leased land during the 2018 and 2019 calendar years. Any amount which Tacora shall pay the lessor related to minimum quarterly royalty payments subsequent to 2019, other than in payment of earned royalties, shall be recoverable against earned royalties in the same calendar year. The prepaid royalties balance of \$2.6 million accumulated throughout 2017, 2018 and 2019 that could not be carried forward beyond 2019, were written off as of December 31, 2019. There were no prepaid royalties at December 31, 2019.

Royalties paid in the years ended December 31, 2020 and 2019 were approximately \$14.0 million and \$2.4 million, respectively. Accrued royalties in the amount of \$10.2 million were recorded in other accrued expenses at December 31, 2020. Accrued royalties due to our minimum quarterly payments in the amount of \$0.6 million were recorded in other accrued expenses at December 31, 2019.

Transportation services

Tacora is committed to purchasing transportation services that will require minimum annual payments of approximately \$35.4 million. In the event Tacora suspends production and shipments of iron ore at the Scully mine for any reason for a period longer than one year, the obligation to pay minimum annual payments is suspended.

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Note 18 – 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 years ended December 31, 2020 and 2019. 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.

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

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Based on the maturity dates of the contracts noted above, the derivative liability has been classified as current and long-term.

	Years Ended December 31,	
	2020	2019
Current derivative liability	80,952	38,726
Long-term derivative liability	-	16,871
Total derivative liability	80,952	55,597

Note 19 – Financial instruments

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

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

Financial risk factors

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

Credit and liquidity risk

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

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

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

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

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

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

	December 31, 2019				Carrying Amount
	Level 1	Level 2	Level 3	Total	
Derivative liability	—	55,597	—	55,597	55,597
Notes payable	—	—	5,149	5,149	5,149

During the period ended December 31, 2020 and December 31, 2019, there were no transfers between Level 1 and Level 2 fair value measurements.

Note 20– Cost of sales

	Year Ended	
	2020	2019
Mining	41,697	19,397
Processing	70,395	26,486
Logistics	76,808	28,748
General and Administration	10,768	4,491
Royalties	23,550	4,257
Total expenses by function	223,218	83,379

Note 21– Selling general and administrative expenses

	Year Ended	
	2020	2019
Salaried wages and benefits	1,687	2,902
Professional fees	903	749
Insurance	518	23
Travel	239	1,347
Contract services	231	52
Other	194	428
Port and rail charges	-	6,613
Costs allocated to CAPEX	-	(789)
Total expenses by function	3,772	11,325

Note 22– Subsequent events

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,

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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 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 Sydvaranger 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. As a result, the Company has not provided amounts recognized as at the acquisition date for certain major classes of assets acquired and liabilities assumed.