Tacora Resources Inc.

Consolidated Financial Statements
For the years ended December 31, 2022 and 2021

KPMG LLP
4200 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report

Board of Directors
Tacora Resources Inc.:

Qualified Opinion

We have audited the consolidated financial statements of Tacora Resources Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheet as of December 31, 2022, and the related consolidated statements of income (loss) and comprehensive income (loss), changes in equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Qualified Opinion

The Company's supply and spare parts inventory is valued at lower of cost or net realizable value with a total cost of $29.0M on the consolidated balance sheet as of December 31, 2022. We were unable to obtain sufficient appropriate audit evidence over the quantity of supply and spare parts inventory held by the Company as of December 31, 2022 because of an inability to sufficiently observe the physical inventories. Consequently, we were unable to determine whether any adjustments to the amount were necessary.

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

Substantial Doubt About the Entity's Ability to Continue as a Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has suffered recurring losses from operations, has cash outflows from operations for the twelve months ended December 31, 2022, and has stated that substantial doubt exists about the Company's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matter

The consolidated financial statements of the Company as of and for the year ended December 31, 2021 were audited by another auditor, who expressed an unmodified opinion on those statements on April 7, 2022.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the Supplemental Consolidating Balance Sheet Information as of December 31, 2022, but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. We were unable to consider management's description of the matter in the other information with respect to which our opinion on the financial statements has been qualified, as explained in the Basis for Qualified Opinion section. If, based on the work performed, we conclude that any other uncorrected material misstatement of the other information exists, we are required to describe it in our report.

KPMG LLP

Minneapolis, Minnesota
June 1, 2023

Consolidated balance sheets

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

	Notes	Dec 31, 2022	Dec 31, 2021
Current assets			
Cash	5	6,848	34,883
Receivables	6	8,897	10,530
Inventories	7	33,743	19,029
Transportation deposits, current portion	12	-	7,740
Prepaid expenses and other current assets	8	1,740	4,641
Assets held for sale	24	39,948	-
Total current assets		91,176	76,823
Non-current assets			
Property, plant & equipment, net	10, 13	224,476	290,386
Intangible assets subject to amortization	11	46,230	37,809
Transportation deposits	12	4,220	901
Security Deposits	12	2,658	3,414
Financial assurance deposit	13	6,010	6,410
Total non-current assets		283,594	338,920
TOTAL ASSETS		374,770	415,743
Current liabilities			
Current maturities of long-term debt	14	1,172	2,950
Current maturities of lease liabilities	15	11,193	9,859
Current deferred gain – Series C Preferred	25	3,000	-
Accounts payable		25,609	11,718
Accrued liabilities	16	28,094	41,402
Liabilities held for sale	24	39,948	-
Total current liabilities		109,016	65,929
Non-current liabilities			
Long-term debt	14	212,894	166,581
Lease liabilities	15	22,709	38,365
Long-term royalties payable	24	-	23,088
Long-term deferred gain – Series C Preferred	25	11,625	-
Deferred tax liability	17, 24	-	5,355
Rehabilitation obligation	13	26,604	35,197
Total non-current liabilities		273,832	268,586
TOTAL LIABILITIES		382,848	334,515
Shareholder's equity			
Capital stock	18	263,350	263,350
Accumulated deficit		(271,597)	(182,391)
Equity attributable to owners of the Company		(8,247)	80,959
Non-controlling interest		169	269
TOTAL EQUITY		(8,078)	81,228
TOTAL LIABILITIES AND EQUITY		374,770	415,743

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

The consolidated financial statements were approved by a directors' resolution on June 1, 2023 and signed on their behalf by:

Joseph A. Broking II
President and Chief Executive Officer

Consolidated statements of income (loss) and comprehensive income (loss)

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

	Notes	Years Ended Dec 31, 2022	Dec 31, 2021
Revenue		324,850	446,051
Cost of sales	22	322,014	327,817
Gross profit		2,836	118,234
Other expenses			
Selling, general, and administrative expenses	23	9,708	6,658
Operating (loss) income		(6,872)	111,576
Other income (expense)			
Other expense		(2,818)	(4,334)
Loss on debt extinguishment	14	-	(15,247)
Loss on derivative instruments	20	-	(42,829)
Gain on financial instrument	25	375	-
Interest expense	14, 15	(23,103)	(18,662)
Interest income		441	246
NALCO Tax		(524)	(560)
Foreign exchange gain		129	21
Total other (expense)		(25,500)	(81,365)
Income (loss) before income taxes		(32,372)	30,211
Current income tax (expense)	17	(480)	(542)
Net income (loss) and comprehensive income (loss), continuing operations		(32,852)	29,669
Net income (loss) and comprehensive income (loss), discontinued operations		(56,300)	2,554
Net income (loss) and comprehensive income (loss)		(89,152)	32,223
Net income and comprehensive income attributable to non-controlling interest, net of tax		54	102
Net income (loss) and comprehensive income (loss) attributable to Tacora Resources, Inc., continuing operations		(32,906)	29,567
Net income (loss) and comprehensive income (loss) attributable to Tacora Resources, Inc., discontinued operations		(56,300)	2,554
Net income (loss) and comprehensive income (loss) attributable to Tacora Resources, Inc.		(89,206)	32,121

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

Consolidated statements 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, 2020	**225,332**	**(214,512)**	**10,820**	**322**	**11,142**
Issuance of common shares (Note 18)	38,000	-	38,000	-	38,000
Credit to cost of common share issuance	18	-	18	-	18
Net income attributable to owners of the parent	-	32,121	32,121	-	32,121
Net income attributable to non-controlling interest, net of tax	-	-	-	102	102
Distributions to non-controlling interest	-	-	-	(155)	(155)
Balance at Dec 31, 2021	**263,350**	**(182,391)**	**80,959**	**269**	**81,228**
Balance at Dec 31, 2021	**263,350**	**(182,391)**	**80,959**	**269**	**81,228**
Net loss attributable to owners of the parent	-	(32,906)	(32,906)	-	(32,906)
Net loss attributable to discontinued operations	-	(56,300)	(56,300)	-	(56,300)
Net income attributable to non-controlling interest, net of tax	-	-	-	54	54
Distributions to non-controlling interest	-	-	-	(154)	(154)
Balance at Dec 31, 2022	**263,350**	**(271,597)**	**(8,247)**	**169**	**(8,078)**

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

Consolidated statements of cash flow

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

	Notes	Years Ended Dec 31, 2022	Dec 31, 2021
Cash Flows from operating activities			
Net income (loss)		(89,206)	32,121
Less net income attributable to non-controlling interest		54	102
Adjustments to reconcile to net income:			
Depreciation	10	22,678	21,236
Amortization of intangible asset	11	1,771	1,193
Foreign exchange transaction loss (gain)		400	(19)
Change in fair value of derivative liability	20	-	42,219
Gain on financial instrument	25	(375)	-
Prepayment penalty on long-term borrowings	14	-	15,247
Accretion fair value of long-term borrowings	14	(1,135)	294
Unwinding of present value discount: asset retirement obligation	13	683	615
Change in deferred tax losses	17	(5,355)	(2,554)
Loss on disposal of property and equipment	10	1,736	1,270
Loss on fair value of disposal group	24	61,655	-
Changes in non-cash operating working capital:			
Trade accounts receivable	6	1,363	(7,909)
Other receivables	6	270	(270)
Inventory	7	(14,714)	(10,984)
Prepaid expenses and other	8	3,658	1,169
Accounts payable		11,524	(8,809)
Accrued liabilities	16	(15,726)	14,958
Net cash (outflow) inflow from operating activities		(20,719)	99,879
Cash Flows from investing activities			
Purchases of mining property, land, plant & equipment	10, 13	(53,750)	(53,370)
Acquisition of intangible assets subject to amortization	11	(8,422)	(12,568)
Transportation deposit	12	4,420	5,089
Change in restricted cash, escrow	5	-	260
Cash acquired from Sydvaranger acquisition	24	-	741
Commodity forward contract settlements	20	-	(132,612)
Net cash outflow from investing activities		(57,752)	(192,460)
Cash Flows from financing activities			
Proceeds from issuance of preferred shares	25	15,000	-
Credits for equity issuance costs	18	-	18
Proceeds from long-term borrowings	14	52,995	175,000
Issuance costs from long-term borrowings	14	(5,091)	(8,419)
Prepayment penalty on long-term borrowings	14	-	(15,247)
Knoll Lake distributions to non-controlling interest		(154)	(155)
Principal payments on long-term debt, including vendor financed leases	14, 15	(12,314)	(143,297)
Net cash inflow from financing activities		50,436	7,900
Net decrease in cash		(28,035)	(84,681)
Cash			
Beginning		34,883	119,564
Ending		6,848	34,883
Supplemental disclosures			
Cash paid for interest		20,804	15,522
Property and equipment acquired through accounts payable		10,335	5,551
Assets acquired through vendor financed leases		3,278	12,921

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

Notes to the consolidated financial statements

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

Note 1 - Corporate information

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

Tacora was formed under the *Business Corporations Act* (British Columbia) on January 12, 2017 and is incorporated in British Columbia, Canada. Tacora's registered office is located at 199 Bay Street, 5300 Commerce Court West, Toronto, ON M4L 1B9 Canada.

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 of its key asset, the Scully Mine, a long-life, large-scale open pit operation, in June 2019. Approximately 65% of employees are covered under collective bargaining agreement which expire on December 31, 2027.

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 acquired the option to restart the Sydvaranger Mine which is shovel ready and fully permitted in a tier 1 jurisdiction. As of December 31, 2022, Sydvaranger was under a care and maintenance program.

Note 2 – Summary of significant accounting policies

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

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

The accompanying consolidated financial statements and notes of Tacora for the years ended December 31, 2022 and 2021 were authorized for issuance on June 1, 2023.

Basis for preparation

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

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

Notes to the consolidated financial statements

(expressed in thousands of US Dollars, except where 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 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, 2022, the subsidiaries included in the consolidated financial statements of Tacora were as follows:

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

As part of the acquisition in 2017, Tacora acquired common shares representing a 58.2% interest in Knoll Lake Minerals Limited ("Knoll Lake"). The common shares of Knoll Lake are not considered a core asset to the mining operations of the Scully Mine. The ownership interest in Knoll Lake relates to a legacy asset that was included as one of several ancillary assets acquired as part of the acquisition. Nil consideration was allocated to the common shares of Knoll Lake. For the years ended December 31, 2022 and 2021, Knoll Lake had no operating activities. Knoll Lake is not considered a material subsidiary of Tacora for the years ended December 31, 2022 and 2021. Cumulative translation adjustments from foreign exchange translation of Knoll Lake's operations as of December 31, 2022 and 2021 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 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 recorded as adjustments to the transaction price and recognized as revenue from contracts with customers and recorded in sales up to the date of final settlement. Ocean freight a 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.

Tacora believes commodity price hedging could provide a long-term benefit to shareholders. Tacora has entered into monthly average index P62 fixed price contracts with Cargill to help mitigate commodity price risk during the ramp up of the Scully Mine. A total of 2.4 million tonnes have been fixed with settlement dates between January 1, 2022 and December 31, 2022. In addition, 0.6 million tonnes have been fixed with settlement dates between January 1, 2023 and March 31, 2023. Given the expectation that Tacora will physically settle these contracts, this arrangement will be treated as part of our own use and therefore Tacora is not treating the fixed nature of this pricing as a derivative under IFRS 9. As a result, the impacts of the agreement with Cargill will be recorded in revenue.

Price changes for revenue awaiting final pricing at the balance sheet date could have a material effect on future revenues. As at December 31, 2022, there was $69.8 million (December 31, 2021: $111.4) in revenues that were awaiting final pricing.

Cash and restricted cash

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

Inventories

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

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

Foreign currency translation

Functional and presentation currency

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

Foreign currency translation

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

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

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

Business Combinations

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

Asset acquisition

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

Intangible assets subject to amortization

Intangible assets are related to port access and are initially 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, 2022 and 2021.

Financial assets and liabilities

Financial liabilities

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

The Company has classified accounts payable, accrued liabilities, long-term debt, long-term leases and asset retirement obligations 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, accounts receivable and deposits 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 assets or liabilities at fair value through profit or loss.

Derecognition of financial assets and liabilities

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

Royalties

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

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

Exploration and evaluation

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

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

In accordance with IFRS 6 “Exploration for and Evaluation of Mineral Resources”, the criteria for the capitalization of evaluation costs are applied consistently from period to period. Subsequent recovery of the carrying value for evaluation costs depends on successful development, sale or other partnering arrangements of the undeveloped project. If a project does not prove viable, all irrecoverable costs associated with the project net of any related impairment provisions are charged to the consolidated statements of income (loss) and comprehensive income (loss). No exploration or evaluation costs were capitalized in 2022 or 2021.

Basin development costs

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

Property, plant, and equipment

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

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

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

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

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

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when future economic benefits associated with the item are likely and the cost of the item can be reliably measured. The carrying amount of replaced parts are derecognized and charged to loss on disposal. Repairs and maintenance are recognized in the consolidated statements of income (loss) and comprehensive income (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 indicators of impairment as of December 31, 2022 as discussed in Note 24.

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 statements of income (loss) and comprehensive income (loss).

Right-of-use assets:

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

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

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

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the consolidated statements of income (loss) and comprehensive income (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 probable 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 discounted at a pre-tax rate specific to the liability 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 consolidated statements of income (loss) and comprehensive income (loss) consists of current and deferred tax.

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities in the financial statements and the amount recorded for the computation of taxable income except when these differences arise on the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit. These temporary differences result in deferred tax assets and liabilities, which are included in the consolidated balance sheet. Tacora will recognize deferred tax assets for all deductible temporary differences, tax credits, and unused tax losses, to the extent that it is probable that future taxable profits will be available against which these can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Capital stock

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

Share-based compensation

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

Going concern

The accompanying consolidated financial statements are prepared in accordance with IFRS applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

The Company has a net operating loss and cash outflows from operations for the twelve months ended December 31, 2022 due to a reduction in iron ore prices and a slower than expected ramp-up of the Scully Mine. Based on the Company's projected cash flows, the Company does not have sufficient cash on hand or available liquidity to sustain its operations and meet its obligations as they become due for twelve months following the date the consolidated financial statements are issued. These conditions and events raise substantial doubt about the Company's ability to continue as a going concern.

The Company continues to advance certain strategic alternatives to secure additional outside capital to ensure that the Company has sufficient liquidity and a sustainable capital structure to meet all obligations due over the next twelve months. These initiatives may include, among others, the sale of certain of the Company's assets or a sale of additional equity of the Company to strategic or financial investors.

No assurance can be given that any of the contemplated strategic initiatives will be successfully completed. As a result, we have concluded that, there is substantial doubt about our ability to continue as a going concern. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

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

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

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

Business combinations

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

Mineral reserves and resources

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

Environmental rehabilitation

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

Note 4 – Financial risk management

Financial risk management objective

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

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

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 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.

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.

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

	Average Strike Price USD$	Volume (dmt)
Settlement dates between Jan 1, 2022 and Mar 31, 2022	123.00	600,000
Settlement dates between Apr 1, 2022 and Jun 30, 2022	123.00	600,000
Settlement dates between Jul 1, 2022 and Sept 30, 2022	129.65	600,000
Settlement dates between Oct 1, 2022 and Dec 31, 2022	123.69	600,000
Settlement dates between Jan 1, 2023 and Mar 31, 2023	96.44	600,000

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

Credit risk

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

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.

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

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

	Within 1 Year	1 to 2 Years	2 to 5 Years	Over 5 Years	Total
Accounts payable and accrued liabilities	53,703	-	-	-	53,703
Debt	19,734	18,880	253,740	1,340	293,694
Lease liabilities	12,914	12,047	12,306	0	37,267
Rehabilitation obligation	-	-	-	26,604	26,604
Total	86,351	30,927	266,046	27,944	411,268

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, 2022	As at Dec 31, 2021
Cash at bank	6,734	34,761
Restricted cash, escrow	114	122
Total	6,848	34,883

Restricted cash of $114 as of December 31, 2022 and $122 as of December 31, 2021 is held as collateral for one letter of credit required for environmental reclamation and Tacora's credit card program.

Note 6 – Accounts Receivable

Accounts receivable consist of the following:

	As at Dec 31, 2022	As at Dec 31, 2021
Trade receivables	8,897	10,260
Other receivables	-	270
Balance per consolidated balance sheet	8,897	10,530

Tacora's trade receivables all relate to a single customer. For the years ended December 31, 2022 and December 31, 2021, no specific provision was recorded on any of the receivables. The receivables at the end of both periods were current and are generally paid in a timely manner.

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

Note 7 – Inventories

Inventories consist of the following:

	As at Dec 31, 2022	As at Dec 31, 2021
Consumable inventories	28,894	15,026
Work-in-process inventories	1,750	2,250
Finished concentrate inventories	3,099	1,753
Balance per consolidated balance sheet	33,743	19,029

For the years ended December 31, 2022 and December 31, 2021, no specific adjustment was recorded for any of the inventory.

Note 8 – Prepaid expenses and other current assets

Prepaid expenses consist of the following:

	As at Dec 31, 2022	As at Dec 31, 2021
Prepaid sales tax	-	1,312
Other miscellaneous prepaid expenses	1,647	3,087
Prepaid insurance	49	198
Miscellaneous deposits	44	44
Balance per consolidated balance sheet	1,740	4,641

Note 9 – Related-party balances

Transactions with related parties for the years ended December 31, 2022 and 2021, were as follows:

Compensation of key management personnel

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

	Year Ended	
	2022	2021
Salaries	1,454	1,523
Deferred compensation	40	36
Other benefits	72	44
Total	1,566	1,603

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

There were no material related party receivables or payables for the years ended December 31, 2022 and the year ended December 31, 2021, respectively.

Cargill

As a result of the $15 million preferred share agreement described in Note 25, Cargill is a related party as of December 31, 2022. Further described in Note 4, Cargill is Tacora's single customer of iron ore and 100% of revenue for the year and trade receivables (see Note 6) as of December 31, 2022 are attributable to Cargill. Commitments and guarantees with Cargill are described in Note 4. As of December 31, 2022, Tacora held no collateral on deposit related to its fixed price agreement with Cargill. No bad debt expense for the year, or bad debt provision as of December 31, 2022, exists related to Cargill receivables.

Note 10 –Property, plant and equipment

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

	Mining and Processing Equipment	Basin Development	Right of Use Assets	Assets Under Construction	Asset Retirement Cost	Total
As of Dec 31, 2020	68,416	-	45,287	18,543	36,076	168,322
Additions	-	-	-	147,520	-	147,520
Disposals	(1,307)	-	(390)	(569)	-	(2,266)
Transfer	26,600	17,383	15,564	(59,547)	-	-
Changes to environmental rehabilitation provision (Note 13)	-	-	-	-	(3,049)	(3,049)
Accumulated depreciation	(7,851)	(1,065)	(9,534)	-	(1,691)	(20,141)
As of Dec 31, 2021	85,858	16,318	50,927	105,947	31,336	290,386
Additions	-	1,811	-	67,349	-	69,160
Disposals	(272)	(270)	(3,284)	-	-	(3,826)
FV measurement of discontinued operations (Note 24)	-	-	-	(56,300)	-	(56,300)
Reclass to assets held for sale (Note 24)	-	-	-	(44,537)	-	(44,537)
Transfer	60,031	-	6,566	(66,597)	-	-
Changes to environmental rehabilitation provision (Note 13)	-	-	-	-	(9,276)	(9,276)
Accumulated depreciation	(9,717)	(1,358)	(9,234)	-	(822)	(21,131)
As of Dec 31, 2022	135,900	16,501	44,975	5,862	21,238	224,476

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

Refer to notes 14 and 15 for information on non-current assets pledged as security.

Tacora leases various pieces of mobile equipment, all of which are considered right of use assets. The average term is 5 years (2021: 6 years) Tacora has options to purchase certain mobile equipment for a nominal amount at the end of the lease term. Tacora's obligations are secured by the lessors' title to the leased assets for such leases.

The maturity analysis of lease liabilities is presented in Note 15.

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$26.9 were paid between 2019 to 2021, C$6.3 million was paid in 2022 and the balance of C$5.7 million will be paid in equal monthly payments from April 2023 to March 2024. The capital expenditures will allow SFPPN to enhance the current existing infrastructure required for the Company’s guaranteed access to SFPPN’s facilities, which include railway and Wabush Yard infrastructure. The SFPPN Agreement contains customary default clauses, which include if the Company ceases the operations of the Scully Mine for a continuous period of more than twelve months and does not provide SFPPN with a date for the resumption of operations that is within the following twelve months.

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

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

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

Intangible assets consist of the following:

	SFPPN Intangible Asset	New Millennium Iron Corp. Port Access	Total
As of Dec 31, 2020	21,975	4,461	26,436
Additions	12,777	-	12,777
Accumulated amortization	(1,192)	-	(1,192)
Upfront payment recovery	-	(212)	(212)
As of Dec 31, 2021	33,560	4,249	37,809
Additions	10,386	-	10,386
Accumulated amortization	(1,770)	-	(1,770)
Upfront payment recovery	-	(195)	(195)
As of Dec 31, 2022	42,176	4,054	46,230

The gross carrying amount of intangible assets as of December 31, 2022 was $50.4 million with accumulated amortization of $4.1 million compared to the gross carrying amount of $40.2 with accumulated amortization of $2.4 million as of December 31, 2021.

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

Note 12 – Deposits

Transportation deposits consist of the following:

	As at Dec 31, 2022	As at Dec 31, 2021
Québec North Shore and Labrador Railway Company, Inc., transportation deposit	4,220	8,641
Less current portion	-	(7,740)
Long-term balance per consolidated balance sheet	4,220	901

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)

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, 2022	As at Dec 31, 2021
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
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	37
Balance per consolidated balance sheet	2,658	3,414

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 $6.0 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.

Notes to the consolidated financial statements

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

During 2021, one letter of credit was closed and the total amount of the remaining letter of credit was reduced to $0.05 million. Environmental liabilities are initially recognized at the present value of estimated costs to be incurred to extinguish the liability. The timing of the actual rehabilitation expenditure is dependent upon a number of factors such as the life and nature of the asset. As of December 31, 2022, Tacora's environmental rehabilitation provision of $26.6 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 3.28%.

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

	As at Dec 31, 2022	As at Dec 31, 2021
Opening balance	35,197	37,630
Interest accretion	683	615
Change in inflation/discount rates	(9,276)	(3,048)
Balance per consolidated balance sheet	26,604	35,197

Note 14 – Debt

The carrying value, terms and conditions of Tacora's debt at December 31, 2022 and 2021 are as follows:

	As at Dec 31, 2022	As at Dec 31, 2021
Unsecured debt at amortized cost		
Note paid based on tonnes shipped	976	2,950
Atlantic Canada Opportunity Agency contribution loan (Mill Lubrication System)	252	-
Atlantic Canada Opportunity Agency contribution loan (Manganese Reduction Circuit)	1,349	-
	2,577	2,950
Secured debt at amortized cost		
Senior secured notes	211,489	166,581
Total Debt	214,066	169,531
Current	1,172	2,950
Non-current	212,894	166,581

In January 2022, Tacora received an interest-free loan of C$0.5 million from the Atlantic Canada Opportunity Agency to finance the upgrade of its mill lubrication system. Loan repayments commenced on April 1st, 2022 and will continue until March 1st, 2027. Using prevailing market interest rates for an equivalent loan of 10.5 per cent, the fair value of the loan is estimated at C$0.4 million. The difference of C$0.1 million between the gross proceeds and the fair value of the loan is the benefit derived from the interest-free loan and is recognized as a reduction in the carrying amount of the asset. Interest charges recognized on this loan were C$0.03 million in 2022 and C$0 in 2021.

In October 2022, Tacora received an interest-free loan of C$3.3 million from the Atlantic Canada Opportunity Agency to finance the expansion of its manganese reduction circuit. Loan repayments commenced on July 1st, 2023 and will continue until June 1st, 2033. Using prevailing market interest rates for an equivalent loan of 11.75 per cent, the fair value of the loan is estimated at C$1.8 million. The difference of C$1.5 million between the gross proceeds and the fair value of the loan is the benefit derived from the interest-free loan and is recognized as a reduction in the carrying amount of the asset. Interest charges recognized on this loan were C$0.03 million in 2022 and C$0 in 2021.

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

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

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

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

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

(1) at least 60% of the aggregate principal amount of the 2026 Notes originally issued under the Indenture (excluding 2026 Notes held by Tacora and its Subsidiaries) remains outstanding immediately after the occurrence of such redemption; and

(2) the redemption occurs within 180 days of the date of the closing of such equity offering.

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

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

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

On February 16, 2022, Tacora issued an additional $50 million aggregate principal amount of 8.250% Senior Secured Notes due 2026. Tacora received net proceeds of approximately $45.0 million after fees of approximately $5.0 million related to underwriting and third-party expenses. The net proceeds will be used for working capital and other corporate purposes.

Note 15 – Leases

	As at Dec 31, 2022	As at Dec 31, 2021
Lease liabilities		
Current	11,193	9,859
Non-current	22,709	38,365
Total lease liabilities	33,902	48,224

Maturity Analysis – contractual undiscounted cash flows		
Year 1	11,193	9,806
Year 2	11,002	10,409
Year 3	7,261	10,153
Year 4	2,747	6,562
Year 5	1,710	2,392
Onwards	-	1,467
Total undiscounted cash flows	**33,913**	**40,789**

Tacora Resources does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the treasury function.

Note 16 – Accrued liabilities

Accrued liabilities consist of the following:

	As at Dec 31, 2022	As at Dec 31, 2021
Sales tax payable	1,324	-
Royalties payable	5,648	6,196
Interest payable	5,150	2,856
Payroll accruals	2,484	3,015
Fixed price agreement collateral received (note 19)	-	11,631
Accounts payable accruals	13,042	17,479
Miscellaneous accrued liabilities	446	225
Balance per consolidated balance sheet	28,094	41,402

Notes to the consolidated financial statements

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

Note 17 – Taxation

Tacora is subject to income tax in numerous jurisdictions. Income tax on the consolidated statements of income (loss) and comprehensive income (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 expense for current income tax is as follows:

	Year Ended	
	2022	2021
Current income tax expense	480	542
Income tax expense	480	542

The following table reconciles the expected income tax (recovery) / expense at the statutory income tax rate of 30% which is the combined federal and NL tax rate (2021: 30%) to the amounts recognized in the consolidated statements of income:

	Year Ended	
	2022	2021
Net income reflected in consolidated statements of income	(32,372)	30,211
Expected income tax (recovery) expense	(9,711)	9,063
Permanent differences	40	482
Adjustments related to prior year balances	5	1,004
Unrecognized deferred tax assets	4,037	(9,777)
Foreign exchange	5,884	(679)
Other	225	449
Income tax	480	542

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

	Year Ended	
	2022	2021
Hedges	-	-
Fixed assets, intangibles and other	(60,731)	(32,971)
Loss on debt modification	-	-
Non-capital loss carry forwards	273,069	231,854
Total unrecognized deductible temporary differences	212,338	198,883

As of December 31, 2022 the company has total non-capital losses of $273.1 million (2021 - $231.9 million) comprised of $273.1 million relating to Canada which, if not utilized, will expire between 2037 and 2041.

Notes to the consolidated financial statements
(expressed in thousands of US Dollars, except where otherwise noted)

Note 18 – Equity

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

	Shares Authorized	Shares Issued	Total ($)
Ordinary Shares:			
Common – no par value	235,700,480	235,700,408	263,350
Restricted Shares:			
Class A	3,300,000	2,739,000	0.273
Class B	3,300,000	1,080,750	0.273
Balance as of Dec 31, 2022	242,300,480	239,520,158	263,350

Restricted Shares

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

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

- 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;

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

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, 2020	1,826,000	2.00
Granted	2,040,000	2.00
Exercised	-	-
Cancelled	(1,640,500)	-
Options exercisable as of Dec 31, 2021	2,225,500	2.00
Granted	4,035,000	2.00
Exercised	-	-
Cancelled	(1,540,000)	-
Options exercisable as of Dec 31, 2022	4,720,500	2.00

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 as of December 31, 2022 or December 31, 2021.

Note 19 – Commitments and contingencies

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

	2022 USD$	2021 USD$
Payments due in one year	40,949	49,075
Payments due in one to five years	9,599	10,238
Payments due later than five years [1]	67,426	90,471

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

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 of 7.0% of Net Revenues less certain deductible expenses, in accordance with the calculation as defined in the Mining Lease. To the extent that Tacora has not commenced or ceases the shipping of iron ore products and the sum of the earned royalty fee in a given calendar quarter is less than C$0.8 million, Tacora is required to pay a minimum quarterly royalty of C$0.8 million (of which 20 percent is withheld and remitted to the Province of Newfoundland and Labrador). There were no prepaid royalties at December 31, 2022.

Royalties paid in the years ended December 31, 2022 and 2021 were approximately $22.6 million and $36.1 million, respectively. Accrued royalties in the amount of $5.7 million and $6.2 million were recorded in other accrued expenses at December 31, 2022 and 2021, respectively.

Transportation services

Tacora is committed to purchasing transportation services that will require minimum annual payments of approximately $38.6 million. In the event Tacora suspends production and shipments of iron ore at the Scully mine for any reason for a period longer than one year, the obligation to pay minimum annual payments is suspended.

Note 20 – Derivative liability

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

Iron ore derivatives are marked to market and recognized as an asset or liability at fair value, with changes in fair value reflected in net income unless the Company qualifies for, and elects hedge accounting. If the Company qualifies for and elects hedge accounting, the effective gains and losses for iron ore derivatives designated as cash flow hedges of forecasted sales of iron ore are recognized in accumulated other comprehensive income, a component of Shareholder's Equity on the Balance Sheet and reclassified into revenue in the same period as the earnings recognition of the associated underlying transaction. Gains and losses on these designated derivatives arising from either hedge ineffectiveness or related to components excluded from the assessment of effectiveness are recognized in current income as they occur. In 2018, and as required by our senior secured debt agreements, the Company had entered into iron ore commodity forward contracts. All forward contracts were settled as of December 31, 2021. The Company has not elected hedge accounting for any of the commodity forward contracts for the years ended December 31, 2022 and 2021.

Note 21 – 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).

Notes to the consolidated financial statements
(expressed in thousands of US Dollars, except where otherwise noted)

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

	Dec 31, 2022				
	Level 1	Level 2	Level 3	Total	Carrying Amount
Accounts receivable	—	8,897	—	8,897	8,897
Notes payable	—	—	2,577	2,577	2,577

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

During the years ended December 31, 2022 and 2021, there were no transfers between Level 1, Level 2 and Level 3 fair value measurements.

Note 22 – Cost of sales

	Year Ended	
	2022	2021
Mining	69,051	60,789
Processing	98,526	91,046
Logistics	92,565	107,244
General and administration	15,222	14,201
Royalties	22,241	32,146
Depreciation and amortization	24,409	22,391
Total expenses by function	322,014	327,817

Note 23 – Selling general and administrative expenses

	Year Ended	
	2022	2021
Professional fees	3,529	1,221
Salaried wages and benefits	2,795	3,029
Other	764	349
Contract services	734	358
Insurance	688	688
Travel	611	136
Sustainability and other community expense	547	840
Depreciation	40	37
Total expenses by function	9,708	6,658

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

Note 24 – Discontinued operations

In December 2022, the Company committed to a plan to discontinue the operations of the Sydvaranger Mine and transfer the Mine to Orion Mine Finance ("Orion"). The Company determined at that time that the Sydvaranger Mine met held for sale criteria; Sydvaranger was available for transfer in its current condition, the Company committed to a transfer plan, and was in discussion with Orion as of December 31, 2022. As the Sydvaranger Mine meets held for sale classification and represents the Company's only operations in Norway, the Mine is considered a separate geographical area of operation and, therefore, the plan to discontinue its operations results in discontinued operations classification.

The assets and liabilities classified as held for sale as of December 31, 2022 are shown below:

	Year Ended 2022
Cash	411
Receivables	182
Inventories	32
Prepaid expenses	141
Property, plant and equipment	39,182
Total assets held for sale	39,948
Accounts payable	245
Accrued liabilities	777
Lease liabilities	8,140
Long-term royalties payable	30,786
Total liabilities held for sale	39,948

The operating results of the Sydvaranger Mine for the current and comparative periods have been presented as discontinued operations within the consolidated statements of income (loss) and comprehensive income (loss) and statement of cash flows.

The results and cash flows from discontinued operations for the years ended December 31, 2022 and 2021 are shown below:

	Year Ended	
	2022	2021
Other income (expense)		
Loss on fair value measurement of discontinued operations	(61,655)	-
Income (loss before income taxes)		
Deferred income tax recovery	5,355	2,554
Net income (loss) and comprehensive income (loss) attributable to Tacora Resources, Inc., and discontinued operations	(56,300)	2,554

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

	Year Ended	
	2022	2021
Net cash (outflow) inflow from operating activities	(236)	236
Net cash outflow from investing activities	(5,948)	(9,798)
Net cash inflow from financing activities	5,359	10,387
Increase (decrease) in cash and cash equivalents of discontinued operations	(825)	825

Note 25– Preferred Shares

On November 10, 2022, the Company entered into a Subscription Agreement ("Agreement") with Cargill. Under the Agreement the Company issued 15,000,000 non-voting, Series C Preferred Shares ("Preferred Shares") to Cargill in exchange for $15 million cash consideration.

The Agreement includes a number of embedded features including put, call, optional conversions, and down-round features. The agreement includes the option for Cargill to convert the Preferred Shares into Common Shares at any point throughout the life of the agreement. Additionally, the Agreement includes an automatic conversion in which the Preferred Shares automatically convert to Common Shares upon the closing of a liquidity event which is defined as either an IPO or the sale of the majority of the voting or equity securities of the Company.

The Agreement includes a number of redemption rights held by the Company including the option to redeem the Preferred Shares, at any point, at the liquidation preference which is defined as the initial issuance price of $1 per share which increase at a rate of 15% per year. To the extent that the Company has not redeemed the Preferred Shares and the holder has not converted the Preferred Shares, all outstanding Preferred Shares shall be mandatorily redeemed five years from the agreement close date at an amount equal to 1.5 times the liquidation preference.

A down-round feature included in the Agreement outlines that the conversion price, which is defined as $1 per share, shall be reduced in the event that the Company issues or sells any Common Shares at a price lower than the conversion price.

The Company evaluated the Agreement to determine whether the features contained within qualify as embedded derivatives. Embedded derivatives must be separately measured from the host contract if all the requirements for bifurcation are met. The assessment of the conditions surrounding the bifurcation of embedded derivatives depends on the nature of the host contract and the features of the derivatives. The Company evaluated each feature included within the Agreement noting that the down-round feature qualifies for bifurcation from the debt-hosted financial instrument; however, a down-round event occurring from November 10, 2022 through December 31, 2022 was assessed as a 0% probability and thus this feature was assigned no value. The debt-hosted instrument is recorded as a liability on the Company's balance sheet, consistent with IFRS 32, Financial Instruments: Presentation, as the Agreement contains a contractual obligation to deliver cash in order to settle the liability.

The Company determined the fair value of the debt-hosted instrument and the down-round derivative to record the day one impact of the Preferred Share Agreement, which included a full business enterprise valuation. The Company used significant Level 3 inputs as part of the valuation exercise including Company operations projections, tax depreciation and amortization, capital expenditures, and net working capital requirements The difference between the carrying amount and fair value of the liabilities is recognized as a fair market value deferral.

As a result of the business enterprise valuation performed, the Company recorded a deferred gain of $15 million which will be recognized straight-line over the life of the Agreement. As of December 31, 2022, all Preferred Shares remain outstanding.

Note 26– Subsequent events

Advance Payment Facility Agreement

On January 3, 2023, the Company entered into an Advance Payments Facility Agreement (the "APFA") with Cargill. The purpose of the agreement is to provide the Company with up to $35 million in advance payment in exchange for future deliveries of iron ore to Cargill. The agreement includes an offsetting $15 million floor price premium to be advanced from the Company to Cargill as consideration for guaranteeing a floor price on iron ore; resulting in a net potential advance payment of $20 million. The agreement termination date is May 1, 2023, and thus contract covenants, representations and warranties must be satisfied by this date to avoid default. As part of the agreement, the Company shall use its best reasonable efforts to deliver a minimum of 55,000 DMT of iron ore over each four-week period from inception of the contract. After May 1, 2023, all outstanding advance amounts that have not been offset by the price of iron ore supplied to Cargill shall be repaid to Cargill.

The advanced payment agreement includes covenants, including (a) use of advance payment proceeds solely for funding ongoing operations at Wabush Scully mine and processing plant and general corporate expenses, (b) adherence to liquidity management, operational turnaround, and restructuring plans as defined between the Company and Cargill (and at Cargill's acceptance), and (c) the Company shall not issue new equity or debt/liens unless explicitly agreed to within the advanced payment agreement.

The advanced payment agreement also includes penny warrants issued to Cargill as additional consideration. The warrants are exercisable into Common Shares, representing a non-dilutive 10% equity ownership in the Company on a fully-diluted basis and immediately exercisable for a two-year period and expiring on the January 5, 2025.

On January 10, 2023, the Company received net $10 million of the advance payment from Cargill (the "initial advance"). On February 24, 2023, the Company received an additional $5 million under the advance payment agreement (the "subsequent advance"). As of the issuance of this report, the Company is in compliance with all provisions within the advance payment agreement.

QNS&L

On January 9, 2023, the Company amended the QNS&L Rail Agreement (see Note 12) to:

1) adjust the minimum and maximum monthly tonnage requirements downward
2) adjust the iron ore price premium per ton downward
3) provide additional penalties to QNS&L for failure to meet minimum tonnage requirements (the "QNS&L Rail Amendment");

In exchange, the Company issued QNS&L non-dilutive Common Share purchase warrants at an exercise price of $0.01/share (i.e. penny warrants) representing a 2.5% equity ownership in the Company on a fully-diluted basis. The QNS&L Rail Amendment expires on December 31, 2024.

Employee Stock Option Plan

On January 18, 2023, the Company replaced the existing employee stock option plan with an amended and restated stock option plan. The option plan represents a non-dilutive 7.5% equity ownership in the Company on a fully-diluted basis with an option exercise of $0.01/share.

Sydvaranger

On February 24, 2023, Tacora completed the transfer of Sydvaranger and its subsidiaries to Orion Mine

Finance, a financial partner involved in the project since 2018. The transfer was structured as a cash-free transfer and resulted in no gain or loss to the Company as the Sydvaranger Mine was previously classified under discontinued operations as of 12/31/2022, and was written down to its fair value at that time.

Advance Payment Facility Agreement Amendment

On April 29, 2023, the Company entered into the APF Amendment which amends certain terms under the APF Agreement including, among others, extending the termination date for the repayment of all outstanding advances made by Cargill under the APF Agreement from May 1, 2023 to June 14, 2023, and which can further be extended to July 14, 2023 subject to the satisfaction of certain conditions. In connection with and as a condition to Cargill's entry into the APF Amendment, the Company issued to Cargill penny warrants exercisable for up to 25% of the Common Shares of the Company on a fully diluted basis.

Senior Secured Priority Notes

On May 11, 2023, the Company completed a consent solicitation process to effect certain amendments to the indenture governing the existing 2026 Notes. In addition, the Company completed the sale of $27 million aggregate principal amount of its 9.0% Cash / 4.0% PIK Senior Secured Priority Notes due 2023 (the "Senior Secured Priority Notes"). In connection with the transaction, Tacora issued penny warrants exercisable for a two-year period into voting common shares of Tacora to the certain of the Senior Priority Noteholders which in aggregate are exercisable for approximately 31.6% of the voting common shares of Tacora on a fully diluted basis.

Restated and Amended Advance Payment Facility Agreement

On May 29, 2023, the Company entered into the Amended and Restated Advance Payments Facility (the A&R APF Agreement") which amends certain terms under the existing APF Agreement amendment in order to provide for a $25 million senior hedging facility (the "Margining Facility") to be made available by Cargill that allows for the Company to incur certain margin amounts owing by the Company under the Offtake Agreement to be deemed as advances by Cargill in favor of the Company.

Supplemental Consolidating Balance Sheet Information
As of December 31, 2022

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

	Restricted Subsidiaries	Unrestricted Subsidiaries	Eliminations	Consolidated Total
Current assets				
Cash	6,848	-	-	6,848
Receivables	8,897	-	-	8,897
Inventories	33,743	-	-	33,743
Prepaid expenses and other current assets	1,740	-	-	1,740
Assets held for sale	-	39,948	-	39,948
Total current assets	51,228	39,948	-	91,176
Non-current assets				
Property, plant & equipment, net	224,476	-	-	224,476
Intangible assets subject to amortization	46,230	-	-	46,230
Transportation deposits	4,220	-	-	4,220
Security Deposits	2,658	-	-	2,658
Financial assurance deposit	6,010	-	-	6,010
Notes Receivable – Tacora Norway	53,746	-	(53,746)	-
Total non-current assets	377,340	-	(53,746)	283,594
TOTAL ASSETS	388,568	39,948	(53,746)	374,770
Current liabilities				
Current maturities of long-term debt	1,172	-	-	1,172
Current maturities of lease liabilities	11,193	-	-	11,193
Current deferred gain – Series C Preferred	3,000	-	-	3,000
Accounts payable	25,609	-	-	25,609
Accrued liabilities	28,094	-	-	28,094
Liabilities held for sale	-	39,948	-	39,948
Total current liabilities	69,068	39,948	-	109,016
Non-current liabilities				
Long-term debt	212,894	-	-	212,894
Lease liabilities	22,709	-	-	22,709
Rehabilitation obligation	26,604	-	-	26,604
Long-term royalties payable	-	-	-	-
Long-term deferred gain – Series C Preferred	11,625	-	-	11,625
Notes Payable – Tacora Resources Inc	-	53,746	(53,746)	-
Total Non-Current Liabilities	273,832	53,746	(53,746)	273,832
TOTAL LIABILITIES	342,900	93,694	(53,746)	382,848
Shareholder's equity				
Capital stock	263,350	-	-	263,350
Accumulated deficit [1]	(217,851)	(53,746)	-	(271,597)
Equity attributable to owners of the Company	45,499	(53,746)	-	(8,247)
Non-controlling interest	169	-	-	169
TOTAL EQUITY	45,668	(53,746)	-	(8,078)
TOTAL LIABILITIES AND EQUITY	388,568	39,948	(53,746)	374,770

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

Annual MD&A

The following management's discussion and analysis of financial condition and results of operations ("MD&A") is prepared as of the date of the Tacora audited consolidated financial statements (Financial Statements") and is intended to assist readers in understanding the financial performance and financial condition of Tacora. This MD&A provides information concerning Tacora's financial condition at December 31, 2022 and results of operations for the 52-week period ending December 31, 2022 ("Fiscal 2022").

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

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

Cautionary note regarding forward-looking information

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

Company overview

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

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 2022.

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.

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. A third-party Feasibility Study for the Sydvaranger Mine issued in October 2019 provided an overview of an Environmental and Social Impact Assessment being conducted on the mine by Ramboll in accordance with the International Finance Corporation Performance Standards and Sectoral Environmental, Health & Safety Guidelines. Ramboll’s assessment identified no risks that were critical or could not be managed operationally. In December 2022, the Company committed to a plan to discontinue the operations of the Sydvaranger Mine and transfer the Mine to Orion Mine Finance (“Orion”). The Company determined at that time that the Sydvaranger Mine met held for sale criteria; Sydvaranger was available for transfer in its current condition, the Company committed to a transfer plan, and was in discussion with Orion as of December 31, 2022. As the Sydvaranger Mine meets held for sale classification and represents the Company’s only operations in Norway, the Mine is considered a separate geographical area of operation and, therefore, the plan to discontinue its operations results in discontinued operations classification.

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 65.4% and low in impurities such as silica averaging 2.63% in 2022, the Company’s iron ore sales attract a premium over the IODEX 62% Fe CFR China Index (“P62”) widely used as the reference price in the industry. As such, the Company quotes and sells its products on the high-grade IODEX 65% Fe CFR China Index ("P65"). The premium captured by the P65 index is attributable to steel mills recognizing that higher iron ore grades offer a benefit in the form of efficiency or output optimization while also significantly decreasing CO2 emissions per tonne of steel produced.

Tacora’s iron ore sales contracts are structured on a provisional pricing basis, with the final sales price determined using the iron ore price indices on or after the vessel’s arrival to the port of discharge. The Company recognizes revenues from iron ore sales when unit train shipments from the Scully Mine are delivered and unloaded at the port. The estimated gross consideration in relation to the provisionally priced shipments is accounted for using the average P62 iron ore price at the time the unit train is unloaded, plus 60% of the estimated P65 premium over the P62 price at the time the unit train is unloaded. Once the vessel arrives at its destination, the impact of the iron ore price movements, compared to the marked to market price over the quotational period is accounted for as a provisional pricing adjustment to revenue. As of December 31, 2022, Tacora had $69.8 million in revenues awaiting final pricing, with the final price to be determined in the following reporting periods. Comparatively, as of December 31, 2021, Tacora had $111.4 million in revenues awaiting final pricing.

Tacora believes commodity price hedging could provide a long-term benefit to shareholders. During the fourth quarter 2022, Tacora entered into monthly average index P62 fixed price contracts with Cargill to help mitigate commodity price risk during the ramp up of the Scully Mine. A total of 0.6 million tonnes were fixed with settlement dates between January 1, 2023 and March 31, 2023.

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

Production volume

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

During the twelve-month period ended December 31, 2022, 20.6 million tonnes of material was mined, compared to 25.6 million tonnes of material mined the prior year. The decrease is mainly due to the reduced availability of our mobile equipment fleet. In order to attain name-plate iron ore concentrate production of 6Mtpa, the Company estimates it will need to achieve at least 32.0 million tonnes of total material mined on an annual basis.

The plant processed 10.1 million tonnes of ore during the twelve-month period ended December 31, 2022, compared to 10.8 million tonnes of ore in the prior year. The plant achieved an average mill operating time of approximately 62% for the year ended December 31, 2022 compared to approximately 62% in the comparable prior year period. The decrease in ore processed is mainly due to the ore characteristic which decreased milling rates. We calculate mill operating time by subtracting the number of hours of mill downtime from the number of total hours in the year and dividing by the number of total hours in the year. The increase in ore processed is mainly due to the ability to achieve higher throughput rates in the mills. In order to attain name-plate iron ore concentrate production of 6Mtpa, the Company estimates it will need to achieve an overall mill operating time of at least 88% which will allow it to process 17.5 million tonnes of ore on an annual basis.

The Scully Mine achieved an average iron recovery of 56% during the twelve-month period ended December 31, 2022 compared to an average iron recovery of 51% during the prior year. The increase in iron recovery is driven by more efficient processing due to better process control standards. Based on the foregoing, the Scully Mine produced 3.1 million tonnes of 65.4% Fe high-grade iron ore concentrate during the twelve-month period ended December 31, 2022 compared to 3.2 million tonnes of 65.7% high-grade iron ore concentrate during the prior year.

Currency

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

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

Key income statement measures

Revenue

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

Cost of sales

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

Operating expenses

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

Results of operations

Year ended December 31, 2022 compared to year ended December 31, 2021

	Years Ended Dec 31,		Increase	Percent
($ in millions, except shipments)	**2022**	**2021**	**(Decrease)**	**Change**
Revenue	$ 324.9	$ 446.1	$ (121.2)	(27.2%)
Cost of sales	322.1	327.8	(5.7)	(1.7%)
Gross profit	2.8	118.3	(115.5)	(97.6%)
Operating expenses	9.7	6.7	3.0	44.8%
Operating income (loss)	(6.9)	111.6	(118.5)	(106.2%)
Non-operating loss	(82.3)	(79.5)	2.8	3.5%
Net income (loss)	$ (89.2)	$ 32.1	$ (121.3)	(377.9%)
Third party shipments (tonnes)	3,057,548	3,132,342	(74,794)	(2.4%)

Revenue

Realized price for the year ended December 31, 2022 compared to year ended December 31, 2021

	Years Ended Dec 31,		Increase	Percent
($ per dmt sold)	**2022**	**2021**	**(Decrease)**	**Change**
Average index P62	$ 120.2	$ 160.1	$ (39.9)	(24.9%)
Fixed sales/timing	0.1	(0.1)	0.2	165.2%
Premium over P62	11.6	15.4	(3.8)	(24.9%)
Gross realized price	131.8	175.4	(43.6)	(24.9%)
Freight and other costs	(30.1)	(31.4)	(1.3)	(4.1%)
Provisional pricing adjustments	6.0	2.9	3.1	106.9%
Other	(1.4)	(4.5)	3.1	68.3%
Net realized price	$ 106.3	$ 142.4	$ (36.1)	(25.4%)

For the year ended December 31, 2022, our revenue was approximately $324.9 million, a decrease of $121.2 million, or 27.2%, from our revenue of $446.1 million for the year ended December 31, 2021. The decrease in our revenue was attributable to a 25.4% decrease in the net realized price applicable to concentrate pricing for the year ended December 31, 2022 compared to 2021. This was also impacted by 0.1 million less tonnes shipped during the year ended December 31, 2022 compared to the prior year.

Cost of sales

Cost of sales for the year ended December 31, 2022 compared to year ended December 31, 2021

	Years Ended Dec 31,		Increase	Percent
($ in millions)	**2022**	**2021**	**(Decrease)**	**Change**
Mining	$ 69.1	$ 60.8	$ 8.3	13.7%
Processing	98.5	91.0	7.5	8.2%
Logistics	92.6	107.2	(14.6)	(13.6%)
General and administration	15.2	14.2	1.0	7.0%
Royalties	22.2	32.2	(10.0)	(31.1%)
Cash cost of sales	297.6	305.4	(7.8)	(2.6%)
Depreciation and amortization	24.4	22.4	2.0	8.9%
Cost of sales	$ 322.0	$ 327.8	$ (5.8)	(1.8%)

For the year ended December 31, 2022, our cost of sales were approximately $322.0 million, an decrease of $5.8 million, or 1.8%, compared to our cost of sales of $327.8 million for the year ended December 31, 2021.

Mining costs increased by $8.3 million primarily due to increased spending on equipment and contractor maintenance, a new fuel-tax adjustment, and an unfavorable price variance on diesel fuel of 55.3% compared to 2021. Processing costs increased by $7.5 million due primarily to an increase in bunker-c usage and price, in addition to increased direct labor. This was partially offset by a decrease in external consultant and contractor costs.

Logistics costs decreased by $14.6 million partially due to a decrease in the pricing premium included in the logistics costs. A portion of our rail costs are linked to the P62 index which on average decreased $39.9 per tonne as compared to the prior year. Our royalty is based on revenue and due to the decrease in revenue in the current year, as mentioned above, we saw decreased royalties expense of $10.0 million.

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

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

Gross profit

For the year ended December 31, 2022, our gross profit was approximately $2.8 million, a decrease of $115.5 million, or 97.6%, from our gross profit of $118.3 million for the year ended December 31, 2021. The decrease in our gross profit for the year ended December 31, 2022 was primarily due to a decrease in realized pricing and revenue as mentioned above. We believe that cost of sales will increase at a rate slower than revenue for the reasons also discussed above, and therefore we expect gross profit margin will continue to improve going forward.

Operating expenses

For the year ended December 31, 2022, our operating expenses were approximately $9.7 million, an increase of $3.0 million, or 44.8%, over our operating expenses of $6.7 million for the year ended December 31, 2021. The increase in operating expenses is primarily attributable to increased professional fees, contract services and travel which were partially offset by a decrease in salaried wages and benefits. We believe selling, general and administrative expenses as a percent of revenue will decrease as we ramp up our production capacity.

Operating income (loss)

Our operating loss for the year ended December 31, 2022 was approximately $6.9 million, an decrease of $118.5 million, or 106.2%, from our operating income of $111.6 million for the year ended December 31, 2021. This decrease is primarily a function of the decrease in our gross profit as discussed above.

Non-operating loss

For the year ended December 31, 2022, our non-operating loss was approximately $82.3 million, an increase of $2.8 million, or 3.5%, from our non-operating loss of $79.5 million for the year ended December 31, 2021. The increase in our non-operating loss for the year ended December 31, 2022 primarily resulted from a decrease in our loss on derivative instruments of $42.8 million and a decrease of $15.2 million in our loss on debt extinguishment from the year prior which were partially offset by an increase in loss on fair value of disposal group of $56.3 million which was a result of the impairment of the Sydvaranger Mine asset.

Net income (loss)

For the year ended December 31, 2022, our net loss was approximately $89.2 million, a decrease of $121.3 million, or 377.9%, from our net income of $32.1 million for the year ended December 31, 2021. The decrease in our net income for the year ended December 31, 2022 is primarily attributable to the decrease in gross profit margin resulting from the decrease in revenue 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 internallyluke to better assess performance trends. Management understands that a number of investors and others who follow the Company's business assess performance in this way. This data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

The Company's working capital is as follows:

($ in millions)	**As of Dec 31, 2022**	**As of Dec 31, 2021**
Current assets		
Cash	$ 6.8	$ 34.9
Receivables	8.9	10.5
Inventories	33.7	19.0
Transportation deposits, current portion	0.0	7.7
Prepaid expenses and other current assets	1.8	4.7
Assets held for sale	40.0	0.0
	91.2	76.8
Current liabilities		
Current maturities of long-term debt	1.2	2.9
Current maturities of leased liabilities	11.1	9.9
Current deferred gain – Series C Preferred	3.0	0.0
Accounts payable	25.6	11.7
Accrued liabilities	28.1	41.4
Liabilities held for sale	40.0	0.0
	109.0	65.9
Working capital/(deficiency)	**$ (17.8)**	**$ 10.9**

As of December 31, 2022, the Company had a working capital deficiency of $17.8 million compared to working capital of $10.9 million as of December 31, 2021.

The Company's current assets as of December 31, 2022 increased by $14.4 million since December 31, 2021. The increase was mainly due to an increase in inventory of $14.7 million and an increase in assets held for sale of $40.0 million which were partially offset by a decrease in cash of $28.1 million. The reduction in cash was mainly due to cash used by operating activities of $20.7 million and net outflows for investing activities of $57.8 million which were partially offset by net inflows from financing activities were $50.4 million, including $15.0 million proceeds from the issuance of preferred shares and $53.0 million proceeds from long term borrowing.

The Company's current liabilities as of December 31, 2022 increased by $43.1 million since December 31, 2021. The increase was primarily due to the increase in liabilities held for sale of $40.0 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.

	Years Ended Dec 31,		Increase	Percent
($ per dmt sold)	**2022**	**2021**	**(Decrease)**	**Change**
Mining	$ 22.6	$ 20.0	$ 2.6	13.0%
Processing	32.2	29.2	3.0	10.3%
Logistics	30.3	33.7	(3.4)	(10.1%)
General and Administration	5.0	4.3	0.7	16.3%
FOB Cash Costs Pointe Noire	90.1	87.2	2.9	3.3%
Royalties	7.3	10.3	(3.0)	(29.1%)
Depreciation and Amortization	8.0	7.1	0.9	12.7%
Cost of sales	$ 105.4	$ 104.6	$ 0.8	0.8%

The Scully Mine shipped an aggregate amount of approximately 3.1 million tonnes of concentrate at a blended average FOB Cash Costs Pointe Noire of $90.1 per tonne for the year ended December 31, 2022, compared to 3.1 million tonnes of concentrate at a blended average of $87.2 per tonne for the year ended December 31, 2021.

Mining costs increased by $2.6 per dmt due to increased spending on equipment and contractor maintenance and an unfavorable price variance on diesel fuel.

Processing costs increased by $3.0 per dmt due to an increase in bunker-c usage and price in addition to increased direct labor. This was partially offset by a decrease in external consultant and contractor costs.

Logistics costs decreased by $3.4 per dmt partially due to a decrease in the pricing premium included in the logistics costs. A portion of our rail costs are linked to the P62 index which on average decreased $39.9 dollars per tonne as compared to the prior year.

Royalties are based on revenue and due to the decreased revenue in the current year we saw decreased royalties expense of $3.0 per dmt.

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

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

EBITDA and Adjusted EBITDA

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

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

- EBITDA and Adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital needs;

- EBITDA and Adjusted EBITDA do not reflect our interest expense or the cash requirements necessary to service interest or principal payments on our debt;

- EBITDA and Adjusted EBITDA do not reflect our tax expenses, or the cash requirements to pay our taxes;

- EBITDA and Adjusted EBITDA do not reflect historical cash expenditures or future requirements for capital expenditures or contractual commitments;

- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA and Adjusted EBITDA do not reflect any cash requirements for such replacements; and

- Other companies in our industry may calculate EBITDA and Adjusted EBITDA differently, limiting their usefulness as comparative measures.

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

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

	Years Ended Dec 31,	
($ in thousands)	2022	2021
Net income (loss)	$ (89,206)	$ 32,121
Unrealized mark-to-market on derivative instruments	-	(80,952)
Consolidated net income	$ (89,206)	$ (48,831)
Interest expense	23,103	18,662
Income tax (recovery) expense	480	(2,012)
Depreciation and amortization	24,449	22,428
Loss on fair value of disposal group	56,300	-
Foreign exchange gain	(129)	(21)
EBITDA	$ 14,997	$ (10,389)
Other expense	2,872	19,683
Interest income	(441)	(246)
Realized loss on derivative instruments	-	123,781
Gain on financial instrument	(375)	-
NALCO Tax	524	560
Adjusted EBITDA	$ 17,577	$ 134,004

Cash flows

The following discussion summarizes the significant activities impacting our cash flows during the years ended December 31, 2022 and 2021.

Cash flows from operating activities

Cash flows used by operating activities was $20.7 million for the year ended December 31, 2022 compared to cash flows generated by operating activities of $99.9 million for the same period in 2021. The decrease in cash generated by operating activities was primarily due to the decrease in revenue of $121.2 million as discussed above.

Cash flows from investing activities

Net cash used by investing activities decreased to $57.8 million for the year ended December 31, 2022 compared to $192.5 million for the same period in 2021. Capital expenditures for the acquisition of property, plant and equipment were $53.8 million for the year ended December 31, 2022 due to investments in capital improvements for the Scully Mine of $47.9 million and capitalized project costs for the Sydvaranger Mine of $5.9 million. There was no cash used for commodity forward contract settlements during the year ended December 31, 2022 compared to $132.6 million for the same period in 2021. Net cash used for commodity forward contracts in 2021 were driven by the requirement to hedge in December 2018, which was a provision within our previous senior secured debt.

Cash flows from financing activities

Net cash provided by financing activities during the year ended December 31, 2022 was $50.4 million compared to $7.9 million for the year ended December 31, 2021. The increase in cash provided by financing activities was due to net proceeds from long-term borrowings of $47.9 and proceeds from issuance of preferred shares of $15.0 million for the year ended December 31, 2022. This was partially offset by $12.3 million of principal payments on long-term debt. For the twelve months ended December 31, 2021 $166.6 million of proceeds from long-term borrowings were received as a result of our issuance of senior notes in May 2021. This was mostly offset by principal payments on long-term debt and prepayment penalty on long-term borrowings of $158.5 million.

Financing arrangements

Senior secured debt

On July 18, 2017, Tacora closed on an unsecured interest free note payable in the amount of $9.8 million Canadian dollars. The proceeds of the note were provided to the Province of Newfoundland and Labrador for the purpose of funding the requisite amount of financial assurance required as part of a rehabilitation and closure plan approved by the Province of Newfoundland and Labrador. Tacora will repay the loan through quarterly payments equal to $0.65 per metric tonne of iron ore concentrate shipped from the Scully Mine. The note will terminate on the date upon which the entirety of the loan amount has been repaid and no interest will accrue on the loan. The fair value of the debt upon initial recognition was measured at $6.0 million. The debt is subsequently re-measured at amortized cost.

On May 11, 2021, Tacora issued $175 million aggregate principal amount of 8.250% Senior Secured Notes due May 15, 2026 ("2026 Notes"). Tacora received net proceeds of approximately $169.5 million after fees of approximately $5.5 million related to underwriting and third-party expenses. Approximately $128.2 million of the net proceeds from the issuance of the 2026 Notes were used to repay the Term Loan, Infra Loan 1 and Infra Loan 2 in addition to a prepayment penalty of approximately $15.3 million. Subsequent to the issuance date, we have paid approximately $2.9 million in fees for additional third-party expenses related to the closing of the 2026 Notes. The balance of the net proceeds was or will be used for working capital and other corporate purposes. Interest on the 2026 Notes will be payable semi-annually in arrears on May 15th and November 15th of each year beginning on November 15, 2022, and will mature on May 15, 2026, unless earlier redeemed or repurchased.

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

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

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

(1) at least 60% of the aggregate principal amount of the 2026 Notes originally issued under the Indenture (excluding 2026 Notes held by Tacora and its Subsidiaries) remains outstanding immediately after the occurrence of such redemption; and

(2) the redemption occurs within 180 days of the date of the closing of such equity offering.

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

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

On February 16, 2022, Tacora issued an additional $50 million aggregate principal amount of 8.250% Senior Secured Notes due 2026. Tacora received net proceeds of approximately $45.0 million after fees of approximately $5.0 million related to underwriting and third-party expenses. The net proceeds will be used for working capital and other corporate purposes.

Atlantic Canada Opportunity Contribution Loans

In January 2022, Tacora received an interest-free loan of C$0.5 million from the Atlantic Canada Opportunity Agency to finance the upgrade of its mill lubrication system. Loan repayments commenced on April 1st, 2022 and will continue until March 1st, 2027. Using prevailing market interest rates for an equivalent loan of 10.5 per cent, the fair value of the loan is estimated at C$0.4 million. The difference of C$0.1 million between the gross proceeds and the fair value of the loan is the benefit derived from the interest-free loan and is recognized as a reduction in the carrying amount of the asset. Interest charges recognized on this loan were C$0.03 million in 2022 and C$0 in 2021.

In October 2022, Tacora received an interest-free loan of C$3.3 million from the Atlantic Canada Opportunity Agency to finance the expansion of its manganese reduction circuit. Loan repayments commenced on July 1st, 2023 and will continue until June 1st, 2033. Using prevailing market interest rates for an equivalent loan of 11.75 per cent, the fair value of the loan is estimated at C$1.8 million. The difference of C$1.5 million between the gross proceeds and the fair value of the loan is the benefit derived from the interest-free loan and is recognized as a reduction in the carrying amount of the asset. Interest charges recognized on this loan were C$0.03 million in 2022 and C$0 in 2021.

Contractual obligations and commitments

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

The table below summarizes our contractual obligations and commitments as of December 31, 2022:

($ in millions)	**Within 1 Year**	**1 to 2 Years**	**2 to 5 Years**	**Over 5 Years**
Accounts payable and accrued liabilities	53,703	-	-	-
Debt	19,734	18,880	253,740	1,340
Lease liabilities	12,914	12,047	12,306	-
Rehabilitation obligation	-	-	-	26,604
Total	86,351	30,927	266,046	27,944

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

Transportation agreement

On November 3, 2017, the Company entered into a life-of-mine transportation agreement ("QNS&L Rail Agreement") with Québec North Shore and Labrador Railway Company, Inc. ("QNS&L"). The QNS&L Rail Agreement provides that QNS&L will carry iron ore concentrate produced at the Scully Mine on Tacora-supplied railcars between Wabush Lake Junction in Labrador City, Newfoundland and Labrador to the Sept-Iles Junction in Sept-Iles, Québec, a distance of approximately 500 km. Under the terms of the

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

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

Port access

In May 2018, the Company executed an agreement with Société ferroviaire et portuaire de Pointe-Noire s.e.c. ("SFPPN") with an effective date of June 1, 2018 and a termination date of December 31, 2044 setting out the terms on which SFPPN will grant the Company guaranteed access to SFPPN's equipment, throughput and storage capacity necessary to transport iron ore to the port infrastructure. Under the SFPPN Agreement, the Company is required to contribute, to certain capital expenditures up to an aggregate amount of C$48.9 million, inclusive of C$10 million which was paid in 2018. Capital expenditures totaling C$26.9 were paid between 2019 to 2021, C$6.3 million was paid in 2022 and the balance of C$5.7 million will be paid in equal monthly payments from April 2023 to March 2024. The capital expenditures will allow SFPPN to enhance the current existing infrastructure required for the Company's guaranteed access to SFPPN's facilities, which include railway and Wabush Yard infrastructure. The SFPPN Agreement contains customary default clauses, which include if the Company ceases the operations of the Scully Mine for a continuous period of more than twelve months and does not provide SFPPN with a date for the resumption of operations that is within the following twelve months.

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

The Company has executed an assignment of contractual rights agreement pursuant to which New Millennium Iron Corp. ("NML") will assign to the Company 6.5 million metric tonnes of NML's port capacity with the Sept-Iles Port Authority (the "Port Authority") in exchange for an upfront payment in the amount of C$4.0 million payable on the closing date of the assignment and an ongoing fee of C$0.10 per tonne of iron ore shipped by the Company through the port facilities pursuant to a contract to be entered into directly with the Port Authority over a 20-year period following the assignment. The Company recognizes the benefit of the prepayment based on tonnes shipped as a reduction of cost of goods sold. In connection with the assignment, the Company has assumed part of NML's ‘'take or pay" obligations related to the assigned 6.5 million metric tonnes of port capacity. The portion of the "take or pay" obligation that was payable to NML prior to the Company shipping ore from the port was added to the upfront payment amount. The upfront payment entitles the Company to a discount of C$0.25 per tonne shipped until the upfront payment is recovered by the Company. The Company, NML and the Port

Authority have entered into an agreement whereby the Port Authority consented to the assignment of capacity and agreed to enter into a direct agreement with the Company in respect of the 6.5 million metric tonnes of port capacity assigned by NML to the Company on terms substantially similar to those contained in the existing agreement between NML and the Port Authority. This agreement will provide the Company with direct access to port facilities that are capable of loading cape-size vessels, which are larger and more cost efficient than smaller baby-cape and Panamax alternatives. All port agreements between NML, the Port Authority and Tacora in respect of the assigned capacity were fully executed and complete as of December 31, 2018.

Mining lease

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

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

Royalties paid in the years ended December 31, 2022 and 2021 were approximately $22.6 million and $36.1 million, respectively. Accrued royalties in the amount of $5.7 million and $6.2 million were recorded in other accrued expenses at December 31, 2022 and December 31, 2021, respectively.

See Note 19 to the Company's audited consolidated financial statements for Fiscal 2022 for further information regarding the Company's commitments and contingencies.

Liquidity and capital resources

As of December 31, 2022, our cash and cash equivalents totaled $6.9 million. Our total cash balance represents an 80.4% decrease from the balance as of December 31, 2021. This decrease was driven primarily by our decrease in gross profit as discussed above.

As of December 31, 2022, the outstanding principal amount of our long-term debt was approximately $214.1 million.

Going Concern

The Company has a net operating loss and cash outflows from operations for the twelve months ended December 31, 2022 due to a reduction in iron ore prices and a slower than expected ramp-up of the Scully Mine. Based on the Company's projected cash flows, the Company does not have sufficient cash on hand or available liquidity to sustain its operations and meet its obligations as they become due for twelve months following the date the consolidated financial statements are issued. These conditions and events raise substantial doubt about the Company's ability to continue as a going concern.

The Company continues to advance certain strategic alternatives to secure additional outside capital to ensure that Company has sufficiently liquidity and a sustainable capital structure to meet all obligations due over the next twelve months. These initiatives may include, among others, the sale of certain of the Company's assets or a sale of additional equity of the Company to strategic or financial investors.

No assurance can be given that any of the contemplated strategic initiatives will be successfully completed. As a result, we have concluded that, there is substantial doubt about our ability to continue as a going concern. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

Off balance sheet arrangements

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

Industry data, forecasts and units of measure

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

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

Risks

Commodity price risk

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

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

Credit risk

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

Liquidity and capital risk management

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

Related party transactions

Key management compensation

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Company's key management for Fiscal 2022 were its Chief Executive Officer, Executive Vice President, and Chief Financial Officer. The remuneration for the Company's key management during Fiscal 2022 was $1.6 million consisting of $1.5 million in salaries and $0.1 million in deferred compensation and other benefits.

Cargill

As a result of the $15 million preferred share investment described in Note 25, Cargill is a related party as of December 31, 2022. Further described in Note 4, Cargill is Tacora's single customer of iron ore and 100% of revenue for the year and trade receivables (see Note 6) as of December 31, 2022 are attributable to Cargill. Commitments and guarantees with Cargill are described in Note 4. As of December 31, 2022, Tacora held no collateral on deposit related to its fixed price agreement with Cargill. No bad debt expense for the year, or bad debt provision as of December 31, 2022, exists related to Cargill receivables.

Outstanding share data

The Company may authorise an unlimited number of common shares, without par value ("Common Shares") and an unlimited number of Class A Non-Voting Shares and Class B Non-Voting shares. As of the date of this MD&A, the Company had authorised 235,700,480 Common Shares, 3,300,000 Class A Non-Voting Shares and 3,300,000 Class B Non-Voting Shares and as of December 31, 2022 had 235,700,408 Common Shares, 2,739,000 Class A Non-Voting Shares, and 1,080,750, Class B Non-Voting Shares issued and outstanding. As of December 31, 2022, the Company had 4,720,500 employee stock options outstanding.

Critical accounting estimates and judgments

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

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

Mineral reserves and resources

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

Scully Mine

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

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

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

Classification	Crude Ore Tonnage (dry)	Fe	Mn	Concentrate Tonnage	Fe Conc.	Mn Conc.	SiO_2 Conc.	Total Weight Recovery	Total Fe Recovery
	k dmt	%	%	k dmt	%	%	%	%	%
Proven	136,508	34.97	2.35	45,478	65.60	1.53	3.22	33.32	62.49
Probable	341,439	34.85	2.72	113,577	65.60	1.63	3.06	33.26	62.62
Total P&P	478,943	34.89	2.62	159,425	65.60	1.61	3.11	33.29	62.59

Notes:

(1) The Mineral Reserves were estimated using the CIM Standards for Mineral Resources and Reserves, Definitions and Guidelines prepared by the CIM Standing Committee on Reserve Definitions and adopted by CIM Council May 10th, 2014.

(2) Mineral Reserves based on December 2020 depletion surface merged with an updated Lidar dated September 2017.

(3) Mineral Reserves are estimated at a minimum of 20% Lab weight recovery for all sub-units except sub-unit 52 which is 30%. In addition, sub-unit 34 must have a ratio of weight recovery to iron of at least 1.

(4) Mineral Reserves are estimated using a long-term iron price reference price (Platt’s 62)% of USD 70/dmt and an exchange rate of 1.25 CAD/USD. An Fe concentrate price adjustment of USD 12/dmt was added as an iron grade premium net of a USD 5/dmt marketing charge.

(5) Bulk density of ore is variable but averages 3.20 t/m3.

(6) The average strip ratio is 0.82:1.

(7) The Mineral Reserve includes a 5.2% mining dilution and a 97% ore recovery.

(8) The number of metric tonnes was rounded to the nearest thousand. Any discrepancies in the totals are due to rounding effects; rounding followed the recommendations in NI 43-101.

Depletion

The table below summarizes the actual production tonnages mined and concentrate produced at the Scully Mine through December 31, 2022.

Time Period	Crude Ore Tonnage (dry)	Fe	Mn	Conc. Tonnage	Fe Conc.	Mn Conc.	SiO_2 Conc.	Total Weight Recovery	Total Fe Recovery
	k dmt	%	%	k dmt	%	%	%	%	%
Start-up through December 31, 2019	3,491	34.98	3.18	936	65.70	1.72	2.71	26.80	50.33
Year ended December 31, 2020	10,469	34.73	3.42	3,009	65.51	1.93	2.66	28.74	54.21
Year ended December 31, 2021	10,758	37.80	3.30	3,182	65.70	1.80	2.39	29.60	51.40
Year ended December 31, 2022	10,114	36.10	3.40	3,112	65.40	1.84	2.63	30.80	55.90

Sydvaranger Mine

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

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

Classification	Crude Ore Tonnage (dry)	Fe	MIS	Concentrate Tonnage	Fe Conc.	MIS Conc.	SiO_2 Conc.	Total Weight Recovery	Total Fe Recovery
	k dmt	%	%	k dmt	%	%	%	%	%
Proven	23,400	30.3	0.01	45,478	65.60	1.53	3.22	33.32	62.49
Probable	148,000	27.80	0.07	113,577	65.60	1.63	3.06	33.26	62.62
Total P&P	171,400	28.1	0.06	159,425	65.60	1.61	3.11	33.29	62.59

Notes:
(1) Mineral Reserves have been estimated in accordance with the CIM Definition Standards.
(2) Mineral Reserves are based on a cut-off grade of 7% FeMAG.

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

Environmental rehabilitation

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

Significant accounting policies

The Company's significant accounting policies used to prepare the Company's financial statements as of and for the period ended December 31, 2022 are included in Note 2 of the audited consolidated financial statements included elsewhere in this MD&A.

Subsequent events

Advance Payment Facility Agreement

On January 3, 2023, the Company entered into an Advance Payments Facility Agreement (the "APFA") with Cargill. The purpose of the agreement is to provide the Company with up to $35 million in advance payment in exchange for future deliveries of iron ore to Cargill. The agreement includes an offsetting $15 million floor price premium to be advanced from the Company to Cargill as consideration for guaranteeing a floor price on iron ore; resulting in a net potential advance payment of $20 million. The agreement termination date is May 1, 2023, and thus contract covenants, representations and warranties must be satisfied by this date to avoid default. As part of the agreement, the Company shall use its best reasonable efforts to deliver a minimum of 55,000 DMT of iron ore over each four-week period from inception of the contract. After May 1, 2023, all outstanding advance amounts that have not been offset by the price of iron ore supplied to Cargill shall be repaid to Cargill.

The advanced payment agreement includes covenants, including (a) use of advance payment proceeds solely for funding ongoing operations at Wabush Scully mine and processing plant and general corporate expenses, (b) adherence to liquidity management, operational turnaround, and restructuring plans as defined between the Company and Cargill (and at Cargill's acceptance), and (c) the Company shall not issue new equity or debt/liens unless explicitly agreed to within the advanced payment agreement.

The advanced payment agreement also includes penny warrants issued to Cargill as additional consideration. The warrants are exercisable into Common Shares, representing a 10% equity ownership in the Company on a fully-diluted basis and immediately exercisable for a two-year period and expiring on the January 5, 2025. The Company is unable to determine the fair value of the penny warrants.

On January 10, 2023, the Company received net $10 million of the advance payment from Cargill (the "initial advance"). On February 24, 2023, the Company received an additional $5 million under the advance payment agreement (the "subsequent advance"). As of the issuance of this report, the Company is in compliance with all provisions within the advance payment agreement.

QNS&L

On January 9, 2023, the Company amended the QNS&L Rail Agreement (see Note 12) to:

1) adjust the minimum and maximum monthly tonnage requirements downward
2) adjust the iron ore price premium per ton downward
3) provide additional penalties to QNS&L for failure to meet minimum tonnage requirements (the “QNS&L Rail Amendment”);

In exchange, the Company issued QNS&L non-dilutive Common Share purchase warrants at an exercise price of $0.01/share (i.e. penny warrants) representing a 2.5% equity ownership in the Company on a fully-diluted basis. The Company is unable to determine the fair value of the penny warrants under the amendment. The QNS&L Rail Amendment expires on December 31, 2024.

Employee Stock Option Plan

On January 18, 2023, the Company replaced the existing employee stock option plan with an amended and restated stock option plan. The option plan represents a non-dilutive 7.5% equity ownership in the Company on a fully-diluted basis with an option exercise of $0.01/share.

Sydvaranger

On February 24, 2023, Tacora completed the transfer of Sydvaranger and its subsidiaries to Orion Mine Finance, a financial partner involved in the project since 2018. The transfer was structured as a cash-free transfer and resulted in no gain or loss to the Company as the Sydvaranger Mine was previously classified under discontinued operations as of 12/31/2022, and was written down to its fair value at that time.

Advance Payment Facility Agreement Amendment

On April 29, 2023, the Company entered into the APF Amendment which amends certain terms under the APF Agreement including, among others, extending the termination date for the repayment of all outstanding advances made by Cargill under the APF Agreement from May 1, 2023 to June 14, 2023, and which can further be extended to July 14, 2023 subject to the satisfaction of certain conditions. In connection with and as a condition to Cargill’s entry into the APF Amendment, the Company issued to Cargill penny warrants exercisable for up to 25% of the Common Shares of the Company on a fully diluted basis.

Senior Secured Priority Notes

On May 11, 2023, the Company completed a consent solicitation process to effect certain amendments to the indenture governing the existing 2026 Notes. In addition, the Company completed the sale of $27 million aggregate principal amount of its 9.0% Cash / 4.0% PIK Senior Secured Priority Notes due 2023 (the “Senior Secured Priority Notes”). In connection with the transaction, Tacora issued penny warrants exercisable for a two-year period into voting common shares of Tacora to the certain of the Senior Priority Noteholders which in aggregate are exercisable for approximately 31.6% of the voting common shares of Tacora on a fully diluted basis.

Restated and Amended Advance Payment Facility Agreement

On May 29, 2023, the Company entered into the Amended and Restated Advance Payments Facility (the A&R APF Agreement”) which amends certain terms under the existing APF Agreement amendment in order to provide for a $25 million senior hedging facility (the “Margining Facility”) to be made available by Cargill that allows for the Company to incur certain margin amounts owing by the Company under the Offtake Agreement to be deemed as advances by Cargill in favor of the Company.