

Bear Creek Mining Corporation  
FORM 51-102F4  
BUSINESS ACQUISITION REPORT

1 Identity of the Company

1.1 Name and Address of Company

Bear Creek Mining Corporation (the “**Company**”)  
Suite 1400, 400 Burrard Street  
Vancouver, BC, Canada V6C 3A6

1.2 Executive Officer

For further information, please contact:

Anthony Hawkshaw  
President, CEO and Director  
Telephone: 604-685-6269

2 Details of Acquisition

2.1 Nature of Business Acquired

On April 21, 2022 (the “**Closing Date**”) and pursuant to a share purchase agreement dated December 16, 2021, the Company acquired (the “**Acquisition**”) all the issued and outstanding shares of 1336991 B.C. Ltd., a wholly owned subsidiary of Equinox Gold Corp., which indirectly owns 100% of the Mercedes mine (“**Mercedes**”).

Mercedes is a mining operation located in the state of Sonora, Mexico, approximately 300 km northeast of the city of Hermosillo and 300 km south of Tucson, Arizona and is comprised of 43 mineral concessions covering 69,285 ha.

Gold-silver mineralization on the Mercedes property is hosted within epithermal, low sulphidation (adularia-sericite) veins, stockwork, and breccia zones. Aside from a brief Covid-related shut down in the spring of 2020, Mercedes has been in continuous operation since commencing production in 2011. Up to December 31, 2020, approximately 6.2 million tonnes of ore grading 4.28 g/t gold and 47.4 g/t silver have been processed, with a total of approximately 824,100 ounces of gold and 3.5 million ounces of silver produced.

Mercedes is a fully mechanized, ramp-access, underground mine with five underground mining areas; Mercedes, Barrancas, Lupita, Diluvio and Rey de Oro. The average production rate over the four year mine life is approximately 1,518 tpd with the highest

year averaging 1,872 tpd. Most areas are mined by mechanized cut and fill methods, with longhole stoping (uppers) employed in Diluvio and Diluvio West where ground conditions and ore volume permit to improve economics within portions of these deposits. The Rey de Oro Superior deposit, previously planned as an open pit, will now be mined as an underground operation with production beginning the fourth quarter of 2023.

The processing facilities at Mercedes are based upon conventional milling with Merrill-Crowe recovery of gold and silver. The three-stage crushing process plant has a maximum installed capacity of 2,000 tpd. The current life of mine is stated for four years with the current mining reserves.

For further details, including mineral reserves and mineral resources, relating to Mercedes, please refer to the Company's technical report entitled "*NI 43-101 Technical Report, Mercedes Gold-Silver Mine, Sonora State, Mexico*" with an effective date of December 31, 2022 and a signature date of July 4, 2022, which is filed under the Company's SEDAR profile at [www.sedar.com](http://www.sedar.com).

Pertinent disclosure of a technical or scientific nature in this Business Acquisition Report has been reviewed, verified and approved by Andrew Swarthout, a AIPG Certified Professional Geologist, Director of the Company and qualified person as defined in National Instrument 43-101 *Standards of Disclosure for Mineral Projects*.

## 2.2 Acquisition Date

April 21, 2022

## 2.3 Consideration

Total consideration for the Acquisition was:

- (i) a cash payment US\$75 million (the "**Cash Payment**") due on the Closing Date;
- (ii) the issuance of 24,730,000 common shares in the authorized share structure of the Company due on the Closing Date;
- (iii) a deferred cash payment of US\$25 million due within six months of the Closing Date (the "**Second Cash Payment**"); and
- (iv) a 2% net smelter return royalty on the metal production from Mercedes' mining concessions.

The Cash Payment was funded by US\$15 million from the Company's treasury and an aggregate of US\$60 million from Sandstorm Gold Ltd. ("**Sandstorm**") as described below.

The Company and Sandstorm entered into a gold purchase agreement whereby Sandstorm provided the Company with US\$37.5 million and in exchange the Company agreed sell to Sandstorm 600 ounces of refined gold per month for 42 months (a total of 25,200 ounces) at a price equal to 7.5% of the spot gold price at the time of delivery. Thereafter, the

Company will sell to Sandstorm 4.4% of gold produced by Mercedes at a price equal to 25% of the spot price at the time of delivery. Sandstorm was also granted a right of first refusal on any royalties, streams or similar transactions with respect to production from Mercedes.

On the Closing Date, Sandstorm paid the Company US\$22.5 million (the "**Principal Amount**") to subscribe for a 6%, three-year convertible debenture. Interest will be paid quarterly on the outstanding Principal Amount. The Principal Amount may be reduced by conversion of debt to common shares of the Company during the term. Otherwise, the Principal Amount is due on the third anniversary of closing. The Principal Amount is convertible, in whole or in part, into common shares of the Company at any time prior to maturity at CDN\$1.51.

#### 2.4 Effect on Financial Position

Following completion of the Acquisition, 1336991 B.C. Ltd. became a wholly-owned subsidiary of the Company. Since the Closing Date, the Company has continued its operations, together with the operations of 1336991 B.C. Ltd. and Mercedes on a combined basis. The Company intends to continue to operate 1336991 B.C. Ltd. and Mercedes to generate cash flow.

#### 2.5 Prior Valuations

No valuation opinion was obtained by the Company.

#### 2.6 Parties to Transaction

The Acquisition was not with an "informed person", "associate" or "affiliate" (as each term is defined in securities legislation) of the Company.

#### 2.7 Date of Report

July 5, 2022

### 3 Financial Statements and Other Information

Pursuant to Part 8 of National Instrument 51-102, the following financial statements are attached hereto as Schedules "A" to "B", respectively:

- Schedule "A" - Audited 'carve-out' consolidated annual financial statements for 1336991 B.C. Ltd for the year ended December 31, 2021, together with the notes thereto and the auditor's report thereon.
- Schedule "B" - Unaudited 'carve-out' interim financial statements for 1336991 B.C. Ltd for the period ended March 31, 2022, together with the notes thereto.

Salles Sainz Grant Thornton, Chartered Accountants, has given its consent to the inclusion of their audit report in this Business Acquisition Report.

### **Cautionary Statement Regarding Forward-Looking Statements**

This Business Acquisition Report contains forward-looking information (within the meaning of applicable Canadian securities laws). Forward-looking information is prospective and by its nature requires the Company to make certain assumptions and is subject to inherent risks and uncertainties. There can be no assurance that forward-looking information will prove to be accurate, and readers are cautioned not to place undue reliance on the forward-looking information contained in this Business Acquisition Report. All statements, other than statements of historical fact, constitute forward-looking information. Forward-looking information in this Business Acquisition Report includes, but is not limited to, statements with respect to: Company's strategic plans, future operations, future work programs and the impact of the implementation of the Acquisition on the Company, its operations and financial position.

In order to give such forward-looking information, the Company has made certain assumptions about the Company's business, the economy and the mining industry in general and has also assumed that contracted parties provide goods and services on agreed timeframes, plant and equipment work as anticipated, required regulatory approvals are received, no unusual geological or technical problems occur, no material adverse change in the price of gold occurs and no significant events occur outside of the Company's normal course of business. Although the assumptions were considered reasonable by management of the Company at the time the forward-looking information is given, there can be no assurance that such assumptions will prove to be accurate. In addition, the following are material factors that could cause actual results to differ materially from a conclusion, forecast or projection contained in the forward-looking information in this Business Acquisition Report: the inability of the Company to maintain its interest in its mineral projects or to obtain or comply with all required permits and licenses, risks normally incidental to the operation of a mineral properties, uncertainties in the interpretation of drill results, the possibility that future exploration, development or mining results will not be consistent with expectations, uncertainty of mineral resource estimates, joint venture risk, changes in governmental regulation adverse to the Company, Indigenous consultations, environmental risks, economic uncertainties, the inability of the Company to meet its current financial obligations including the obligations pursuant to the Cash Payment and Second Cash Payment, the inability of the Company to obtain additional financing when and as needed, dependence on a small number of key personnel, competition from other mining businesses, the future price of gold and other metals and commodities, title defects and other related matters.

Although the Company has attempted to identify material factors that could cause actual results to differ materially from a conclusion, forecast or projection contained in the forward-looking information, there may be other factors that could cause results to differ from what is anticipated, estimated or intended. Those factors are described under the heading "Risk Factors" in Company's most recent annual information form, which is filed on SEDAR at [www.sedar.com](http://www.sedar.com). Additional risks and uncertainties not presently known to the Company or that the Company currently deems immaterial may also impair the Company's business operations. All forward-looking information contained in this Business Acquisition Report is given as of the hereof and is based upon the

opinions and estimates of management and information available to management as at the date hereof. The Company undertakes no obligation to update or revise the forward-looking information contained in this Business Acquisition Report, whether as a result of new information, future events or otherwise, except as required by applicable laws.

**SCHEDULE "A"**

**AUDITED 'CARVE-OUT' CONSOLIDATED ANNUAL FINANCIAL STATEMENTS  
FOR 1336991 B.C. LTD FOR THE YEAR ENDED DECEMBER 31, 2021**

**(See attached)**

# **1336991 BC LTD and Subsidiaries**

Carve-Out Consolidated financial statements

As of December 31, 2021 and 2020

**1336991 BC LTD**  
**CARVE-OUT CONSOLIDATED FINANCIAL STATEMENTS**  
**For the years ended December 31, 2021 and 2020**

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## Independent auditor's report

To the Shareholders of  
1336991 BC LTD and Subsidiaries:

### Opinion

We have audited the consolidated financial statements of 1336991 BC LTD and Subsidiaries (the Company), which comprise the consolidated statement of financial position as of December 31, 2021, and the consolidated statements of loss and comprehensive loss, changes in equity and of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of 1336991 BC LTD and Subsidiaries, as of December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the 'Auditor's Responsibilities for the Audit of the Consolidated Financial Statements' section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Other matter**

The consolidated financial statements of 1336991 BC LTD and Subsidiaries for the year ended December 31, 2020, that are presented solely for comparative purposes have not been audited.

### **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 International Financial Reporting Standards (IFRSs), and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements of 1336991 BC LTD and Subsidiaries as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

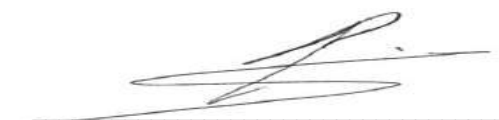
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements of the group. We are responsible for the direction, supervision and performance of the group audit in accordance with ISA 600. We remain solely responsible for the auditor's opinion.

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

SALLES, SAINZ - GRANT THORNTON, S.C.



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C.P.A. Sergio Arévalo Pérez

Mexico City, Mexico  
May 2, 2022

**1336991 BC LTD and Subsidiaries**  
**CARVE-OUT CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**As of December 31, 2021 and 2020**  
**(Stated in US Dollars)**

<b>ASSETS</b>	<b>Note</b>	<b>December 31,</b>	<b>Unaudited</b>
		<b>2021</b>	<b>December 31,</b>
			<b>2020</b>
<b>Current assets</b>			
Cash and cash equivalents	3	\$ 4,574,553	\$ 2,548,736
Receivables	4	6,217,510	9,029,361
Inventory	5	13,188,698	16,525,033
Prepays and deposits		13,369	946,181
<b>Total current assets</b>		<b>23,994,130</b>	<b>29,049,311</b>
<b>Non-current assets</b>			
Property, plant and equipment	6	128,757,345	136,460,682
<b>Total non-current assets</b>		<b>128,757,345</b>	<b>136,460,682</b>
<b>Total assets</b>		<b>\$ 152,751,475</b>	<b>\$ 165,509,993</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	7	\$ 9,265,010	\$ 4,907,181
Taxes payable		1,988,559	496,582
Current portion of lease liability	8	-	9,119
Current portion of deferred revenue	9	6,574,992	8,583,995
Current portion of long-term debt	8	6,976,666	2,318,500
Current portion of other liabilities	10	-	643,092
<b>Total current liabilities</b>		<b>24,805,227</b>	<b>16,958,469</b>
<b>Non-current liabilities</b>			
Deferred taxes	15	804,225	3,708,745
Deferred revenue	9	5,201,533	8,643,372
Employee benefits	16	2,532,064	2,124,584
Long-term debt	8	21,232,602	22,708,119
Other long-term debt		-	1,834,345
Asset retirement obligation	11	16,166,000	13,108,490
Other liabilities	10	-	397,203
<b>Total non-current liabilities</b>		<b>45,936,424</b>	<b>52,524,858</b>
<b>Total liabilities</b>		<b>70,741,651</b>	<b>69,483,327</b>
<b>EQUITY</b>			
Share capital		78	78
Contributed capital		91,937,199	89,443,376
Foreign currency translation reserve		4,429,563	4,787,549
Retained (loss) earnings		(14,357,016)	1,795,663
<b>Total equity</b>		<b>82,009,824</b>	<b>96,026,666</b>
<b>Total liabilities and equity</b>		<b>\$ 152,751,475</b>	<b>\$ 165,509,993</b>

The accompanying notes are an integral part of these carve-out consolidated statements of financial position

**1336991 BC LTD and Subsidiaries**  
**CARVE-OUT CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE**  
**LOSS**  
**For the years ended December 31, 2021 and 2020**  
**(Stated in US Dollars)**

	Note	Year ended	
		December 31, 2021	Unaudited December 31, 2020
<b>Revenue</b>		\$ 76,080,943	\$ 62,389,574
Cost of sales		(37,895,732)	(32,587,025)
Depletion, depreciation and amortization		(23,869,440)	(13,652,998)
<b>Gross profit</b>		<b>14,315,771</b>	16,149,551
<b>Expenses</b>			
Exploration, evaluation, and pre-development		(1,272,911)	(1,221,623)
General and administrative		(12,706,048)	(5,844,460)
Care and maintenance	12	-	(5,114,959)
Restructuring cost	13	-	(1,905,419)
<b>Operating profit</b>		<b>336,812</b>	2,063,090
<b>Comprehensive result of financing</b>			
Finance expense		(1,097,092)	(1,739,875)
Amortization of finance costs		-	(777,817)
Amortization of gold prepay interest		-	852,886
Realized foreign exchange loss		(6,270,502)	(3,570,911)
Change in fair value of silver stream contract	8	(8,776,497)	(8,970,396)
Other income		-	11,648
<b>Loss before income taxes</b>		<b>(15,807,279)</b>	(12,131,375)
<b>Income taxes</b>			
Current tax expense	15	(3,333,437)	(1,558,838)
Deferred income tax	15	2,988,037	879,902
<b>Loss for the year</b>		<b>(16,152,679)</b>	(12,810,311)
<b>Other comprehensive (loss) income</b>			
Exchange (loss) / gain on translation of foreign operations		(357,986)	1,718,352
<b>Total comprehensive loss for the year</b>		<b>\$ (16,510,774)</b>	<b>\$ (11,091,959)</b>

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

**1336991 BC LTD and Subsidiaries**  
**CARVE-OUT CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the years ended December 31, 2021 and 2020**  
**(Stated in US Dollars)**

	Year ended	
	December 31, 2021	Unaudited December 31, 2020
<b>OPERATING ACTIVITIES</b>		
Loss for the year	\$ (16,152,679)	\$ (12,810,311)
<b>Items not affecting cash:</b>		
Non-cash revenue on metal agreements	(6,400,328)	(8,208,333)
Administrative expense contribution from parent	12,731,909	5,420,083
Change in fair value of silver stream contract	8,776,497	8,970,396
Fair value adjustments	(96,626)	-
Depreciation of property and equipment	24,872,741	15,685,359
Amortization of gold prepay	(189,144)	(852,886)
Amortization of costs-deferred revenue	194,961	777,817
Unrealized foreign exchange gain/loss	430,959	-
Loss on disposal of equipment	87,613	282,595
Accretion of loan	809,396	769,917
Deferred tax recovery	(2,988,037)	(879,902)
Receivables	(40,005,373)	(14,931,981)
Prepaid expenses and deposits	932,812	816
Inventory	3,336,335	1,570,831
Taxes payable	4,107,557	(60,620)
Accounts payable and accrued liabilities	2,233,249	(6,155,609)
Cash used in operating activities	<u>(7,318,158)</u>	<u>(10,300,591)</u>
<b>INVESTING ACTIVITIES</b>		
Investment in property, plant and equipment	(15,439,862)	(11,039,402)
Cash used in investing activities	<u>(15,439,862)</u>	<u>(11,039,402)</u>
<b>FINANCING ACTIVITIES</b>		
Repayment of stream liability	(5,593,848)	(3,901,757)
Proceeds from deferred revenue	-	14,937,567
Contributed capital	32,221,150	7,744,374
Net repayment of long-term debt	(1,834,346)	(360,112)
Repayment of lease liability	(9,119)	(123,931)
Cash provided by financing activities	<u>24,783,837</u>	<u>18,296,141</u>
Increase (decrease) in cash and cash equivalents	2,025,817	(3,043,852)
Cash and cash equivalents at beginning of the year	2,548,736	5,592,588
Cash and cash equivalents at end of the year	<u>\$ 4,574,553</u>	<u>\$ 2,548,736</u>

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

**1336991 BC LTD and Subsidiaries**  
**CARVE-OUT CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**For the years ended December 31, 2021 and 2020**  
**(Stated in US Dollars)**

	Share Capital	Contributed capital	Foreign currency translation reserve	Retained earnings (loss)	Total Shareholders' Equity
<b>Balance at December 31, 2019 (Unaudited)</b>	\$ 78	\$ 98,087,663	\$ 3,069,197	\$ 14,605,974	\$ 115,762,912
Loss for the year	-	-	-	(12,810,311)	(12,810,311)
Withdrawal (Note 17)	-	(8,644,287)	-	-	(8,644,287)
Foreign currency translation effect	-	-	1,718,352	-	1,718,352
<b>Balance at December 31, 2020 (Unaudited)</b>	\$ 78	\$ 89,443,376	\$ 4,787,549	\$ 1,795,663	\$ 96,026,666
Loss for the year	-	-	-	(16,152,679)	(16,152,679)
Contribution (Note 17)	-	2,493,823	-	-	2,493,823
Foreign currency translation effect	-	-	(357,986)	-	(357,986)
<b>Balance at December 31, 2021</b>	\$ 78	\$ 91,937,199	\$ 4,429,563	\$ (14,357,016)	\$ 82,009,824

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

# 1336991 BC LTD

## NOTES TO THE CARVE-OUT CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended December 31, 2021 and 2020

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#### 1. NATURE OF BUSINESS

1336991 BC LTD (the “Company”) is a Canadian based, gold and silver producer engaged in the exploration, development and production of gold and silver deposits in Mexico. The Company’s principal asset is the Mercedes Mine in Sonora, Mexico. The Company was incorporated on December 8, 2021.

#### Basis of presentation

On December 17, 2021, Bear Creek Mining Corporation (“Bear Creek”) entered into an agreement to acquire a 100% interest in 1336991 BC LTD from Premier Gold Mines Limited (“PGML”) (a subsidiary of Equinox Gold Corporation) which owns the Mercedes gold-silver mine in Mexico.

These consolidated financial statements have been prepared for inclusion in the business acquisition report of Bear Creek in accordance with the British Columbia Securities Commission (“BCSC”)’s Continuous Disclosure Obligations section 8.4(1) of NI 51-102. The carve-out consolidated financial statements represent 1336991 BC LTD as though the Company was operating as a separate, standalone Company. These consolidated financial statements represent the historical operations of the Mercedes gold-silver mine within the consolidated group of Premier Gold Mines Ltd.

COVID-19 has caused many localities to implement measures to reduce the spread of the virus. As at the date of these carve-out consolidated financial statements, work stoppages and slowdowns are still impacting both the world and local economies. The continuing impact and duration of COVID-19 and ongoing government responses to it remain uncertain. The Company cannot predict the effect of unknown adverse changes to its business plans, financial position, cash flows, and results of operations during 2022 and beyond.

The carve-out consolidated statements of financial position as of December 31, 2021 and December 31, 2020 and the related carve-out consolidated statements of loss and comprehensive loss, statements of changes in equity and cash flows for the years then ended have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and their interpretations adopted by the International Accounting Standards Board (“IASB”). They have been prepared under the assumption the Group operates on a going concern basis. The following basis of preparation for the consolidated carve-out consolidated financial statements has been applied:

- All assets and liabilities directly related to the Company are included.
- Revenue and expenses directly related to the Company have been entirely attributed to the Company.
- During the periods ended December 31, 2021 and 2020, the Company received services and support functions from PGML and the operations of the Company were dependent upon the PGML’s ability to perform these services and support functions. These administrative and other costs, relating to general administration are used by the Company and are paid by PGML. These costs have been allocated to the Company based on the estimated revenue contribution of the Mercedes gold-silver mine to the entire PGML group as follows:

For the year ended December 31, 2021	80%
For the year ended December 31, 2020	60%



**1336991 BC LTD**  
**NOTES TO THE CARVE-OUT CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2021 and 2020**

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The carve-out consolidated financial statements of the Company for the year ended December 31, 2021 were approved and authorized for issue by the Board of Directors on May 2, 2022.

**Standards, amendments and Interpretations to existing Standards that are not yet effective and have not been adopted early by the Group**

At the date of authorization of these consolidated financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards or amendments to existing Standards have been adopted early by the Company.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Company's consolidated financial statements.

**Basis of preparation**

The Company's carve-out consolidated financial statements have been prepared on an accrual's basis and under the historical cost convention. Monetary amounts are expressed in United States Dollars.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of consolidation**

The carve-out consolidated financial statements incorporate the consolidated financial statements of the Company and entities controlled by the Company. Control is achieved when the Company is exposed to variable returns and has the ability to affect those returns through power to direct the Company's activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. Subsidiaries will be de-consolidated from the date that control ceases.

<b>Subsidiary</b>	<b>Percentage of ownership</b>	<b>Country</b>	<b>Principal activity</b>
Minera Mercedes Minerales S. de R.L. de C.V. (a)	100%	Mexico	Production
Mercedes Gold Holdings Mexico S. de R.L. de C.V.	100%	Mexico	Holding
Premier Mining Mexico S. de R.L. de C.V. (a)	100%	Mexico	Services
Premier Gold Mines (Netherlands) Cooperative U.A.	100%	Netherlands	Holding
Premier Gold Mines (Netherlands) B.V.	100%	Netherlands	Holding
Premier Gold Mines (Cayman) Ltd.	100%	Cayman Islands	Holding
2536062 Ontario Inc	100%	Canada	Holding

**1336991 BC LTD**  
**NOTES TO THE CARVE-OUT CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2021 and 2020**

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a) In accordance with the labor reform that was enacted on April 23, 2021 in Mexico, all of the employees in Premier Mining Mexico S. de R.L. de C.V., were transferred to Minera Mercedes Minerales, S. de R.L. de C.V., with effect from June 1, 2021, together with the labor obligations.

All transactions and balances between the Company and its subsidiaries are eliminated on consolidation, including unrealized gains and losses on transactions between the companies. Where unrealized losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the consolidated financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Company. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the period are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

**(b) Functional and presentation currency**

Functional currency

The functional currency of 1336991 BC LTD, the parent company, is the United States Dollars ("USD") which reflects the underlying transactions, events and conditions that are relevant to the entity. Management considers primary and secondary indicators in determining functional currency including the currency that influences sales prices, labor, purchases and other costs. Other indicators include the currency in which funds from financing activities are generated and the currency in which receipts from operations are usually retained. The Company's Mexico mining, exploration and development subsidiaries operate with a functional currency of USD as the sales and majority of costs are incurred in USD. The international operations have deferred revenue and financing arrangements related to gold and silver sales denominated in USD, and as such the functional currency is USD. The holding companies based in the Netherlands have debt in Mexican pesos ("MXN") and accordingly have a functional currency of MXN.

Foreign currency transactions are translated into the functional currency of the respective entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at period-end exchange rates are recognized in profit or loss.

Non-monetary items are not retranslated at the period-end. They are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

Presentation currency

The Company's presentation currency is US dollars. Reference to \$ or USD is to US dollars, reference to C\$ or CAD is to Canadian dollars.

**(c) Financial instruments**

Financial instruments are recognized in the consolidated statement of financial position when the Company becomes a party to a contract. At initial recognition, the Company classifies and measures its financial instruments as one of the following:

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- At amortized cost if they are held to collect contractual cash flows which solely represent payments of principal and interest, or;
- Fair value through profit or loss (“FVTPL”).

Financial instruments are measured on initial recognition at fair value, plus, in the case of financial instruments other than those classified as FVTPL, directly attributable transaction costs. Financial instruments are recognized when the Company becomes a party to the contracts that give rise to them and are classified as amortized cost, fair value through profit or loss or fair value through other comprehensive income, as appropriate. The Company considers whether a contract contains an embedded derivative when the entity first becomes a party to it. Embedded derivatives are separated from the host contract if the host contract is not measured at fair value through profit or loss and when the economic characteristics and risks are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Financial assets at amortized cost

A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding and is not designated as FVPL. Financial assets classified as amortized cost are measured after to initial recognition at amortized cost using the effective interest method. Cash and cash equivalents, receivables and certain other assets are classified as and measured at amortized cost.

Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in net earnings when financial liabilities are derecognized as well as through the amortization process. Borrowing liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date. Long-term debt, Accounts payable and accrued liabilities and finance leases are classified as and measured at amortized cost.

Derivative instruments

Derivative instruments, including embedded derivatives, are measured at fair value on initial recognition and at each subsequent reporting period. Any gains or losses arising from changes in fair value on derivatives are recorded in net earnings.

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Impairment of financial assets

A loss allowance for expected credit losses is recognized in in other comprehensive income (“OCI”) for financial assets measured at amortized cost. At each balance sheet date, on a forward-looking basis, the Company assesses the expected credit losses associated with its financial assets carried at amortized cost and Fair value through other comprehensive income (“FVOCI”). The impairment methodology applied depends on whether there has been a significant increase in credit risk. The impairment model does not apply to investments in equity instruments.

Expected credit losses are required to be measured through a loss allowance at an amount equal to the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date) or full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument). A loss allowance for full lifetime expected credit losses is required for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition.

Derecognition of financial assets and liabilities

A financial asset is derecognized when either the rights to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party. If neither the rights to receive cash flows from the asset have expired nor the Company has transferred its rights to receive cash flows from the asset, the Company will assess whether it has relinquished control of the asset or not. If the Company does not control the asset, then derecognition is appropriate.

A financial liability is derecognized when the associated obligation is discharged or canceled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in net earnings.

**(d) Cash and cash equivalents**

Cash includes of cash on hand and demand deposits. The Company considers cash equivalents to include amounts held in banks and highly liquid investments with maturity at a the time of purchase of 90 days or less.

**(e) Inventory**

Material extracted from the mines is classified as either ore or waste. Ore represents material that, at the time of extraction, is expected to be processed into a saleable form and sold at a profit. Ore is accumulated in stockpiles that are subsequently processed into gold and silver in a saleable form. Work-in-process represents gold and silver in the processing circuit that has not completed the production process and is not yet in a saleable form. Finished goods inventory represents gold and silver in saleable form. Mine operating supplies represent commodity consumables and other raw materials used in the production process, as well as spare parts and other maintenance supplies that are not classified as capital items.

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Inventories are valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes all costs incurred to bring each product to its present location and condition. Cost of inventories include direct labor, materials and contractor expenses, including non-capitalized development costs; depreciation of property, plant and equipment including capitalized development costs; and an allocation of general and administrative costs.

Provisions to reduce inventory to net realizable value are recorded to reflect changes in economic factors that impact inventory value and to reflect present intentions for the use of slow moving and obsolete supplies inventory. Net realizable value is determined with reference to relevant market prices less applicable selling expenses. Provisions recorded also reflect an estimate of the remaining costs of completion to bring the inventory into its saleable form. Provisions are also recorded to reduce mine operating supplies to net realizable value, which is generally calculated by reference to salvage or scrap values, when it is determined that the supplies are obsolete. Provisions are reversed to reflect subsequent recoveries in net realizable value where the inventory is still on hand.

**(f) Property, plant and equipment**

General

Property, plant and equipment are recorded at historical cost less accumulated depreciation, depletion and impairment charges.

Major overhaul expenditures and the cost of replacement of a component of plant and mobile equipment are capitalized and depreciated over the average expected life between major overhauls. All other replacement spares and other costs relating to maintenance of mobile equipment are charged to the cost of production.

Directly attributable costs, including capitalized borrowing costs, incurred for major capital projects and site preparation are capitalized until the asset is in a location and condition necessary for its intended use. Costs include dismantling and site restoration costs to the extent these are recognized as a provision. At least annually, Management reviews the estimated useful lives, residual values and depreciation methods of the Company's property, plant and equipment or when events and circumstances indicate that such a review should be made. Changes to estimated useful lives, residual values or depreciation methods resulting from such review are accounted for prospectively.

An item of property, plant and equipment is de-recognized upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between any proceeds received and the carrying amount of the asset) is included in the statements of comprehensive loss in the period the asset is de-recognized.

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Exploration, evaluation, and pre-development expenditures

Exploration, evaluation and pre-development expenditures are charged to expense until management concludes that the technical feasibility, and commercial viability of extracting a mineral resource are demonstrable and that future economic benefits are probable. In making this determination, the extent of exploration, as well as the degree of confidence in the mineral resource is considered. Once a project has been established as commercially viable and technically and has been subject to an impairment analysis, further expenditures are capitalized and classified as development properties.

Exploration, evaluation and pre-development expenditures consist of:

- gathering exploration data through topographical and geotechnical studies,
- exploratory drilling, trenching and sampling,
- determining the volume and grade of the resource,
- test work on geology, metallurgy, mining, geotechnical and environmental, and
- conducting engineering, marketing and financial studies.

Exploration and evaluation assets acquired are initially recognized at fair value as exploration rights within tangible assets.

Development properties (underground and open pit)

A property, either open pit or underground, is classified as a development property when a mine plan has been prepared and technical feasibility has been established, legal rights of exploitation and a decision is made to commercially develop the property. Development expenditure is accumulated separately for each area of interest for which economically recoverable mineral reserves and resources have been identified.

All expenditures incurred prior to the commencement of commercial levels of production from each development property are capitalized. In addition, capitalized costs are assessed for impairment when there is an indicator of impairment.

Development properties are not amortized until they are reclassified as mine property assets following the achievement of commercial levels of production.

Mine properties

After a mine property has been brought into commercial production, costs of any additional mining, in-pit drilling and related work on that property are expensed as incurred. Mine development costs incurred to expand operating capacity, develop new ore bodies or develop mine areas in advance of current production, including the stripping of waste material, are deferred and then amortized on a unit-of- production basis.

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Deferred stripping costs

Stripping costs incurred in the production phase of a mining operation are accounted for as variable production costs and are included in the costs of inventory produced. Stripping activity that improves access to ore in a future period is accounted for as an addition to or enhancement of an existing asset. The Company recognizes stripping activity assets when it is probable that the future economic benefit associated with the stripping activity will flow to the Company; the component of the ore body for which access has been improved can be identified; and the costs relating to the stripping activity associated with that component can be measured reliably.

Stripping activity assets are amortized on a unit of production basis in subsequent periods over the proven and probable reserves to which they relate.

Depreciation and depletion

The carrying amounts of mine properties, plant and equipment are depreciated or depleted to their estimated residual value over the estimated economic life of the specific assets to which they relate, using the depreciation methods or depletion rates as indicated below. Estimates of residual values or useful lives and depreciation methods are reassessed annually and any change in estimate is taken into account in the determination of the remaining depreciation or depletion rate. Depreciation or depletion commences on the date the asset is available for its intended use.

Depreciation or depletion is computed using the following rates:

Item	Methods	Rates
Mine properties	Units of production	Estimated proven and probable mineral reserves
Equipment, leasehold improvements	Straight line	Lesser of lease term and estimated useful life
Furniture, office equipment and software	Straight line	2 – 5 years
Plant and equipment	Straight line, units of production	4 – 10 years, estimated proven and probable mineral reserves
Mining equipment	Straight line	1 – 10 years based on life of mine
Deferred stripping costs	Units of production	Estimated proven and probable mineral reserves accessible due to stripping activity

**(g) Deferred revenue**

The Company recognizes deferred revenue in the event it receives payments for future commitments to deliver metals and before such commitments meet the criteria for revenue recognition. The Company recognizes amounts in revenue as the metals are delivered to the customer.

Specifically, for the gold prepay agreement as further described in Note 9 of these carve-out consolidated financial statements the Company determines the amortization of deferred revenue to the consolidated statement of loss on a per unit basis using the estimated total quantity of metal expected to be delivered over the term of the contract. The Company estimates the current portion of deferred revenue based on quantities anticipated to be delivered over the next twelve months.

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**(h) Provisions**

Provisions are recognized when the Company or its subsidiaries have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation 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. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pretax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost. Contingent liabilities are not recognized in the consolidated financial statements, if not estimable and probable, and are disclosed in notes to the financial information unless their occurrence is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes if their recovery is deemed probable.

Asset retirement obligation

Provisions for assets retirement obligation are made in respect of the estimated future costs of closure and restoration and for environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the accounting period when the related environmental disturbance occurs. The provision is discounted using a pretax rate, and the unwinding of the discount is included in finance costs. At the time of establishing the provision, a corresponding asset is capitalized and is depreciated over future production from the mining property to which it relates. The provision is reviewed each reporting period for changes in cost estimates, discount rates and operating lives. Changes to estimated future costs are recognized in the statement of financial position by adjusting the rehabilitation asset and liability. If, for mature mines, the revised mine assets net of rehabilitation provisions exceeds the carrying value, that portion of the increase is charged directly to expenses. For closed sites, changes to estimated costs are recognized immediately in profit and loss.

**(i) Leases**

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether the: contract involves the use of an identified asset:

- this may be specified explicitly or implicitly,
- should be physically distinct or represent substantially all of the capacity of a physically distinct asset, and
- if the supplier has a substantive substitution right, then the asset is not identified.
- Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use, and



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- Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either the:
  - Company has the right to operate the asset, or
  - Company designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset will be periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability when applicable.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments,
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date,
- amounts expected to be payable under a residual value guarantee, and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured 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 whether it will exercise a purchase, extension or termination option.

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When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in "Property, plant and equipment" and lease liabilities in "Other liabilities".

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases of items that have a lease term of 12 months or less and leases of low-value assets as considered by IFRS 16 B6, B8, and BC.98-BC.104, including non-specialized IT equipment. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

**(j) Share capital**

Share capital represents the fair value of consideration received. Equity instruments are contracts that give a residual interest in the net assets of the Company. Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. Incremental costs directly attributable to the issue of new shares or options are also shown in equity as a deduction.

Other components of equity include the following:

- Contributed capital- comprises the capital that has been injected into the Company in addition to the issued share capital.
- Translation reserve - comprises foreign currency translation differences arising from the translation of consolidated financial statements of the Company's foreign entities into US dollars (see Note 2 b)

**(k) Impairment of non-financial assets**

At each financial position reporting date, the carrying amounts of the Company's non-financial assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period.

For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

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If an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but not so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior periods. A reversal of an impairment loss is recognized immediately in profit or loss.

As at the years ended December 31, 2021 and December 31 2020 there were no impairment indicators noted.

**(l) Revenue**

The Company follows as five-step process in determining whether to recognize revenue from the sale of precious metals, gold and silver:

- identifying the contract with a customer,
- identifying the performance obligations,
- determine the transaction price,
- allocating the transaction price to the performance obligations, and
- recognizing revenue when performance obligations are satisfied.

Revenue from contracts with customers is generally recognized on the settlement date, which is the date the customer obtains control of the delivered asset, and the Company satisfies its performance obligations. The Company considers the terms of the contract in determining the transaction price. The transaction price is either fixed on the settlement date or at prices based upon the terms of the contract.

**(m) Income taxes**

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Current income tax liabilities or assets comprise those obligations to, or claims from, fiscal authorities relating to current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit or other current tax activities, which differs from profit or loss in the financial statements. Calculation of current tax expense is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries and co-ownership is not provided if reversal of these temporary differences can be controlled by the Company and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against

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future taxable income. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it is not recognized in the financial statements.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of taxable income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

**(n) Segment reporting**

An operating segment is a component of an entity (i) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), (ii) whose operating results are regularly reviewed by the entity's management, and (iii) for which discrete financial information is available. The Company has identified its reportable segments on the basis of their geographic location. As a result, the Company discloses information geographically based on the location of each of its operations.

**(o) Post-employment benefits and short-term employee benefits**

Post-employment benefit plans

The Company provides post-employment benefits through various defined contribution and defined benefit plans.

Defined contribution plans

The Company pays fixed contributions into independent entities in relation to several retirement plans and insurances for individual employees. The Group has no legal or constructive obligations to pay contributions in addition to its fixed contributions, which are recognized as an expense in the period that related employee services are received.

Defined benefit plans

Under the Company's defined benefit plans, the amount of pension benefit that an employee will receive on retirement is defined by reference to the employee's length of service and final salary. The legal obligation for any benefits remains with the Company, even if plan assets for funding the defined benefit plan have been set aside. Plan assets may include assets specifically designated to a long-term benefit fund as well as qualifying insurance policies. The liability recognized in the consolidated statement of financial position for defined benefit plans is the present value of the defined benefit obligation (DBO) at the reporting date less the fair value of plan assets.

Management estimates the DBO annually with the assistance of independent actuaries. This is based on

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standard rates of inflation, salary growth rate and mortality. Discount factors are determined close to the end of each annual reporting period by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and have terms to maturity approximating the terms of the related pension liability.

Service cost on the Company's defined benefit plan is included in employee benefits expense. Employee contributions, all of which are independent of the number of years of service, are treated as a reduction of service cost. Net interest expense on the net defined benefit liability is included in finance costs. Gains and losses resulting from remeasurements of the net defined benefit liability are included in other comprehensive income and are not reclassified to profit or loss in subsequent periods.

Short-term employee benefits

Short-term employee benefits, including holiday entitlement, are current liabilities included in pension and other employee obligations, measured at the undiscounted amount the Company expects to pay as a result of the unused entitlement.

**(p) Interest**

Interest income and expenses are reported on an accrual basis using the effective interest method.

**(q) Operating expenses**

Operating expenses are recognized in profit or loss upon utilization of the service or at the date of their origin.

**(r) Significant accounting judgements and estimates**

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities, disclosure of commitments and contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires the exercise of judgement based on various assumptions and other factors such as historical experience, current and expected economic conditions. Actual results could differ from these estimates.

The significant judgments and estimates used in the preparation of these carve-out consolidated financial statements that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities and earnings within the next financial year include:

Inventory valuation

Finished goods, work-in-process, and stockpile ore are valued at the lower of cost and net realizable value. The assumptions used in the valuation of work-in-process inventories include estimates of precious metals contained in the mill circuits and assumption of the gold price expected to be realized when the gold is recovered. If these estimates or assumptions prove to be inaccurate, the Company could be required to write-down the recorded value of its work-in-process inventories and heap leach ore, which would reduce earnings and working capital.

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Impairment and reversal of impairment for non-current assets

Non-current assets are tested for impairment at the end of each reporting period if in management's judgement there is an indicator of impairment. If there are indicators, management performs an impairment test on the major assets within this balance.

In the case of mineral property assets, recoverability is dependent on several factors common to mining operations. These include the extent to which the Company can continue to renew its exploration and future development licenses with local or other authorities, establish economically recoverable reserves on its properties, the availability of the Company to obtain necessary financing to complete the development of such reserves and future profitable production or proceeds from the disposition thereof. The Company uses the evaluation work of professional geologists, geophysicists and engineers for estimates in determining whether to commence or continue mining and processing. These estimates generally rely on scientific and economic assumptions, which in some instances may not be correct, and could result in the expenditure of substantial amounts of money on a deposit before it can be determined whether the deposit contains economically recoverable mineralization.

Recoverable ounces

The carrying amounts of the Company's mining property is depleted based on recoverable ounces contained in proven and probable mineral reserves. Changes to estimates of recoverable ounces and depletable costs including changes resulting from revisions to mine plans and changes in metal price forecasts can result in a change in future depletion rates.

The figures for mineral reserves and mineral resources are determined in accordance with National Instrument 43-101 – *Standards of Disclosure for Mineral Projects*, issued by the Canadian Securities Administrators. This National Instrument lays out the standards of disclosure for mineral projects including rules relating to the determination of mineral reserves and mineral resources. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgements used in engineering and geological interpretation. Differences between management's assumptions, and actual events including economic assumptions such as metal prices and market conditions, could have a material effect in the future on the Company's financial position and results of operation.

Asset retirement obligation

Management assesses asset retirement obligations on an annual basis or when circumstances change, or new information becomes available. This assessment includes the estimation of future rehabilitation costs required based on the existing laws and regulations in each jurisdiction the Company operates in, the timing of these expenditures, and the impact of changes in the discount rate. Future expenditures may differ from amounts recorded if the estimated amounts are different than actual results or if there are changes in environmental or regulatory requirements.

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Valuation of financial instruments

The fair value of derivative financial liabilities that are not traded in an active market is determined using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are based on market conditions existing at the end of each reporting period as an indication of the expected future market conditions.

*Gold prepays*

The Company has determined that the interest component present in the second amended and restated gold prepay agreement represents a financial liability and has evaluated the liability under IFRS 9 and the valuation of financial instruments. In determining the fair value of the financing arrangement management judgement is required in respect to input variables of the financial model used for estimation purposes. These variables include such inputs as the Company's stock price, metal prices and metal price volatility. Using the inputs above to determine the fair value of the components and the related credit spread, the Company used a discounted cash flow analysis to determine the present value of the financial liability.

*Offtake*

The initial offtake agreement entered into in 2016 included a collar on the price of gold that Orion will pay for each ounce, which resulted in the recognition of an embedded derivative. The 2019 amendment removed this collar and thus eliminated the embedded derivative, at which time the Company derecognized the related financial liability. The 2020 amendments are primarily related to an increase in the annual gold quantity to be delivered to Orion and extending the term of the agreement. Management has determined that the terms of the second amended and restated offtake agreement remain substantially the same as the existing offtake agreement. As a result, the Company has concluded that there are no embedded derivatives to value at this time.

Deferred revenue

The Company is party to a gold prepay agreement and silver stream agreement.

The upfront payment for the gold prepays facility was accounted for as deferred revenue.

The upfront payment for the silver stream arrangement was accounted for as deferred revenue. However, the silver stream contract was modified on January 31, 2019, at which time it was necessary to reassess the accounting. Management determined that the silver stream agreement no longer met the own-use exemption allowing deferred revenue treatment. The silver stream was therefore derecognized as deferred revenue and was further evaluated under IFRS 9 and the valuation of financial instruments.

Commercial production

The determination of the date on which a mine enters the commercial production stage is a significant judgement since capitalization of certain costs ceases and the recording of revenues and expenses commences upon entering commercial production.

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Functional currency of foreign subsidiaries

Management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. As part of this approach, management gives priority to indicators like the currency that mainly influences costs and the currency in which those costs will be settled and the currency in which funds from financing activities are generated. Management also assesses the degree of autonomy the foreign operation has with respect to operating activities.

Deferred income taxes

The Company operates in several tax jurisdictions and is required to estimate the income tax provision in each of these jurisdictions in preparing its consolidated financial statements. The provision for income taxes which is included in the carve-out consolidated statements of loss and comprehensive loss and composition of deferred income tax liabilities included in the consolidated statements of financial position is based on factors such as tax rates in the different jurisdictions, changes in tax law and management's assessment of future results and have not yet been confirmed by the taxation authorities. The Company does not recognize deferred tax assets where management does not expect such assets to be realized based on current forecasts.

In the event that actual results differ from these estimates, adjustments are made in future periods and changes in the amount of amount of deferred tax assets recognized may be required. These adjustments could materially impact the financial position and income or loss for the period.

Leases

Critical judgements required in the application of IFRS 16 included, among others, the following:

- identifying whether a contract (or part of a contract) includes a lease,
- determining whether it is reasonably certain that an extension or termination option will be exercised,
- classification of lease agreements (when the entity is a lessor),
- determination whether variable payments are in-substance fixed,
- establishing whether there are multiple leases in an arrangement, and
- determining the stand-alone selling prices of lease and non-lease components.

Key sources of estimation uncertainty in the application of IFRS 16 include, among others, the following:

- estimation of the lease term,
- determination of the appropriate rate to discount the lease payments, and
- assessment of whether a right-of-use asset is impaired.

Employee benefits

Short-term employee benefits, including holiday entitlement, are current liabilities included in pension and other employee obligations, measured at the undiscounted amount the Company expects to pay as a result of the unused entitlement.



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Preparation consolidated financial statements

The consolidated financial statements include the allocations of income, expense, assets, liabilities, cash flows and elements of shareholder's equity, which are based on management judgment, assumptions and estimates. The area in the carve-out adjustments that involve higher degree of judgment, assumptions and estimates in these carve-out financial statements is related to group administration costs as explained in Note 1.

Other estimates

Other significant estimates which could materially impact the consolidated financial statements include:

- the estimated useful lives of property, plant and equipment which are included in the consolidated statements of financial position and the related depreciation included in the consolidated statements of income / (loss) and comprehensive income / (loss); and
- the discount rate used to determine the carrying value of long-term debt.

**3. CASH AND CASH AND EQUIVALENTS**

Cash and cash equivalents consist of the following:

	<u>2021</u>	<u>2020</u>
In Mxn	\$ 4,468,740	\$ 2,254,411
In Usd	105,813	246,357
In Euro	-	47,968
	<u>\$ 4,574,553</u>	<u>\$ 2,548,736</u>

**4. RECEIVABLES**

Trade and other receivables are made up of the following:

	<u>2021</u>	<u>2020</u>
Trade receivables	\$ 122,778	\$ 216,053
Other receivables (i)	6,094,732	8,813,308
	<u>\$ 6,217,510</u>	<u>\$ 9,029,361</u>

(i) Recoverable taxes include Canadian harmonized sales tax recoverable, income tax recoverable and Mexico value added tax recoverable.

**5. INVENTORY**

Inventory are made up of the following:

	<u>2021</u>	<u>2020</u>
Finished goods	\$ 3,707,060	\$ 1,288,611
Work-in-process	174,503	129,724
Current ore stockpiles	205,948	127,945
Materials and supplies	9,101,187	14,978,753
Total current inventory	<u>\$ 13,188,698</u>	<u>\$ 16,525,033</u>

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The amount of inventory recognized as an expense for the year ended December 31, 2021, was \$37,895,732 (\$32,587,025 for the year ended December 31, 2020) and is included in cost of sales.

**6. PROPERTY, PLANT AND EQUIPMENT**

The property, plant and equipment are comprised of the following:

	Mineral properties subject to depletion	Buildings, plant and equipment	Total
<b>Cost</b>			
<b>January 1, 2020</b>	\$ 100,413,990	\$ 101,547,582	\$ 201,961,572
Additions	9,544,091	1,469,826	11,013,917
Disposals	-	(339,780)	(339,780)
Change in estimate of environmental provision	1,322,501	-	1,322,501
<b>December 31, 2020</b>	<b>111,280,582</b>	<b>102,677,628</b>	<b>213,958,210</b>
Additions	10,791,786	4,574,908	15,366,694
Disposals	-	(87,613)	(87,613)
Change in estimate of environmental provision	2,476,132	-	2,476,132
Foreign currency adjustment	(146,394)	(439,415)	(585,809)
<b>December 31, 2021</b>	<b>\$ 124,402,106</b>	<b>\$ 106,725,508</b>	<b>\$ 231,127,614</b>
<b>Accumulated depreciation and impairment</b>			
<b>January 1, 2020</b>	\$ 32,296,197	\$ 29,573,157	\$ 61,869,354
Depletion, depreciation and amortization	5,482,954	10,202,405	15,685,359
Disposals	-	(57,185)	(57,185)
<b>December 31, 2020</b>	<b>37,779,151</b>	<b>39,718,377</b>	<b>77,497,528</b>
Depreciation, depletion and amortization	12,048,250	12,824,491	24,872,741
<b>December 31, 2021</b>	<b>\$ 49,827,401</b>	<b>\$ 52,542,868</b>	<b>\$ 102,370,269</b>
<b>Carrying amounts</b>			
December 31, 2020	\$ 73,501,431	\$ 62,959,251	\$ 136,460,682
<b>December 31, 2021</b>	<b>\$ 74,574,705</b>	<b>\$ 54,182,640</b>	<b>\$ 128,757,345</b>

**7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

The trade and other payables consist of the following:

	2021	2020
Trade payables	\$ 6,560,786	\$ 4,213,705
Other payables	2,704,224	693,476
	<b>\$ 9,265,010</b>	<b>\$ 4,907,181</b>

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**8. LONG-TERM DEBT**

The long – term debt consist of the following:

	<b>Silver stream liability</b>	<b>Lease liability</b>	<b>Total</b>
<b>December 31, 2019</b>	\$ 19,957,980	\$ 158,535	\$ 20,116,515
Lease additions and adjustments	-	(25,485)	(25,485)
Principal repayment	(3,901,757)	(123,931)	(4,025,688)
Fair value adjustments	8,970,396	-	8,970,396
<b>December 31, 2020</b>	\$ 25,026,619	\$ 9,119	\$ 25,035,738
Principal repayment	(5,593,848)	(9,119)	(5,602,967)
Fair value adjustments	8,776,497	-	8,776,497
<b>December 31, 2021</b>	\$ 28,209,268	-	28,209,268
Less current portion	6,976,666	-	6,976,666
<b>Long-term portion</b>	<b>\$ 21,232,602</b>	<b>\$ -</b>	<b>\$ 21,232,602</b>

*Silver stream liability*

On January 31, 2019, the Company entered into a contract modification on an existing silver stream agreement. As a result of the amendment, the silver stream contract was determined to be a financial liability recorded at fair value through profit or loss. The principal repayment on the liability is variable based on 80% of the silver price applied to ounces delivered under the contract. For the year ended December 31, 2021, the Company recognized a change in fair value of the silver stream liability of \$8,776,497 (\$8,970,396 in 2020) recorded in the Consolidated statement of loss and comprehensive loss.

**9. DEFERRED REVENUE**

The deferred revenue consists of the following:

	<b>Gold prepayment</b>
<b>December 31, 2019</b>	\$ 10,990,515
Additional principal amount	15,500,000
Fees and discount	(562,433)
Allocation of financial liability	(1,270,199)
Recognition of revenue	(8,208,333)
Amortization of costs	777,817
<b>December 31, 2020</b>	\$ 17,227,367
Recognition of revenue	754,525
Amortization of costs	(6,400,328)
Fair value adjustments	194,961
<b>December 31, 2021</b>	\$ 11,776,525
Less current portion	(6,574,992)
<b>Long-term portion</b>	<b>\$ 5,201,533</b>

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In exchange for \$23.16 million, in 2016 the Company entered a gold prepay agreement requiring the Company to deliver 1,000 troy ounces of gold per quarter. At the beginning of 2021, the balance was 10,000 ounces and after the gold prepay agreement was amended on April 17, 2021 the gold deliverable balance was 9,000 ounces. According to the amended gold prepay agreement if the gold price is above \$1,650, 900 gold ounces are deliverable per quarter, which is a reduction of 100 ounces. During the year ended December 31, 2021, 3,600 ounces were delivered and the balance due was reduced by 4,000 ounces, as 3,600 ounces were delivered and a 400 ounce reduction applied as the price for the respective quarters was above \$1,650. At year ended December 31, 2021, a balance of 6,000 ounces to be delivered.

The gold prepay has an annual interest rate of 6.5% payable on the quarterly payments which has been recorded as a liability based on the present value of the future interest payments.

**10. OTHER LIABILITIES**

The other liabilities consist of the following:

	<b>2021</b>	<b>2020</b>
Opening balance	\$ 1,040,295	\$ 115,221
Addition	-	1,777,960
Amortization	<b>(189,144)</b>	(852,886)
Purchase price adjustments	<b>(851,151)</b>	-
Closing balance	\$ -	\$ 1,040,295
Less current portion	-	(643,092)
	<b>\$ -</b>	<b>\$ 397,203</b>

The other liability represents the present value of the interest component of the gold prepay agreement discussed in Note 2 (g) of these consolidated financial statements.

**11. ASSET RETIREMENT OBLIGATION**

The Company's provision for environmental rehabilitation results from an ownership interest in a mill, mining equipment and previously mined property interests. The provision consists primarily of costs associated with mine reclamation and closure activities. These activities, which tend to be site specific, generally include costs for decommissioning the mill complex and related infrastructure, physical and chemical stability of the tailings area, post-closure site security and monitoring costs. The Company considers such factors as changes in laws and regulations, and requirements under existing permits in determining the estimated costs. Such analysis is performed on an on-going basis.

The Company estimates that the undiscounted uninflated future value of the cash flows required to settle the provision is \$15.7 million for the Mercedes mine project in Mexico. In calculating the best estimate of the Company's provision, management used risk-free interest rate of 7.55% (2020-7.77%). A reconciliation of the discounted provision is provided below:

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	<u>Amount</u>
December 31, 2019	\$ 11,016,072
Change in estimate expensed	-
Change in estimate capitalized	1,322,501
Accretion expense	769,917
Currency adjustment	-
<b>December 31, 2020</b>	<b>\$ 13,108,490</b>
Change in estimate expensed	1,570,618
Change in estimate capitalized	905,514
Accretion expense	809,396
Currency adjustment	(228,018)
<b>Balance, December 31, 2021</b>	<b>\$ 16,166,000</b>
Less current portion	-
<b>Long-term portion</b>	<b>\$ 16,166,000</b>

**12. CARE AND MAINTENANCE**

The Mercedes mine was placed into care and maintenance during the second quarter of the year ended December 31, 2020, incurring expenditures of \$5.1 million at the mine site and for personnel sent home.

	<u>2021</u>	<u>2020</u>
Operational costs	\$ -	\$ 3,336,356
Depreciation and amortization	-	1,778,603
Total care and maintenance	<b>\$ -</b>	<b>\$ 5,114,959</b>

**13. RESTRUCTURING COST**

During the two-month shutdown in the second quarter of the year ended December 31, 2020, extensive technical work was carried out to assess alternative mine plans with renewed attention to increasing production margins. A plan was developed to re-start operations with a strategy limiting mining and development activities to the Lupita (including Lupita Extension) and Diluvio zones. This realignment recognizes the need to optimize Mercedes production to its current reserve base rather than its processing capacity. The restructuring resulted in a reduction of 40% of the employees required to operate the mine and 75% of mining-related contractors. Affected employees received a severance package under Mexican Federal Labor regulations in the amount of \$1.9 million.

**14. SEGMENTED INFORMATION**

As of December 31, 2021, and December 31, 2020, the Company is operating its business in one reportable segment: mineral exploration, development, and production in Mexico.

The Company's non-current assets are in Mexico and all the revenues are also derived from that geographical location.

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**15. INCOME TAXES**

a) The major components of income tax expense are as follows:

	<b>2021</b>	<b>2020</b>
Current income tax	\$ <b>1,192,105</b>	\$ 1,350,321
Mining royalty, net proceeds and withholding taxes	<b>2,141,332</b>	208,517
<b>Total current income tax</b>	<b>3,333,437</b>	1,558,838
Deferred income tax recovery	<b>(83,517)</b>	(110,789)
Mining royalty, net proceeds and withholding taxes	<b>(2,904,520)</b>	(769,113)
<b>Total deferred income tax</b>	<b>(2,988,037)</b>	(879,902)
<b>Income tax expense</b>	<b>\$ 345,400</b>	\$ 678,936

b) The Company's income tax benefit differs from the amount computed by applying the combined Canadian federal and provincial income tax rates to loss before income taxes as a result of the following:

	<b>2021</b>	<b>2020</b>
Loss before income taxes for continuing operations income	\$ <b>(15,807,279)</b>	\$ (12,131,375)
Loss before income taxes	<b>(15,807,279)</b>	(12,131,375)
Canadian statutory rates	<b>27%</b>	27%
Income tax recovery computed at statutory rates	<b>(4,267,965)</b>	(3,275,472)
Mexico withholding tax	<b>1,112,982</b>	1,068,096
Mexico royalty tax	<b>(534,232)</b>	(392,417)
Inflation on balances	<b>(1,456,887)</b>	(497,929)
Difference in foreign tax rates	<b>985,598</b>	(1,402,147)
Increase in deferred tax assets not recognized	<b>4,841,120</b>	(1,781,976)
Non-deductible/ non-taxable items	<b>378,578</b>	5,686,089
Updates from recovery of taxes/rights	<b>(101,123)</b>	(48,781)
Foreign exchange	<b>1,366,687</b>	1,268,777
True-up	<b>(1,979,358)</b>	54,696
<b>Income tax expense</b>	<b>\$ 345,400</b>	\$ 678,936

c) The deferred income tax assets (liabilities) reported on the balance sheet are comprised of temporary differences as presented below:

	<b>2021</b>	<b>2020</b>
<b>Deferred tax assets</b>		
Non-capital losses	\$ -	\$ 3,575,181
Property, plant and equipment	<b>2,578,840</b>	394,625
Exploration costs	<b>4,028,359</b>	3,071,707
Mining royalty tax	<b>999,643</b>	1,272,642
Inventory	<b>396,835</b>	-
Prepays and other deposits	<b>9,346</b>	-
Provisions not currently allowed for tax purposes	<b>7,492,133</b>	5,304,754

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Gross deferred tax assets	<u>15,505,156</u>	13,618,909
Deferred tax assets set off against deferred tax liabilities	<u>(15,505,156)</u>	<u>(13,618,909)</u>
Deferred tax assets	<u>\$ -</u>	<u>\$ -</u>
	<u>2021</u>	<u>2020</u>
<b>Deferred tax liabilities</b>		
Inventory	\$ -	\$ (1,407,227)
Prepays and other deposits	-	(188,464)
Asset retirement obligations	<b>(4,360,536)</b>	(1,022,945)
Exploration and evaluation	<b>(11,144,620)</b>	(11,000,274)
Deferred mining royalty liabilities	<b>(804,225)</b>	(3,708,744)
Gross deferred tax liabilities	<b>(16,309,381)</b>	(17,327,654)
Deferred tax assets set off against deferred tax liabilities	<b>15,505,156</b>	13,618,909
Deferred tax liabilities	<b>\$ (804,225)</b>	<b>\$ (3,708,745)</b>

The Management of the Company believes that it is not probable that sufficient taxable profits will be available in future years to allow the benefit of the following deferred tax assets to be utilized:

	<u>2021</u>	<u>2020</u>
<b>Deferred tax assets not recognized</b>		
Non-capital losses	\$ 13,226,321	\$ 10,854,179
Provisions recognized for accounting not currently deductible for tax	<b>2,587,982</b>	-
	<b>\$ 15,814,303</b>	<b>\$ 10,854,179</b>
	<u>2021</u>	<u>2020</u>
<b>Unused operating tax losses (i)</b>		
Canada	\$ 17,985,112	\$ 5,607,451
Mexico	<b>26,828,553</b>	30,143,451
Netherlands	<b>1,247,230</b>	1,188,519
	<b>\$ 46,060,895</b>	<b>\$ 36,939,421</b>
	<u>2021</u>	<u>2020</u>
<b>Total unused operating tax losses not recognized</b>		
Potential tax benefit at tax rate between 26.5% and 30%	\$ 13,226,331	\$ 10,854,179
Operating tax losses set off against deferred tax liabilities	-	-
Total unused operating tax losses not recognized	<b>\$ 13,226,331</b>	<b>\$ 10,854,179</b>

(i) Unused operating tax losses totaled \$46,060,895 at December 31, 2021. Canadian tax losses will expire starting 2040; Mexican tax losses will expire starting 2025; Netherland tax losses do not expire.

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**16. EMPLOYEE BENEFITS**

The Federal Labor Law in its article 162, establishes that plant workers have the right to payment of the seniority premium benefit, which must be granted to them or their beneficiaries, regardless of any other benefit that corresponds to them. In accordance with the provision and the Employee Benefits Standard (IAS 19), the Company records the seniority premium liability, which is determined through an actuarial study conducted by an independent actuary.

The reconciliation of the Defined Benefit Obligation (DBO) with the amounts presented in the consolidated statement of financial position for each year reported is shown below:

	<u>2021</u>	<u>2020</u>
Defined benefit obligation as of January 1	\$ 2,124,584	\$ 2,460,305
Current service cost	407,480	(335,721)
Defined benefit obligation as of December 31	<u>\$ 2,532,064</u>	<u>\$ 2,124,584</u>

**Defined benefit obligation**

The significant actuarial assumptions used in determining the defined benefit obligation are the discount rate, the salary increase rate and the average life expectancy. These assumptions are shown below:

	<u>2021</u>	<u>2020</u>
Discount rate	5.00%	5.00%
Salary growth rate	6.68%	6.68%

These assumptions were developed by Management with the help of independent actuaries. The discount factors are determined at the end of each year by referring to market yield rates for long-term government bonds denominated in Mexican pesos. Other assumptions are based on current benchmarks and Management's historical experience.

**17. CONTRIBUTED CAPITAL**

The Company's investment in the operations of the subsidiaries is presented as contributed capital in these financial statements. This contributed capital is comprised of loans to the subsidiaries and net operating transactions between the company and its subsidiaries.

The net movement in this balance is shown as a capital contribution (increase) and a withdrawal (decrease).

**18. FINANCIAL INSTRUMENTS**

The Company's operations include exploration, development and production of gold and silver deposits in Mexico. The Company examines the various financial risks to which it is exposed and assesses the impact and likelihood of occurrence. These risks may include credit risk, liquidity risk, currency risk, and other risks. Where material, these risks are reviewed and monitored by the Board of Directors.



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**Credit risk**

Counterparty credit risk is the risk that the financial benefits of contracts with a specific counterparty will be lost if a counterparty defaults on its obligations under the contract. This includes any cash amounts owed to the Company by those counterparties, less any amounts owed to the counterparty by the Company where a legal right of setoff exists and also includes the fair values of contracts with individual counterparties which are recorded in the consolidated financial statements.

(i) Trade credit risk

The Company closely monitors its financial assets and does not have any significant concentration of trade credit risk. The Company sells its products exclusively to large international financial institutions and other organizations with strong credit ratings. The historical level of customer defaults is negligible and, as a result, the credit risk associated with trade receivables is considered to be negligible.

(ii) Cash and cash equivalents

The Company's cash is held in large and reputable financial institutions. As a result, the Company concludes that there are negligible expected losses.

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements by taking into account anticipated cash expenditures for its exploration and operational activities. The Company will pursue additional equity or debt financing as required to meet its long-term commitments. There is no assurance that such financing will be available or that it will be available on favorable terms.

As at December 31, 2021, the contractual undiscounted future cash flows of the Company's significant financial liabilities are as follows:

<b>December 31, 2021</b>	<b>Less than 1 year</b>	<b>1 to 3 years</b>
Accounts payable	\$ 6,560,786	\$ -
Accruals	7,224,846	-
Long term liabilities	6,976,666	21,232,602
Provision for environmental rehabilitation	-	16,166,000
Total	<u>\$ 20,762,299</u>	<u>\$ 37,398,602</u>

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**Market risk**

(i) Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Company's functional currency. The Company's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

The functional currency and presentation currency of the Company is USD. The Company's capitalized mineral properties and expenses also include amounts incurred in Mexican Peso (MXN). The Company's exchange risk is therefore related to movement between these currencies. Changes in the currency exchange rates between USD relative to MXN have an effect on the Company's results of operations through comprehensive income (loss), financial position or cash flows.

The Company has mitigated this risk by diversifying its cash resources in USD and MXN roughly in proportion to expected future expenditure over the following twelve months. The carrying amounts of the Company's MXN denominated monetary assets and monetary liabilities in USD at the end of the reporting period are as follows:

	<b>December 31, 2021</b>	<b>MXN December 31, 2020</b>
Cash and cash equivalents	<b>4,468,740</b>	2,337,197
Receivables	<b>10,677,330</b>	13,692,483
Prepays and deposits	<b>13,369</b>	946,181
Accounts payable and accrued liabilities	<b>15,618,687</b>	10,652,470

Based on the exposure as at December 31, 2021, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the US dollar against the Canadian dollar would result in an increase/decrease of approximately \$0.04 million (2020- \$0.6 million) in the Company's loss for the year.

(ii) Fair value

IFRS 13 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of the amended silver stream is determined based on the net present value of expected future

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

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cash flows based on management assumptions on silver deliveries under the stream and a discount rate that includes the risk premium that market participants require. Based on the agreement, 0.30 million ounces of silver or gold equivalent must be delivered annually until a minimum 2.1 million ounces is met. As the agreement began on January 31, 2019, this annual amount was prorated for 2019 and assigned annually until 2.1 million cumulative ounces have been delivered, variability within the year based on the Mercedes life of mine plans. Subsequent to the 2.1-million-ounce requirement, the Company is committed to deliver 100% of silver production under the silver stream agreement until a threshold of 3.75 million ounces has been reached after which the commitment drops to 30%. The assumption used for the balance of the commitment was an annual delivery of projected ounces spread evenly over the years until 2026 at which time the fair value of the silver stream will be nil. A discount rate of 5% (2020-16%) was applied to the stream reflecting the risk premium rate that a market participant would require. An average silver price of \$23.49 (2020-\$20) was used to determine the forgone revenue applied to the balance. To determine the foregone revenue on gold equivalent ounces the Company used an average gold price based on historical gold deliveries made under the agreement.

The carrying values of all other financial assets and financial liabilities approximate their fair value due to their short-term nature.

#### **19. MANAGEMENT OF CAPITAL**

The Company manages its share capital and contributed capital, the balance of which is \$91,937,276 at December 31, 2021 (\$89,443,454 at December 31, 2020). The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going-concern in order to pursue the exploration and development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, acquire or dispose of assets or acquire new debt.

To effectively manage its capital requirements, the Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company expects its current capital resources will be sufficient to carry out its exploration and evaluation plans through 2022.

#### **20. CONTINGENCIES**

##### **Litigation and Claims-Share purchase transaction**

- a) Yamana Gold Inc. and certain of its affiliates (collectively, "Yamana") have commenced a claim against the Company and certain of its affiliates (collectively, "Premier") in connection with a share purchase transaction that closed on September 30, 2016, whereby the Company acquired Yamana's interest in a gold mining project known as the Mercedes Mine. The claim relates to certain post-closing adjustments, which resulted in Yamana being required to pay the Company \$1.26 million.

Yamana alleges that the Company was unjustly enriched, but for which the Company would have been required to pay Yamana a post-closing adjustment of \$4.6 million. The Company has filed a Statement of Defence denying any liability, and counterclaiming against Yamana for the \$1.26 million post-closing

**1336991 BC LTD**  
**NOTES TO THE CARVE-OUT CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2021 and 2020**

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adjustment that Yamana has refused to pay. The parties have exchanged documentary productions and completed examinations for discovery in December 2020. The parties have agreed to participate in a mediation in May 2021.

Management considers the claim against the Company without merit. After detailed analysis of the facts and support documentation, the Company believes it has a strong case against the claim.

- b) As of December 31, 2021 and 2020, there are legal claims and lawsuits filed against the Company and its subsidiaries, which are still pending resolution. Unless recognized as a provision, management believes that these claims will be settled, as they are somewhat unjustified, and the likelihood that they will require settlement by the Company is remote. This assessment is consistent with independent legal advisors.

## **21. SUBSEQUENT EVENTS**

On April 21, 2022 Bear Creek completed its acquisition (the "Acquisition") of a 100% interest in the Company from Equinox Gold Corp.

The Company was acquired pursuant to a share purchase agreement dated December 16, 2021 between Bear Creek and Equinox. The consideration paid consisted of:

- Cash payment of \$75 million (the "Cash Payment");
- Issuance of 24,730,000 Bear Creek common shares (the "Consideration Shares");
- A deferred cash payment of \$25 million due within six months of the date hereof; and
- A 2% net smelter return payable on metal production from the Mercedes mining concessions.

**SCHEDULE “B”**

**UNAUDITED ‘CARVE-OUT’ INTERIM FINANCIAL STATEMENTS FOR 1336991  
B.C. LTD FOR THE PERIOD ENDED MARCH 31, 2022**

**(See attached)**

**1336991 BC LTD**

Condensed Interim Carve-out Consolidated Financial  
Statements

March 31, 2022

(Unaudited – Prepared by Management)

## NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102 “Continuous Disclosure Obligations”, if an auditor has not performed a review of the interim financial statements, the financial statements must be accompanied by a notice indicating that they have not been reviewed by an auditor.

The accompanying unaudited interim condensed financial statements of the Company have been prepared by and are the responsibility of the Company’s management.

The Company’s independent auditor has not performed a review of these financial statements in accordance with standards established by CPA (Chartered Professional Accountants) Canada for a review of interim financial statements by an entity’s auditor.

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**1336991 BC LTD**  
**CONDENSED INTERIM CARVE-OUT CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**(Unaudited – Prepared by Management)**

<b>ASSETS</b>	<b>Note</b>	<b>March 31, 2022</b>	<b>December 31, 2021</b>
<b>Current assets</b>			
Cash	2	\$ 14,614,497	\$ 4,574,553
Receivables	3	8,548,551	6,217,510
Inventory	5	11,463,876	13,188,698
Taxes receivable		30,978	
Prepays and deposits		1,338,576	13,369
<b>Total current assets</b>		<b>35,996,478</b>	<b>23,994,130</b>
<b>Non-current assets</b>			
Property, plant and equipment	6	126,422,222	128,757,345
<b>Total non-current assets</b>		<b>126,422,222</b>	<b>128,757,345</b>
<b>Total assets</b>		<b>\$ 162,418,700</b>	<b>\$ 152,751,475</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	4	\$ 10,817,618	\$ 9,265,010
Taxes payable		-	1,988,559
Current portion of deferred revenue	7	6,523,718	6,574,992
Current portion of long-term debt	8	4,743,578	6,976,666
<b>Total current liabilities</b>		<b>22,084,914</b>	<b>24,805,227</b>
<b>Non-current liabilities</b>			
Deferred taxes		824,239	804,225
Deferred revenue	7	3,387,398	5,201,533
Severance obligation		2,728,787	2,532,064
Long-term debt	8	20,295,752	21,232,602
Provision for environmental rehabilitation	9	15,808,628	16,166,000
<b>Total non-current liabilities</b>		<b>43,044,804</b>	<b>45,936,424</b>
<b>Total liabilities</b>		<b>65,129,718</b>	<b>70,741,651</b>
<b>EQUITY</b>			
Share capital		78	78
Contributed capital		101,570,354	91,937,199
Foreign currency translation reserve		6,292,590	4,429,563
Retained earnings		(10,574,040)	(14,357,016)
<b>Total equity</b>		<b>97,288,982</b>	<b>82,009,824</b>
<b>Total liabilities and equity</b>		<b>\$ 162,418,700</b>	<b>\$ 152,751,475</b>

The accompanying notes are an integral part of these condensed interim carve-out consolidated financial statements

**1336991 BC LTD**

**CONDENSED INTERIM CARVE-OUT CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

**(Unaudited – Prepared by Management)**

	Note	Three months ended	
		March 31, 2022	March 31, 2021
<b>Revenue</b>		\$ 28,371,754	\$ 19,218,460
Cost of sales		(12,144,260)	(8,314,995)
Depletion, depreciation and amortization		(7,588,266)	(5,032,555)
<b>Operating income</b>		<b>8,639,228</b>	5,870,910
<b>Expenses</b>			
Exploration, evaluation, and pre-development		(648,867)	(625,379)
General and administrative		(1,459,637)	(2,885,091)
<b>Profit before the following</b>		<b>6,530,724</b>	2,360,440
Accretion for rehabilitation provision	9	(229,944)	(228,549)
Amortization of finance costs		-	(194,961)
Amortization of gold prepay interest		-	189,144
Fair value adjustments	7&8	(930,125)	(2,357,555)
Finance expense		-	(210,124)
Realized foreign exchange loss		(1,318,460)	(6,486,456)
Other income		21,502	-
<b>Profit/ (Loss) before income taxes</b>		<b>4,073,697</b>	(6,928,061)
Current tax expense		(290,721)	(626,507)
Deferred tax recovery		-	172,639
<b>Profit/ (Loss) for the year</b>		<b>3,782,976</b>	(7,381,929)
<b>Other comprehensive income / (loss):</b>			
Exchange gain on translation of foreign operations		1,863,027	1,813
<b>Total comprehensive loss for the year</b>		<b>\$ 5,646,003</b>	<b>\$ (7,380,116)</b>

The accompanying notes are an integral part of these condensed interim carve-out consolidated financial statements

**1336991 BC LTD**

**CONDENSED INTERIM CARVE-OUT CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited – Prepared by Management)**

	Three months ended	
	March 31, 2022	March 31, 2021
<b>OPERATING ACTIVITIES</b>		
Loss for the year	\$ 3,782,976	\$ (7,381,929)
<b>Items not affecting cash:</b>		
Non-cash revenue on metal agreements	(1,830,735)	(1,291,667)
Administrative expense contribution from parent	(765,890)	3,182,977
Change in fair value of silver stream contract	964,799	2,357,555
Fair value adjustments	(34,674)	-
Depreciation of property and equipment	6,832,434	5,218,110
Amortization of gold prepay	-	(189,144)
Amortization of costs-deferred revenue	-	194,961
Unrealized foreign exchange loss	124,968	439,480
Loss on disposal of equipment	71,380	-
Accretion of rehabilitation provision	229,944	228,549
Deferred tax recovery	-	(172,639)
Change in non-cash working capital balances related to operations:		
Amounts receivable	(45,148,266)	19,293,603
Prepaid expenses and deposits	(1,325,207)	126,949
Inventory	1,724,822	4,627,345
Taxes payable	(2,019,536)	21,668
Accounts payable and accrued liabilities	1,769,348	(257,172)
Cash (used in)/ provided by in operating activities	(35,623,637)	26,398,646
<b>INVESTING ACTIVITIES</b>		
Investment in property, plant and equipment	(5,590,296)	(3,893,282)
Cash provided used in investing activities	(5,590,296)	(3,893,282)
<b>FINANCING ACTIVITIES</b>		
Repayment of stream liability	(4,134,737)	(3,996,701)
Contributed capital	55,388,614	(17,203,970)
Net repayment of long-term debt	-	(1,834,346)
Repayment of lease liability	-	(2,005)
Cash provided by/ (used in) financing activities	51,253,877	(23,037,022)
Change in cash and cash equivalents during the period	10,039,944	(531,658)
Cash and cash equivalents, beginning of the period	4,574,553	2,548,736
Cash and cash equivalents, end of the period	\$ 14,614,497	\$ 2,017,078

The accompanying notes are an integral part of these condensed interim carve-out consolidated financial statements

**1336991 BC LTD**  
**CONDENSED INTERIM CARVE-OUT CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**(Unaudited – Prepared by Management)**

	Share Capital	Contributed capital	Foreign Exchange Translation reserve	Deficit	Total Shareholders' Equity / (Deficiency)
<b>Balance at January 1, 2021</b>	\$ 78	\$ 89,443,376	\$ 4,787,549	\$ 1,795,663	\$ 96,026,666
Contribution (Note 10)	-	5,392,184	-	-	5,392,184
Loss for the period	-	-	-	(7,381,929)	(7,381,929)
Foreign exchange translation	-	-	1,813	-	1,813
<b>Balance at March 31, 2021</b>	78	94,835,560	4,789,362	(5,586,266)	94,038,734
<b>Balance at January 1, 2022</b>	78	91,937,199	4,429,563	(14,357,016)	82,009,824
Contribution (Note 10)	-	9,633,155	-	-	9,633,155
Profit for the period	-	-	-	3,782,976	3,782,976
Foreign exchange translation	-	-	1,863,027	-	1,863,027
<b>Balance at March 31, 2022</b>	78	101,570,354	6,292,590	(10,574,040)	97,288,982

The accompanying notes are an integral part of these condensed interim carve-out consolidated financial statements.

## 1. NATURE OF BUSINESS

1336991 BC LTD (the “Company”) is a Canadian based, gold and silver producer engaged in the exploration, development and production of gold and silver deposits in Mexico. The Company’s principal asset is the Mercedes Mine in Sonora, Mexico. The Company was incorporated on December 8, 2021.

### Basis of presentation

On December 17, 2021, Bear Creek Mining Corporation (“Bear Creek”) entered into an agreement to acquire a 100% interest in 1336991 BC LTD from Premier Gold Mines Limited (“PGML”) (a subsidiary of Equinox Gold Corporation) which owns the Mercedes gold-silver mine in Mexico.

These condensed interim carve-out consolidated financial statements have been prepared for inclusion in the business acquisition report of Bear Creek Mining Corporation (“Bear Creek”) in accordance with the continuous disclosure obligations of NI 51-102. These condensed interim financial statements represent 1336991 BC LTD as though the Company was operating as a separate, standalone Company. These condensed interim consolidated financial statements represent the historical operations of the Mercedes gold-silver mine within the consolidated group of Premier Gold Mines Ltd.

COVID-19 has caused many localities to implement measures to reduce the spread of the virus. As at the date of these consolidated financial statements, work stoppages and slowdowns are still impacting both the world and local economies. The continuing impact and duration of COVID-19 and ongoing government responses to it remain uncertain. The Company cannot predict the effect of unknown adverse changes to its business plans, financial position, cash flows, and results of operations during 2022 and beyond.

The condensed interim carve-out consolidated statements of financial position as of March 31, 2022 and March 31, 2021 and the related condensed interim consolidated statements of loss and comprehensive loss, statements of changes in equity and cash flows for the years then ended have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and their interpretations adopted by the International Accounting Standards Board (“IASB”). They have been prepared under the assumption the Group operates on a going concern basis. The following basis of preparation for the consolidated carve-out financial statements has been applied:

- All assets and liabilities directly related to the Company are included;
- Revenue and expenses directly related to the Company have been entirely attributed to the Company.
- During the periods ended March 31, 2022, and 2021, the Company received services and support functions from PGML and the operations of the Company were dependent upon the PGML’s ability to perform these services and support functions. These administrative and other costs, relating to general administration are used by the Company and are paid by PGML. These costs have been allocated to the Company based on the estimated revenue contribution of the Mercedes gold-silver mine to the entire PGML group as follows:

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2022

(Unaudited – Prepared by Management)

For the year ended March 31, 2022	80%
For the year ended March 31, 2021	60%

The condensed interim carve-out consolidated financial statements of the Company for the year ended March 31, 2022, were approved and authorized for issue by the Board of Directors on May 2, 2022.

These condensed interim carve-out consolidated financial statements (the “interim financial statements”) have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”) applicable to interim financial reports, including International Accounting Standard 34, “Interim Financial Reporting”. The interim financial statements do not include all the notes normally included in the annual financial statements. These interim financial statements should be read in conjunction with the audited carve-out financial statements for the period ended December 31, 2021, which have been prepared in accordance with IFRS.

**2. CASH**

Cash and cash equivalents consist of the following:

	March 31, 2022	December 31, 2021
	\$	\$
<b>Cash at bank and in hand:</b>		
In Mxn	4,652,334	4,468,740
In USD	9,959,975	105,813
In Euro	2,188	-
<b>Total cash</b>	<b>14,614,497</b>	<b>4,574,553</b>

**3. RECEIVABLES**

Trade and other receivables are made up of the following:

	March 31, 2022	December 31, 2021
	\$	\$
Trade receivables	-	122,778
Other receivables (i)	8,548,551	6,094,732
<b>Total trade and other receivables</b>	<b>8,548,551</b>	<b>6,217,510</b>

- (i) Recoverable taxes include Canadian harmonized sales tax recoverable, income tax recoverable and Mexico value added tax recoverable.

**4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Trade and other payables are made up of the following:

	<b>March 31, 2022</b>	December 31, 2021
	\$	\$
Trade payables	<b>6,807,889</b>	6,560,786
Other payables	<b>4,009,727</b>	2,704,224
<b>Total trade and other payables</b>	<b>10,817,616</b>	9,265,010

**5. INVENTORY**

Inventory is comprised of the following:

	<b>March 31, 2022</b>	December 31, 2021
	\$	\$
Finished goods	<b>1,469,323</b>	3,707,060
Work-in-process	<b>203,411</b>	174,503
Current ore stockpiles	<b>605,482</b>	205,948
Materials and supplies	<b>9,185,660</b>	9,101,187
<b>Total current inventory</b>	<b>11,463,876</b>	13,188,698

**6. PROPERTY, PLANT AND EQUIPMENT**

The property, plant and equipment is comprised of:

	Mineral properties subject to depletion	Buildings, plant and equipment	Total
	\$	\$	\$
<b>Cost</b>			
<b>January 1, 2021</b>	<b>111,280,582</b>	<b>102,677,628</b>	<b>213,958,210</b>
Additions	10,791,786	4,574,908	15,366,694
Disposals	-	(87,613)	(87,613)
Change in estimate of environmental provision	2,476,132	-	2,476,132
Foreign currency adjustment	(146,394)	(439,415)	(585,809)
<b>December 31, 2021</b>	<b>124,402,106</b>	<b>106,725,508</b>	<b>231,127,614</b>
Additions	5,274,355	315,941	5,590,296
Disposals	-	(71,380)	(71,380)
Change in estimate of environmental provision	(841,091)	-	(841,091)
Foreign currency adjustment	101,187	27,620	128,807
<b>March 31, 2022</b>	<b>128,936,557</b>	<b>106,997,689</b>	<b>235,934,246</b>
<b>Accumulated depreciation and impairment</b>			
<b>January 1, 2021</b>	<b>37,779,151</b>	<b>39,718,377</b>	<b>77,497,528</b>
Depletion, depreciation and amortization	12,048,250	12,824,491	24,872,741
<b>December 31, 2021</b>	<b>49,827,401</b>	<b>52,542,868</b>	<b>102,370,269</b>
Depreciation, depletion and amortization	4,005,354	3,136,401	7,141,755
<b>March 31, 2022</b>	<b>53,832,755</b>	<b>55,679,269</b>	<b>109,512,024</b>
<b>Carrying amounts</b>			
December 31, 2021	74,574,705	54,182,640	128,757,345
<b>March 31, 2022</b>	<b>75,103,802</b>	<b>51,318,420</b>	<b>126,422,222</b>



**7. DEFERRED REVENUE**

	<b>Gold prepayment \$</b>
<b>As at January 1, 2021</b>	17,227,367
Recognition of revenue	754,525
Amortization of costs	(6,400,328)
Fair value adjustments	194,961
<b>As at December 31, 2021</b>	11,776,525
Amortization of costs	(1,830,735)
Fair value adjustments	(34,674)
<b>As at March 31, 2022</b>	9,911,116
Less current portion	(6,523,718)
<b>Long-term portion</b>	<b>3,387,398</b>

In exchange for \$23.16 million, in 2016 the Company entered a gold prepay agreement requiring the Company to deliver 1,000 troy ounces of gold per quarter. At the beginning of 2021, the balance was 10,000 ounces and after the gold prepay agreement was amended on April 17, 2021 the gold deliverable balance was 9,000 ounces. According to the amended gold prepay agreement if the gold price is above \$1,650, 900 gold ounces are deliverable per quarter, which is a reduction of 100 ounces. During the period ended March 31, 2022, 900 ounces were delivered and the balance due was reduced by 1,000 ounces, as 900 ounces were delivered and a 100 ounce reduction applied as the price for the respective quarters was above \$1,650. As at period end March 31, 2022, a balance of 5,000 ounces is to be delivered.

The gold prepay has an annual interest rate of 6.5% payable on the quarterly payments which has been recorded as a liability based on the present value of the future interest payments.

**8. LONG-TERM DEBT**

	<b>Silver stream liability</b>	<b>Lease liability</b>	<b>Total</b>
	\$	\$	\$
<b>As at January 1, 2021</b>	25,026,619	9,119	25,035,738
Principal repayment	(5,593,848)	(9,119)	(5,602,967)
Fair value adjustments	8,776,497	-	8,776,497
<b>As at December 31, 2021</b>	28,209,268	-	28,209,268
Principal repayment	(4,134,737)	-	(4,134,737)
Fair value adjustments	964,799	-	964,799
<b>As at March 31, 2022</b>	25,039,330	-	25,039,330
Less current portion	(4,743,578)	-	(4,743,578)

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2022

(Unaudited – Prepared by Management)

<b>Long-term portion</b>	<b>20,295,752</b>	<b>-</b>	<b>20,295,752</b>
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*Silver stream liability*

On January 31, 2019, the Company entered into a contract modification on an existing silver stream agreement. As a result of the amendment, the silver stream contract was determined to be a financial liability recorded at fair value through profit or loss. The principal repayment on the liability is variable based on 80% of the silver price applied to ounces delivered under the contract. For the three-month period ended March 31, 2022, the Company recognized a change in fair value of the silver stream liability of \$1 million (2021- \$2.4 million) recorded in the Consolidated statement of loss and comprehensive loss.

**9. ASSET RETIREMENT OBLIGATION**

The Company's provision for environmental rehabilitation results from an ownership interest in a mill, mining equipment and previously mined property interests. The provision consists primarily of costs associated with mine reclamation and closure activities. These activities, which tend to be site specific, generally include costs for decommissioning the mill complex and related infrastructure, physical and chemical stability of the tailings area, post-closure site security and monitoring costs. The Company considers such factors as changes in laws and regulations, and requirements under existing permits in determining the estimated costs. Such analysis is performed on an on-going basis.

The Company estimates that the undiscounted uninflated future value of the cash flows required to settle the provision is \$15.7 million for the Mercedes mine project in Mexico. In calculating the best estimate of the Company's provision, management used risk-free interest rate of 7.55% (December 31, 2021-7.55%). A reconciliation of the discounted provision is provided below:

	\$
Balance, December 31, 2020	13,108,490
Change in estimate expensed	1,570,618
Change in estimate capitalized	905,514
Accretion expense	809,396
Currency adjustment	(228,018)
Balance, December 31, 2021	16,166,000
Change in estimate capitalized	(841,091)
Accretion expense	229,944
Currency adjustment	253,775
Balance, March 31, 2022	15,808,628
Less current portion	-
<b>Long-term portion</b>	<b>15,808,628</b>

## 10. CONTRIBUTED CAPITAL

The Company's investment in the operations of the subsidiaries is presented as contributed capital in these financial statements. This contributed capital is comprised of loans to the subsidiaries and net operating transactions between the company and its subsidiaries.

The net movement in this balance is shown as a capital contribution (increase) and a withdrawal (decrease).

## 11. SEGMENTED INFORMATION

The Company is operating its business in one reportable segment: mineral exploration, development and production in Mexico.

The Company's non-current assets are located in Mexico and all the revenues are also derived from that geographical location.

## 12. MANAGEMENT OF CAPITAL

The Company manages its share capital and contributed capital, the balance of which is \$101,570,354 at March 31, 2022 (\$91,937,276 at December 31, 2021). The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going-concern in order to pursue the exploration and development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, acquire or dispose of assets or acquire new debt.

To effectively manage its capital requirements, the Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company expects its current capital resources will be sufficient to carry out its exploration and evaluation plans through 2022.

## 13. CONTINGENCIES

### Litigation and Claims-Share purchase transaction

Yamana Gold Inc. and certain of its affiliates (collectively, "Yamana") have commenced a claim against the Company and certain of its affiliates (collectively, "Premier") in connection with a share purchase transaction that closed on September 30, 2016, whereby the Company acquired Yamana's interest in a gold mining project known as the Mercedes Mine. The claim relates to certain post-closing adjustments, which resulted in Yamana being required to pay the Company \$1.26 million. Yamana alleges that the

Company was unjustly enriched, but for which the Company would have been required to pay Yamana a post-closing adjustment of \$4.6 million. The Company has filed a Statement of Defence denying any liability, and counterclaiming against Yamana for the \$1.26 million post-closing adjustment that Yamana has refused to pay. The parties have exchanged documentary productions and completed examinations for discovery in December 2020. The parties have agreed to participate in a mediation in May 2021. Management considers the claim against the Company without merit. After detailed analysis of the facts and support documentation, the Company believes it has a strong case against the claim.

#### 14. SUBSEQUENT EVENTS

On April 21, Bear Creek completed its acquisition (the “Acquisition”) of a 100% interest in the Company from Equinox Gold Corp.

The Company was acquired pursuant to a share purchase agreement dated December 16, 2021 between Bear Creek and Equinox. The consideration paid consisted of:

- Cash payment of \$75 million;
- Issuance of 24,730,000 Bear Creek common shares;
- A deferred cash payment of \$25 million due within six months of the date hereof; and
- A 2% net smelter return payable on metal production from the Mercedes mining concessions.