**Consolidated Financial Statements**
**For the years ended December 31, 2021 and 2020**
(Expressed in United States Dollars)
(Audited)

# Independent auditor's report

To the Shareholders of Sailfish Royalty Corp.

## Our opinion

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

**What we have audited**

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2021 and 2020;
- the consolidated statements of comprehensive (loss) income for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

## 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 *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

**Independence**

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

## Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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

In connection with our audit of the consolidated 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 consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 these consolidated 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor’s report is Lana Kirk.

**/s/PricewaterhouseCoopers LLP**

Chartered Professional Accountants

Vancouver, British Columbia
April 14, 2022

*(Expressed in United States Dollars)*

| ASSETS | Notes | December 31, 2021 | December 31, 2020 |
|---|---|---|---|
| **CURRENT** | | | |
| Cash | | $ 3,680,478 | $ 1,562,833 |
| Accounts receivable | | 11,699 | 89,913 |
| Due from related parties | 10 | 1,251,096 | 155,695 |
| Prepaid expenses and other assets | | 75,682 | 38,870 |
| Loan receivable | 7 | 4,307,319 | - |
| | | **$ 9,326,274** | **$ 1,847,311** |
| **NON-CURRENT** | | | |
| Royalty and stream interests | 6 | $ 35,453,210 | $ 48,479,109 |
| Right of use assets | | 40,832 | 66,338 |
| Exploration and evaluation assets | 5 | 628,179 | 628,179 |
| Loan receivable | 7 | 2,998,315 | - |
| **Total assets** | | **$ 48,446,810** | **$ 51,020,937** |
| **LIABILITIES** | | | |
| **CURRENT** | | | |
| Accounts payable and accrued liabilities | 8 | $ 1,312,605 | $ 297,757 |
| Lease liabilities | | 28,545 | 25,640 |
| Due to related parties | 10 | 5,543 | 1,912 |
| | | **$ 1,346,693** | **$ 325,309** |
| **NON-CURRENT** | | | |
| Lease liabilities | | 17,733 | 46,081 |
| Loan facility | 9 | - | 3,067,159 |
| **Total liabilities** | | **$ 1,364,426** | **$ 3,438,549** |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 8 | $ 42,570,232 | $ 43,896,515 |
| Contributed surplus | | 6,469,044 | 7,083,718 |
| Accumulated other comprehensive income | | 12,359 | 19,138 |
| Deficit | | (1,969,251) | (3,416,983) |
| | | **$ 47,082,384** | **$ 47,582,388** |
| **Total shareholders'equity and liabilities** | | **$ 48,446,810** | **$ 51,020,937** |

Events after the reporting period (Note 15)
Approved on behalf of the Board of Directors:

"Cesar Gonzalez"
Director

"Walter Reich"
Director

**SAILFISH ROYALTY CORP.**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**
Years ended December 31, 2021 and 2020
*(Expressed in United States Dollars)*



| | Notes | | Year Ended December 31, 2021 | | Year Ended December 31, 2020 |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Sales | 6, 13 | $ | 1,454,786 | $ | - |
| Royalty revenue | 6, 13 | | 20,497 | | 94,657 |
| **Total revenue** | | **$** | **1,475,283** | **$** | **94,657** |
| **Cost of sales** | | | | | |
| Cost of sales, excluding depletion | 13 | $ | (364,398) | $ | - |
| Depletion | 6, 13 | | (329,908) | | (63,551) |
| **Gross profit** | | **$** | **780,977** | **$** | **31,106** |
| **Operating and administrative expenses (income)** | | | | | |
| Director fees | 10 | $ | 160,000 | $ | 116,866 |
| Senior management | 10 | | 871,199 | | 558,900 |
| Share-based compensation | 8, 10 | | 736,736 | | 1,267,672 |
| Consulting fees | | | 154,434 | | 244,760 |
| Investor relations | | | 78,471 | | - |
| General office and regulatory fees | 10 | | 345,498 | | 170,683 |
| Depreciation | | | 26,079 | | 30,711 |
| Exploration fees | | | 742,188 | | 841 |
| Travel and marketing | | | 146,049 | | 94,451 |
| Professional fees | | | 471,817 | | 388,796 |
| Foreign exchange loss | | | 44,380 | | 150,291 |
| (Gain) loss on disposal of assets | 6 | | (6,727,564) | | 10,516 |
| Royalty and stream interests impairment | 6, 13 | | 577,093 | | - |
| | | $ | (2,373,620) | $ | 3,034,487 |
| **Net operating income (loss)** | | **$** | **3,154,597** | **$** | **(3,003,381)** |
| **Other income (expense)** | | | | | |
| Gain on lease disposal | | | - | | 2,275 |
| Fair value adjustment on loan receivable | 7 | | 407,374 | | - |
| Gain on financial assets at fair value through profit or loss | 4 | | - | | 146,448 |
| Loan adjustment loss | 9 | | (205,279) | | (750,056) |
| Interest expense | 9 | | (88,761) | | (988,260) |
| Dividend income | | | 942 | | - |
| | | $ | 114,276 | $ | (1,589,593) |
| **Total income (loss) for the year** | | **$** | **3,268,873** | **$** | **(4,592,974)** |
| **Other comprehensive (loss) gain for the year** | | | | | |
| Items that may be reclassified subsequently to net income | | | | | |
| Exchange (loss) gain on translation | | $ | (6,779) | $ | 36,561 |
| **Total other comprehensive (loss) gain for the year** | | **$** | **(6,779)** | **$** | **36,561** |
| **Net income (loss) and comprehensive income (loss) for the year** | | **$** | **3,262,094** | **$** | **(4,556,413)** |
| Basic income (loss) per share | | $ | 0.04 | $ | (0.07) |
| Diluted income (loss) per share | | $ | 0.04 | $ | (0.07) |
| **Weighted average number of shares outstanding** | | | | | |
| Basic | | | 74,659,858 | | 67,010,456 |
| Diluted | | | 75,295,230 | | 67,010,456 |

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

**SAILFISH ROYALTY CORP.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
Years ended December 31, 2021 and 2020
*(Expressed in United States Dollars)*



| Cash provided by (used for): | Notes | Year Ended December 31, 2021 | Year Ended December 31, 2020 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net income (loss) for the year | | $ 3,268,873 | $ (4,592,974) |
| (Gain) loss on disposal of assets | 6, 13 | (6,727,564) | 10,516 |
| Gain on lease disposal | | - | (2,275) |
| Fair value adjustment on loan receivable | 7 | (407,374) | - |
| Royalty and stream interests impairment | 6, 13 | 577,093 | - |
| Loan adjustment loss | 9 | 205,279 | 750,056 |
| Interest expense | 9 | 83,866 | 981,202 |
| Depreciation | | 26,079 | 30,711 |
| Unrealized foreign exchange (gain) loss | | (7,308) | 43,419 |
| (Gain) on financial assets at fair value through profit or loss | 4 | - | (146,448) |
| Depletion (including depletion in ending inventory) | 6, 13 | 342,069 | 63,551 |
| Share-based compensation | 8, 10 | 736,736 | 1,267,672 |
| Changes in working capital | | | |
| Accounts receivable | | 78,214 | (9,363) |
| Prepaid expenses | | (36,812) | 19,328 |
| Accounts payable and accrued liabilities | 8 | 101,804 | 95,896 |
| Due to related parties | 10 | 3,631 | (186,163) |
| | | **$ (1,755,414)** | **$ (1,674,872)** |
| **INVESTING ACTIVITIES** | | | |
| Due from related parties | 10 | (1,095,401) | (153,503) |
| Proceeds from sale of assets | 6 | $ 19,000,000 | $ 417,126 |
| Transaction cost from sale of assets | | (165,436) | - |
| Proceeds from sale of investments | | - | 576,966 |
| Exploration and evaluation assets | | - | (287,253) |
| Loan receivable proceeds advanced | 7 | (8,000,000) | - |
| Loan receivable payments received | 7 | 1,101,740 | - |
| | | **$ 10,840,903** | **$ 553,336** |
| **FINANCING ACTIVITIES** | | | |
| Interest paid | | $ (1,049) | $ - |
| Principal payments on lease liabilities | | (25,750) | (28,957) |
| Repayment (including interest) of loan facility | 9 | (3,355,255) | (9,819,535) |
| Stock options exercised - proceeds received | 8 | 614,189 | 542,831 |
| Purchase of treasury shares | 8 | (3,278,249) | (1,905,663) |
| Transaction cost on shares bought back | 8 | (13,633) | (7,412) |
| Shares issued on rights offering | 8 | - | 13,775,166 |
| Transaction cost on shares issued on rights offering | 8 | - | (146,451) |
| Dividends paid | 8 | (908,097) | - |
| | | **$ (6,967,844)** | **$ 2,409,979** |
| **Net increase in cash** | | **$ 2,117,645** | **$ 1,288,443** |
| Cash - beginning of year | | 1,562,833 | 274,390 |
| **Cash - end of year** | | **$ 3,680,478** | **$ 1,562,833** |

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

**SAILFISH ROYALTY CORP.**
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**
Year ended December 31, 2020
*(Expressed in United States Dollars)*



| | Notes | Number of shares | Amount | Contributed surplus | Accumulated other comprehensive income (loss) | Retained earnings (deficit) | Total |
|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2019** | | **58,673,978** | **$ 31,207,084** | **$ 6,247,006** | **$ (17,423)** | **$ 1,175,991** | **$ 38,612,658** |
| Shares bought back on-market and cancelled | 8 | (2,419,000) | (1,905,663) | - | - | - | (1,905,663) |
| Less: transaction cost on shares bought back | | - | (7,412) | - | - | - | (7,412) |
| Shares issued on rights offering | 8 | 18,000,000 | 13,775,166 | - | - | - | 13,775,166 |
| Less: transaction cost on shares issued on rights offering | 8 | - | (146,451) | - | - | - | (146,451) |
| Stock options exercised - proceeds received | | 767,873 | 973,791 | (430,960) | - | - | 542,831 |
| Share-based compensation | 8, 10 | - | - | 1,267,672 | - | - | 1,267,672 |
| Cumulative translation adjustment | | - | - | - | 36,561 | - | 36,561 |
| Net loss | | - | - | - | - | (4,592,974) | (4,592,974) |
| **Balance at December 31, 2020** | | **75,022,851** | **$ 43,896,515** | **$ 7,083,718** | **$ 19,138** | **$ (3,416,983)** | **$ 47,582,388** |
| Shares bought back on-market but not yet cancelled | 8 | (310,900) | (331,105) | - | - | - | (331,105) |
| Shares bought back on-market and cancelled | 8 | (3,005,122) | (2,947,144) | - | - | - | (2,947,144) |
| Less: transaction cost on shares bought back | | - | (13,633) | - | - | - | (13,633) |
| Stock options exercised | | 1,025,800 | 1,965,599 | (1,351,410) | - | - | 614,189 |
| Share-based compensation | 8, 10 | - | - | 736,736 | - | - | 736,736 |
| Cumulative translation adjustment | | - | - | - | (6,779) | - | (6,779) |
| Net income | | - | - | - | - | 3,268,873 | 3,268,873 |
| Dividends declared | 8 | - | - | - | - | (1,821,141) | (1,821,141) |
| **Balance at December 31, 2021** | | **72,732,629** | **$ 42,570,232** | **$ 6,469,044** | **$ 12,359** | **$ (1,969,251)** | **$ 47,082,384** |

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

## 1. NATURE OF OPERATIONS

Sailfish Royalty Corp. ("Sailfish" or the "Company") is a public company listed on the TSX Venture Exchange ("TSX-V") under the symbol "FISH". The Company also trades on the OTCQX Best Market under the symbol "SROYF". The Company was incorporated on February 27, 2014 under the BVI Business Companies Act, 2004 and is domiciled in the British Virgin Islands. The address of its registered and head office is Sea Meadow House, P.O. Box 116, Road Town, Tortola, British Virgin Islands, VG1110. The Company is primarily engaged in the acquisition of royalty and streaming agreements.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES

(a) Basis of presentation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). The consolidated financial statements have been prepared on a going concern basis, under the historical cost convention.

These consolidated financial statements were approved by the board of directors for issue on April 14, 2022.

(b) Basis of measurement

These consolidated financial statements are expressed in United States dollars and include the accounts of Sailfish Royalty Corp. and its subsidiaries. Subsidiaries are entities over which the Company has control. The Company controls a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over its subsidiary.

As of December 31, 2021, the subsidiaries of the Company are as follows:

| Company | Location of Incorporation | Ownership Interest | Principal Activity |
|---|---|---|---|
| Sailfish de Mexico S.A de C.V | Mexico | 100% | Gavilanes silver property |
| Sailfish Royalty Management Corp. | United States of America | 100% | Management services |
| Swordfish Silver Corp. | Canada | 100% | Owns Sailfish de Mexico S.A de C.V |
| Terraco Gold Corp. | Canada | 100% | Owns TGC Holdings Ltd. |
| Terraco Royalties USA, Inc. | United States of America | 100% | Moonlight Royalties (NSR) |
| TGC Holdings Ltd. | United States of America | 100% | Spring Valley Royalties (NSR) |
| Western Standard Metals Ltd. | Canada | 100% | Owns Western Standard Metals USA, Inc. |
| Western Standard Metals USA, Inc. | United States of America | 100% | Inactive |

All inter-company transactions, balances, revenue and expenses are eliminated in full on consolidation.

**2. SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES (Cont'd)**

(c) Functional currency

Items included in the financial statements of each subsidiary are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date, giving rise to foreign exchange gains and losses in the statement of loss.

The functional currency of Sailfish is the United States dollar. Management is required to assess the functional currency of each subsidiary of the Company, which is summarized as follows:

| Company | Location of Incorporation | Ownership Interest | Functional currency |
|---|---|---|---|
| Sailfish de Mexico S.A de C.V | Mexico | 100% | **Mexican peso** |
| Sailfish Royalty Management Corp. | United States of America | 100% | **US dollar** |
| Swordfish Silver Corp. | Canada | 100% | **Canadian dollar** |
| Terraco Gold Corp. | Canada | 100% | **Canadian dollar** |
| Terraco Royalties USA, Inc. | United States of America | 100% | **US dollar** |
| TGC Holdings Ltd. | United States of America | 100% | **US dollar** |
| Western Standard Metals Ltd. | Canada | 100% | **Canadian dollar** |
| Western Standard Metals USA, Inc. | United States of America | 100% | **US dollar** |

Management considered the currency that mainly influences the cost of providing goods and services in each jurisdiction in which the Company operates as well as all secondary indicators including the currency in which funds from financing activities are denominated and the currency in which funds are retained. Any assets and liabilities of the Company held in foreign currencies are expressed in United States dollars using exchange rates prevailing at the end of the reporting period.

Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period; in this case, the exchange rates at the dates of the transactions are used. Equity transactions are translated using the exchange rate at the date of the transaction. Exchange differences arising from assets and liabilities held in foreign currencies, are recognised in other comprehensive income (loss) as cumulative translation adjustments.

(d) Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable and unconditional right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

**2. SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES (Cont'd)**

(d) Financial Instruments (cont'd)

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

i) FVTPL- financial assets are classified at FVTPL if they do not meet the criteria of amortized cost or fair value through other comprehensive income. Changes in fair value are recognized in the consolidated statement of income.

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

The Company's cash, accounts receivable, and due from related parties are recorded at amortized cost. The Company's loan receivable is recorded at FVTPL.

*Financial liabilities*
Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments that are not designated as hedging instruments. Gains or losses on financial liabilities at FVTPL are recognized in the consolidated statement of loss.

Loans, borrowings and payables

After initial recognition, interest-bearing loans and borrowings and trade and other payables are subsequently measured at amortized cost using the Effective Interest Method ("EIR") method. Gains and losses are recognized in profit or loss when the liabilities are derecognized, as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

The EIR amortization is included as finance fees in the statement of comprehensive income. Gains and losses are recognized when the financial liability is derecognized. The Company recognizes capital contributions directly in contributed surplus when obtaining Interest-bearing debt from a related party with a stated interest rate below the current market interest rate for similar debt.

The Company's financial liabilities at amortized cost include: accounts payable and accrued liabilities, due to related parties and lease liabilities.

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

**2. SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES (Cont'd)**

(d) Financial Instruments (cont'd)

*Impairment*
The Company assesses on a forward-looking basis the expected credit loss associated with its debt instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For accounts receivable, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

(e) Inventory

When refined gold is delivered to the Company under a stream agreement it is initially recorded as inventory. The amount recognized as inventory includes both the cash payment and the related depletion associated with the underlying stream interest. At such time the inventory is sold, the amounts recognized in inventory are recorded as cost of sales and depletion.

(f) Borrowing cost

Borrowing costs are expensed as incurred except where they are directly attributable to the financing of acquisition, construction or development of qualifying assets requiring a substantial period of time to prepare for their intended future use. Interest is capitalized up to the date when substantially all the activities necessary to prepare the asset for its intended use are complete.

(g) Cash and cash equivalents

Cash and cash equivalents include cash held in bank accounts and highly liquid investments with original maturities of three months or less.

(h) Share-based compensation

Compensation expense for options granted to employees, directors and certain service providers is determined based on estimated fair values of the options at the time of grant using the Black-Scholes option pricing model, which takes into account, as of the grant date, the fair market value of the shares, expected volatility, expected dividend yield and the risk-free interest rate over the expected life of the option. The cost is recognized using the graded attribution method over the vesting period of the respective options.

The expense relating to the fair value of stock options is included in expenses and is credited to contributed surplus. Shares are issued from treasury in settlement of options exercised.

(i) Royalty and stream interests

Royalty interests consist of acquired royalty interests and stream metal purchase agreements. These interests are recorded at cost, including the capitalisation of associated transaction costs, and capitalized as intangible assets with finite lives. They are subsequently measured at cost less accumulated depletion and accumulated impairment losses, if any.

**2. SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES (Cont'd)**

(j) Exploration and evaluation assets

Exploration and evaluation asset acquisition costs are capitalized. These include any cash consideration and advance royalties paid, and the fair market value of shares issued, if any, on the acquisition of the exploration and evaluation asset. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts when the payments are made. Exploration and evaluation expenditures are expensed as incurred.

Once the technical feasibility and commercial viability of the extraction of resources from a particular exploration and evaluation asset has been determined, exploration and evaluation asset acquisition costs are tested for impairment and then reclassified to mine properties within property, plant and equipment and carried at cost until the properties to which they relate are placed into commercial production, sold, abandoned or determined by management to be impaired in value.

At each reporting date, capitalized exploration and evaluation asset acquisition costs are assessed for indicators of impairment. Where a potential impairment is indicated, impairment tests are performed for each area of interest. To the extent that exploration and evaluation asset acquisition costs are not expected to be recovered, they are charged to the consolidated statement of (loss) income and comprehensive (loss) income.

(k) Impairment of royalty and stream interests and exploration and evaluation assets

At each reporting period, management reviews all royalty and stream assets and exploration and evaluation assets for indicators of impairment. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment, if any.

The recoverable amount is the higher of fair value less costs of disposal ("FVLCD") and value in use ("VIU"). In assessing FVLCD, recent market transactions (where available) are taken into account. If no such transactions can be identified, an appropriate valuation model is used. In assessing VIU, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of the asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in net loss for that period.

(l) Right-of use assets and leases liabilities

The right-of use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of plant and equipment. The right-of-use asset is assessed for impairment losses, should a trigger be identified and adjusted for impairment if required.

The lease liability is subsequently measured at amortized cost using the effective interest method. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to profit.

We have elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are charged directly to profit or loss on a straight-line basis over the lease term.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES (Cont'd)

(m) Income (loss) per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is determined by adjusting the loss of the Company, and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, except when the adjustment is anti-dilutive.

(n) Interest

Interest income and expenses are recognised in the profit or loss using the effective interest rate method. The effective interest rate is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial instrument (or, when appropriate, a shorter period) to the carrying amount of the financial instrument on initial recognition. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

(o) Taxes

Income tax expense or benefit for the reporting period includes current and deferred income taxes. Current tax is the expected tax paid or payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax paid or payable in respect of previous years.

Deferred income tax is recognized using the liability method on temporary differences arising between the carrying amounts of assets and liabilities in the consolidated financial statements and the tax basis of assets and liabilities.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the year that includes the date of enactment or substantive enactment of change. Deferred tax assets and liabilities are presented separately except where there is a right of set-off within fiscal jurisdictions.

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets and liabilities will not be realized.

Under the present British Virgin Island laws, the Company will not be subject to tax on income, profits or capital gains in the British Virgin Islands. Under the laws of the United States, Sailfish Royalty Management Corp., TGC Holdings Ltd, Western Standard Metals, USA, Inc., and Terraco Royalties Corp.; (the "Subsidiaries"), are subject to taxation in the United States, however, the Subsidiaries had no income in 2021 or 2020 and therefore incurred no taxes. Accordingly, no provision for income tax is included in these consolidated financial statements.

(p) Revenue recognition

Revenue is comprised of revenue earned in the year from royalty and stream interests. The Company recognizes revenue upon the transfer of control of the relevant commodity to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those commodities.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES (Cont'd)

(p) Revenue recognition (cont'd)

For stream agreements, revenue recognition occurs when the relevant commodity received from the stream operator is delivered by the Company to its third-party customers. Revenue is measured at the fair value of the consideration received or receivable when management can reliably estimate the amount, pursuant to the terms of the sales contract.

For royalty interests, revenue recognition occurs when control of the relevant commodity is transferred to the end customer by the operator of the royalty property. Revenue is measured at the fair value of the consideration received or receivable when management can reliably estimate the amount, pursuant to the terms of the royalty agreement. In some instances, the Company will not have access to sufficient information to make a reasonable estimate of consideration to which it expects to be entitled and, accordingly, revenue recognition is deferred until management can make a reasonable estimate. Differences between estimates and actual amounts are adjusted and recorded in the period that the actual amounts are known.

## 3. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGEMENT

The preparation of these consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Information about estimates, assumptions and other sources of estimation uncertainty as at December 31, 2021 that have a risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next year are provided below. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed at each period end. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Outlined below are the areas that require management to make judgements and significant estimates and assumptions:

**i. Assessment of Indicators of Impairment of Assets**

Assessment of impairment of royalty and stream interests and exploration and evaluation assets requires the use of judgments when assessing whether there are any indicators of impairment at the end of each reporting period, including assessing whether there are any observable indicators that the asset's value has declined during the period. With respect to royalty and stream interests, management uses judgment when assessing whether there are indicators of impairment, such as significant changes in future commodity prices, discount rates, operator reserve and resource estimates or other relevant information received from the operators that indicates production from royalty and stream interests will not likely occur or may be significantly reduced in the future. For exploration and evaluation assets, management is required to make judgments on the status of each project and the future plans towards finding commercial reserves. Management also considers whether the right to explore in the specific area has expired during the period or will expire in the near future and is not expected to be renewed.

If such an indication exists, the recoverable amount of the interest is estimated in order to determine the extent of the impairment (if any). The recoverable amount is the higher of the fair value less costs of disposal and value in use. During the year ended December 31, 2021, management of the Company determined that there were indicators of impairment for its royalty interest in El Compas (Note 6).

## 3. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGEMENT (Cont'd)

**ii. Attributable Reserve and Resource Estimates**

The Company has significant royalty and stream interests which represents the capitalized expenditures related to the acquisition of royalty and stream interests, net of accumulated depletion and any impairments. The Company is required to estimate the amount of reserves and resources relating to each interest as the Company's royalty and stream interests are depleted on a units-of-production basis (once in operation), with estimated recoverable reserves and resources being used to determine the depletion rate for each of the Company's royalty and stream interests in certain instances such as impairment tests. Reserves and resources may also be used as a significant assumption for impairment assessments.

Reserves and resources are estimates of the amount of minerals that can be economically and legally extracted from the mining properties at which the Company has royalty and stream interests, adjusted where applicable to reflect the Company's percentage entitlement to minerals produced from such mines. Reserves and resources that are publicly released by the operators of the mining operations for which the Company has royalty and stream interests are based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the ore body, and requires complex geological assessments to interpret the data. The estimation of recoverable mineral reserves and resources 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 the Company's royalty and stream interests as well as the depletion rate for each of the Company's royalty and stream interests.

**iii. Fair Value of Loan Receivable**

The carrying value of the loan receivable represents management's best estimate of the fair value of the arrangement. The fair value incorporates estimates of future gold prices and discount rates. Refer to Note 7 for additional details.

## 4. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

During the year ended December 31, 2020, the Company sold the 337,619 shares of GoldMining Inc. ("GMI") that it received as consideration for the sale of the Almaden (Nutmeg Mountain) Property resulting in a gain on financial assets at fair value through profit or loss of $146,448.

## 5. EXPLORATION AND EVALUATION ASSETS

*Gavilanes Property*

The Company acquired an option to assign a 100% ownership interest from Mako Mining Corp. ("Mako") for a de minimis amount on the Gavilanes silver property ("Gavilanes") located in Durango, Mexico. On August 1, 2019, the Company exercised its option to acquire a 100% ownership interest on Gavilanes. Exploration and evaluation assets had a carrying value of $628,179 at December 31, 2021 (2020: $628,179).

*(Expressed in United States Dollars)*

## 5. EXPLORATION AND EVALUATION ASSETS (Cont'd)

*Gavilanes Property (cont'd)*

On October 6, 2021, the Company entered into a binding letter of intent with 1287398 B.C. Ltd. ("Pubco") to complete a transaction with Pubco (the "Proposed Transaction") with the goal of creating a silver focused exploration and development company (Note 10(iii) and (iv)). The Proposed Transaction is expected to result in the transfer of the Company's wholly owned Gavilanes silver property located in Durango, Mexico to Pubco in exchange for shares of Pubco. Pubco has also signed a binding letter of intent with certain funds managed by Wexford Capital LP to acquire the Commonwealth silver and gold property in Cochise County, Arizona (the "Commonwealth Silver-Gold Project"). Closing of the Proposed Transaction is subject to, among other things, Pubco acquiring the Commonwealth Silver-Gold Project in exchange for shares of Pubco, a concurrent private placement financing for proceeds of US$5,000,000, and receipt of acceptance from the TSX-V to have Pubco's common shares listed on the TSX-V.

## 6. ROYALTY AND STREAM INTERESTS

As of and for the year ended December 31, 2021:

| | COST | | | | ACCUMULATED DEPLETION | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Royalty and stream interests | Opening | Additions (Disposals) | Translation effect | Ending | Opening | Depletion | Depletion in Ending Inventory | Impairment | Ending | Carrying amount |
| San Albino (i) | $ 4,371,291 | $ - | $ - | $ 4,371,291 | $ - | $ 318,089 | $ 12,161 | $ - | $ 330,250 | $ 4,041,041 |
| El Compas (ii) | 1,030,097 | - | - | 1,030,097 | 214,617 | 11,819 | - | 577,093 | 803,529 | 226,568 |
| La Cigarra (iii) | 201,989 | - | - | 201,989 | - | - | - | - | - | 201,989 |
| TZ Royalty (iv) | 12,107,000 | (12,107,000) | - | - | - | - | - | - | - | - |
| Spring Valley (v) | 30,983,349 | - | 263 | 30,983,612 | - | - | - | - | - | 30,983,612 |
| **Total** | **$48,693,726** | **$(12,107,000)** | **$ 263** | **$36,586,989** | **$ 214,617** | **$ 329,908** | **$ 12,161** | **$ 577,093** | **$1,133,779** | **$ 35,453,210** |

*The Company owns the following royalties and stream interests:*

(i) San Albino (3%)

The Company holds a stream equivalent to a 3% Net Smelter Return ("NSR") on the original area of interest of the San Albino gold mine operated by Mako. The terms of the stream agreement provide the Company with the right to purchase 4% of all minerals produced from the San Albino gold mine within a specified area of interest for a purchase price equal to 25% of the minerals acquired using the London p.m. gold price as determined by the LBMA on the delivery date of each shipment. Commercial production was achieved at the San Albino gold mine in July 2021.

(ii) El Compas (1.5%)

The Company holds a 1.5% NSR on El Compas, located in Zacatecas, Mexico, which is operated by Endeavour Silver Corp ("Endeavour"). Commissioning of El Compas commenced in 2018 and commercial production was achieved in March 2019. During the year ended December 31, 2021, $20,497 (December 31, 2020 - $94,657) of royalty revenue was received, depletion of $11,819 (December 31, 2020 - $63,551) was expensed and an impairment of $577,093 was recorded (December 31, 2020 - $nil). See Impairments below.

(iii) La Cigarra (1%)

The Company holds a 1% NSR on La Cigarra, located in Chihuahua, Mexico. Kootenay Silver Inc. is the current operator and the project is in the exploration stage.

*(Expressed in United States Dollars)*

**6. ROYALTY AND STREAM INTERESTS (Cont'd)**

*The Company owns the following royalties and stream interests:*

(iv) TZ Royalty (3.5%)

The Tocantinzinho Royalty ("TZ Royalty") was acquired as part of the spin-out of Sailfish from Marlin Gold Mining Ltd ("Marlin") in 2017. It originated as a 3.5% NSR on revenues on the Tocantinzinho Project ("TZ Project") payable following the commencement of commercial production, which Eldorado Gold Corp ("Eldorado") has the right to reduce to a 1.5% NSR on revenues by payment of $5.5 million within 30 days of a construction decision to proceed with development of the TZ Project. In the event that Eldorado elects to make such a payment and such amount is paid to Sailfish, Sailfish will be obligated, pursuant to the TZ Royalty Purchase Agreement to pay such amount to the TZ Royalty vendors. If Eldorado does not exercise its right to reduce the TZ Royalty, then, within 35 days of the announcement by Eldorado of a construction decision to proceed with development of the TZ Project, Sailfish shall, at its option, either (i) pay $5.5 million to the TZ Royalty Vendors or (ii) assign 2% of the TZ Royalty back to the TZ Royalty vendors. No liability was recognized for this in the consolidated statement of financial position.

On March 17, 2021, the Company closed a transaction whereby a post-buy-down interest of 0.75% of the Company's up to 3.5% NSR royalty held on its TZ Royalty was transferred to Metalla Royalty & Streaming Ltd. for total consideration of $9 million in cash. On August 19, 2021, the Company closed a transaction whereby the Company transferred to Osisko Gold Royalties Ltd. the remaining 2.75% NSR royalty held on its TZ Royalty for total consideration of $10 million in cash. The Company recorded a gain of $6,727,564 in conjunction with these transactions.

(v) Spring Valley Royalty (0.5% - 3.0%)

The Spring Valley gold project ("Spring Valley Project") is located in Pershing County, Nevada and is 100% owned and controlled by Waterton Global Resource Management. The Company acquired a portfolio of royalties on the Spring Valley Project as part of the acquisition of Terraco Gold Corp. ("TGC"). The royalties in the portfolio acquired range from a 0.5% NSR royalty on a portion of the Spring Valley Project up to a 3.0% NSR sliding scale royalty on the main portion of the Spring Valley Project.

The parameters surrounding of the 3% NSR sliding scale royalty are as follows:

| Gold Price (US$ per oz) | Royalty % |
|---|---|
| <$300 | **0.84%** |
| $300-$399 | **1.26%** |
| $400-$499 | **1.74%** |
| $500-$599 | **2.16%** |
| $600-$699 | **2.58%** |
| $700+ | **3.00%** |

*The Company owns the following royalties and stream interests for which no value has been attributed:*

(i) San Albino (2%)

The Company holds a 2% NSR on the district-scale land package surrounding the original area of interest of the San Albino project, which hosts multiple high-grade targets including Las Conchitas and El Golfo.

(ii) Moonlight Royalty (2%)

As part of the acquisition of TGC, Sailfish acquired a 2% NSR on the Moonlight exploration property (the "Moonlight Property"), located to the north of the Spring Valley Project.

The Moonlight Property is comprised of 95 parcels of private fee lands as well as 3 mineral leases of private fee lands and 3 leases of patented mining claims, plus 230 unpatented lode mining claims.

*(Expressed in United States Dollars)*

## 6. ROYALTY AND STREAM INTERESTS (Cont'd)

*Impairments*

While assessing whether any indications of impairments exist, consideration is given to both external and internal sources of information. During the year ended December 31, 2021, Endeavour revised its mineral reserve and resource estimates and suspended operations at El Compas and the Company considered these factors to be indicators of impairment. The Company conducted an impairment analysis whereby the carrying value of the El Compas 1.5% NSR asset was compared to an estimate of its recoverable amount which was determined to be its fair value less costs of disposal ("FVLCD"). A FVLCD of $226,568 was determined based on current and long-term gold ($1,824/ounce) and silver ($24/ounce) prices, updated reserve and resource estimates as publicly released by Endeavour, and the Company's NSR rate of 1.5% on the El Compas mine.

As a result, the Company recorded an impairment of $577,093 during the year ended December 31, 2021. Other than as mentioned above, as at December 31, 2021 and December 31, 2020 there were no indications of impairments on any of the above assets.

## 7. LOAN RECEIVABLE

On August 30, 2021, the Company entered into a loan agreement with Mako, pursuant to which the Company agreed to provide an $8 million unsecured gold-linked term loan to Mako.

As compensation for making the loan available to Mako, Sailfish shall be entitled to certain cash compensation based on the prevailing price of gold (the "Lender Compensation"). Mako will make 24 monthly cash payments to Sailfish on account of the principal amount of the loan and the Lender Compensation, which shall equal the cash equivalent of 205 ounces of gold multiplied by the preceding month's average gold price with a floor of $1,750 and a ceiling of $2,000 pursuant to the terms of the loan agreement. The loan does not have any operational negative covenants or balance sheet covenants, and there are no restrictions on dividends and/or share repurchases.

Upon the occurrence of an event of default under the loan agreement, all outstanding amounts, including applicable premiums become immediately due and payable and interest on such amounts will accrue at a rate of 12% per annum, accruing daily and payable to the Company on demand.

| Loan Receivable | | December 31, 2021 |
|---|---|---|
| Beginning of year | $ | - |
| Additions | | 8,000,000 |
| Fair value adjustments to loan receivable | | 407,374 |
| Loan payments received | | (1,101,740) |
| **End of year** | **$** | **7,305,634** |
| Current portion of loan receivable | $ | 4,307,319 |
| Long term portion of loan receivable | $ | 2,998,315 |

The loan receivable is measured at FVTPL as the contractual cash flows do not represent solely payments of principal and interest as the cash flows are exposed to changes in gold price. The following assumptions and inputs were used in a discounted cash-flow model to calculate the fair value adjustment to the loan receivable: 10% discount rate, average forward gold price per ounce of $1,837.

*(Expressed in United States Dollars)*

## 8. SHARE CAPITAL AND CONTRIBUTED SURPLUS

(a) Authorized – Unlimited number of common shares with no par value.

(b) Issued share capital is as follows:

| | Number of shares | Value |
|---|---|---|
| **December 31, 2019, issued and outstanding** | **58,673,978** | **$ 31,207,084** |
| Shares bought back on-market in 2019 and cancelled in 2020 (i) | (558,000) | - |
| Shares bought back on-market and cancelled (ii) | (1,861,000) | (1,905,663) |
| Less: transaction cost on shares bought back | - | (7,412) |
| Shares issued on rights offering (iii) | 18,000,000 | 13,775,166 |
| Less: transaction cost on shares issued on rights offering | - | (146,451) |
| Stock options exercised | 767,873 | 973,791 |
| **December 31, 2020, issued and outstanding** | **75,022,851** | **43,896,515** |
| Shares bought back on-market but not yet cancelled (iv) | (310,900) | (331,105) |
| Shares bought back on-market and cancelled (v) | (3,005,122) | (2,947,144) |
| Less: transaction cost on shares bought back | - | (13,633) |
| Stock options exercised | 1,025,800 | 1,965,599 |
| **December 31, 2021, issued and outstanding** | **72,732,629** | **42,570,232** |

i. During the year ended December 31, 2019 the Company purchased 558,000 common shares on-market, which were cancelled on January 2, 2020. The buy-back was approved by the board of directors on June 18, 2019 and an amendment to increase the number of common shares which the Company may repurchase for cancellation was approved on September 5, 2019. The shares were acquired at an average price of $0.6751 (C$0.8808) per share. The total cost of $373,809, plus $2,883 of after-tax transaction costs, was deducted from shareholders' equity.

ii. During the year ended December 31, 2020, Sailfish purchased 1,861,000 common shares on-market, which have been cancelled. The buy-back was approved by board of directors on July 6, 2020 which provided during the 12-month period commencing July 6, 2020 and ending July 6, 2021, the purchase of up to 2,089,799 common shares of the Company in total, being approximately 5% of the total number of 58,175,978 shares outstanding as at June 30, 2020, less 819,000 common shares of the Company that were purchased under the previous bid between October 8, 2019 and June 24, 2020. An amendment to increase the number of common shares which the Company may repurchase for cancellation was approved on October 5, 2020. The shares were acquired at an average price of $1.0240 (C$1.3627) per share, with prices ranging from $0.8002 (C$1.0391) to $1.1092 (C$1.4626). The total cost of $1,905,663, plus $7,412 of after-tax transaction costs, was deducted from shareholders' equity.

iii. Sailfish issued rights to existing eligible shareholders at the close of business on August 5, 2020. Shareholders received 0.309406057 of a right for each common share of the Company held. One whole right entitled the holder to subscribe for one share upon payment of the subscription price of C$1.00 per share. The offering resulted in an additional 18,000,000 common shares issued for consideration of $13,775,166 (C$18,000,000). The Company incurred transaction costs of $146,451 as a result of the rights offering.

iv. During the year ended December 31, 2021, Sailfish purchased 310,900 common shares on-market, which have not yet been cancelled. The shares were acquired at an average price of $1.0694 (C$1.3443) per share, with prices ranging from $0.9828 (C$1.2400) to $1.1630 (C$1.4477). The total cost of $331,105, plus $1,362 of after-tax transaction costs, was deducted from shareholders' equity.

v. During the year ended December 31, 2021, Sailfish purchased 3,005,122 common shares on-market, which have been cancelled. The shares were acquired at an average price of $0.9848 (C$1.2356) per share, with prices ranging from $0.8291 (C$1.0358) to $1.1531 (C$1.3908). The total cost of $2,947,144, plus $12,271 of after-tax transaction costs, was deducted from shareholders' equity.

*(Expressed in United States Dollars)*

**8. SHARE CAPITAL AND CONTRIBUTED SURPLUS (Cont'd)**

(b) Issued share capital is as follows: (cont'd)

vi. On July 12, 2021, the Company announced its intention to make a normal course issuer bid whereby the Company may, during the 12-month period commencing July 13, 2021 and ending July 13, 2022, purchase up to 3,686,576 common shares of the Company in total, being approximately 5% of the total number of common shares outstanding as at July 13, 2021.

(c) Stock options

As at December 31, 2021, the Company had outstanding share purchase options enabling holders to acquire common shares of the Company as follows:

| Number | Vested | C$ | C Price per share | Expiry date |
|---|---|---|---|---|
| 100,000 | 100,000 | C$ | 1.40 | September 1, 2022 |
| 204,200 | 204,200 | C$ | 0.75 | April 24, 2023 |
| 150,000 | 150,000 | C$ | 0.58 | October 30, 2023 |
| 1,989,127 | 1,989,127 | C$ | 1.00 | December 23, 2023 |
| 231,000 | 231,000 | C$ | 1.33 | December 23, 2023 |
| 186,000 | 186,000 | C$ | 1.00 | December 23, 2023 |
| 1,750,000 | 1,166,667 | C$ | 1.25 | October 28, 2025 |
| 500,000 | 125,000 | C$ | 1.14 | March 15, 2026 |
| **5,110,327** | **4,151,994** | | | |

The continuity of stock options granted and outstanding is as follows:

| | Number of Options | Weighted Average Exercise Price C$ |
|---|---|---|
| **Outstanding December 31, 2019** | **4,937,040** | **0.93** |
| Granted (i) | 1,850,000 | 1.26 |
| Exercised during the year | (767,873) | 0.93 |
| Expired during the year | (383,040) | 1.24 |
| **Outstanding December 31, 2020** | **5,636,127** | **1.02** |
| Granted (ii) | 500,000 | 1.14 |
| Exercised during the period | (1,025,800) | 0.75 |
| **Outstanding December 31, 2021** | **5,110,327** | **1.09** |

*(Expressed in United States Dollars)*

## 8. SHARE CAPITAL AND CONTRIBUTED SURPLUS (Cont'd)

(c) Stock options (cont'd)

(i) On September 1, 2020, the Company granted 100,000 stock options. The following assumptions and inputs were used to fair value the options on the date of the acquisition: expected life - 2 years; weighted average expected volatility – 95.84%, expected dividend yield – 0.0%, risk free interest rate – 0.27%, and share price- C$1.40. The weighted average grant-date fair value of the stock options granted during the year is $0.82. On October 28, 2020, the Company granted 1,750,000 stock options. The following assumptions and inputs were used to fair value the options on the date of the acquisition: expected life - 5 years; weighted average expected volatility – 117.18%, expected dividend yield – 0.0%, risk free interest rate – 0.32%, and share price - C$1.25. The weighted average grant-date fair value of the stock options granted during the year is $0.86.

(ii) On March 15, 2021, the Company granted 500,000 stock options. The following assumptions and inputs were used to fair value the options on the grant date: expected life - 5 years; weighted average expected volatility – 111.24%, expected dividend yield – 0.0%, risk free interest rate – 1.020%, and share price- C$1.14. The weighted average grant-date fair value of the stock options granted during the year is $0.81.

(d) Diluted earnings per share

| | Year ended December 31, 2021 | Year ended December 31, 2020 |
|---|---|---|
| **Net income (loss) for the year** | $ 3,268,873 | $ (4,592,974) |
| Basic weighted average number of shares | 74,659,858 | 67,010,456 |
| Basic earnings (loss) per share | $ 0.04 | $ (0.07) |
| **Effect of diluted securities** | | |
| Stock options | 635,372 | - |
| **Diluted weighted average number of shares** | **75,295,230** | **67,010,456** |
| **Diluted earnings (loss) per share** | **$ 0.04** | **$ (0.07)** |

The following table lists the number of potentially dilutive securities excluded from the computation of diluted earnings per share because the exercise prices exceeded the average market value of the common shares of C$1.26 during the year ended December 31, 2021 (December 31, 2020 – C$1.06).

| | Year ended December 31, 2021 | Year ended December 31, 2020 |
|---|---|---|
| **Stock options** | 331,000 | 839,333 |

The Company had a net loss for the year ended December 31, 2020; however, if the Company had net earnings, 3,555,127 stock options would have been included in the computation of diluted weighted average number of common shares.

(e) Dividends

During the year ended December 31, 2021, the Company declared dividends of $1,821,141 (December 31, 2020 - $nil) of which $908,097 (December 31, 2020 - $nil) was paid during the year and $913,044 (December 31, 2020 - $nil) is included in accounts payable and accrued liabilities at December 31, 2021.

*(Expressed in United States Dollars)*

## 9. LOAN FACILITY

On August 19, 2019, Sailfish entered into a Loan Facility with Wexford Spectrum Trading Limited ("WST") and Wexford Catalyst Trading Limited ("WCT"). The total amount of the loan was $12,031,055 of which $4,812,422 was loaned from WST and $7,218,633 was loaned from WCT, with a maturity date of August 19, 2022 ("Maturity Date"). The loan bears interest at 8% per year, with no compounding and is payable on the Maturity Date. The loan facility is non-revolving and, accordingly, no principal amounts repaid under the Loan Facility may be re-borrowed and the limit of the Loan Facility will be automatically and permanently reduced by the amount of any principal repayment thereunder. The Company may repay the Loan Facility either in whole or in part at any time and from time to time without penalty. Sailfish incurred a one-time commitment fee to WST and WCT associated with the Loan Facility in the amount of $180,466.

The Company used an effective interest rate of approximately 12.0%, the estimated market interest rate for non-related parties, when valuing the Loan Facility upon initial recognition; as a result, the Company recorded a capital contribution from a related party of $1,155,863 directly in contributed surplus during 2019. The Loan Facility is measured at amortized cost and was being accreted to maturity over the term using the effective interest method.

| Loan Facility | | |
|---|---|---|
| **Balance - December 31, 2019** | **$** | **11,155,436** |
| Repayments | | (9,819,535) |
| Loan adjustment (i) | | 750,056 |
| Accretion | | 981,202 |
| **Balance - December 31, 2020** | **$** | **3,067,159** |
| Repayments | $ | (3,355,254) |
| Loan adjustment (ii) | | 205,279 |
| Accretion | | 82,816 |
| **Balance - December 31, 2021** | **$** | **-** |

(i) During the year ended December 31, 2020, the Company repaid $8,814,002 of principal and $1,005,533 of accrued interest on the loan facility which resulted in a partial extinguishment of the financial liability. As a result of the partial extinguishment, the Company recognised a loan adjustment loss of $750,056 in the statement of comprehensive loss for the year, being the difference arising between the carrying amount of the portion of the loan facility extinguished, and the consideration paid.

(ii) During the year ended December 31, 2021, the Company repaid $3,272,438 of principal and $82,816 of accrued interest on the loan facility which resulted in the full extinguishment of the financial liability. As a result of the full extinguishment, the Company recognised a loan adjustment loss of $205,279 in the statement of comprehensive income (loss) for the year, being the difference arising between the carrying amount of the loan facility extinguished, and the consideration paid.

*(Expressed in United States Dollars)*

## 10. RELATED PARTIES

Related party transactions have been measured at the exchange amount of consideration agreed between the related parties. Related party transactions are listed below:

(a) Key management compensation

Key management includes directors and senior management. For the year ended December 31, 2021 and 2020 the compensation was as follows:

(i) During the year ended December 31, 2021, the Company incurred director fees of $160,000 (December 31, 2020 - $116,866).

(ii) During the year ended December 31, 2021, the Company incurred senior management fees of $871,199 (December 31, 2020 - $558,900). During the year ended December 31, 2021, the Company incurred share-based compensation to key management of $718,578 (December 31, 2020 - $1,267,672).

(b) Related party transactions

(i) At December 31, 2021 and December 31, 2020, due from related parties was comprised of the following balances:

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Due from Marlin Gold Mining USA Ltd. | $ | 1,101,961 | $ | 155,695 |
| Due from 1287398 B.C. Ltd. | | 148,416 | | - |
| Due from a company related by a common officer | | 719 | | - |
| **Total due from related parties** | **$** | **1,251,096** | **$** | **155,695** |

(ii) During the year ended December 31, 2021, the Company incurred rent of $18,000 which is included in general office and regulatory fees (December 31, 2020 - $18,950) to a company related to one of the directors for office space for which there is no long-term commitment.

(iii) During the year ended December 31, 2021, the Company provided advances or made payments on behalf of Marlin Gold Mining USA Ltd., a company related by common shareholders of $946,266 (December 31, 2020 - $155,695), of which $1,101,961 (December 31, 2020 - $155,695) is included in due from related parties at December 31, 2021. These amounts shall be repaid following the closing or termination of the Proposed Transaction. (Note 5).

(iv) During the year ended December 31, 2021, the Company made payments on behalf of 1287398 B.C. Ltd., a company related by common shareholders who are directors or officers of the Company, of $148,416 (2020 - $nil), of which $148,416 (December 31, 2020 - $nil) is included in due from related parties at December 31, 2021. These amounts shall be repaid or forgiven following the closing or termination of the Proposed Transaction (Note 5).

(v) During the year ended December 31, 2021, the Company incurred stream payments to Nicoz Resources S.A., a subsidiary of Mako, a company related by common shareholders, officers and directors of $364,398 (December 31, 2020 - $nil), of which $5,543 (December 31, 2020 - $nil) is included in due to related parties at December 31, 2021.

(vi) At December 31, 2021 and December 31, 2020, due to related parties was comprised of the following balances:

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Reimbursement of expenses to officers | $ | - | $ | 1,912 |
| Nicoz Resources S.A. | | 5,543 | | - |
| **Total due to related parties** | **$** | **5,543** | **$** | **1,912** |

*(Expressed in United States Dollars)*

**10. RELATED PARTIES (Cont'd)**

(c) Financing activities

Sailfish entered into a Loan Facility in 2019 with related parties which was repaid during the year. See Note 9.

(d) Investing activities

Sailfish entered into a Loan Receivable agreement with Mako during the year. See Note 7.

**11. MANAGEMENT OF FINANCIAL RISK**

(a) Overview

The Company has exposure to credit risk, liquidity risk and market risk from its use of financial instruments. This note presents information about the Company's exposure to each of these risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

(b) Fair Value of Financial Instruments

IFRS 9 requires financial assets to be classified into three measurement categories on initial recognition: fair value through profit and loss ("FVTPL"), fair value through other comprehensive income ("FVOCI") and amortized cost. Investments in equity instruments are required to be measured by default at FVTPL (but there is an irrevocable option for each equity instrument to present fair value changes in other comprehensive income). Measurement and classification of financial assets is dependent on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

The carrying values of the Company's financial instruments are classified into the following categories:

| Financial Instrument | Category | December 31, 2021 | December 31, 2020 |
|---|---|---|---|
| Cash | Amortized cost | $ 3,680,478 | $ 1,562,833 |
| Accounts receivable | Amortized cost | 11,699 | 89,913 |
| Due from related parties | Amortized cost | 1,251,096 | 155,695 |
| Loan receivable | FVTPL | 7,305,634 | - |
| Accounts payable and accrued liabilities | Amortized cost | (1,312,605) | (297,757) |
| Lease liabilities | Amortized cost | (46,278) | (71,721) |
| Due to related parties | Amortized cost | (5,543) | (1,912) |
| Loan facility | Amortized cost | - | (3,067,159) |

Financial instruments must be classified at one of three levels within a fair value hierarchy according to the relative reliability of the inputs used to estimate their values. The three levels of the hierarchy are as follows:

- Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.

- Level 2: Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

**11. MANAGEMENT OF FINANCIAL RISK (Cont'd)**

(b) Fair Value of Financial Instruments (cont'd)

- Level 3: Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The fair value of all financial instruments not recorded at fair value approximates their carrying value due to either their short-term maturity and/or capacity of prompt liquidation.

The Company does not have any financial instruments, other than its loan receivable which is measured at Level 2, that are measured using level 1, 2 or level 3 inputs.

(c) Credit Risk

Credit risk is the risk of potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to cash held in bank accounts, accounts receivable, due from related parties and its loan receivable. The carrying amount of financial assets recorded in the consolidated financial statements represents the Company's exposure to credit risk.

The Company limits its exposure to credit risk on liquid financial assets through investing its cash and cash equivalents with high-credit quality financial institutions and by closely monitoring its accounts receivable and loan receivable.

(d) 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 manages liquidity risk by forecasting cash flows from operations, anticipated investing and financing activities and through the management of its capital structure. Accounts payable and accrued liabilities, lease liabilities (current portion) and due to related parties of $1,346,693 are due within 12 months.

(e) Market Risk

(i) Foreign Currency Risk

Foreign exchange risk is the risk arising from changes in foreign currency fluctuations. The Company's operations and royalty and stream agreements are conducted primarily in US dollars. As a result, the Company is not significantly exposed to fluctuation in exchange rates and foreign currency risk.

At December 31, 2021 and December 31, 2020, the Company's exposure to foreign currency risk is as follows:

| | December 31, 2021 | December 31, 2020 |
|---|---|---|
| Cash/bank indebtedness (C) | $ 165,999 | $ 67,078 |
| Cash (MXN) | 22,812 | 1,890 |
| Accounts receivable (MXN) | - | 53,047 |
| Accounts payable and accrued liabilities (C) | 360,548 | 237,116 |
| Due from related parties (C) | 719 | - |
| Lease liabilities (C) | 46,278 | 71,721 |
| Due to related parties (C) | 5,543 | - |

## 11. MANAGEMENT OF FINANCIAL RISK (Cont'd)

(e) Market Risk (cont'd)

(ii) Foreign Currency Risk (cont'd)

Had the Canadian Dollar and Mexican Peso foreign exchange rate strengthened against the United States dollar by 1%, with all other variables remaining constant, the change in net income would have been insignificant. A weakening of 1% in the Canadian Dollar and Mexican Peso against the United States dollar, with all other variables held constant, would have had an equal but opposite effect.

(iii) Interest Rate Risk

The interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As at December 31, 2021 the Company has no exposure to interest rate risk.

(iv) Commodity price risk

Commodity price risk is the risk that the fair value of financial assets and financial liabilities or expected future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for minerals are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and United States Dollars, as outlined above.

## 12. CAPITAL MANAGEMENT

The Company manages and adjusts its capital structure based on available funds in order to support its royalty and streaming agreements. The Company considers its capital under management to consist of cash and cash equivalents, royalty and stream interests, receivables, share capital, contributed surplus and due to related parties. The Company manages the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the Company's assets.

The Company's objectives of capital management are intended to ensure the entity's ability to support the Company's normal operating requirements on an ongoing basis, continue its obligations under the royalty and streaming agreements, and support any expansionary plans.

To effectively manage the Company's capital requirements, it may finance its royalty and streaming agreements through cash flows from operations or additionally, the Company may issue new equity or debt.

The Board of Directors reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended December 31, 2021.

*(Expressed in United States Dollars)*

## 13. SEGMENT INFORMATION

As at December 31, 2021 and December 31, 2020 the Company has two business segments, the acquiring of royalty and streaming agreements and exploration and evaluation assets. The royalty and stream interests presented in Note 6 and the exploration and evaluation assets presented in Note 5 reflect the way in which the Company monitors its business performance. The table below summarizes the components of the Company's business where separate financial information is available and is evaluated on a regular basis:

| | | | | December 31, 2021 |
|---|---|---|---|---|
| | **Mexico** | **Nicaragua** | **Corporate & Other** | **Total** |
| Sales | $ - | $ 1,454,786 | $ - | $ 1,454,786 |
| Royalty revenue | 20,497 | - | - | 20,497 |
| Cost of sales, excluding depletion | - | 364,398 | - | 364,398 |
| Depletion | 11,819 | 318,089 | - | 329,908 |
| Royalty and stream interests impairment | 577,093 | - | - | 577,093 |
| Exploration fees | 742,188 | - | - | 742,188 |
| Other expense (income) | 172,120 | - | (3,865,021) | (3,692,901) |
| **Income (loss) for the year** | **$ (1,482,723)** | **$ 772,299** | **$ 3,865,021** | **$ 3,154,597** |

| | | | | December 31, 2020 |
|---|---|---|---|---|
| | **Mexico** | **Nicaragua** | **Corporate & Other** | **Total** |
| Sales | $ - | $ - | $ - | $ - |
| Royalty revenue | 94,657 | - | - | 94,657 |
| Cost of sales, excluding depletion | - | - | - | - |
| Depletion | 63,551 | - | - | 63,551 |
| Royalty and stream interests impairment | - | - | - | - |
| Exploration fees | - | - | 841 | 841 |
| Other expense (income) | 45,088 | - | 2,988,558 | 3,033,646 |
| **Income (loss) for the year** | **$ (13,982)** | **$ -** | **$ (2,989,399)** | **$ (3,003,381)** |

The Company's non-current assets by geographical region is as follows:

| | **December 31, 2021** | **December 31, 2020** |
|---|---|---|
| USA | $ 30,983,612 | $ 30,983,349 |
| Nicaragua | 4,041,041 | 4,371,291 |
| Mexico | 1,056,736 | 1,645,648 |
| Corporate & other | 3,039,147 | 12,173,338 |
| **Total** | **$ 39,120,536** | **$ 49,173,626** |

*(Expressed in United States Dollars)*

## 14. INCOME TAXES

A reconciliation of income taxes at statutory rates with reported taxes is as follows:

| | Year Ended December 31, 2021 | Year Ended December 31, 2020 |
|---|---|---|
| Net (loss) income before income taxes | $ 3,268,873 | $ (4,592,974) |
| Expected tax recovery at 21.0% (2020 – 21.0%) | 686,463 | (964,525) |
| Effect of change and difference in tax rates/jurisdictions | (938,792) | 908,634 |
| Income tax benefits not recognized | 228,526 | - |
| Other | 23,803 | 55,891 |
| **Income tax expense** | **$ -** | **$ -** |

The Company is resident for tax purposes in the British Virgin Islands, which does not have an income tax. The Company's 100% held subsidiary, TGC Holdings Ltd., is resident for tax purposes in the United States, which has a 21% income tax rate. Management has chosen the United States statutory rate as the applicable income tax rate for financial statement disclosure purposes.

A reconciliation temporary timing differences between the income tax basis and accounting cost result in the Company's potential deferred income tax assets and liabilities. Significant components of the Company's deferred income tax assets (liabilities) at December 31, 2021 and 2020 are as follows:

| - | Year Ended December 31, 2021 | Year Ended December 31, 2020 |
|---|---|---|
| Non capital loss carry forwards | $ 6,914,384 | $ 5,826,164 |
| | 6,914,384 | 5,826,164 |
| Estimated corporate income tax rate | 21.00% | 21.00% |
| Deferred income assets (liabilities) | 1,452,021 | 1,223,494 |
| Deferred income assets not recognized | (1,452,021) | (1,223,494) |
| **Total deferred income tax assets (liabilities)** | **$ -** | **$ -** |

The Company has available non-capital tax losses of approximately $6,914,384 (2020 - $5,826,164), of which $1,026,086 expire at varying dates up to 2041. These losses are available for use in the United States and Canada. The potential benefit of the losses has been reduced to Nil in the consolidated financial statements by management's determination that it is not probable that they will be utilized prior to expiry.

## 15. EVENTS AFTER THE REPORTING PERIOD

Subsequent to December 31, 2021, the Company declared and paid a dividend of $0.0125 per common share.

Subsequent to December 31, 2021, Sailfish purchased 554,000 common shares on-market and cancelled 864,900 common shares.

Subsequent to December 31, 2021, Sailfish purchased 27,000 common shares on-market, which have not been cancelled.

Subsequent to December 31, 2021, 204,200 stock options were exercised at C$0.75 per share.