



**TOREX GOLD RESOURCES INC.**



# CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2021 and 2020

(Expressed in millions of U.S. dollars)

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying audited consolidated statements of financial position of Torex Gold Resources Inc. (the "Company") as at December 31, 2021 and 2020 and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2021 and 2020 were prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Management acknowledges responsibility for the preparation and presentation of the audited annual consolidated financial statements, including responsibility for significant judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances.

Management maintains accounting systems and internal controls to produce reliable consolidated financial statements and provide reasonable assurance that assets are properly safeguarded.

The Board of Directors of the Company is responsible for ensuring that management fulfills its responsibilities for financial reporting. The Board of Directors carries out this responsibility through its Audit Committee. The Audit Committee meets periodically with management and the Company's independent auditors to review the scope and results of the annual audit and to review the consolidated financial statements and related financial reporting matters prior to recommending the consolidated financial statements to the Board of Directors for approval.

The consolidated financial statements have been audited by KPMG LLP, Chartered Professional Accountants, on behalf of the shareholders. Their report follows.

"Jody Kuzenko"  
\_\_\_\_\_  
Jody Kuzenko (signed)  
President and Chief Executive Officer

"Andrew Snowden"  
\_\_\_\_\_  
Andrew Snowden (signed)  
Chief Financial Officer

February 23, 2022

# INDEPENDENT AUDITORS' REPORT

To the Shareholders of Torex Gold Resources Inc.

## OPINION

We have audited the consolidated financial statements of Torex Gold Resources Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2021 and December 31, 2020
- the consolidated statements of operations and comprehensive income for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies.

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

## BASIS FOR OPINION

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matter described below to be the key audit matter to be communicated in our auditors' report.

### Evaluation of uncertain income tax positions

#### Description of the matter

We draw attention to Notes 3(L) and 4 to the financial statements. The Entity is subject to income tax in several jurisdictions. Significant judgment is required in determining the provision for income taxes, due to the complexity of legislation. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Tax uncertainties are evaluated on the basis of whether it is probable that a tax position will ultimately be sustained upon examination by the relevant taxation authorities. Tax uncertainties are measured using the most likely amount or expected value, depending on which better predicts the resolution of the uncertainty. The assessment of uncertain tax positions requires significant judgment to assess the likelihood of whether the tax position taken by the Entity will be accepted by the taxation authority.

## Why the matter is a key audit matter

We identified the evaluation of uncertain income tax positions as a key audit matter. This matter represented an area of significant risk of material misstatement. In addition, significant auditor judgment and specialized skills and knowledge were required to evaluate the Entity's assessment of the likelihood of the taxation authority accepting the tax position taken by the Entity.

## How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We involved tax professionals with specialized skills and knowledge who assisted in evaluating the Entity's uncertain tax positions including interpretations of income tax legislation by:

- Inquiring with the Entity and inspecting internal documentation including the Entity's interpretation and evaluation of their tax filing positions
- Inspecting evaluations and opinions provided by the Entity's external tax and legal advisors
- Developing an independent assessment of the Entity's uncertain income tax positions based on our understanding and interpretation of income and other tax legislation and comparing it to the Entity's assessment.

## OTHER INFORMATION

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

## RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

## AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

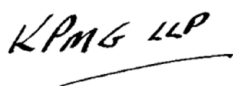
Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance 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.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditors' report is Francis Klemenchuk.

The image shows a handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature, there is a horizontal line that starts under the "K" and ends under the "P", with a small upward tick at the end.

Chartered Professional Accountants, Licensed Public Accountants  
Toronto, Canada  
February 23, 2022

## Consolidated Statements of Financial Position

<i>Millions of U.S. dollars</i>	December 31, 2021	December 31, 2020
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 255.7	\$ 174.1
Short-term investments	-	32.1
Value-added tax receivables (Note 8)	57.4	39.9
Inventory (Note 5)	123.3	112.2
Prepaid expenses and other current assets (Note 6)	17.5	13.6
	<b>453.9</b>	371.9
Value-added tax receivables (Note 8)	5.6	5.5
Other non-current assets	7.9	5.3
Deferred income tax assets (Note 13)	55.4	42.4
Property, plant and equipment (Note 7)	836.1	827.3
<b>Total assets</b>	<b>\$ 1,358.9</b>	<b>\$ 1,252.4</b>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 121.4	\$ 119.9
Income taxes payable (Note 13)	70.9	77.9
Lease obligations	2.1	2.2
Derivative contracts (Note 11)	-	5.2
	<b>194.4</b>	205.2
Other non-current liabilities	2.3	6.4
Lease obligations	1.2	2.4
Debt (Note 9)	-	38.8
Decommissioning liabilities (Note 12)	37.3	29.2
Deferred income tax liabilities (Note 13)	23.3	24.3
	<b>258.5</b>	306.3
<b>Shareholders' equity:</b>		
Share capital (Note 14)	1,030.5	1,027.8
Contributed surplus	24.3	24.4
Other reserves (Note 14)	(56.6)	(56.6)
Retained earnings (deficit)	102.2	(49.5)
	<b>1,100.4</b>	946.1
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,358.9</b>	<b>\$ 1,252.4</b>

Commitments (Note 25)

Approved on behalf of the Board of Directors:

“Jody Kuzenko”  
 \_\_\_\_\_  
 Jody Kuzenko (signed)  
 Director

“Tony Giardini”  
 \_\_\_\_\_  
 Tony Giardini (signed)  
 Director

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

## Consolidated Statements of Operations and Comprehensive Income

<i>Millions of U.S. dollars, except per share amounts</i>	Year Ended	
	December 31, 2021	December 31, 2020
<b>Revenue</b>		
Metal sales (Note 24)	\$ 855.8	\$ 789.2
<b>Cost of sales</b>		
Production costs	304.9	277.2
Royalties	25.6	23.6
Depreciation and amortization	198.8	220.1
Care and maintenance (Note 19)	-	11.1
<b>Earnings from mine operations</b>	\$ 326.5	\$ 257.2
General and administrative (Note 15)	20.4	20.9
Exploration and evaluation	7.2	4.5
Impairment loss (Notes 5 & 7)	41.2	-
	\$ 68.8	\$ 25.4
<b>Other expenses (income):</b>		
Derivative (gain) loss, net (Note 11)	(3.1)	36.4
Finance costs, net (Note 10)	0.8	13.9
Foreign exchange (gain) loss	(1.1)	6.4
	\$ (3.4)	\$ 56.7
<b>Income before income taxes</b>	261.1	175.1
Current income tax expense (Note 13)	123.4	114.9
Deferred income tax recovery (Note 13)	(14.0)	(48.8)
<b>Net income and comprehensive income</b>	\$ 151.7	\$ 109.0
<b>Earnings per share (Note 16)</b>		
Basic	\$ 1.77	\$ 1.27
Diluted	\$ 1.71	\$ 1.25

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



## Consolidated Statements of Changes in Shareholders' Equity

<i>Millions of U.S. dollars, except number of common shares</i>	Number of Common Shares	Share Capital	Contributed Surplus	Other Reserves	Retained Earnings (Deficit)	Total Shareholders' Equity
<b>Balance, January 1, 2020</b>	85,388,413	\$1,022.5	\$ 33.3	\$ (62.5)	\$ (158.5)	\$ 834.8
Exercise of stock options	21,330	0.3	(0.1)	-	-	0.2
Redemption of restricted share units	7,274	0.1	-	-	-	0.1
Redemption of EPSUs and ERSUs	114,050	1.9	-	-	-	1.9
Reclassification of EPSUs and ERSUs	-	-	(8.9)	-	-	(8.9)
Share-based compensation	-	-	0.1	-	-	0.1
Deferred tax asset recognition (Note 13)	-	3.0	-	-	-	3.0
Currency translation adjustment (Note 14)	-	-	-	5.9	-	5.9
Net income	-	-	-	-	109.0	109.0
<b>Balance, December 31, 2020</b>	<b>85,531,067</b>	<b>\$1,027.8</b>	<b>\$ 24.4</b>	<b>\$ (56.6)</b>	<b>\$ (49.5)</b>	<b>\$ 946.1</b>

<i>Millions of U.S. dollars, except number of common shares</i>	Number of Common Shares	Share Capital	Contributed Surplus	Other Reserves	Retained Earnings (Deficit)	Total Shareholders' Equity
<b>Balance, January 1, 2021</b>	85,531,067	\$1,027.8	\$ 24.4	\$ (56.6)	\$ (49.5)	\$ 946.1
Exercise of stock options	15,393	0.3	(0.3)	-	-	-
Redemption of restricted share units	26,450	0.5	-	-	-	0.5
Redemption of EPSUs and ERSUs	176,273	1.9	-	-	-	1.9
Share-based compensation	-	-	0.2	-	-	0.2
Net income	-	-	-	-	151.7	151.7
<b>Balance, December 31, 2021</b>	<b>85,749,183</b>	<b>\$1,030.5</b>	<b>\$ 24.3</b>	<b>\$ (56.6)</b>	<b>\$ 102.2</b>	<b>\$ 1,100.4</b>

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



## Consolidated Statements of Cash Flows

<i>Millions of U.S. dollars</i>	Year Ended	
	December 31, 2021	December 31, 2020
<b>Operating activities:</b>		
Net income for the year	\$ 151.7	\$ 109.0
Adjustments for:		
Share-based compensation expense	5.2	5.6
Cash settlement of share-based compensation	(2.2)	(1.1)
Remeasurement of share-based payments	(5.9)	(1.8)
Depreciation and amortization	198.7	224.0
Change in unrealized gains and losses on derivative contracts	(5.4)	3.3
Unrealized foreign exchange (gain) loss	(0.7)	3.0
Currency translation adjustment	-	5.9
Finance costs	3.6	16.6
Impairment provisions	41.2	3.8
Income tax expense	109.4	66.1
Tax credit applicable to production costs	(2.5)	(2.3)
Income taxes paid	(127.9)	(103.3)
<b>Cash generated from operating activities before changes in non-cash operating working capital balances</b>	<b>\$ 365.2</b>	<b>\$ 328.8</b>
Changes in non-cash operating working capital balances:		
Value-added tax receivables, net	(14.2)	(3.9)
Inventory	(15.7)	7.3
Prepaid expenses and other current assets	(3.2)	3.9
Accounts payable and accrued liabilities	(2.1)	6.0
<b>Net cash generated from operating activities</b>	<b>\$ 330.0</b>	<b>\$ 342.1</b>
<b>Investing activities:</b>		
Additions to property, plant and equipment	(230.4)	(142.1)
Borrowing costs capitalized to property, plant and equipment	(0.1)	(0.3)
Value-added tax receivables, net	(5.3)	(3.1)
Short-term investments	32.1	(32.1)
<b>Net cash used in investing activities</b>	<b>\$ (203.7)</b>	<b>\$ (177.6)</b>
<b>Financing activities:</b>		
Repayment of debt	(40.0)	(232.2)
Proceeds from Revolving Facility	-	90.0
Lease payments	(2.7)	-
Interest paid	(1.7)	(8.0)
Transaction costs	(0.5)	-
Exercise of stock options	-	0.2
<b>Net cash used in financing activities</b>	<b>\$ (44.9)</b>	<b>\$ (150.0)</b>
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>	<b>0.2</b>	<b>(2.2)</b>
<b>Net increase in cash and cash equivalents</b>	<b>\$ 81.6</b>	<b>\$ 12.3</b>
<b>Cash and cash equivalents, beginning of the year</b>	<b>\$ 174.1</b>	<b>\$ 161.8</b>
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 255.7</b>	<b>\$ 174.1</b>

Supplemental Cash Flow Information (Note 20)

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

# Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Amounts in millions of U.S. dollars, except share and per share amounts, unless otherwise noted)



## NOTE 1. CORPORATION INFORMATION

Torex Gold Resources Inc. (the “Company” or “Torex”) is an intermediate gold producer based in Canada, engaged in the mining, developing and exploring of its 100% owned Morelos Gold Property, located southwest of Mexico City. The Company’s principal assets are the El Limón Guajes mining complex (the “ELG Mine Complex”), comprising the El Limón Guajes open pits, the El Limón Guajes underground mine, and the processing plant and related infrastructure, and the Media Luna deposit, which is an advanced stage development project.

The Company is a corporation governed by the *Business Corporations Act* (Ontario). The Company’s shares are listed on the Toronto Stock Exchange under the symbol TXG. Its registered address is 130 King Street West, Suite 740, Toronto, Ontario, Canada, M5X 2A2.

These consolidated financial statements of the Company as at and for the years ended December 31, 2021 and 2020 include the accounts of the Company and its subsidiaries (herein referred to as “consolidated financial statements”).

## NOTE 2. BASIS OF PREPARATION

### Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. Accounting policies are consistently applied to all years presented, unless otherwise stated. These consolidated financial statements were approved for issuance by the Board of Directors on February 23, 2022.

### Basis of consolidation

These consolidated financial statements comprise the financial statements of Torex and the accounts of the Company’s wholly owned subsidiaries. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. All intragroup assets, liabilities, equity, revenue, expenses and cash flows relating to transactions between entities of the group have been eliminated. The Company’s subsidiaries are as follows:

- 2290456 Ontario Inc.
- Caymus Holdings S.à.r.l.
- Groth Holdings S.à.r.l.
- TGRXM, S.A. de C.V.
- Minera Media Luna, S.A. de C.V. (“MML”)

### COVID-19 estimation uncertainty

In March 2020, the World Health Organization declared a global pandemic related to COVID-19. The impacts on global commerce have been, and are anticipated to continue to be, far-reaching. To date, there has been significant stock market volatility, significant volatility in commodity prices and foreign exchange markets, restrictions on the conduct of business and the global movement of people, and the availability of some goods has been constrained. While operations were not materially impacted by COVID-19 in 2021, uncertainty remains surrounding COVID-19 and the extent and duration of the impacts that it may have on the Company’s ability to operate, on prices for gold, on logistics and supply chains, timing of receipt of value-added tax (“VAT”) refunds, on the Company’s employees and on global financial markets.

# Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Amounts in millions of U.S. dollars, except share and per share amounts, unless otherwise noted)



## NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are as follows:

### A. Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments, which are measured at fair value, as explained in Note 3(G) and other assets as explained in Notes 5 and 8.

### B. Foreign Currency

#### *Functional and presentation currency*

The consolidated financial statements are presented in U.S. dollars, which is the functional currency of the Company and its subsidiaries.

Transactions in foreign currencies are translated into the entity's functional currency at the exchange rate at the date of the transactions. Monetary assets and liabilities denominated in a currency other than the U.S. dollar are translated using exchange rates prevailing at the dates of the Consolidated Statements of Financial Position. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates on the dates of the initial transactions or valuation where items are remeasured. Income and expense items are translated at the exchange rate in effect at the date of the underlying transactions, except for depletion, depreciation and amortization related to non-monetary assets and share-based payments, which are translated at historical exchange rates. Exchange rate differences are recognized in the Consolidated Statements of Operations and Comprehensive Income in the period in which they arise. The impact of foreign exchange on deferred income taxes is recognized in income tax expense.

### C. Exploration and Evaluation Expenditures and Development Costs

Exploration costs include costs directly related to exploration and evaluation activities in the area of interest. Exploration and evaluation expenditures are expensed in the Consolidated Statements of Operations and Comprehensive Income until the determination of the technical feasibility and commercial viability of a project. To determine whether technical feasibility and commercial viability of extracting a mineral resource exists, the Company considers various factors. Once the above determination has been completed, subsequent development expenses are capitalized in mineral properties. Expenditures to develop mineral properties, including engineering to design the size and scope of the project, environmental assessment and permitting, and surface rights acquisitions are capitalized in mineral properties or construction in progress.

The development stage ends and the production stage begins when the mine is in the condition necessary for it to be capable of operating in the manner intended by management. To assess when the mine is substantially complete and ready for its intended use, certain of the criteria considered include the following:

- Substantial completion of the construction activities;
- The level of capital expenditures in relation to the project budget;
- Producing saleable material;
- Completion of a reasonable period of testing of the plant and equipment in the mine and/or mill;
- Achieving a certain level of recoveries from the ore mined and processed; and
- Reaching a certain level of production and sustaining ongoing production.

Upon reaching the production stage, costs are transferred from construction in progress into the appropriate asset classes including mineral property, plant and equipment, inventory, and other assets, and depreciation commences.

# Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Amounts in millions of U.S. dollars, except share and per share amounts, unless otherwise noted)



Development expenditures incurred during the production stage to provide access to ore reserves in future periods, expand existing capacity, or generally provide future economic benefits will be capitalized under the Company's accounting policy for property, plant and equipment.

The Company also incurs research and development costs related to new technologies. Research costs are expensed as incurred. Development expenditures are recognized as an intangible asset when the Company can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- Its intention to complete the intangible asset and use or sell it;
- Its ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of resources to complete the intangible asset; and
- The ability to reliably measure the expenditure during development.

Following the initial recognition of the development expenditure as an asset, the asset is carried at cost less accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for its intended use. It is amortized over the period of expected future benefit. During the period of development, the intangible asset is tested for impairment annually.

## D. Property, Plant and Equipment

### *Mineral property*

Mineral property acquisition costs are capitalized as mineral property, which is included in property, plant and equipment in the Consolidated Statements of Financial Position.

Included within mineral property are capitalized stripping costs, related to open pit mining operations. In open pit mining operations, it is necessary to remove overburden and other waste materials to access ore from which minerals can be extracted economically. The process of removing overburden and waste materials is referred to as stripping. Prior to the commencement of the production phase, stripping costs are capitalized as part of mineral properties. Stripping costs incurred during the production stage are included in the cost of inventory produced during the period unless the costs are expected to provide a future economic benefit to an identifiable component of the ore body. Capitalized stripping costs are calculated by multiplying the stripping tonnes to be capitalized during the period by the current mining cost per tonne.

### *Property and equipment*

Property and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Underground mine development costs are capitalized to property and equipment when they are expected to have future economic benefit for a period greater than one year. Activities that are typically capitalized include costs incurred to build shafts, drifts, ramps and access corridors, which enable the Company to extract ore underground. The amount of development capitalized is calculated by multiplying the metres of development advanced to be capitalized during the period by the current development cost per metre.

Capitalized interest costs for qualifying assets are included within property and equipment. Qualifying assets are assets that require a significant amount of time to get ready for their intended use, including projects that are in the development or construction stages. Capitalized interest costs are considered an element of the cost of the qualifying asset. Capitalization ceases when the asset is available for use in the manner intended by management or if active development is suspended or ceases. Where the funds used to finance a qualifying asset form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to the relevant borrowings during the year. Where funds borrowed are directly attributable

# Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Amounts in millions of U.S. dollars, except share and per share amounts, unless otherwise noted)



to a qualifying asset, the amount capitalized represents the borrowing costs specific to the qualifying asset. Borrowing costs capitalized to property, plant and equipment are presented as part of investing activities in the Consolidated Statements of Cash Flows.

## *Depreciation and amortization*

Upon commencement of production, mineral property costs are depreciated on a unit-of-production basis over the estimated life of the asset to which they relate. The useful life of the mineral property (excluding capitalized stripping costs) is determined with reference to its proven and probable reserves. Identified resource material may also be included in depreciation calculations where there is a high degree of confidence in its economic extraction. Capitalized stripping costs are amortized using the unit-of-production method over the estimated proven and probable reserves to which they relate. Capitalized underground mine development costs are amortized using the unit-of-production method over the estimated proven and probable reserves to which they relate.

The cost of property, plant and equipment, less their residual value (if any), is depreciated over the shorter of the estimated economic useful life of the asset on a straight-line basis or on a unit-of-production basis over the remaining life of the mine with reference based on proven and probable reserves, and a portion of indicated resources where there is a high degree of confidence in its economic extraction.

Machinery and equipment	7 to 10 years
Vehicles	4 years
Computer hardware and software	3 years
Office equipment and furniture	5 years
Leasehold improvements	Term of lease
Right-of-use assets	Term of lease

Where components of an item of property, plant and equipment have different useful lives or for which different depreciation rates would be appropriate, they are accounted for as separate items of property, plant and equipment.

Amortization of equipment used for development activities is included in construction in progress until the project enters the production stage.

The Company recognizes major long-term spare parts and standby equipment as plant and equipment when the parts and equipment are significant and are expected to be used over a period greater than a year. Major inspections and overhauls required at regular intervals over the useful life of an item of plant and equipment are recognized in the carrying amount of the related item if the inspection or overhaul provides benefit exceeding one year.

An item of property, plant and equipment is derecognized upon disposal, replacement or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Consolidated Statements of Operations and Comprehensive Income when the asset is derecognized.

## **E. Leasing Arrangements**

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets. For short-term leases and leases of low-value assets, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

# Notes to the Consolidated Financial Statements

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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 rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date, and any initial direct costs and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. Depreciation starts at the commencement date of the lease.

The right-of-use assets are presented in property, plant and equipment in the Consolidated Statements of Financial Position.

## F. Impairment of Non-Current Assets

The carrying amount of the Company's non-current, non-financial assets (which include mineral property, plant and equipment, and right-of-use assets) are reviewed for impairment at each reporting date for events or changes in circumstances that indicate that the carrying amount may not be recoverable. If any such indication exists, an impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use.

For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units, or "CGUs"). The Company has one CGU pertaining to the Mexican operations. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the CGU to which the asset belongs. When indicators of potential impairment for specific assets exist, an impairment assessment is conducted.

## G. Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. The Company's financial assets include cash and cash equivalents, short-term investments, trade receivables, and derivative contracts. Cash and cash equivalents include cash and other highly liquid investments, such as term deposits with major financial institutions, which have a term to maturity of three months or less at the time of acquisition and are readily convertible to specified amounts of cash. The Company's financial liabilities include accounts payable and accrued liabilities, derivative contracts and debt (excluding lease liabilities). The Company classifies its financial instruments in the following categories:

*Financial Assets at Amortized Cost* – Assets that are held for collection of contractual cash flows include cash and cash equivalents, restricted cash and trade receivables and are measured at amortized cost. The Company's intent is to hold these financial assets until there is a need to utilize the cash and cash equivalents. Cash and cash equivalents, restricted cash and trade receivables are recognized initially at fair value, net of any transaction costs incurred, and subsequently measured at amortized cost. Financial assets are reviewed at each period end for impairment.

*Financial Liabilities at Amortized Cost* – Financial liabilities are measured at amortized cost using the effective interest method, unless they are required to be measured at fair value through profit or loss ("FVTPL"), or the Company has opted to measure them at FVTPL. Debt and accounts payable and accrued liabilities are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.



# Notes to the Consolidated Financial Statements

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*Financial Assets and Liabilities at FVTPL* – Financial assets and liabilities at FVTPL are assets and liabilities that include derivative contracts. Financial assets and liabilities at FVTPL are initially recognized at fair value with changes to fair value recognized in the Consolidated Statements of Operations and Comprehensive Income.

Financial assets and liabilities are classified as current if receipt or payment is expected within 12 months and in the case of liabilities when the Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Otherwise, they are presented as non-current.

## Derecognition and modification of debt

The Company derecognizes debt instruments when the Company's obligations are discharged, cancelled or have expired.

When a debt instrument is restructured or refinanced and the terms have been substantially modified, the transaction is accounted for as an extinguishment with a gain or loss recognized in profit or loss. When a modification is not substantial, the difference in present value arising as a result of such a non-substantial modification is recognized in profit or loss. Fees and transaction costs related to a non-substantial modification are recognized as an adjustment to the carrying amount of the liability.

Management takes into account both quantitative and qualitative factors in assessing whether terms have been substantially modified, and often judgment is required in conducting the assessment. Terms are considered to have been substantially modified when the net present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, differs by at least 10% from the present value of the remaining cash flows under the original terms. If the difference in the present values of the cash flows is less than 10%, then a qualitative assessment is performed to determine whether the terms of the two instruments are substantially different. The purpose of a qualitative assessment is to identify substantial differences in terms that by their nature are not captured by a quantitative assessment.

In determining whether the terms of a debt arrangement have been substantially modified, management considers several factors, including, but not limited to, covenants, restrictions on use of proceeds, lender borrowing capacity for revolving debt, and other changes that are not otherwise considered in the quantitative analysis.

## Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the Consolidated Statements of Financial Position, only if there is an enforceable legal right to offset the recognized amounts and the intention is to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

## Derivative instruments and hedge accounting

The Company may enter into derivative instruments to mitigate economic exposures to commodity price, interest rates and currency exchange rate fluctuations. Unless the derivative instruments qualify for hedge accounting, and management undertakes appropriate steps to designate them as such, they are designated as FVTPL and measured at fair value with gains or losses arising from changes in the fair value recorded in the Consolidated Statements of Operations and Comprehensive Income in the period they occur. Fair values for derivative instruments classified as FVTPL are determined using valuation techniques. The valuations use assumptions based on prevailing market conditions on the reporting date.

Embedded derivatives identified in non-derivative instrument contracts are recognized separately unless they are considered to be closely related to the host contract. All derivative instruments, including embedded derivatives that are separated from their host contracts, are recorded in the Consolidated Statements of Financial Position at fair value and mark-to-market adjustments on these instruments are included in the Consolidated Statements of Operations and Comprehensive Income.

Derivative instruments are classified as current or non-current assets or liabilities, depending on their maturity dates.



# Notes to the Consolidated Financial Statements

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## H. Inventory

Inventory classifications include stockpiled ore, in-circuit, finished goods and materials and supplies. The value of all production inventory is measured on a weighted average basis and includes direct production costs and attributable overhead and depreciation incurred to bring the materials to their current point in the processing cycle. Inventory is valued at the lower of cost and net realizable value, with net realizable value determined with reference to market prices, less estimated future production costs (including royalties) to convert inventory into saleable form.

- (i) Stockpiled ore represents unprocessed ore that has been mined and is available for future processing. Stockpiled ore is measured by estimating the number of tonnes added to or removed from the stockpile, the number of estimated contained ounces and the estimated gold recovery percentage. Stockpile ore tonnages are verified by periodic surveys. Stockpiled ore value is based on the costs incurred (including applicable overhead, depreciation, and applicable depletion) in bringing the ore to the stockpile. Costs are added to the stockpiled ore based on current mining costs and are removed at the average cost in the stockpile.
- (ii) In-circuit represents material that is currently being treated in the processing plant to extract the contained gold and to transform it to a saleable form. The in-circuit inventory is valued at the average of the beginning inventory and the costs of material fed into the processing stream plus in-circuit conversion costs including applicable overhead, and depreciation related to the processing facilities.
- (iii) Finished goods inventory is saleable goods in the form of doré bars that have been poured, gold bullion, and carbon fines shipped to the refiner. Included in the costs are the direct costs of mining and processing operations as well as overhead and depreciation.
- (iv) Materials and supplies inventory consists mostly of equipment parts and other consumables required in the mining and ore processing activities. Materials and supplies inventory is valued at the lower of weighted average cost and net realizable value.

Any write-downs of inventories to net realizable value or reversals of previous write-downs are recognized in the Consolidated Statements of Operations and Comprehensive Income in the period that the write-down or reversal occurs.

## I. Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity, net of any tax effect.

## J. Share-based Payments

The Company has three share-based compensation plans: the Stock Option Plan (the "SOP Plan"), the Employee Share Unit Plan (the "ESU Plan"), and the Restricted Share Unit Plan (the "RSU Plan"). The Company measures share-based awards based on the fair value of the options or units on the date of grant. Awards that the Company intends to settle through the issuance of common shares are expensed over the vesting period based on the grant date fair value and are not remeasured. Awards that may be settled in cash are accounted for using the liability method whereby they are subsequently remeasured at fair value at each reporting date until the awards are settled, with fair value changes recognized in the Consolidated Statements of Operations and Comprehensive Income within general and administrative expenses.

### *SOP Plan*

The fair value of options granted under the SOP Plan is measured at grant date using generally accepted valuation techniques, taking into account the terms and conditions upon which the options are granted. The expected volatility is estimated based on the historical and implied volatility of the Company's share price. The estimated fair value of the options is amortized using graded vesting, over the period in which the options vest or immediately at grant date for those that vest immediately. Any

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consideration paid by the option holder on the exercise of stock options is credited to share capital, together with the related share-based compensation originally recorded in contributed surplus. Under the SOP Plan, a participant may elect a cashless exercise and have the Company satisfy the settlement of the in-the-money amount by issuing common shares.

## *ESU Plan*

The Company has an ESU Plan to provide Employee Performance Share Units (“EPSUs”) and Employee Restricted Share Units (“ERSUs”) to participants in the plan as a form of remuneration. Subject to adjustment in accordance with the ESU Plan, an EPSU or ERSU represents the right to receive a common share of the Company at vesting, or at the election of the participant and subject to the consent of the Company, the cash equivalent of a common share less applicable withholdings. The number of EPSUs that will ultimately vest is determined by multiplying the number of EPSUs granted to the participant by an adjustment factor, which ranges from 0 to 2.0. Therefore, the number of EPSUs that will vest and be issued may be higher or lower than the number of EPSUs originally granted to a participant. The adjustment factor is based on the Company’s total shareholder return relative to a selected group of comparable companies over the term of the applicable EPSU performance period. Under the terms of the ESU Plan, the Board of Directors is authorized to determine the adjustment factor.

The vesting terms and initial fair value of EPSUs and ERSUs granted are specific to each individual grant. The number of units granted and vesting terms are approved by the Board of Directors. The initial fair value of the EPSUs is determined using a Monte-Carlo simulation. The initial fair value of the ERSUs is determined using the closing price of the common shares on the Toronto Stock Exchange on the business day immediately prior to the grant date.

Awards granted under the ESU Plan are settled in shares, unless a participant elects a cash settlement, subject to the consent of the Company. Awards that are accounted for as equity settled are expensed straight-line over the vesting period based on fair value at grant date. Awards that are accounted for as cash settled are initially recognized as a liability at fair value and then subsequently are marked to market at each reporting date, with changes in fair value recognized in general and administrative expenses in the Consolidated Statements of Operations and Comprehensive Income. Awards that are initially treated as equity settled but subsequently considered cash settled are revalued at the date of reclassification, with changes in fair value recognized in general and administrative expenses in the Consolidated Statements of Operations and Comprehensive Income.

Commencing in the first quarter of 2020, the ESU Plan awards are considered cash settled and are therefore revalued to fair value at each period end.

## *RSU Plan*

The Company has an RSU Plan to provide common shares to participants in the plan as a form of remuneration.

Each RSU has the same value as one common share at the date of measurement based on the prior day’s closing price. The vesting terms for RSUs granted are specific to each individual grant as determined by the Board of Directors. The fair value of the RSUs is expensed over the vesting period specific to the grant or at grant date for those that vest immediately.

An amendment was made to the RSU Plan in January 2019 that allows participants to elect, subject to the Company’s consent, cash settlement. A liability is recognized for the fair value of the outstanding RSUs at each reporting date, with changes in fair value recognized in general and administrative expenses in the Consolidated Statements of Operations and Comprehensive Income.

## **K. Revenue Recognition**

Revenue includes sales of refined gold and by-products (silver, copper precipitate and carbon fines). Revenue is recognized upon the transfer of control over goods to the customer. For the Company, these factors generally occur when the bullion is sold to the customer on the trade date for spot sales.

# Notes to the Consolidated Financial Statements

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## L. Income Taxes

Income tax expense is composed of current and deferred tax. Current tax and deferred tax are recognized in income or loss except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income.

### (i) Current income tax

Current income tax is the expected tax payable or recoverable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

### (ii) Deferred income tax

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investment in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future and the Company is able to control the timing of the reversal of the temporary differences. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but the Company intends to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences if it is probable that future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

## M. Earnings per Share

Basic earnings per share are calculated by dividing the earnings for the year by the weighted average number of common shares issued and outstanding during the year. Diluted earnings per share are calculated using the treasury stock method whereby proceeds deemed to be received on the exercise of options and redemption of units under the RSU and ESU Plans in the per share calculation are assumed to be used to repurchase common shares at the average market price during the year, unless the adjustment is anti-dilutive, in which case they are excluded.

## N. Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. These provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax risk-free rate. The increase in the provision due to passage of time is recognized as interest expense.

On recognition of a provision for decommissioning liabilities, an addition is made to the asset category the provision relates to and is depreciated on a unit-of-production basis. A decommissioning liability is recognized by the Company when a legal or constructive obligation to incur restoration, rehabilitation and environmental costs arises as a result of environmental disturbances caused by the exploration, development or ongoing production of a mineral property. Decommissioning liabilities are measured at the present value of the expected expenditures required to settle the obligation using a pre-tax rate that reflects

# Notes to the Consolidated Financial Statements

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current market assessments of the time value of money and the risk-free rate. Accretion of the liability over time is recorded in Finance costs in the Statements of Operations and Comprehensive Income. The effect of any changes to the decommissioning liability, including changes to the underlying estimates and changes in market interest rates used to discount the obligation, is added to or deducted from the cost of the related assets for an operating mine.

## O. Accounting Pronouncements

Recent accounting pronouncements issued but not yet effective:

Amendments to IAS 16, *Property, Plant and Equipment* ("IAS 16")

Amendments to IAS 16 were issued by the International Accounting Standards Board in May 2020. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. The amendments are effective for annual periods beginning on or after January 1, 2022, early adoption permitted. The amendments apply retrospectively, but only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which an entity first applies the amendments. The Company does not expect a significant impact to the financial statements as a result of the adoption effective January 1, 2022.

## NOTE 4. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. Judgments, estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ materially from these estimates.

The areas that require management to make significant judgments, estimates and assumptions in applying the Company's accounting policies in determining carrying values include, but are not limited to:

### Development stage

As presented in Note 3 to the consolidated financial statements, to determine whether technical feasibility and commercial viability of extracting a mineral resource exists, the Company considers various factors.

### Mineral reserves and resources

The Company estimates its mineral reserves and resources based on information compiled by qualified persons as defined in accordance with National Instrument 43-101, *Standards of Disclosure for Mineral Projects*, requirements. The estimation of mineral reserves and resources requires judgment to interpret available geological data, select an appropriate mining method and establish an extraction schedule. It also requires assumptions about future commodity prices, exchange rates, production costs and recovery rates. There are numerous uncertainties inherent in estimating mineral reserves and resources and assumptions that are valid at the time of estimation and may change significantly when new information becomes available. New geological data as well as changes in the above assumptions may change the economic status of reserves and resources and may, ultimately, result in the reserves and resources being revised.

Changes in the proven and probable mineral reserves or measured and indicated and inferred mineral resources estimates may impact the carrying value of property, plant and equipment, inventory valuation, the calculation of depreciation and depletion expense, the capitalization of production phase stripping costs, the assessment of technical feasibility and commercial viability,

# Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

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and recognition of deferred tax amounts.

The Company updates the Life of Mine ("LOM") plan for the ELG Mine Complex annually or when facts and circumstances indicate that the mineral reserves have changed, and the impact is significant. The updated LOM forms the basis for the calculation of depreciation and depletion expense, the capitalization of production phase stripping costs and decommissioning liabilities.

## Inventory of stockpile ore, in-circuit and finished goods

The determination of the carrying values of inventory, the average cost of finished goods sold, the net realizable value and the allocation of costs to inventory involve the use of estimates. There is significant judgment used in estimating future costs, future production levels, contained gold ounces, quantities of gold-in-circuit and ore stockpiled, gold recovery levels and market prices.

## Leases

Significant judgments required in the application of IFRS 16 include identifying whether a contract (or part of a contract) contains a lease and determining whether it is reasonably certain that an extension or termination option will be exercised.

## Taxes

The Company is subject to income tax in several jurisdictions. Significant judgment is required in determining the provision for income taxes, due to the complexity of legislation. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Tax uncertainties are evaluated on the basis of whether it is probable that a tax position will ultimately be sustained upon examination by the relevant taxation authority. Tax uncertainties are measured using the most likely amount or expected value, depending on which better predicts the resolution of the uncertainty. The assessment of uncertain tax positions requires significant judgment to assess the likelihood of whether the tax position taken by the Company will be accepted by the taxation authority. Where the ultimate tax determination is different from the amounts that were initially recorded, such differences can materially impact the current and deferred tax amounts recognized in the Consolidated Statements of Financial Position and the Consolidated Statements of Operations and Comprehensive Income.

## Deferred income taxes

The Company has historical tax losses that may be carried forward to reduce tax payments in future years. Assessing the recoverability of deferred income tax assets requires management to make significant estimates of future taxable profit, which is impacted by interpretation of tax laws and regulations, historic and future expected levels of taxable income, timing of reversals of taxable temporary differences, and tax planning initiatives. Future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods from deferred income tax assets. The Company recognizes the deferred tax benefit related to historical losses to the extent there is sufficient evidence to support that recovery is probable.

## Value-added tax ("VAT") receivable

Timing and amount of collection of VAT receivables is uncertain as VAT refund procedures require a significant amount of information and follow-up which can involve audits and disputes by tax authorities of amounts claimed as receivable. The Company assesses the recoverability of the amounts receivable at each reporting date, which is impacted by several factors, including the status of discussions with the tax authorities, outcome of court proceedings relating to VAT claims and current interpretation of relevant tax legislation. Changes in these estimates can materially affect the amount recognized as VAT receivable and could result in an increase in other expenses recognized in the Consolidated Statements of Operations and Comprehensive Income. As at December 31, 2021, the Company has a provision of \$4.0 for VAT balances that are considered to be uncollectible (December 31, 2020 - \$3.1). The Company determined the remaining balance to be fully recoverable.

# Notes to the Consolidated Financial Statements

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## Impairment of non-current assets

The carrying value of property, plant and equipment is reviewed at each reporting period to determine whether there is any indication of impairment. The Company evaluates both external and internal sources of information to determine if indicators of impairment exist.

If indicators of impairment are identified, an impairment test is conducted. The assessment of the recoverability of an asset's carrying value requires judgment about future production and sales volumes, future commodity prices, recoverable mineral reserves, discount rates, foreign exchange rates, and future operating and capital costs. Changes in estimates and assumptions could materially impact the carrying value of property, plant and equipment, and result in an impairment loss to be recognized in the Consolidated Statements of Operations and Comprehensive Income. The Company has one CGU pertaining to the Mexican operations. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the CGU to which the asset belongs.

As at December 31, 2021, the Company has suspended development of its monorail-based mining technology and does not intend to use the monorail technology in the construction of Media Luna. The Company recorded an impairment loss of \$40.7 (Note 7) related to costs incurred to date based on the estimated fair value less costs to sell of the related assets.

## Decommissioning liabilities

The Company has recognized a decommissioning liability relating to its ELG Mine Complex and development activities at its Media Luna Project. Assumptions have been made, based on the current economic environment, which management believes are a reasonable basis upon which to estimate the future liability. As discussed in Note 12, these assumptions include a pre-tax discount rate, and the extent, timing and nature of reclamation expenditures. These estimates are reviewed regularly to take into account any material changes to the assumptions. From time to time, the Company engages an external expert to prepare an updated closure plan for the ELG Mine Complex and/or the Media Luna Project. However, actual decommissioning costs will ultimately depend on future market prices for the necessary decommissioning work required, which will reflect market conditions at the relevant time. Changes in these factors can materially impact the decommissioning liability and related assets recognized in the Consolidated Statements of Financial Position.

## Debt refinancing

Significant judgment is required to determine whether the amended terms of a loan agreement are a substantial modification of an existing financial liability and whether it should be accounted for as an extinguishment of the original financial liability. Management must take into account both quantitative and qualitative factors in assessing whether terms have been substantially modified, and often judgment is required in conducting such an assessment. Management considered several factors in assessing whether the change in the terms of its Debt Facility agreement following the refinancing in March 2021 constituted a substantial modification including, among other factors, amendments to timing of cash flows, revisions to financial and operating covenants, restrictions on use of proceeds and the nature and borrowing capacity of the revolving credit facility and management's intentions with respect to its utilization. Based on management's assessment, this has been accounted for as a non-substantial modification.

## NOTE 5. INVENTORY

	December 31, 2021	December 31, 2020
Ore stockpiled	\$ 68.9	62.8
In-circuit	11.4	9.0
Finished goods	3.7	4.9
Materials and supplies	39.3	35.5
	\$ 123.3	\$ 112.2



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The amount of depreciation included in inventory as at December 31, 2021 is \$43.9 (December 31, 2020 - \$48.0). For the year ended December 31, 2021, a total charge of \$8.9 was recorded to adjust long-term, low-grade stockpile inventory to net realizable value: \$3.9 and \$5.0 through production costs and depreciation and amortization, respectively (year ended December 31, 2020 - total charge of \$7.0, \$2.4 and \$4.6 through production costs and depreciation and amortization, respectively). For the year ended December 31, 2021, no impairment was recorded on ore stockpile inventory (non-long-term, low-grade) (year ended December 31, 2020 - nil). For the year ended December 31, 2021, \$0.5 was recorded as a provision on materials and supplies (year ended December 31, 2020 - \$3.8). At December 31, 2021, materials and supplies are shown net of a provision of \$5.2 (December 31, 2020 - \$4.7). The Revolving Facility (Note 9) is secured by all of the assets of MML, including inventory.

## NOTE 6. PREPAID EXPENSES AND OTHER CURRENT ASSETS

	December 31, 2021	December 31, 2020
Trade receivables	\$ 3.4	2.1
Prepayments	11.3	8.8
Other current assets	2.8	2.7
	\$ 17.5	\$ 13.6

## NOTE 7. PROPERTY, PLANT AND EQUIPMENT

	Mexico			Canada		Total
	Mineral Property	Property & Equipment	Construction in Progress	Property & Equipment		
<b>Cost</b>						
As at January 1, 2020	\$ 413.5	\$ 968.0	\$ 41.4	\$ 6.9		\$ 1,429.8
Additions	63.7	61.0	67.1	3.4		195.2
Closure and rehabilitation	-	4.5	-	-		4.5
As at December 31, 2020	477.2	1,033.5	108.5	10.3		1,629.5
Additions	68.6	66.1	120.2	1.7		256.6
Closure and rehabilitation	-	7.0	-	-		7.0
<b>As at December 31, 2021</b>	<b>\$ 545.8</b>	<b>\$ 1,106.6</b>	<b>\$ 228.7</b>	<b>\$ 12.0</b>		<b>\$ 1,893.1</b>
<b>Accumulated depreciation and impairment loss</b>						
As at January 1, 2020	\$ 149.7	\$ 402.7	\$ -	\$ 3.0		\$ 555.4
Depreciation	114.4	131.8	-	0.6		246.8
As at December 31, 2020	264.1	534.5	-	3.6		802.2
Depreciation	79.8	133.5	-	0.8		214.1
Impairment loss	-	34.3	-	6.4		40.7
<b>As at December 31, 2021</b>	<b>\$ 343.9</b>	<b>\$ 702.3</b>	<b>\$ -</b>	<b>\$ 10.8</b>		<b>\$ 1,057.0</b>
<b>Net book value</b>						
As at December 31, 2020	\$ 213.1	\$ 499.0	\$ 108.5	\$ 6.7		\$ 827.3
<b>As at December 31, 2021</b>	<b>\$ 201.9</b>	<b>\$ 404.3</b>	<b>\$ 228.7</b>	<b>\$ 1.2</b>		<b>\$ 836.1</b>

As at December 31, 2021, property, plant and equipment includes, net of accumulated depreciation, \$11.9 in capitalized borrowing costs (December 31, 2020 - \$12.3), and \$20.8 related to the decommissioning liability for the ELG Mine Complex (December 31, 2020 - \$17.2). Mineral property includes, net of accumulated depreciation, \$126.4 of capitalized deferred stripping costs (December 31, 2020 - \$118.1), which includes \$40.7 of capitalized depreciation of property and equipment (December 31, 2020 - \$39.6). Included within property and equipment are right-of-use assets of \$3.5 as at December 31, 2021 for leases of light vehicles, mobile equipment, heavy mining equipment, office space and other office equipment (December 31, 2020 - \$4.7).



# Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

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As at December 31, 2021, the Company does not have plans to use its monorail based mining system in its operations for the foreseeable future, nor plans to invest in further development of the system at this time. Management reviewed the related assets, comprised of equipment, development costs, and infrastructure, for impairment, and recorded an impairment charge of \$40.7, to write the assets down to their estimated recoverable amount. The estimated recoverable amount, based on fair value less costs of disposal, has been assessed as nominal as most of the assets are specific to the technology and would not have an active market. The fair value is classified as level 3 on the fair value hierarchy.

## NOTE 8. VAT

VAT receivables are generated on the purchase of supplies and services and are refundable from the Mexican government. As at December 31, 2021, the amount of VAT due from the Servicio de Administración Tributaria ("SAT" or "Mexican tax authorities") is \$63.0 (or 1,297.7 million Mexican pesos) (December 31, 2020 - \$45.4 or 905.7 million Mexican pesos). Of the amount due, \$57.4 is expected to be collected within the next year (December 31, 2020 - \$39.9) and is presented as a current asset, with the remaining \$5.6 presented as a non-current asset (December 31, 2020 - \$5.5). In the year ended December 31, 2021, the Company received \$61.6 (or 1,241.8 million Mexican pesos) for VAT claims (December 31, 2020 - \$50.7 or 1,094.2 million Mexican pesos). VAT receivables are shown net of a provision of \$4.0 for claims considered to be uncollectible (December 31, 2020 - \$3.1).

## NOTE 9. DEBT

	December 31, 2021	December 31, 2020
Total debt, net of deferred finance charges	\$ -	\$ 38.8
Less: current portion, net of deferred finance charges	-	-
Long-term portion, net of deferred finance charges	\$ -	\$ 38.8

### 2019 Debt Facility

On July 30, 2019, the Company, through its wholly owned subsidiary MML (as borrower), signed a Second Amended and Restated Credit Agreement with the Bank of Montreal, BNP Paribas, ING Bank N.V., Dublin Branch, Société Générale and the Bank of Nova Scotia (the "Banks") in connection with a secured \$335.0 debt facility (the "2019 Debt Facility"). The 2019 Debt Facility comprised a \$185.0 term loan (the "2019 Term Facility") and a \$150.0 revolving loan facility (the "2019 Revolving Facility"), bearing interest at a rate of LIBOR +3%. In 2020, the Company fully repaid the 2019 Term Facility, and in the first quarter of 2021, the Company fully repaid the 2019 Revolving Facility.

### 2021 Revolving Facility

On March 30, 2021, the Company's subsidiary MML signed a Third Amended and Restated Credit Agreement (the "TARCA"), resulting in the refinancing of the 2019 Debt Facility, with the Banks in connection with a two-year secured \$150.0 revolving debt facility (the "Revolving Facility"). The Revolving Facility remains undrawn at December 31, 2021. Proceeds of the Revolving Facility may be used for general corporate and working capital purposes, including development expenditures and certain acquisitions, and can be used for letters of credit or funding of capital expenditures, in all cases subject to the conditions of the Revolving Facility.

The Revolving Facility allows the Company to make distributions to its shareholders in the aggregate amount of up to C\$100.0, subject to conditions of the Revolving Facility.

The Revolving Facility bears interest at a rate of LIBOR (subject to a zero floor) plus an applicable margin based on the net leverage ratio on any loan or letter of credit outstanding ranging from 2.75% to 3.75%. The margin at December 31, 2021 was 2.75%.

# Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Amounts in millions of U.S. dollars, except share and per share amounts, unless otherwise noted)



The Revolving Facility matures on March 30, 2023 with a step down in capacity by \$25.0 on September 30, 2022, and again on December 31, 2022.

The Revolving Facility permits spending to facilitate the development of the Media Luna Project and other existing and future projects of the Company. The development expenditures are subject to the conditions of the Revolving Facility, including compliance with financial covenants related to maintaining a net leverage ratio of less than or equal to 3.0, an interest coverage ratio of greater than or equal to 3.0 and a minimum liquidity of \$50.0.

The Revolving Facility is secured by all MML assets and secured guarantees of the Company and each of its other subsidiaries with a direct or indirect interest in the ELG Mine Complex and or the Media Luna Project.

As at December 31, 2021, the Company was in compliance with the financial and other covenants under the TARCA.

## Transaction costs

As part of the refinanced Revolving Facility, \$0.5 was capitalized as deferred finance charges in the first quarter of 2021 and added to the remaining unamortized portion. Unamortized deferred finance charges totalled \$0.9 as at December 31, 2021 are recorded in Prepaid expenses and other current assets in the Consolidated Statements of Financial Position (December 31, 2020 - \$1.2, recorded in Debt). During the year ended December 31, 2021, amortization of \$0.8 relating to the deferred finance charges was expensed on a straight-line basis (year ended December 31, 2020 - \$0.6).

## NOTE 10. FINANCE COSTS (INCOME)

The following table shows net finance costs (income) for the years ended December 31, 2021 and 2020:

	Year Ended	
	December 31, 2021	December 31, 2020
Finance costs, excluding lease liabilities	\$ 2.1	\$ 15.5
Interest income	(2.8)	(2.7)
Accretion of decommissioning liabilities	1.1	0.9
Interest on lease liabilities	0.4	0.2
	\$ 0.8	\$ 13.9

## NOTE 11. DERIVATIVE CONTRACTS

The following table shows the fair value of derivative contracts and their classification in the Consolidated Statements of Financial Position as at December 31, 2021 and December 31, 2020:

	Classification	Fair Value as at December 31, 2021	Fair Value as at December 31, 2020
Interest rate contracts	Current Liabilities	\$ -	\$ 1.1
Interest rate contracts	Non-current Liabilities	-	0.3
Currency contracts	Current Liabilities	-	0.6
Gold contracts	Current Liabilities	-	3.5
<b>Total derivative liabilities</b>		\$ -	\$ 5.5

Derivatives arising from interest rate swaps, currency swaps, and zero-cost gold collars are intended to manage the Company's risk management objectives associated with changing market values, but do not meet the strict hedge effectiveness criteria designated in a hedge accounting relationship. Accordingly, these derivatives have been classified as "non-hedge derivatives." Changes in the fair value of derivative contracts are recognized as derivative costs in the Consolidated Statements of Operations and Comprehensive Income. There are no derivatives outstanding at December 31, 2021.

# Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Amounts in millions of U.S. dollars, except share and per share amounts, unless otherwise noted)



The following table shows the (gains) losses on derivative contracts for the years ended December 31, 2021 and 2020:

	Year Ended	
	December 31, 2021	December 31, 2020
(Gain) loss on interest rate contracts	\$ (0.1)	\$ 1.5
Loss on currency contracts	0.2	24.4
(Gain) loss on gold contracts	(3.2)	10.5
	\$ (3.1)	\$ 36.4

## NOTE 12. DECOMMISSIONING LIABILITIES

The Company has estimated the decommissioning liability as at December 31, 2021 using a pre-tax discount rate of 3.96% (December 31, 2020 - 1.94%) based on inflation-adjusted Mexican bond yields, with expenditures expected to be incurred between 2023 and 2054. The estimated total future undiscounted cash flows to settle the decommissioning liability as at December 31, 2021 are \$47.9 (December 31, 2020 - \$35.0).

As the liability is a monetary liability denominated largely in Mexican pesos, it is translated at the spot exchange rate as at each reporting date. Foreign exchange differences arising from the revaluation of the decommissioning liability are capitalized as part of property, plant and equipment (Note 7).

The following table shows the decommissioning liability as at December 31, 2021 and 2020:

	December 31, 2021	December 31, 2020
<b>Balance, beginning of year</b>	\$ 29.2	\$ 23.7
Revisions to expected discounted cash flows	7.6	5.1
Accretion expense	1.1	0.9
Foreign exchange movement	(0.6)	(0.5)
<b>Balance, end of year</b>	\$ 37.3	\$ 29.2

## NOTE 13. INCOME TAXES

The components of income tax expense for the years ended December 31, 2021 and 2020 are as follows:

	Year Ended	
	December 31, 2021	December 31, 2020
Current income tax expense	\$ 123.4	\$ 114.9
Deferred income tax recovery	(14.0)	(48.8)
<b>Income tax expense</b>	\$ 109.4	\$ 66.1

# Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Amounts in millions of U.S. dollars, except share and per share amounts, unless otherwise noted)



For the years ended December 31, 2021 and 2020, the Company's effective rate of income tax differs from the statutory rate of 26.5% as follows:

	Year Ended	
	December 31, 2021	December 31, 2020
Income before income tax expense	\$ 261.1	\$ 175.1
Canadian federal and provincial tax rates	26.5%	26.5%
<b>Expected income tax expense</b>	<b>69.2</b>	<b>46.4</b>
Tax effect:		
Mexican mining royalty	26.9	21.6
Impact of foreign tax rates	8.4	6.6
Net (deductible) taxable permanent differences	(4.2)	5.7
Impact of foreign exchange	7.6	0.8
Change in unrecognized deferred tax assets	1.5	(15.0)
<b>Income tax expense</b>	<b>\$ 109.4</b>	<b>\$ 66.1</b>

The significant components of recognized deferred income tax assets and liabilities are as follows:

	December 31, 2021	December 31, 2020
<b>Assets</b>		
Exploration expenses	\$ 18.1	\$ 21.7
Provisions	14.0	15.6
Other deferred tax assets	8.1	7.3
Future deductibility of Mexican mining royalties	22.6	21.2
Tax credits	0.5	-
Tax losses	10.1	14.6
<b>Total deferred tax assets</b>	<b>\$ 73.4</b>	<b>\$ 80.4</b>
<b>Liabilities</b>		
Property, plant and equipment	\$ (19.5)	\$ (40.6)
Accrued withholding tax liability	(10.0)	(9.2)
Other deferred tax liabilities	(11.8)	(12.5)
<b>Total deferred tax liabilities</b>	<b>\$ (41.3)</b>	<b>\$ (62.3)</b>
<b>Balance, deferred tax assets, net, end of year</b>	<b>\$ 32.1</b>	<b>\$ 18.1</b>
<b>Classification:</b>		
Non-current assets	\$ 55.4	\$ 42.4
Non-current liabilities	(23.3)	(24.3)
	<b>\$ 32.1</b>	<b>\$ 18.1</b>

Deferred tax income assets have not been recognized in respect of the following deductible temporary differences as management does not consider their utilization to be probable in the foreseeable future:

	December 31, 2021	December 31, 2020
Decommissioning liabilities and other reserves	\$ 15.6	\$ 11.1
<b>Total unrecognized deductible temporary differences</b>	<b>\$ 15.6</b>	<b>\$ 11.1</b>

# Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Amounts in millions of U.S. dollars, except share and per share amounts, unless otherwise noted)



## NOTE 14. SHARE CAPITAL AND OTHER RESERVES

### Authorized

The Company is authorized to issue an unlimited number of common shares without par value.

### Issued

During the year ended December 31, 2021, 218,116 shares were issued as a result of stock options being exercised and to settle vested awards under the Company's share-based compensation plans (year ended December 31, 2020 - 142,654).

### Other reserves

Other reserves in the Consolidated Statements of Financial Position represent foreign currency translation reserves that arose from the change of the Company's functional currency as of November 1, 2014. Foreign currency translation reserves remain in Other reserves until the time the Company disposes or partially disposes of its interest in a foreign operation. If a disposal occurs, the Company reclassifies the cumulative amount of the exchange differences relating to that operation from Other reserves to foreign exchange loss in the Consolidated Statements of Operations and Comprehensive Income. In 2020, upon liquidation of a foreign subsidiary, \$5.9 of the Other reserve balance was reclassified to foreign exchange loss in the Consolidated Statements of Operations and Comprehensive Income for the year ended December 31, 2020. As at December 31, 2021, the amount is net of deferred taxes of nil (December 31, 2020 - nil).

## NOTE 15. SHARE-BASED PAYMENTS

The Company has three share-based compensation plans: the SOP Plan, the RSU Plan and the ESU Plan. Under the terms of each plan, the aggregate number of securities that may be issued or outstanding under all share-based compensation arrangements of the Company may not exceed 6.6% of the total number of common shares then outstanding.

The ESU Plan allows for the issuance of ERSUs and EPSUs to employees of the Company.

The following is a summary of the number of common share options (the "Options") outstanding under the SOP Plan, RSUs outstanding under the RSU Plan, ERSUs and EPSUs outstanding under the ESU Plan as at December 31, 2021 and the amounts of share-based compensation expense recognized for the years ended December 31, 2021 and 2020:

	Number Outstanding		Year Ended	
	December 31, 2021		December 31, 2021	December 31, 2020
Common share options	138,135	\$	0.2	\$ 0.1
RSUs	103,481		1.0	1.0
ERSUs	317,981		1.4	1.6
EPSUs	476,985		2.6	2.9
	1,036,582	\$	5.2	\$ 5.6
Gain on remeasurement			(5.9)	(1.8)
Share-based compensation expense		\$	(0.7)	\$ 3.8

### Options

The SOP Plan authorizes the Board of Directors to grant Options to directors, officers, consultants or employees. The term of any option grant may not exceed five years. The SOP Plan also limits the aggregate number of securities that may be granted to a non-executive director in any given year under all share-based compensation arrangements of the Company.

# Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Amounts in millions of U.S. dollars, except share and per share amounts, unless otherwise noted)



All options outstanding as at December 31, 2021, are fully vested and exercisable. As at December 31, 2021, options held by directors, officers, employees and consultants are as follows:

Range (C\$)	Outstanding and Exercisable		
	Number of Options	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price (C\$)
\$12.46-\$13.18	55,613	0.65	\$ 12.46
\$13.19-\$15.55	4,176	2.06	13.89
\$15.56-\$17.62	32,669	2.50	17.20
\$17.63-\$19.24	14,004	2.72	18.04
\$19.25-\$23.83	3,234	3.04	20.43
\$23.84-\$27.22	28,439	0.03	27.22
	<b>138,135</b>	<b>1.27</b>	<b>\$ 17.42</b>

During the year ended December 31, 2021, 15,393 common shares were issued (year ended December 31, 2020 - 21,330) from 65,992 stock options being exercised (year ended December 31, 2020 - 22,366). All stock options exercised in 2021 were exercised under the SOP Plan's cashless exercise option (year ended December 31, 2020 - 1,927).

The weighted average share price at the date of exercise of options exercised during the year ended December 31, 2021 was C\$17.11 (year ended December 31, 2020 - C\$21.19).

A summary of changes in the number of Options issued by the Company for the years ended December 31, 2021 and 2020 is presented as follows:

	Number of Options	Weighted Average Exercise Price (C\$)
Balance, January 1, 2020	236,051	\$ 17.25
Granted	17,238	18.49
Exercised	(22,366)	11.40
Expired	(1,500)	13.70
<b>Balance, December 31, 2020</b>	<b>229,423</b>	<b>\$ 17.93</b>
Granted	32,669	17.20
Exercised	(65,992)	13.12
Expired	(57,965)	24.23
<b>Balance, December 31, 2021</b>	<b>138,135</b>	<b>\$ 17.42</b>

The fair value of the Options granted was calculated using a Black-Scholes option pricing model. The expected volatility is estimated taking into consideration the historical and implied volatility of the Company's share price. The weighted average fair value of Options granted during the year ended December 31, 2021 was C\$7.04 (year ended December 31, 2020 - C\$7.75).

The following is a summary of the weighted average of assumptions used in the Black-Scholes option pricing model for Options granted during the years ended December 31, 2021 and 2020:

	Year Ended	
	December 31, 2021	December 31, 2020
Risk-free interest rate	0.30%	0.64%
Expected price volatility	55%	58%
Expected option life (in years)	3.80	3.50
Annual dividend rate	0%	0%
Estimated forfeiture rate	0%	0%

# Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Amounts in millions of U.S. dollars, except share and per share amounts, unless otherwise noted)



## RSU Plan

Eligible participants under the RSU Plan include directors, officers, contractors and employees. Under the RSU Plan, qualified participants may elect to defer the receipt of all or any part of their entitlement to the RSUs.

Awards under the plan immediately vest upon grant. A liability is initially recognized for the fair value of the awards under the RSU Plan at the date of grant, and at each reporting date, changes in fair value are recognized in the Consolidated Statements of Operations and Comprehensive Income. As at December 31, 2021, the RSUs had a fair value of \$1.1 (December 31, 2020 - \$2.0). During the year ended December 31, 2021, 106,169 RSUs were settled, resulting in 26,450 common shares issued and the remainder paid in cash (year ended December 31, 2020 - 33,707 settled, resulting in 7,274 common shares issued and the remainder paid in cash).

A summary of changes in the number of RSUs issued by the Company and the weighted average grant date fair values for the years ended December 31, 2021 and 2020 is presented below:

	Number of RSUs		Weighted Average Value (C\$)
Balance, January 1, 2020	100,407	\$	16.13
Granted	65,030		20.15
Settled	(33,707)		19.53
<b>Balance, December 31, 2020</b>	<b>131,730</b>	<b>\$</b>	<b>17.25</b>
Granted	77,920		16.37
Settled	(106,169)		15.50
<b>Balance, December 31, 2021</b>	<b>103,481</b>	<b>\$</b>	<b>18.38</b>

## ESU Plan

A portion of the fair value of the ERSUs and EPSUs is recognized as a liability based on the pro-rated number of days the eligible employees are employed by the Company compared to the vesting period of each grant, based on the market value of the common shares at period end. Changes in the fair value are recognized in the Consolidated Statements of Operations and Comprehensive Income.

## Employee restricted share units

ERSUs granted in the year ended December 31, 2021 vest in January 2022, 2023 and 2024, and have an estimated weighted average unit fair value at the grant date of C\$16.89 per unit. The fair value of ERSUs granted was determined using the closing price of the common shares on the Toronto Stock Exchange on the business day immediately prior to the grant date. As at December 31, 2021, the ERSUs had a fair value of \$2.5 (December 31, 2020 - \$4.2). None of the ERSUs, issued under the ESU Plan, were redeemable as at December 31, 2021 and December 31, 2020. During the year ended December 31, 2021, 145,189 ERSUs vested and 48,737 were forfeited due to employee turnover. Of the 145,189 units vested, 59,815 were settled as common shares and the remaining 85,374 units were settled in cash for \$1.1. During the year ended December 31, 2020, 96,264 ERSU vested and 18,779 were forfeited due to employee turnover. Of the 96,264 units vested, 79,441 were settled as common shares and the remaining 16,823 units were settled in cash for \$0.3.



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A summary of changes in the number of ERSUs issued by the Company and the weighted average grant date fair values for the years ended December 31, 2021 and 2020 is presented below:

	Number of ERSUs	Weighted Average Value (C\$)
Balance, January 1, 2020	373,432	\$ 13.08
Granted	140,487	19.99
Settled	(96,264)	19.90
Forfeited	(18,779)	17.46
<b>Balance, December 31, 2020</b>	<b>398,876</b>	<b>\$ 14.51</b>
Granted	113,031	16.89
Settled	(145,189)	11.69
Forfeited	(48,737)	18.17
<b>Balance, December 31, 2021</b>	<b>317,981</b>	<b>\$ 16.08</b>

### Employee performance share units

The EPSUs granted during the year ended December 31, 2021 vest in January 2022, 2023 and 2024, and have an estimated weighted average unit fair value at the grant date of C\$20.90. The fair value of EPSUs granted was calculated using a Monte-Carlo simulation model. The Monte-Carlo simulation model requires the use of subjective assumptions including expected share price volatility, risk-free interest rate, and estimated forfeiture rate. Historical and market data are considered in setting the assumptions. The EPSUs are earned over time and expensed accordingly and therefore, the estimated forfeiture rate is zero. At each reporting date, changes in fair value are recognized in the Consolidated Statements of Operations and Comprehensive Income. As at December 31, 2021, the EPSUs had a fair value of \$1.8 (December 31, 2020 - \$4.9). None of the EPSUs were redeemable as at December 31, 2021 and December 31, 2020. During the year ended December 31, 2021, 150,923 EPSUs vested and 66,870 were forfeited due to the application of a market adjustment factor. Of the 150,923 units vested, 116,458 were settled as common shares and the remaining 34,465 units were settled in cash for \$0.5. During the year ended December 31, 2020, 94,138 EPSUs vested and 35,807 were forfeited due to the application of a market adjustment factor. Of the 94,138 units vested, 34,609 were settled as common shares and the remaining 59,529 units were settled in cash for \$0.8.

A summary of changes in the number of EPSUs issued by the Company and the weighted average grant date fair value for the years ended December 31, 2021 and 2020 is presented below:

	Number of EPSUs	Weighted Average Value (C\$)
Balance, January 1, 2020	545,705	\$ 20.03
Granted	210,734	25.45
Settled	(94,138)	29.98
Forfeited	(63,973)	29.57
<b>Balance, December 31, 2020</b>	<b>598,328</b>	<b>\$ 19.35</b>
Granted	169,547	20.90
Settled	(150,923)	9.98
Forfeited	(139,967)	17.09
<b>Balance, December 31, 2021</b>	<b>476,985</b>	<b>\$ 23.53</b>

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(Amounts in millions of U.S. dollars, except share and per share amounts, unless otherwise noted)



The following is a summary of the weighted average assumptions used in the Monte Carlo simulation model for EPSUs granted during the years ended December 31, 2021 and 2020:

	Year Ended	
	December 31, 2021	December 31, 2020
Risk-free interest rate	0.57%	1.59%
Expected price volatility	62%	56%
Expected life of units (in years)	2.86	2.68
Annual dividends	0%	0%
Estimated forfeiture rate	0%	0%

## NOTE 16. EARNINGS PER SHARE

Earnings per share has been calculated using the weighted average number of common shares outstanding for the years ended December 31, 2021 and 2020 as follows:

	Year Ended	
	December 31, 2021	December 31, 2020
Net income	\$ 151.7	\$ 109.0
Share-based payments remeasurement, net of tax	(4.1)	(1.3)
<b>Net income, net remeasurement of share-based payments</b>	<b>\$ 147.6</b>	<b>\$ 107.7</b>
Basic weighted average shares outstanding	85,714,843	85,505,801
Weighted average shares dilution adjustments:		
Share options	14,142	42,892
RSUs	95,291	104,887
ERSUs	184,906	215,071
EPSUs	131,425	210,284
<b>Diluted weighted average shares outstanding</b>	<b>86,140,607</b>	<b>86,078,935</b>
<b>Earnings per share</b>		
Basic	\$ 1.77	\$ 1.27
Diluted	\$ 1.71	\$ 1.25

The following is a summary for the years ended December 31, 2021 and 2020 of the share options, RSUs, ERSUs and EPSUs excluded in the diluted weighted average number of common shares outstanding as their exercise or settlement would be anti-dilutive in the earnings per share calculation:

	Year Ended	
	December 31, 2021	December 31, 2020
Share options	78,346	103,642
RSUs	-	-
ERSUs	12,135	30,370
EPSUs	-	18,451
	<b>90,481</b>	<b>152,463</b>

# Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Amounts in millions of U.S. dollars, except share and per share amounts, unless otherwise noted)



## NOTE 17. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company's financial instruments consist of cash and cash equivalents, short-term investments, trade receivables, accounts payable and accrued liabilities, derivative contracts and debt (excluding finance lease liabilities). Other than the derivative contracts, these financial instruments are recorded at amortized cost in the Consolidated Statements of Financial Position. Other than the debt, the fair values of these financial instruments approximate their carrying values due to their short-term maturity.

The derivative contracts are recorded at fair value and revalued through income at the end of each reporting period and are classified as Level 2 within the fair value hierarchy. The fair value of derivative contracts is estimated using a combination of quoted prices and market-derived inputs.

The carrying amount of debt (excluding finance lease liabilities) is presented net of unamortized deferred finance charges. The fair value of the Company's debt is determined by using a discounted cash flow approach whereby future cash flows associated with the debt were discounted at a rate that equates to the risk-free rate plus an unobservable credit spread and therefore the debt is classified within Level 3 of the fair value hierarchy.

The carrying values and fair values of the Company's financial instruments as at December 31, 2021 and 2020 are as follows:

	As at December 31, 2021		As at December 31, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
Cash and cash equivalents	\$ 255.7	\$ 255.7	\$ 174.1	\$ 174.1
Short-term investments	-	-	32.1	32.1
Trade receivables	3.4	3.4	1.6	1.6
	<b>\$ 259.1</b>	<b>\$ 259.1</b>	<b>\$ 207.8</b>	<b>\$ 207.8</b>
<b>Financial Liabilities</b>				
Accounts payable and accrued liabilities	\$ 121.4	\$ 121.4	\$ 119.9	\$ 119.9
Derivative contracts	-	-	5.5	5.5
Debt, excluding lease liabilities	-	-	38.8	35.8
	<b>\$ 121.4</b>	<b>\$ 121.4</b>	<b>\$ 164.2</b>	<b>\$ 161.2</b>

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

(a) Credit risk:

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. All of the Company's cash and cash equivalents and trade receivables are held with reputable financial institutions as at December 31, 2021. The carrying amount of the Company's cash and cash equivalents and trade receivables represents the maximum exposure to credit risk as at December 31, 2021.

The Company is exposed to liquidity risk and credit risk with respect to its VAT receivables if the Mexican tax authorities are unable or unwilling to make payments in a timely manner in accordance with the Company's monthly filings. Timing of collection of VAT receivables is uncertain as VAT refund procedures require a significant amount of information and follow-up. As at December 31, 2021, the Company's VAT receivables balance is \$63.0 (December 31, 2020 - \$45.4), and in respect of this balance, the Company expects to recover \$57.4 over the next 12 months (December 31, 2020 - \$39.9) and a further \$5.6 thereafter (December 31, 2020 - \$5.5). The VAT receivables balance is presented net of \$4.0 for a provision for claims that are considered to be uncollectible (December 31, 2020 - \$3.1). The Company's approach to managing liquidity risk with respect to its VAT receivables is to file its refund requests on a timely basis, monitor actual and projected collections of its VAT receivables, and cooperate with the Mexican tax authorities in providing information as required.

# Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

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## (b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company is exposed to liquidity risk in meeting its operating expenditures in instances where cash positions are unable to be maintained or appropriate financing is unavailable. The primary sources of funds available to the Company are cash flows generated by the ELG Mine Complex, its cash reserves and any available funds under the Revolving Facility.

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2021, the Company had cash balances of \$255.7 (December 31, 2020 - \$174.1). The Company maintains its cash in fully liquid business accounts.

As at December 31, 2021, the \$150.0 Revolving Facility remains undrawn (December 31, 2020 - \$40.0 outstanding under the 2019 Debt Facility).

Cash flows that are expected to fund the operation of the ELG Mine Complex and settle current liabilities are dependent on, among other things, proceeds from gold sales. If operations at the ELG Mine Complex are shut down for a prolonged period of time, the Company may not be able to generate sufficient cash flow to meet its obligations or satisfy certain requirements of the Debt Facility. The Company may have various options available to mitigate the risk of breaching requirements under the TARCA, including seeking a waiver from the Banks, which is outside the Company's direct control, and failing that, settling the loan entirely and so removing the requirements under the TARCA.

The following tables detail the Company's expected remaining contractual cash flow requirements for its financial liabilities on repayment or maturity periods. The amounts presented are based on the contractual undiscounted cash flows and may not agree with the carrying amounts in the Consolidated Statements of Financial Position.

	As at December 31, 2021			
	Up to 1 year	1-5 years	Over 5 years	Total
Accounts payable and accrued liabilities	\$ 121.4	\$ -	\$ -	\$ 121.4
Lease liabilities	1.7	1.8	0.3	3.8
	\$ 123.1	\$ 1.8	\$ 0.3	\$ 125.2

	As at December 31, 2020			
	Up to 1 year	1-5 years	Over 5 years	Total
Accounts payable and accrued liabilities	\$ 119.9	\$ -	\$ -	\$ 119.9
Derivative contracts	5.2	0.3	-	5.5
Lease liabilities	2.5	2.4	0.5	5.4
Debt (Note 9)	-	40.0	-	40.0
	\$ 127.6	\$ 42.7	\$ 0.5	\$ 170.8

## (c) Market risk:

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign exchange rates.

### (i) Interest rate risk:

Interest rate risk is the risk that the future cash flows of a financial instrument or its fair value will fluctuate because of changes in market interest rates. The Revolving Facility (Note 9) bears interest at a rate of LIBOR plus an applicable margin based on the net leverage ratio on any loan or letter of credit outstanding. In February 2019, the Company entered into interest rate swap contracts for a fixed LIBOR of 2.492% on interest payments related to \$150.0 of the term loan to hedge against unfavourable changes in interest rates. In the second quarter of 2021, the Company unwound its interest rate swap contracts for a realized loss of \$1.0.

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The Company does not consider its interest rate risk exposure to be significant as at December 31, 2021 with respect to its cash and cash equivalents.

(ii) Foreign currency risk:

The Company is exposed to financial risk related to foreign exchange rates. The Company operates in Canada and Mexico and has exposure to financial risk arising from fluctuations in foreign exchange rates. The Company expects the majority of its exploration, project development, operating and decommissioning expenditures associated with the Morelos Gold Property to be paid in Mexican pesos and U.S. dollars.

As at December 31, 2021, the Company had cash and cash equivalents, VAT receivables and accounts payable and accrued liabilities that are denominated in Mexican pesos and in Canadian dollars. A 10% appreciation or depreciation of the Mexican peso relative to the U.S. dollar would have resulted in a decrease or increase of \$0.4 in the Company's net income from the translation of these balances for the year ended December 31, 2021 assuming other variables remain unchanged. A 10% appreciation or depreciation of the Canadian dollar relative to the U.S. dollar would have resulted in a decrease or increase of \$0.2 in the Company's net income for the year ended December 31, 2021 assuming other variables remain unchanged.

In the first quarter of 2020, the Company entered into forward contracts for approximately 50% of its estimated Mexico peso expenditures until December 2020 or \$234.0 at a weighted average exchange rate of 19.70. In the second quarter of 2020, the Company extended the maturity dates of certain currency contracts due to settle in the second quarter of 2020, with a total notional value of \$24.0, to future periods ranging from 7 to 11 months. There were no contracts remaining at December 31, 2021.

(iii) Commodity price risk:

Gold prices have fluctuated widely in recent years and there is no assurance that a profitable market will exist for gold produced by the Company. The Company entered into a series of zero-cost collars to hedge against changes in gold prices for a total of 8,000 ounces of gold per month until September 2021. These contracts expired in September 2021 and as of December 31, 2021, the Company has no further outstanding gold collar positions.

(d) Fair value:

Fair market value represents the amount that would be exchanged in an arm's-length transaction between willing parties and is best evidenced by a quoted market price, if one exists.

The Company's derivative currency contracts are measured at Level 2 within the fair value hierarchy. The levels in the hierarchy are as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

## NOTE 18. CAPITAL MANAGEMENT

Capital consists of the Company's shareholders' equity and debt. As at December 31, 2021, the Company's shareholders' equity was \$1,100.4 (December 31, 2020 - \$946.1), and debt, comprising the Debt Facility and finance leases, net of deferred finance charges was \$3.3 (December 31, 2020 - \$43.4), resulting in total capital of \$1,103.7 (December 31, 2020 - \$989.5). Available liquidity as at December 31, 2021 was \$405.7 comprised of cash of \$255.7 and undrawn capacity on the 2021 Revolving Facility

# Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

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of \$150.0 (December 31, 2020 - \$316.2 comprised of cash of \$174.1, short-term investments of \$32.1, and undrawn capacity on the 2019 Revolving Facility of \$110.0). The Company's objectives when managing capital are to maintain financial strength, to protect its ability to meet its ongoing liabilities, to continue as a going concern, to maintain creditworthiness and to maximize returns for shareholders over the long-term.

## NOTE 19. CARE AND MAINTENANCE

Operations at the ELG Mine Complex were suspended beginning April 2, 2020, due to a decree issued by the Government of Mexico in response to Covid-19, and the assets were placed in care and maintenance. On May 1, 2020, testing commenced over the effectiveness and durability of maintenance repairs made to the processing plant prior to the COVID-19 shutdown. The processing plant treated low-grade stockpile material for the month of May and full mining operations commenced June 2020. In the year ended December 31, 2020, care and maintenance charges of \$11.1 relate to and comprise \$8.0 of labour and contractor costs, supplies and incremental consulting and advisory fees and \$3.1 of depreciation and amortization.

## NOTE 20. SUPPLEMENTAL CASH FLOW INFORMATION

### Reconciliation of additions to property, plant and equipment to investing activities in the Consolidated Statements of Cash Flows

	December 31, 2021	December 31, 2020
Additions to property, plant and equipment (Note 7)	\$ 256.6	\$ 195.2
Capitalized depreciation	(19.6)	(20.0)
Capitalized borrowing costs	(0.1)	(0.3)
Leases additions	(1.4)	(2.9)
Changes in non-cash investing working capital balances	(5.1)	(29.9)
	<b>\$ 230.4</b>	<b>\$ 142.1</b>

### Reconciliation of movements of liabilities to cash flows arising from financing activities

	Debt Facility	Leases	Total Debt
<b>Balance, January 1, 2020</b>	\$ 171.4	\$ 3.5	\$ 174.9
Repayment of debt	(230.0)	(2.2)	(232.2)
Proceeds from Revolving Facility	90.0	-	90.0
Lease additions	-	2.9	2.9
Interest paid	(7.6)	(0.4)	(8.0)
Interest expense	7.6	0.5	8.1
Amortization of deferred finance charges	7.4	-	7.4
Unrealized foreign exchange loss	-	0.3	0.3
<b>Balance, December 31, 2020</b>	<b>\$ 38.8</b>	<b>\$ 4.6</b>	<b>\$ 43.4</b>
Repayment of debt	(40.0)	(2.7)	(42.7)
Lease additions	-	1.4	1.4
Interest paid	(1.3)	(0.4)	(1.7)
Interest expense	1.3	0.4	1.7
Amortization of deferred finance charges	0.8	-	0.8
Transaction costs	(0.5)	-	(0.5)
Reclassification of deferred finance charges	0.9	-	0.9
<b>Balance, December 31, 2021</b>	<b>\$ -</b>	<b>\$ 3.3</b>	<b>\$ 3.3</b>

## NOTE 21. SEGMENTED INFORMATION

The Company's mineral property and equipment is located substantially in Mexico. The Company operates one reportable operating segment, being mineral exploration and mine development and operation in Mexico. As the operations comprise a single reporting segment, amounts disclosed in the consolidated financial statements also represent segment amounts.

# Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Amounts in millions of U.S. dollars, except share and per share amounts, unless otherwise noted)



## NOTE 22. RELATED PARTY TRANSACTIONS

### Key Management Personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company. The Board of Directors, President & CEO, Chief Financial Officer, and Chief Operational Officer, where applicable, are key management personnel. The remuneration of key management personnel in respect of the years ended December 31, 2021 and 2020 was as follows:

	Year Ended	
	December 31, 2021	December 31, 2020
Salaries and benefits	\$ 3.8	\$ 3.7
Share-based compensation	0.5	3.1
	\$ 4.3	\$ 6.8

## NOTE 23. EXPENSES BY NATURE

The following employee benefits expenses are included in cost of sales, general and administrative expenses, and exploration expenses.

	Year Ended	
	December 31, 2021	December 31, 2020
Salaries, short-term incentives, and other benefits	\$ 56.0	\$ 62.5
Share-based compensation	(1.1)	3.7
	\$ 54.9	\$ 66.2

## NOTE 24. METAL SALES

### Revenue from contracts with customers

All revenue from gold and silver, carbon fines and copper concentrate is recognized at a point in time when control transfers (Note 3).

The Company is principally engaged in the business of producing gold. Revenue from contracts with customers is recognized when control of the goods is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled to in exchange for those goods.

### Disaggregated revenue information

The disaggregated revenue information in respect of the years ended December 31, 2021 and 2020 is as follows:

	Year Ended	
	December 31, 2021	December 31, 2020
Gold	\$ 841.2	\$ 782.2
By-products	14.6	7.0
	\$ 855.8	\$ 789.2



# Notes to the Consolidated Financial Statements

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## *Trade receivables*

Receivables represent the Company's right to an amount of consideration that is unconditional in which only the passage of time is required before payment of the consideration is due. The Company's trade receivables are included within prepaid expenses and other current assets. The Company's trade receivables balance is \$3.4 (December 31, 2020 - \$2.1).

## NOTE 25. COMMITMENTS

### **Purchase commitments**

As at December 31, 2021, the total purchase commitments for the ELG Mine Complex and the Media Luna deposit amounted to \$86.4, which are expected to be incurred over the next 12 months.

### **ELG Mine Complex royalties**

Production revenue from certain concessions is subject to a 2.5% royalty payable to the Mexican Geological Survey agency. The royalty is accrued based on revenue and is payable on a quarterly basis. In the year ended December 31, 2021, the Company paid \$22.7 for the 2.5% royalty relating to the fourth quarter of 2020 and first, second and third quarters of 2021. As at December 31, 2021, the Company has accrued \$5.1 for the 2.5% royalty relating to the fourth quarter of 2021 (December 31, 2020 - \$6.3).

The Company is subject to a mining tax of 7.5% on taxable earnings before the deduction of taxes, interest, depreciation and amortization, and a royalty of 0.5% on sales of gold, silver and platinum. Both the mining tax and royalty are payable to the SAT on an annual basis in the following year. The mining tax is considered an income tax for IFRS purposes. In March 2021, the Company paid \$34.5 relating to amounts due for 2020 for the 7.5% and 0.5% royalties (paid in March 2020 - \$17.5). As at December 31, 2021, the Company has \$39.7 and \$4.2 accrued for the 7.5% and 0.5% royalties to be paid in March 2022, respectively (December 31, 2020 - \$30.7 and \$3.8 accrued for the 7.5% and 0.5% royalties to be paid in March 2021, respectively).