# BEAR CREEK MINING CORPORATION

## INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**September 30, 2022**

**EXPRESSED IN US DOLLARS**

**(Unaudited)**

**Bear Creek Mining Corporation**

## Interim Condensed Consolidated Statements of Financial Position

*US Dollars (000's)*

| | Note | | September 30, 2022 | | December 31, 2021 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | 4 | **$** | **9,610** | $ | 24,176 |
| Short-term investments | | | **21** | | 22 |
| Inventory | 7 | | **17,831** | | - |
| Receivables | 6 | | **5,709** | | 241 |
| Prepaid expenses and deposits | | | **1,528** | | 379 |
| Tax receivable | | | **1,290** | | - |
| | | | **35,989** | | 24,818 |
| **Non-current assets** | | | | | |
| Restricted cash | 5 | | **1,304** | | 965 |
| Property and equipment | 8 | | **153,243** | | 6,940 |
| Resource property | 9 | | **88,700** | | 88,688 |
| Right-of-use assets | 15 | | **250** | | 509 |
| **TOTAL ASSETS** | | **$** | **279,486** | $ | 121,920 |
| | | | | | |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Accounts payable and accrued liabilities | 10 | **$** | **23,656** | $ | 902 |
| Current portion of community projects obligation | 16 | | **1,004** | | 1,001 |
| Current portion of deferred revenue | 12 | | **18,663** | | - |
| Current portion of silver stream | 13 | | **4,756** | | - |
| Current portion of other liabilities | 17 | | **55** | | 54 |
| Current portion of lease liabilities | 15 | | **182** | | 409 |
| Taxes payable | | | **1,711** | | - |
| Note payable | 18 | | **4,580** | | - |
| Mercedes acquisition payment | 3 | | **24,863** | | - |
| | | | **79,470** | | 2,366 |
| **Non-current liabilities** | | | | | |
| Accounts payable | 10 | | **2,680** | | |
| Community projects obligation | 16 | | **7,474** | | 7,848 |
| Convertible debenture | 11 | | **18,325** | | - |
| Deferred revenue | 12 | | **20,545** | | - |
| Silver stream | 13 | | **12,174** | | - |
| Deferred taxes | | | **1,481** | | - |
| Other liabilities | 17 | | **746** | | 886 |
| Lease liabilities | 15 | | **7** | | 38 |
| Provision for site restoration | 14 | | **12,330** | | 200 |
| | | | **155,232** | | 11,338 |
| **EQUITY** | | | | | |
| Share capital | 19 | | **351,700** | | 326,730 |
| Shares to be issued | 19 | | **106** | | - |
| Contributed surplus | | | **38,826** | | 38,653 |
| Deficit | | | **(266,378)** | | (254,801) |
| | | | **124,254** | | 110,582 |
| **TOTAL LIABILITIES AND EQUITY** | | **$** | **279,486** | $ | 121,920 |

Going Concern (*Note 1*)
Subsequent Events (*Note 24*)

**ON BEHALF OF THE BOARD:**

Signed "Catherine McLeod-Seltzer," Director

Signed "Erfan Kazemi," Director

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

**Bear Creek Mining Corporation**

## Interim Condensed Consolidated Statements of Loss and Comprehensive Loss

**For the Three and Nine Months Ended September 30**

*US Dollars (000's, except share data)*
*(Unaudited)*

| | | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|---|
| | Note | **2022** | 2021 | **2022** | 2021 |
| **Revenue** | 20 | **26,554** | - | **36,635** | - |
| Cost of Sales | | **(23,721)** | - | **(25,274)** | - |
| Depletion, amortization, and depreciation | | **(5,881)** | - | **(10,720)** | - |
| **Gross Profit (Loss)** | | **(3,048)** | - | **641** | - |
| **Operating expenses** | | | | | |
| Corani engineering and evaluation costs | 9 | **$ (1,204)** | $ (3,062) | **$ (5,098)** | $ (10,957) |
| Other exploration and evaluation costs | | **(844)** | (430) | **(1,366)** | (1,813) |
| Share-based compensation | | **(102)** | (163) | **(378)** | (2,238) |
| Wages and management salaries | 21 | **(253)** | (242) | **(684)** | (729) |
| Professional and advisory fees | | **(117)** | (130) | **(168)** | (729) |
| General and administrative expenses | | **(2,255)** | (117) | **(2,946)** | (511) |
| **Loss before other items** | | **(7,823)** | (4,144) | **(9,999)** | (16,977) |
| **Other income and expense** | | | | | |
| Foreign exchange gain (loss) | 16 | **482** | 678 | **(2,181)** | 1,516 |
| Transaction costs | 3 | **-** | - | **(1,881)** | - |
| Accretion expense | 11,16 | **(1,678)** | (83) | **(3,122)** | (108) |
| Gain (loss) on valuation of conversion option | 11 | **2,563** | - | **5,062** | - |
| Change in fair value of silver stream | 13 | **(1,582)** | - | **1,144** | - |
| Other expense | | **(280)** | - | **(182)** | - |
| Finance income | | **90** | 23 | **150** | 85 |
| **Comprehensive Loss for the Period before Taxes** | | **$ (8,228)** | $ (3,526) | **$ (11,009)** | $ (15,484) |
| Current special mining law duty | | (254) | - | (1,209) | - |
| Deferred special mining law duty and income tax recovery | | 820 | - | 641 | - |
| **Comprehensive Loss for the Period after Taxes** | | **(7,662)** | **(3,526)** | **(11,577)** | **(15,484)** |
| **Loss per Share – Basic and Diluted** | | **$ (0.05)** | $ (0.03) | **$ (0.08)** | $ (0.13) |
| **Weighted Average Number of Shares Outstanding** | | **152,956,195** | 124,273,132 | **140,556,685** | 123,482,302 |

**Bear Creek Mining Corporation**

## Interim Condensed Consolidated Statements of Cash Flows

**For the Nine Months Ended September 30**

*US Dollars (000's)*
*(Unaudited)*

| | Note | | **2022** | | 2021 |
|---|---|---|---|---|---|
| **Operating Activities** | | | | | |
| Loss for the period | | **$** | **(11,577)** | $ | (15,484) |
| Items not affecting cash: | | | | | |
| Share-based compensation | | | **378** | | 2,238 |
| Shares issued for services | 19 | | **425** | | - |
| Depletion, depreciation, and amortization | | | **14,126** | | 529 |
| Accretion expense | 11, 14, 15 | | **3,123** | | 106 |
| Accretion of Community projects obligation | 16 | | **626** | | 626 |
| Finance income | | | **(150)** | | (83) |
| Amortization of gold prepay interest | | | **(203)** | | |
| Unrealized foreign exchange (gain) loss | | | **30** | | (1,548) |
| Change in fair value of silver stream | 13 | | **(1,144)** | | - |
| Gain on valuation of conversion option | 11, 18 | | **(5,062)** | | - |
| Adjustment to Corani obligation | 17 | | **(21)** | | (222) |
| Silver stream delivery | 13 | | **(2,331)** | | - |
| Delivery of gold for Gold Prepay and Gold Purchase | 12 | | **(8,034)** | | - |
| | | | **(9,814)** | | (13,838) |
| Changes in current assets and liabilities: | | | | | |
| Receivables and prepaid expenses | | | **2,203** | | 99 |
| Accounts payable and accrued liabilities | | | **7,960** | | (87) |
| Inventory | | | **(7,798)** | | - |
| Taxes and deferred taxes | | | **(2,042)** | | - |
| Cash used in operating activities | | | **(9,491)** | | (13,826) |
| **Investing Activities** | | | | | |
| Purchase of equipment | 8 | | **(9,232)** | | (1,056) |
| Resource acquisition costs | 9 | | **(12)** | | (31) |
| Payment of community projects and Corani obligation | 16, 17 | | **(1,101)** | | (1,101) |
| Cash acquired as part of Mercedes acquisition | 3 | | **1,241** | | - |
| Working capital adjustment for Mercedes acquisition | 3 | | **(2,569)** | | - |
| Interest received | | | **150** | | 83 |
| Restricted cash | 5 | | **(339)** | | (337) |
| Cash used in investing activities | | | **(11,862)** | | (2,442) |
| **Financing Activities** | | | | | |
| Share capital issued, net of share issuance costs | 19 | | **2,734** | | 25,238 |
| Proceeds from note payable | 18 | | **4,662** | | - |
| Principal payments on leases | 15 | | **(520)** | | (531) |
| Cash provided by financing activities | | | **6,876** | | 24,707 |
| **Effect of exchange rate change on cash and cash equivalents** | | | **(89)** | | 219 |
| **Net Increase (decrease) in Cash and Cash Equivalents** | | | **(14,566)** | | 8,658 |
| Cash and cash equivalents – Beginning of Period | | | **24,176** | | 20,560 |
| **Cash and Cash Equivalents – End of Period** | | **$** | **9,610** | $ | 29,218 |

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

**Bear Creek Mining Corporation**

## Interim Condensed Consolidated Statements of Cash Flows

**For the Nine Months Ended September 30**

*US Dollars (000's)*
*(Unaudited)*

| Supplemental Cash Flow Information | Note | | 2022 | | 2021 |
|---|---|---|---|---|---|
| Mercedes acquisition cost financed by Convertible Debenture | 11 | **$** | **22,500** | $ | - |
| Mercedes acquisition cost financed by Gold Purchase agreement | 12 | | **37,500** | | - |

**Bear Creek Mining Corporation**

## Interim Condensed Consolidated Statements of Changes in Equity

**For the Nine Months Ended September 30**
*US Dollars (000's, except share data)*
*(Unaudited)*

| | Share Capital (Number of Shares) | Share Capital | Shares to be issued | Contributed Surplus | Deficit | Total |
|---|---|---|---|---|---|---|
| December 31, 2020 | 112,439,314 | 300,986 | - | 36,835 | (232,951) | 104,870 |
| Share offerings | 11,500,000 | 27,107 | - | - | - | 27,107 |
| Share issuance costs | - | (1,870) | - | - | - | (1,870) |
| Issuance of RSU | 333,818 | 507 | - | (583) | - | (76) |
| Share-based compensation | - | - | - | 2,238 | - | 2,238 |
| Loss for the period | - | - | - | - | (15,484) | (15,484) |
| **September 30, 2021** | **124,273,132** | **326,730** | **-** | **38,490** | **(248,435)** | **116,785** |
| December 31, 2021 | 124,273,132 | 326,730 | - | 38,653 | (254,801) | 110,582 |
| Share issued to Equinox Gold for the Mercedes mine purchase | 24,730,000 | 21,712 | - | - | - | 21,712 |
| Share offerings | 3,542,160 | 2,772 | - | - | - | 2,772 |
| Shares issued for services | 555,083 | 319 | 106 | - | - | 425 |
| Share issuance costs | - | (38) | - | - | - | (38) |
| Share-based compensation | - | - | - | 378 | - | 378 |
| Vesting of RSUs | 308,333 | 205 | - | (205) | - | - |
| Loss for the period | - | - | - | - | (11,577) | (11,577) |
| **September 30, 2022** | **153,408,708** | **351,700** | **106** | **38,826** | **(266,378)** | **124,254** |

### 1. Nature of Business

Bear Creek is a public company incorporated in British Columbia, Canada. Its common shares are listed on the TSX Venture Exchange ("TSX-V") in Canada and the Bolsa de Valores de Lima in Peru under the symbol "BCM" and are posted for trading on the OTCQX Market in the U.S. under the symbol "BCEKF" and on the Börse Frankfurt in Germany under the symbol "OU6". The Company's head office, and principal address is 400 Burrard Street, Suite 1400, Vancouver, British Columbia, Canada, V6C 3A6.

Bear Creek Mining Corporation ("Bear Creek" or the "Company") is engaged in the production and sale of gold and silver, as well as other related activities, including exploration and development of precious and base metal properties.

The mining and exploration business involves a high degree of risk, and there can be no assurance that current mine production, exploration, and development projects will be profitable. The Company relies on cash flow from its Mercedes gold-silver Mine ("Mercedes") to carry out its exploration plans and commitments, development activities, administrative overhead, and maintain its mineral interests. The recoverability of amounts shown for resource properties is dependent on several factors. These factors include the profitable production at the Mercedes mine and the ability to complete the development and profitably operate or dispose of the Corani Project.

Ownership interests in mineral properties involve risks due to the difficulties of determining and obtaining clear title to claims and the potential for problems arising from many mineral properties' frequently ambiguous conveyance history. The Company has investigated the ownership of its mineral properties, and, to the best of its knowledge, ownership of its interests is in good standing.

On April 21, 2022, the Company completed the acquisition ("The Acquisition") of shares in a company that holds a 100% interest in the Mercedes mine located in Sonora, Mexico, from Equinox Gold Corp. ("Equinox"). The shares were acquired for total cash consideration of $75 million, 24.7 million common shares, and a 2% net smelter return payable on the metal produced from the Mercedes concessions. The Company has an outstanding purchase price installment of $25 million, related to the acquisition of Mercedes.

Covid-19 infections in Mexico and Peru declined significantly during the third quarter and none were reported in September. Generally, employees or contractors experience mild symptoms and return to work within seven days. Staff in Mexico and Peru have returned to pre-pandemic rotations and office staff is now working onsite. Management cannot predict the effect of the COVID-19 virus on the Company's future business plans, financial position, cash flows, and results of operations.

#### Going Concern

These Interim Condensed Consolidated Financial Statements were prepared following accounting principles applicable to a going concern, which assumes the Company will be able to continue in operation for at least twelve months from September 30, 2022 and will be able to realize its assets and discharge its liabilities in the ordinary course of operations.

As at September 30, 2022, the Company had cash and cash equivalents of $9.6 million and a working capital deficiency of $43.5 million. For the nine months ended September 30, 2022, the Company incurred a loss of $11.6 million and had cash flow outflow from operating activities of $9.5 million.

On October 26, 2022, the Company announced that it had reached a Heads of Agreement ("HOA") with Equinox to amortize over two years the payment of the final $25 million purchase price installment for Mercedes. The HOA provides for converting the payment into a promissory note with a maturity date (the "Maturity Date") of October 21, 2024 and monthly principal and interest payments commencing in February 2023. Monthly payments will be the greater of US$500,000 or half of consolidated free cash flow. Interest will be applied at 12.5% plus the greater of 2.5% or the 90-day average SOFR. In addition, the Company will grant Equinox Gold warrants to acquire up to 5 million common shares of the Company. The Warrants may be converted at any time over three years, starting six months after being granted at a 15% premium to the 5-day volume weighted average price of the shares on the grant date. Issuing the Note and warrants is subject to TSX-V approval.

While amortizing the $25 million Equinox payment improves the Company's liquidity, material uncertainty remains in relation to the ability of the Company to achieve the operating results and necessary cash flow generation from the Mercedes mine in order to avoid seeking additional financing, which may give rise to significant doubt about the Company's ability to continue as a going concern.

These Interim Condensed Consolidated Financial Statements do not include adjustments to the carrying values and classifications of assets and liabilities, which could be material, should the Company be unable to continue as a going concern.

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### 2. Basis of Preparation

These interim condensed consolidated financial statements of the Company were prepared under International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements. The interim condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2021, which were prepared under IFRS. Other than the accounting policies included in this section, the accounting policies adopted are consistent with those of the previous financial year.

The Board of Directors approved these interim consolidated financial statements on November 28, 2022.

**Basis of Measurement**

These interim condensed consolidated financial statements have been prepared on an accrual basis and are based on historical costs, modified where applicable. These consolidated financial statements are presented in US dollars unless otherwise noted.

**Significant Accounting Policies**

*Consolidation*

These interim condensed consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are fully consolidated from the date the Company obtains control and continue to be consolidated until the date that control ceases. Control is achieved when the Company has the ability or right to cause variable returns from or is exposed to variable returns from its involvement with an entity and can affect those returns through its ability to direct the entity's activities.

The principal subsidiaries of the Company, their activities, and their geographic locations at September 30, 2022 were as follows:

| Subsidiary | Principal activity | Location | Ownership interest |
|---|---|---|---|
| BCMC Corani Holdings Ltd. | Holding company | Canada | 100% |
| Bear Creek Resources Company Ltd. | Holding company | Canada | 100% |
| Bear Creek (BVI) Limited | Holding company | British Virgin Islands | 100% |
| Corani Mining Limited | Holding company | British Virgin Islands | 100% |
| Bear Creek Mining S.A.C. | Mineral exploration | Peru | 100% |
| Bear Creek Exploration Company Ltd. | Holding company | Canada | 100% |
| Bear Creek Mining Company Sucursal del Peru | Mineral exploration | Peru | 100% |
| INEDE S.A.C. | Mineral exploration | Peru | 100% |
| Electro Antapata S.A.C. | Electrical Power Distribution | Peru | 100% |
| 1336991 BC LTD. | Holding | Canada | 100% |
| Minera Mercedes Minerales S. de R.L. de C.V. | Production | Mexico | 100% |
| Mercedes Gold Holdings S. A. de C.V. | Holding | Mexico | 100% |
| Premier Mining Mexico S. de R.L. de C.V. | Services | Mexico | 100% |
| Premier Gold Mines (Netherlands) Cooperatie U.A. | Holding | Netherlands | 100% |
| Premier Gold Mines (Netherlands) B.V. | Holding | Netherlands | 100% |
| Premier Gold Mines (Cayman) Ltd. | Holding | Cayman Islands | 100% |
| 2536062 Ontario Inc | Holding | Canada | 100% |

*Business combinations*

A business combination is when the Company acquires another business by obtaining control of that business. A business is an integrated set of activities and assets consisting of inputs and processes, including a substantive process that, when applied to those inputs, create or significantly contribute to the creation of outputs that generate investment income or other income from ordinary activities. When acquiring a set of activities or assets in the exploration and development stage, which may not have outputs at the acquisition date, the Company considers other factors to determine whether the set of activities or assets is a business. In this case, an acquired process is considered substantive when: (i) the acquired process is critical to the ability to develop the acquired input into outputs; and (ii) the inputs acquired include both an organized workforce with the necessary skills, knowledge, or experience to perform the process and other inputs that the organized workforce could develop into outputs

Business combinations are accounted for using the acquisition method whereby identifiable assets acquired and liabilities assumed, including contingent liabilities, are recognized at their fair values at the acquisition date. The acquisition date is when the Company obtains control over the acquiree, which is generally the date that consideration is transferred, and the Company acquires control of the assets and assumes the liabilities of the acquiree. The Company considers all relevant facts and circumstances in determining the acquisition date.

The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the fair values, determined as at the acquisition date, of the assets transferred by the Company, the liabilities, including contingent liability, incurred, and payable by the Company to former owners and the equity interests issued by the Company. Other than costs to issue debt or equity securities of the Company, acquisition-related costs are expensed as incurred.

*Deferred Revenue*

Deferred revenue is recognized for expected payments for future commitments to deliver metals and before such commitments meet the criteria for revenue recognition. The Company recognizes revenue as the metals are delivered to the customer.

The Company determines the amortization of deferred revenue on a per unit basis using the estimated total quantity of metal expected to be delivered over the contract term. The Company estimates the current portion of deferred revenue based on amounts anticipated to be delivered over the next twelve months

*Revenue*

The Company follows a five-step process in determining whether to recognize revenue from the sale of precious metals:

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

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

*Inventory*

Material extracted from the mines is classified as either ore or waste. Ore represents material that, at the time of extraction, is expected to be processed into a saleable form and sold at a profit. Ore is accumulated in stockpiles and subsequently processed into gold and silver in a saleable form. Work-in-process represents gold and silver in the processing circuit that has not completed the production process and is not yet in a saleable form. Finished goods inventory represents gold and silver in saleable form.

Mine operating supplies represent consumables and other raw materials used in the production process, as well as spare parts and other maintenance supplies that are not classified as capital items.

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

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

*Mineral Property*

Once a mineral property has been brought into commercial production, the costs of any additional work on that property are expensed as incurred, except for exploration and development programs which constitute a betterment. Betterments are deferred and amortized over the remaining useful life of the related assets. Mineral properties include decommissioning and restoration costs related to the reclamation of mineral properties. Mineral properties are derecognized upon disposal or impaired when no future economic benefits are expected to arise from the asset's continued use or the cash-generating unit's carrying value exceeds its recoverable amount. Any gain or loss on disposal of the asset, determined as the difference between the proceeds received and the carrying amount of the asset, is recognized in the consolidated statement of loss and comprehensive loss. Mineral properties are amortized on the unit-of-production basis using the mineable ounces extracted from the mine in the period as a percentage of the total mineable ounces to be extracted in current and future periods based on mineral reserves. Mineral properties are recorded at cost, net of accumulated depreciation and depletion, and accumulated impairment losses and are not intended to represent future values. Recovery of capitalized costs depends on the successful development of economic mining operations or the disposition of the related mineral property.

Depreciation or depletion is computed using the following rates:

| Item | Methods | Rates |
|---|---|---|
| Mineral properties | Units of production | Estimated proven and probable mineral reserves |
| Equipment, leasehold improvements | Straight line | Lesser of the lease term and estimated useful life |
| Furniture, office equipment, and software | Straight line | 2 – 12 years, straight line |
| Property and equipment | Straight line | 4 – 12 years, straight line |
| Mining equipment | Straight line | 1 – 12 years, straight line |
| Deferred stripping costs | Units of production | Estimated proven and probable mineral reserves |

**Significant Accounting Estimates and Judgments**

Preparing interim condensed consolidated financial statements under IFRS requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income, and expenses. The estimates and associated assumptions are based on historical experience, and other factors believed to be reasonable under the circumstances and result in judgments about the carrying value of assets and liabilities. Actual results could differ from these estimates.

**Areas of Judgment**

*Impairment for mineral property, and property and equipment*

The application of the Company's accounting policy for impairment of mineral properties, property and equipment requires judgment to determine whether indicators of impairment exist. The review of impairment indicators includes consideration of both external and internal sources of information, including factors such as market and economic conditions, metal prices and forecasts, capital expenditure requirements, expected future operating costs and production volumes. Management has assessed impairment indicators on the Company's mineral properties, property and equipment and concluded that no impairment indicators exist as of September 30, 2022.

*Impairment for resource property*

The application of the Company's accounting policy for impairment of resource property requires judgment to determine whether indicators of impairment exist including factors such as, the period for which the Company has the right to explore, expected renewals of exploration rights, whether substantive expenditures on further exploration and evaluation of resource properties are budgeted and evaluation of the results of exploration and evaluation activities up to the reporting date. Management has assessed impairment indicators on the Company's resource property and has concluded that no impairment indicators exist as of September 30, 2022.

*Uncertain tax positions*

The Company's operations involve the application of complex tax regulations in multiple international jurisdictions. Determining the tax treatment of a transaction requires the Company to apply judgment in its interpretation of the applicable tax law. These positions are not final until accepted by the relevant tax authority. The tax treatment may change based on the result of assessments or audits by the tax authorities often years after the initial filing.

The Company recognizes and records potential liabilities for uncertain tax positions based on its assessment of the amount, or range of amounts, of tax that will be due. The Company adjusts these accruals as new information becomes available. Due to the complexity and uncertainty associated with certain tax treatments, the ultimate resolution could result in a payment that is materially different from the Company's current estimate of the tax liabilities.

**Areas of Estimation Uncertainty**

*Mineral reserves and resources*

Mineral reserves are estimates of ore that can be economically and legally extracted from the Company's mineral property. The Company estimates its mineral reserves and mineral resources based on information compiled by appropriately qualified persons. Such estimates require complex geological assessments to interpret the data. Additionally, the estimation of recoverable mineral reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, metallurgical recoveries, permitting and production costs along with geological assumptions made in estimating the size and grade of the ore body. Changes in the mineral reserve or mineral resource estimates may impact the carrying value of mining interests, mine restoration provisions, recognition of deferred tax assets, depreciation and amortization charges and royalty obligations.

*Value added taxes*

The Company incurs indirect taxes, including value-added tax, on purchases of goods and services at its operating mines and exploration projects. Indirect tax balances are recorded at their estimated recoverable amounts within current or long-term assets, net of provisions, and reflect the Company's best estimate of their recoverability under existing tax rules. Management's assessment of recoverability considers the probable outcomes of claimed deductions and/or disputes. The provisions and balance sheet classifications made to date may be subject to change and such change may be material.

*Convertible debenture and note payable*

The fair value measurement of the conversion option of the Company's convertible debenture and call option of the note payable requires the use of option pricing models as a valuation approach. These option pricing models require use of estimates and inputs based on best available market information. Changes in assumptions and estimates used could result in changes in the fair values of the conversion and call option which is recognized in net income or loss.

*Silver stream*

The assumptions and estimates with respect to determining the fair value of the silver stream require a high degree of judgment, and include estimates of mineral reserves, future metal prices, discount rates and conversion of reserves and resources. Changes in any of the assumptions or estimates used in determining the fair value of stream could impact the amounts assigned to assets and liabilities and the amount of fair value change recognized in net income or loss.

*Asset retirement obligation*

The Company's provision for reclamation and closure costs represents management's best estimate of the present value of the future cash outflows required to settle the liability, which reflects estimates of future costs, inflation, movements in foreign exchange rates and assumptions of risks associated with the future cash outflows and the applicable risk-free interest rates for discounting the future cash outflows. Changes in these estimates and assumptions can result in a change to the provision recognized by the Company. Changes to the provision for reclamation and closure costs are recognized with a corresponding change to the carrying amounts of related mineral properties, plant and equipment during the period of change. Adjustments to the carrying amounts of related mineral properties, plant and equipment can result in a change to future depletion expense.

### 3. Mercedes Acquisition

On April 21, 2022 ("Closing Date"), the Company acquired all of the issued and outstanding shares of certain of Equinox's indirect wholly-owned subsidiaries, which in turn own 100% in the Mercedes Mine. As part of this transaction, the Company paid cash consideration of $75 million, including $60 million provided by Sandstorm Gold Ltd. ("Sandstorm"), and issued 24,730,000 Bear Creek common shares to Equinox. The Company was obligated to make a deferred cash payment of $25 million on or before October 21, 2022 and pay a 2% Net Smelter Return on the metal produced from the Mercedes concessions to Equinox.

Management determined that the Mercedes acquisition was a business combination with the Company as acquirer. Transaction costs incurred in respect of the acquisition totaling $1.9 million were expensed and presented as transaction costs in the consolidated statements of loss.

From the Closing Date till the period ended date of September 30, 2022, the Company recognized total revenue of $36.3 million resulting directly from the acquisition of Mercedes, which is also the total revenue recognized by the Company during the nine months ended September 30, 2022. Had the transaction occurred on January 1, 2022, the unaudited revenue and net income before taxes for the nine months period ended September 30, 2022 would have been approximately $65.3 million and $17.9 million, respectively.

The acquisition date fair value of the consideration paid for the acquisition of Mercedes consisted of the following:

| | **April 21, 2022 (000's) $** |
|---|---|
| Cash consideration [1] | $ 75,000 |
| Shares issued [2] | $ 21,712 |
| Deferred cash obligation [3] | $ 23,833 |
| **Total consideration** | **$ 120,545** |

1. The total cash consideration consisted of $15 million paid by the Company and $60 million provided by Sandstorm (Note 11 & 12).
2. The Company issued 24.73 million shares to Equinox. These shares have been valued using the Company's April 21,2022 closing share price at CDN$1.10 per share and translated to USD using an exchange rate of 1.2529.
3. The Company had a deferred cash obligation of $25 million payable to Equinox before October 21, 2022. This deferred consideration is presented as a discounted amount on the balance sheet using a discount rate of 10% (Note 24). During the nine months period ended September 30, 2022, the Company has recorded $1.03 million as accretion expense.

Under the acquisition method of accounting, the consideration paid was allocated to the underlying assets acquired and liabilities assumed, based upon their estimated fair values at the date of acquisition.

The table below presents the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

| **Net Assets (Liabilities) acquired** | **April 21, 2022 (000's) $** |
|---|---|
| Cash and cash equivalents | 16,241 |
| Inventory | 10,033 |
| Prepaid expenses | 615 |
| Income tax receivable | 1,557 |
| Value added tax and other receivables | 5,294 |
| Property plant and equipment | 73,664 |
| Mineral property | 76,379 |
| Accounts payable and accrued liabilities | (15,934) |
| Income tax payable | (575) |
| Deferred income tax | (4,711) |
| Deferred revenue for gold prepay agreement | (10,040) |
| Provision for environmental rehabilitation | (11,709) |
| Silver stream agreement | (20,310) |
| Working capital adjustment | 41 |
| **Total Fair Value of Net Asset (Liabilities) acquired** | **120,545** |

The fair value estimates for mineral properties, the silver stream arrangement, gold prepay agreement, and environmental rehabilitation were determined using a 5% discount rate cash flow model and other market-based information available to the Company. The fair value of inventory was estimated using the lower of cost or net realizable value of the inventory items. The fair value of prepaids, accounts payable and accrued liabilities, and income tax payable equaled the net book value as at the Closing Date.

The initial accounting for the acquisition of the Mercedes acquisition has been provisionally determined at the end of the reporting period. The Company continues to evaluate the estimated fair value of the acquired mineral properties, plant and equipment and deferred taxes. During the nine months ended September 30, 2022, the Company made an obligatory $2.57 million payment as part of the agreed working capital adjustment with Equinox and recorded an additional fair value adjustment of $2.61 million for the withholding tax liability in the Cayman jurisdiction, that is deemed not to be an obligation for the Company and in case becomes a payable for the Company in the future, is to be paid by Equinox on behalf of the Company, both of these adjustments were not recorded in the initial fair value calculation of the Mercedes's assets acquired and liabilities assumed. The Company revised the fair value of the mineral property acquired as part of the Mercedes Acquisition to account for these adjustments. Adjustments to mineral properties, plant and equipment and deferred taxes may occur within twelve months of the Closing Date.

## 4. Cash and Cash Equivalents

| | **September 30, 2022 (000's) $** | December 31, 2021 (000's) $ |
|---|---|---|
| Cash | **9,610** | 23,476 |
| Term deposits and other Investment accounts | **-** | 700 |
| | **9,610** | 24,176 |

## 5. Restricted Cash

Under the Corani Mine Closure Plan the Company must provide a closure guarantee. Consequently, the Company provides an insurance deposit for expected closure costs. On January 17, 2022 the Company posted an insurance policy for $5.21 million with the Peruvian Ministry of Energy and Mines to cover the four-year cumulative mine closure guarantee.

The Company provided a certificate of deposit in the insurer's name for $1.30 million

As of the date of these interim consolidated financial statements, no significant environmental disturbance has been caused due to the activities conducted on the Corani Project. The Company assumed a restoration obligation estimated at $0.20 million upon acquiring the Corani Project.

## 6. Receivables

The Company has one customer outside of its current selling arrangements (Note 12 & 13) and majority of the trade receivable balances relate to that one customer.

| | **September 30, 2022 (000's) $** | December 31, 2021 (000's) $ |
|---|---|---|
| Trade receivables | **929** | 241 |
| Value added taxes and other receivables | **4,780** | - |
| | **5,709** | 241 |

## 7. Inventory

Inventory balance at September 30, 2022 relates to the materials, finished goods, and work in process inventory at Mercedes mine.

| | **September 30, 2022 (000's) $** | December 31, 2021 (000's) $ |
|---|---|---|
| Materials and Supplies (i) | **11,840** | - |
| Mineral inventory (ii) | **8,521** | - |
| Work in process (iii) | **180** | - |
| Current Ore Stockpiles (iv) | **339** | - |
| Provision for Inventory adjustment | **(3,049)** | - |
| | **17,831** | - |

(i) Materials and supplies represent consumables and other raw materials used in the production process, as well as spare parts and other maintenance supplies that are not classified as capital items.

(ii) Mineral inventory contains finished goods inventory in the form of gold or silver.

(iii) Work-in-process represents gold and silver in the processing circuit that has not completed the production process and is not yet in a saleable form.

(iv) Ore is accumulated in stockpiles that are subsequently processed into gold and silver in a saleable form. Milled ore undergoes agitated leaching, counter current decantation Merrill-Crowe precipitation and smelting.

## 8. Property and Equipment

| | Mineral Property (000's) $ | Other Equipment (000's) $ | Office Equipment (000's) $ | Land (000's) $ | Total (000') $ |
|---|---|---|---|---|---|
| Balance – December 31, 2020 | - | 5,516 | 8 | 45 | 5,569 |
| Additions | - | 1,506 | - | - | 1,506 |
| Amortization | - | (133) | (2) | - | (135) |
| Balance – December 31, 2021 | - | 6,889 | 6 | 45 | 6,940 |
| Fair value of net assets acquired (Note 3) | 76,379 | 73,664 | - | - | 150,043 |
| Additions | 8,713 | 1,345 | - | - | 10,058 |
| Change in estimate | 103 | - | - | - | 103 |
| Amortization | (5,748) | (7,998) | (1) | - | (13,747) |
| Foreign exchange | (154) | - | - | - | (154) |
| **Balance – September 30, 2022** | **79,293** | **73,900** | **5** | **45** | **153,243** |

### Net Smelter Returns

The Company agreed to pay Equinox a 2.0% of Net Smelter Returns ("NSR") (Note 3), payable every quarter, from minerals produced from the Mercedes mine. Equinox transferred the 2.0% NSR to Sandbox Royalties Corp ("Sandbox") on May 26, 2022. As part of the acquisition, the Company assumed an existing 1.0% NSR with Elemental Altus Royalties Corp ("Elemental"). The Elemental 1% NSR took effect in August 2022 and is payable every quarter, from minerals produced from the Mercedes mine. During the nine months period ended September 30, 2022, the Company recognized a total of $0.8 million in NSR costs.

## 9. Resource Property Costs

| | Corani Project (000's) $ | Maria Jose Project (000's) $ | Total (000's) $ |
|---|---|---|---|
| Balance at December 31, 2020 | 88,662 | 951 | 89,613 |
| Land acquisition costs | 26 | - | 26 |
| Impairment of Resource property costs | - | (951) | (951) |
| Balance at December 31, 2021 | **88,688** | **-** | **88,688** |
| Land acquisition costs | **12** | **-** | **12** |
| **Balance – September 30, 2022** | **88,700** | **-** | **88,700** |

### a) Corani Project

The Company has a 100% interest in the Corani Project located in the Department of Puno, Peru. Engineering and evaluation costs incurred on the Corani Project are expensed.

Details are as follows:

| Corani Engineering and Evaluation Costs: | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | **2022 (000's) $** | 2021 (000's) $ | **2022 (000's) $** | 2021 (000's) $ |
| **Corani** | | | | |
| Assaying and sampling | **-** | - | **-** | 1 |
| Community contributions | **368** | 307 | **1,042** | 835 |
| Detailed engineering | **23** | 890 | **158** | 4,527 |
| Environmental | **60** | 52 | **241** | 175 |
| Geophysics | **18** | 107 | **59** | 107 |
| Maintenance costs | **20** | - | **47** | 32 |
| Salaries and consulting | **1,065** | 1,151 | **3,218** | 3,580 |
| Camp, supplies, and logistics | **485** | 539 | **1,641** | 1,659 |
| Travel | **21** | 16 | **53** | 41 |
| Recovery of costs | **(856)** | - | **(1,361)** | - |
| **Costs for the Period** | **1,204** | 3,062 | **5,098** | 10,957 |

### b) Other Exploration and Evaluation Costs (Recoveries)

Other exploration and evaluation costs include administrative expenses for maintaining and managing the Company's Peruvian affiliates and concession payments, which are not directly attributable to the Company's Corani project.

Total other exploration and evaluation costs incurred during the period ended September 30, 2022, were $1.4 million (2021 - $1.8 million).

The Company expenses the Peruvian value added tax it pays during the exploration phase. During the nine-month period ended September 30, 2022 the total value added taxes paid were $0.5 million (2021 - $1.4 million). The Company also received a total of $1.4 million in form of Peruvian value added taxes refunds.

## 10. Accounts payable and accrued liabilities

| | **September 30, 2022 (000's) $** | December 31, 2021 (000's) $ |
|---|---|---|
| Trade payables | **25,017** | 902 |
| Other payables | **1,319** | - |
| | **26,336** | 902 |
| Less: Current portion | **(23,656)** | (902) |
| Non-Current portion | **2,680** | - |

### 11. Convertible Debenture

On April 21, 2022 as part of the Mercedes acquisition (Note 3), Sandstorm, provided the Company with $22.5 million ("the Principal") in exchange for a Convertible Debenture. The Convertible Debenture matures on April 21, 2025, bears a 6% coupon, and allows the holder, at their option, to convert the principal, in whole or in part, into common shares of the Company at any time before maturity at a conversion price of CDN$1.51 per common share. Interest is calculated and payable quarterly in arrears on the last day of a calendar quarter. The conversion feature of the convertible debenture is accounted for as an embedded derivative and the fair value of the conversion option is determined using the Black-Scholes options pricing model at each period end date. The Convertible Debenture can be prepaid in whole or in part with ten days' notice.

The following assumptions were used in estimating the initial fair value of $6.74 million for the conversion option on April 21,2022 with the remaining value of $ 15.76 million allocated to the debenture. These assumptions used to determine the fair value of the conversion option on September 30, 2022 are set in the table out below.

| | | April 21, 2022 | September 30, 2022 |
|---|---|---|---|
| Risk-free interest rate | | 3.00% | 3.79% |
| Expected dividend yield | | 0.00% | 0.00% |
| Stock price | CA$ | 1.10 | 0.58 |
| Expected stock price volatility | | 72.71% | 72.19% |
| Expected life in years | | 3 | 2.56 |

The summary of the convertible debenture movements during the period ended September 30,2022 is as follows:

| | Debenture (000,'s) $ | Conversion Option (000's) $ | Total (000's)$ |
|---|---|---|---|
| **Balance - December 31, 2021** | - | - | - |
| Addition as part of the Mercedes acquisition (Note 3) | **15,760** | **6,740** | **22,500** |
| Interest paid | (598) | - | (598) |
| Accretion | 1,371 | - | 1,371 |
| Change in fair value of conversion option | - | (4,948) | (4,948) |
| **Balance - September 30, 2022** | **16,533** | **1,792** | **18,325** |

### 12. Deferred Revenue

*Sandstorm Gold Purchase Agreement*

On April 21, 2022, Sandstorm provided the Company with $37.5 million. In exchange, the Company agreed to sell to Sandstorm 600 ounces of refined gold per month for 42 months (a total of 25,200 ounces) at a price equal to 7.5% of the London Bullion Market Association's PM fix for the day before the delivery date. After 42 months the Company will sell to Sandstorm 4.4% of gold produced by Mercedes at a price equal to 25% of the London Bullion Market Association's PM fix for the day before the delivery date. On April 21, 2022, $37.5 million was recognized by the Company as deferred revenue to be recognized as revenue over the term of the agreement.

Up until September 30, 2022, the Company has delivered 3,000 ounces of refined gold to Sandstorm and recognized sales revenue of $5 million.

*Gold Prepay Agreement*

On April 21, 2022 as part of the Mercedes acquisition (Note 3), the Company assumed a gold prepay agreement with a third party. Under the terms of the gold prepay agreement, the Company is required to deliver a notional amount of 1,000 ounces of gold quarterly if the gold price is between $1,350 and $1,650 until 5,400 ounces have been delivered.

If the gold price per ounce is above $1,650, the Company must deliver 900 ounces quarterly rather than 1,000 ounces. If the gold price per ounce is below $1,350, the Company must deliver 1,100 ounces rather than 1,000 ounces. As at September 30, 2022, the Company has delivered 1,800 ounces of gold and recognized revenue of $3.1 million. Interest is payable quarterly at a rate of 6.5% of the quarterly gold delivery amounts. During the nine months ended September 30, 2022, 117 ounces of gold were delivered as interest.

Interest payable in gold ounces is recorded as a liability based on the present value of the expected future interest payments.

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

A schedule of the deferred revenue is as follows:

| | Sandstorm Gold Purchase (000,'s) $ | Gold Prepay (000's) $ | Total (000's)$ |
|---|---|---|---|
| **Balance - December 31, 2021** | - | - | - |
| Addition as part of the Mercedes acquisition (Note 3) | **37,500** | **10,040** | **47,540** |
| Delivery of gold - Interest | - | (203) | (203) |
| Delivery of gold - Principal | (4,919) | (3,115) | (8,034) |
| Change in fair value | | (95) | (95) |
| **Balance - September 30, 2022** | **32,581** | **6,627** | **39,208** |
| Less: current portion | (12,036) | (6,627) | (18,663) |
| **Non-Current Portion** | **20,545** | **-** | **20,545** |

## 13. Silver Stream

On April 21,2022 as part of The Mercedes acquisition (Note 3), the Company assumed a silver stream requiring deliveries of 75,000 ounces of silver per quarter until 1.2 million ounces are delivered. After that, the Company will deliver 100% of its silver production until 3.75 million ounces are delivered. After 3.75 million ounces are delivered, the mine will deliver 30% of its silver production. The Company is paid 20% of the LBMA silver fix for the day before delivery. From April 21, 2022 to September 30, 2022, the Company delivered 144,417 ounces of silver as part of this stream. The silver stream contract was determined to be a financial liability recorded at fair value through profit or loss. The principal repayment on the liability is variable based on 80% of the silver price applied to ounces delivered under the contract. The fair value of the Silver Stream is determined based on the net present value of the expected future cash flows using a discount rate of 5% and estimated future silver prices.

The Company's silver stream is as follows:

| | Total (000's) $ |
|---|---|
| **Balance - December 31, 2021** | - |
| On inception (Note 3) | **20,310** |
| Silver stream delivery | (2,331) |
| Change in fair value | (1,049) |
| **Balance - September 30, 2022** | **16,930** |
| Less: current portion | (4,756) |
| **Non-Current Portion** | **12,174** |

### 14. Asset Retirement Obligation

On April 21,2022 as part of the Mercedes acquisition (Note 3), the Company assumed provision for environmental rehabilitation resulting from an ownership interest in a mill, mining equipment, and previously mined property interests. The provision consists primarily of costs associated with mine reclamation and closure activities. These activities generally include costs for decommissioning the mill complex and related infrastructure, ensuring the physical and chemical stability of the tailings area, post-closure site security, and monitoring costs. The Company considers such factors as changes in laws and regulations and requirements under existing permits in determining the estimated costs. Such analysis is performed on an ongoing basis.

The Company estimates that the undiscounted future value of the cash flows required to settle the closure provision is $16.17 million for the Mercedes mine. The Company expects these cash flows outflows to begin in 2026. In calculating the estimate, management used the Mexican risk-free interest rate of 8.86% and inflation of 4%.

A reconciliation of the discounted provision is provided below:

| | **Total (000's) $** |
|---|---|
| **Balance - December 31, 2021** | **200** |
| Addition as part of the Mercedes acquisition (Note 3) | 11,709 |
| Accretion | 476 |
| Change in fair value | 103 |
| Foreign exchange | (158) |
| **Balance - September 30, 2022** | **12,330** |

### 15. Right of Use Assets and Lease Liabilities

The Company's right-of-use assets are:

| **Right-of-Use Assets** | **Office space and Warehouse (000's) $** | **Vehicles (000's) $** | **Total (000's) $** |
|---|---|---|---|
| **Balance - December 31, 2020** | **382** | **323** | **705** |
| Additions | 128 | 251 | 379 |
| Amortization | (290) | (285) | (575) |
| **Balance – December 31, 2021** | **220** | **289** | **509** |
| **Additions** | **119** | **-** | **119** |
| Amortization | (190) | (188) | (378) |
| **Balance – September 30, 2022** | **149** | **101** | **250** |

The Company's lease liabilities are:

| Lease Liabilities | Office Space and Warehouse (000's) $ | Vehicles (000's) $ | Total (000's) $ |
|---|---|---|---|
| **Balance - December 31, 2020** | **349** | **310** | **659** |
| Additions | 128 | 251 | 379 |
| Payments | (352) | (361) | (713) |
| Accretion expense | 70 | 79 | 149 |
| Foreign exchange translation effect | (2) | (25) | (27) |
| **Balance – December 31, 2021** | **193** | **254** | **447** |
| Additions | 119 | - | 119 |
| Payments | (244) | (276) | (520) |
| Accretion expense | 56 | 78 | 134 |
| Foreign exchange translation effect | 7 | 2 | 9 |
| **Balance – September 30, 2022** | **131** | **58** | **189** |
| Less: current portion | 124 | 58 | 182 |
| Long-term portion | 7 | - | 7 |

## 16. Community Projects Obligation

On April 8, 2013, the Company entered into a Framework Agreement for the Sustainable Use of Natural Resources in the Mining Project Corani (the "Framework Agreement") with the Corani District Municipality, five surrounding communities, and relevant ancillary organizations. The Framework Agreement was for an initial payment (the "Initial Payment") and 22 successive payments (the "Successive Payments") of Peruvian Sol ("S/") 4 million to be made into a trust designed to fund community projects. These Successive Payments of S/. 4 million per year depended on the Company receiving permits to build the processing facilities and the mining installations. These permits were received during 2018.

The Framework Agreement with the local communities and the Corani Environmental and Social Impact Assessment ("ESIA") requires the Company to undertake certain development work, such as access roads, mine camp and maintenance, storage facilities, and an electrical substation. The Company began development work in 2018 in accordance with the ESIA and the Framework Agreement.

At September 30, 2022, the total undiscounted obligation remaining under the Framework Agreement was $17.1 million, while the sum of the remaining annual payment stream discounted at an estimated current rate of 10% is $8.1 million.

A continuity of the Company's community projects obligation per the Framework Agreement is as follows:

| | **(000's)** **$** |
|---|---|
| Balance as of December 31, 2020 | 9,944 |
| Payment | (1,075) |
| Accretion expense | 843 |
| Impact of foreign exchange | (864) |
| **Balance as of December 31, 2021** | **8,848** |
| Payment | (1,077) |
| Accretion expense | 626 |
| Impact of foreign exchange | 81 |
| **Balance as of September 30, 2022** | **8,478** |
| Less: current portion | (1,004) |
| **Non-Current Portion** | **7,474** |

### 17. Other Liabilities

In 2011 the Company entered into land purchase agreements with local landowners for surface rights access to the Corani project and an agreement to provide the Corani Municipality with funding to build schools and other projects as determined by the Corani Municipality. The total amount owed under the agreements was approximately $3.47 million, of which $0.8 million remains outstanding at September 30, 2022.

The liability includes a pension obligation adjusted for pensioner life expectancy, the official Peruvian minimum wage level, and the exchange rate. The estimated payment stream is discounted at rates matching the payment maturities implicit in the Peruvian sovereign zero coupon bond curve.

A continuity of the Company's obligation under these agreements is as follows:

| | **(000's)** **$** |
|---|---|
| Balance as of December 31, 2020 | 1,313 |
| Payments | (34) |
| Revaluation of obligation | (224) |
| Impact of foreign exchange | (115) |
| **Balance as of December 31, 2021** | 940 |
| Payments | (24) |
| Revaluation of obligation | (21) |
| Impact of foreign exchange | (94) |
| **Balance as of September 30, 2022** | **801** |
| Less: current portion | (55) |
| **Non-Current Portion** | **746** |

The Company's estimated future payments are as follows:

| | **September 30, 2022 (000's) $** | December 31, 2021 (000's) $ |
|---|---|---|
| Within one year | **55** | **54** |
| After one year but not more than five years | **746** | **886** |
| | **801** | **940** |

## 18. Note Payable

On July 28, 2022, the Company entered into a promissory note ("Note") with Auramet International LLC ("Auramet") in connection with a $5 million loan facility ("Facility").

The Facility is due on the first anniversary of the Note, such date being July 28, 2023, and the Company may repay the Facility, in minimum incremental amounts of US $1.0 million, either in whole or in part, from time to time without penalty, subject to any accrued interest. The Facility is subject to an original issue discount fee of 2.5%, which was deducted from the advance of the Facility. Interest accrues on the unpaid principal amount at a rate of 6.00% per annum plus the greater of (i) the USD Secured Overnight Financing Rate or (ii) 1.00% per annum, payable quarterly in arrears. During the period ended September 30, 2022, the Company has paid a total of $0.1 million in interest payments to Auramet. The Company incurred a total of $0.4 million in expenses related to the Note.

As partial consideration for the Note, the Company entered into an offtake agreement (the "Offtake Agreement") with Auramet whereby the Company has agreed to sell Auramet 100% of the outturn from the Mercedes mine less the amount of gold and silver sold by the Company under existing royalty and stream agreements (the "Applicable Product") until the Note is paid in full and, after that, 50,000 troy ounces of the Applicable Product. During the nine months period ended September 30, 2022, the Company delivered a total of 5,753 ounces of gold and recognized a revenue of $9.7 million as part of the Offtake Agreement.

The Company also granted Auramet European call options exercisable on the applicable Expiration Date at the applicable Strike Price set out below:

| Ounces | Strike Price | Expiration Date |
|---|---|---|
| 625 | US$1,975/Oz | April 26, 2023 |
| 625 | US$1,975/Oz | July 27, 2023 |
| 625 | US$1,975/Oz | October 27, 2023 |
| 625 | US$1,975/Oz | December 27, 2023 |

The call options are accounted for as an embedded derivative. The fair value of the call options is determined using the Black-Scholes options pricing model at each period end date. The following assumptions were used in estimating the initial fair value of $0.3 million for the call option on July 28,2022 with the remaining value of $4.4 million allocated to the Note, and for determining the fair value of the call option on September 30, 2022, resulting in a gain of $0.1 million.

| | **July 28, 2022** | **September 30, 2022** |
|---|---|---|
| Risk-free interest rate | 3.24% | 3.98% |
| Spot price of Gold | 1,754 | 1,672 |
| Expected gold volatility | 21.2% - 21.7% | 21.1% - 21.8% |
| Expected life in years | 0.75 - 1.42 | 0.57 - 1.24 |

Note movements during the period ended September 30,2022 are as follows:

| | Note (000,'s) $ | Call Option (000's) $ | Total (000's)$ |
|---|---|---|---|
| **Balance - December 31, 2021** | - | - | - |
| Proceeds | **4,404** | **258** | **4,662** |
| Interest | (80) | - | (80) |
| Accretion | 112 | - | 112 |
| Change in fair value of call option | - | (114) | (114) |
| **Balance - September 30, 2022** | **4,436** | **144** | **4,580** |

## 19. Share Capital

### Authorized and Issued Share Capital

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

*2022 Activity*

On April 21, 2022, the Company completed the acquisition of the Mercedes mine from Equinox and issued 24,730,000 common shares of the Company to Equinox. These shares were part of the total consideration paid for the acquisition of the Mercedes mine and were valued at the closing rate of CDN$1.10 per share.

On June 10, 2022, the Company completed the private placement financing and issued 3,542,160 common shares at CDN$1.00 for gross proceeds of CDN$3,542,160 (USD$2,772,449). The Company incurred a total of $37,096 in share issuance costs.

On September 13, 2022, the Company issued a total of 555,083 common shares to a consultant of the Company for services rendered at a fair value of $0.32 million. The Company has accrued an additional $0.11 million as fees for services provided by the consultant, shares for which will be issued after September 30, 2022.

During the period ended September 30, 2022, the Company issued 308,333 common shares to its directors, officers, and employees upon vesting of one-third of the RSUs awarded on April 22, 2020.
1,020,500 stock options expired without being exercised on February 26, 2022.

No new stock options were granted during the nine-month period ended September 30, 2022. During the nine-month period ended September 30, 2022, the Company recognized $0.38 million (2021 - $2.24 million) as share-based payments expense based on the graded vesting schedule of the previous year's stock options, restricted share unit ("RSUs") grants.

*2021 Activity*

In January 2021, the Company issued 11,500,000 common shares at CDN$3.00 per share for gross proceeds of CDN$34.5 million ($27.1 million). The underwriters received a cash fee of 6% of the gross proceeds ($1.63 million). Additional costs of this financing included professional and filing fees of $0.24 million.

On May 10, 2021, the Company issued 333,818 common shares to its directors, officers, and employees upon vesting of one-third of the RSUs awarded on April 22, 2020.

### Share Purchase Options

The Company has established a share purchase option plan (the "Stock Option Plan") and a long-term incentive plan ("LTIP"). Under the Stock Option Plan, the Board of Directors may, from time to time, grant options to directors, officers, employees, or consultants. Options granted must be exercised no later than ten years from the date of grant or such lesser period as determined by the Board of Directors. Under the Stock Option Plan, the exercise price of an option cannot be lower than the closing price on the TSX Venture Exchange on the trading date preceding the grant date, less the maximum discount permitted under TSX policies applicable to share purchase options. The Board of Directors also sets vesting terms for each grant. The Stock Option Plan provides that the aggregate number of shares reserved for issuance under the plan (including shares issuable upon the exercise of existing options and restricted or deferred share units issuable under the Company's Long Term Incentive Plan) shall not exceed 10% of the total number of issued and outstanding common shares of the Company on a non-diluted basis, as constituted on the grant date of such options. Under the LTIP, the Board of Directors may, from time to time, award (RSUs or deferred share units ("DSUs") to directors, officers, employees, and in the case of RSUs, consultants. Under the LTIP, the maximum number of shares the Company is entitled to issue from treasury for payments regarding awards of DSUs and RSUs is an aggregate of 5,000,000 shares. The Stock Option Plan and the LTIP may not cumulatively exceed 10% of the total number of shares issued and outstanding.

As at September 30, 2022 and December 31, 2021, the following stock options, RSUs and DSUs were under grant and available for issuance:

| | **September 30, 2022** | December 31, 2021 |
|---|---|---|
| Issued and outstanding shares | **153,408,708** | 124,273,132 |
| Options allowed | **15,340,871** | 12,427,313 |
| RSU & DSU limit | **5,000,000** | 5,000,000 |
| Options outstanding | **4,450,000** | 5,620,500 |
| RSUs granted | **1,000,000** | 1,000,000 |
| RSU's outstanding | **308,334** | 616,667 |
| DSU's granted | **1,000,000** | 1,000,000 |
| DSU's Outstanding | **1,000,000** | 1,000,000 |
| RSU's & DSU's available | **3,000,000** | 3,000,000 |
| Options available for issuance | **8,890,871** | 4,806,813 |

## 20. Revenue

The Company's revenues are primarily from sales of gold and silver. These products are sold to Nomad Royalty Company Ltd, Asahi Refining Ltd, Auramet and Sandstorm.

The revenue for the nine and three months ended September 30, 2022 is shown below:

| | **Three Months Ended** | | **Nine Months Ended** | |
|---|---|---|---|---|
| | **September 30, 2022 (000's) $** | September 30, 2021 (000's) $ | **September 30, 2022 (000's) $** | September 30, 2021 (000's) $ |
| Gold cash sales | **20,464** | - | **25,485** | - |
| Gold non-cash sales | **1,225** | - | **8,236** | - |
| Silver cash sales | **226** | - | **583** | - |
| Silver non-cash sales | **1,259** | - | **2,331** | - |
| | **26,554** | - | **36,635** | - |

## 21. Related Party Transactions

### Compensation of key management personnel

The remuneration of the directors, the Chief Executive Officer, the President and Chief Operating Officer and Chief Financial Officer (collectively, the key management personnel) were as follows:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | **2022 (000's)** | 2021 (000's) | **2022 (000's)** | 2021 (000's) |
| Salaries and directors' fees | **$ 488** | $ 454 | **$ 1,313** | $ 1,316 |
| Share-based compensation | **77** | 145 | **289** | 2,069 |
| | **$ 565** | $ 599 | **$ 1,602** | $ 3,385 |

(i) Key management personnel were not paid post-employment benefits or other long-term benefits.
(ii) Share-based compensation represents the non-cash expense, translated at the grant date foreign exchange rate.

Any amounts that might be owed at any time to key management personnel would be unsecured, non-interest bearing, and due on demand. At September 30, 2022, $0.1 million (December 31, 2021 - $nil) was due for director fees.

## 22. Segmented Information

| **Long -Term Assets** | **September 30, 2022 (000's)** | December 31, 2021 (000's) |
|---|---|---|
| Peru | **$ 92,605** | $ 97,071 |
| Mexico | **152,001** | - |
| Canada | **5,009** | 31 |
| | **$ 249,814** | $ 97,102 |

**Nine Months Ended September 30, 2022**

| **Net Loss (income)** | **Revenue (000's)** | **Operating expenses (000's)** | **Depletion & depreciation (000's)** | **Exploration expenses (000's)** | **(Income)/loss from operations (000's)** | **Others (000's)** |
|---|---|---|---|---|---|---|
| Mercedes | $ (36,635) | 27,863 | 10,720 | 663 | 2,611 | 2,132 |
| Corani | - | 48 | - | 5,098 | 5,146 | 178 |
| Other exploration projects | - | - | - | 703 | 703 | - |
| Corporate | - | 1,539 | - | - | 1,539 | (732) |
| | **$ (36,635)** | **29,450** | **10,720** | **6,464** | **9,999** | **1,578** |

**Nine Months Ended September 30, 2021**

| Net Loss (income) | | Revenue (000's) | Operating expenses (000's) | Depletion & depreciation (000's) | Exploration expenses (000's) | (Income)/loss from operations (000's) | Others (000's) |
|---|---|---|---|---|---|---|---|
| Mercedes | $ | - | - | - | - | - | - |
| Corani | | - | 123 | - | 10,957 | 11,080 | (1,263) |
| Other exploration projects | | - | - | - | 1,813 | 1,813 | - |
| Corporate | | - | 4,084 | - | - | 4,084 | (230) |
| | **$** | **-** | **4,207** | **-** | **12,770** | **16,977** | **(1,493)** |

**Three Months Ended September 30, 2022**

| Net Loss (income) | | Revenue (000's) | Operating expenses (000's) | Depletion & depreciation (000's) | Exploration expenses (000's) | (Income)/loss from operations (000's) | Others (000's) |
|---|---|---|---|---|---|---|---|
| Mercedes | $ | (26,554) | 25,720 | 5,882 | 663 | 5,711 | (453) |
| Corani | | - | 48 | - | 1,204 | 1,252 | 178 |
| Other exploration projects | | - | - | - | 181 | 181 | - |
| Corporate | | - | 679 | - | - | 679 | 114 |
| | **$** | **(26,554)** | **26,447** | **5,882** | **2,048** | **7,823** | **-**<br>**(161)** |

**Three Months Ended September 30, 2021**

| Net Loss (income) | | Revenue (000's) | Operating expenses (000's) | Depletion & depreciation (000's) | Exploration expenses (000's) | (Income)/loss from operations (000's) | Others (000's) |
|---|---|---|---|---|---|---|---|
| Mercedes | $ | - | - | - | - | - | - |
| Corani | | - | 22 | - | 3,062 | 3,084 | (607) |
| Other exploration projects | | - | - | - | 430 | 430 | - |
| Corporate | | - | 630 | - | - | 630 | (11) |
| | **$** | **-** | **652** | **-** | **3,492** | **4,144** | **(618)** |

### 23. Financial Instrument Risk Management

The Company's financial instruments are exposed to certain financial risks, including currency, credit, liquidity, interest, and price.

i. Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels in which to classify the inputs of valuation techniques used to measure fair values.

- Level 1 - quoted market prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly, such as prices, or indirectly (derived from prices).
- Level 3 - inputs are unobservable (supported by little or no market activity) such as non-corroborative indicative prices for a particular instrument provided by a third party

As at September 30, 2022, the fair value of convertible debentures, note payables and long-term debt are measured at fair value using Level 3 inputs. The fair value of convertible debenture includes the fair value of the conversion option determined using Black-Scholes options pricing model. The fair value of the long-term debt is determined based on the on the net present value of the expected future cashflows and a discount rate that includes the risk premium.

The carrying values of cash and cash equivalents, receivable, and accounts payable and accrued liabilities approximate fair value due to their short terms to maturity.

ii. Currency risk

The Company is exposed to financial risk due to changes in foreign exchange rates. The Company operates in Peru, Mexico, Netherlands, and Canada, and a portion of its expenses are incurred in Canadian dollars, Mexican pesos, and Peruvian Soles. A significant change in the exchange rates between the Canadian dollar relative to the US dollar, Mexican Peso to the US dollar, and the Peruvian Sol to the US dollar could affect the Company's operations, financial position, and cash flows. The Company has not hedged its exposure to currency fluctuations.

At September 30, 2022, the Company was exposed to currency risk through the following assets and liabilities denominated in Canadian dollars, Mexican Pesos, and Peruvian Soles.

| | September 30, 2022 | | |
|---|---|---|---|
| | **Canadian Dollars (000's)** | **Peruvian Soles (000's)** | **Mexican Pesos (000's)** |
| Cash and cash equivalents and short-term investments | 1,342 | 163 | 4,623 |
| Receivables | - | 57,344 | 200,887 |
| Accounts payable, accrued liabilities and other | (399) | (5,775) | (306,001) |
| Community project obligation | | (33,776) | |
| **Net exposure** | **943** | **(17,956)** | **(100,491)** |

Based on the above net exposures at September 30, 2022, and assuming that all other variables remain constant, a 10% depreciation of the US dollar against the Canadian dollar would result in an increase of approximately $70,000 (C$94,000) in the Company's loss for the nine-month period. A 10% depreciation of the US dollar against the Peruvian Sol would result in an increase of approximately $410,000 (S/1,600,000) in the Company's loss for the year. A 10% depreciation of the US dollar against the Mexican Peso would result in an increase of approximately $500,000 (MXN$ 10,000,000) in the Company's loss for the year. Conversely, a 10% appreciation of the US dollar relative to the Canadian dollar, Soles, or Mexican Pesos would have the opposite effect.

iii. Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit risk the Company is exposed to is 100% of the cash and cash equivalents, short-term investments, and receivables.

The Company's cash and cash equivalents and short-term investments are held in major Canadian chartered banks and accredited Mexican and Peruvian financial institutions. Short-term investments (including those presented as cash and cash equivalents) consist of financial instruments issued by Canadian or Peruvian banks. These investments mature at various dates over the next twelve months.

iv. Liquidity risk

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

As at September 30, 2022, the Company's financial liabilities consist of accounts payable & accrued liabilities and the current portion of community projects liability, convertible debentures, and other liabilities totaling $56.1 million, which are expected to be paid over the next twelve months, and the long-term portion of other liabilities of $43.0 million, which are expected to be paid over the next five years (Note 1).

v. Interest rate risk

Interest rate risk is the risk that a financial instrument's fair value or future cash flows will fluctuate because of changes in market interest rates. The Company's interest rate risk management policy is to purchase highly liquid investments with a term to maturity of one year or less on the date of purchase. At September 30, 2022, the Company had few funds invested in interest earning savings accounts with Canadian institutions. A 1% increase or decrease in the interest rate during the period ended September 30, 2022, would have resulted in an increase or decrease of approximately $100 respectively, in the Company's net income during the period ended September 30, 2022**.**

vi. Price risk

Gold and silver price volatility affects The Company's revenues, earnings and cash flow. Volatile energy, commodity and consumables prices and currency exchange rates affect production costs. For a more comprehensive discussion of these and other risks, see "Risk Factors" in the Company's Annual Information Form ("AIF") filed on SEDAR at www.sedar.com on April 26, 2022 and subsequently revised (the "Revised AIF") and filed on SEDAR on November 16.

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## 24. Subsequent Events

On October 26, the Company reached a Heads of Agreement ("HOA") with Equinox to amortize over a two-year period the payment of the $25 million deferred purchase price installment for the Mercedes mine. The HOA provides for converting the payment into a promissory note (the "Note") with a maturity date (the "Maturity Date") of October 21, 2024 and monthly principal and interest payments commencing in February 2023. Monthly payments will be the greater of US$500,000 or half of consolidated free cash flow. Interest will be applied at 12.5% plus the greater of 2.5% or the 90-day average SOFR. In addition, the Company will grant to Equinox Gold warrants to acquire up to 5 million common shares of the Company. The warrants may be converted at any time during a three-year period starting six months after being granted at a 15% premium to the 5-day volume weighted average price of the shares on the grant date. Issuing the Note and warrants is subject to TSX-V approval.

On October 7, and November 8, the Company issued 250,274, and 361,648 common shares, respectively, for services rendered under the agreement with Unison Mining Consulting Pte. Ltd. ("Unison").