



Fredonia Mining Inc.

**FREDONIA MINING INC.
(formerly Richmond Road Capital Corp.)**

**ANNUAL CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021
EXPRESSED IN US DOLLARS**

Consolidated Statements of Financial Position

Expressed in US Dollars

As at September 30,

	<u>2022</u>	<u>2021</u>
ASSETS		
Current assets		
Cash and cash equivalents	2,632,609	3,351,439
Other receivables	135,942	159,514
Prepaid expenses	7,146	51,884
Total current assets	<u>2,775,697</u>	<u>3,562,837</u>
Non-current assets		
Evaluation and exploration assets (Note 5)	5,859,211	1,748,697
Property, plant and equipment (Note 6)	5,430	2,318
Total non-current assets	<u>5,864,641</u>	<u>1,751,015</u>
Total assets	<u>8,640,338</u>	<u>5,313,852</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Borrowings (Note 8)	-	13,300
Trade and other payables (Note 7)	454,040	1,266,748
Total liabilities	<u>454,040</u>	<u>1,280,048</u>
Shareholders' equity		
Share capital (Note 9)	11,645,219	9,491,763
Contributed surplus	1,023,808	1,008,539
Warrants reserve	2,042,939	696,824
Deficit	(6,400,738)	(7,164,043)
Accumulated other comprehensive income	(124,930)	721
Total shareholders' equity	<u>8,186,298</u>	<u>4,033,804</u>
Total liabilities and shareholders' equity	<u>8,640,338</u>	<u>5,313,852</u>

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

Approved and authorized by the Board of Directors:

(Signed)

Estanislao Auriemma
Chief Executive Officer

(Signed)

Omar Salas
Chief Financial Officer

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

For the years ended September 30,

Expressed in US Dollars

	<u>2022</u>	<u>2021</u>
Expenses		
Administrative and office expenses	(91,245)	(116,759)
Depreciation	(944)	(135)
Investor relations	(33,132)	(16,890)
Listing expense	-	(1,399,221)
Payroll expenses	(484,130)	(317,085)
Professional fees	(375,584)	(518,190)
Share-based compensation	(15,269)	(948,026)
Travel expenses	(35,537)	(7,378)
Other expenses	(32,595)	(37,321)
	<u>(1,068,436)</u>	<u>(3,361,005)</u>
Exchange rate differences	(74,506)	233,416
Gain on currency exchange (Note 12)	1,949,055	-
Net interest income (expenses)	(12,625)	(4,596)
Other income	-	9,774
Loss on share issuance (Note 7)	(30,183)	-
	<u>1,831,741</u>	<u>238,594</u>
Net income (loss)	<u>763,305</u>	<u>(3,122,411)</u>
Other comprehensive income		
Cumulative translation adjustment	(125,651)	721
Total comprehensive income (loss)	<u>637,654</u>	<u>(3,121,690)</u>
Net income (loss) per share		
Basic	0.005	(0.026)
Diluted	0.005	(0.026)
Weighted average number of common shares outstanding		
Basic	162,717,712	120,275,590
Diluted	165,175,914	120,275,590

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

Consolidated Statements of Changes in Shareholders' Equity

For the years ended September 30, 2022 and 2021

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	Number of Common Shares (Note 9a)	Share Capital	Contributed Surplus	Warrants Reserve	Deficit	AOCI ⁽¹⁾	Total Shareholders' Equity
Balance - September 30, 2021	150,863,452	9,491,763	1,008,539	696,824	(7,164,043)	721	4,033,804
Shares for debt agreement (Note 7)	2,200,000	530,183	-	-	-	-	530,183
Private placement	22,606,779	1,501,870	-	1,076,248	-	-	2,578,118
Broker units on private placement	1,485,213	121,403	-	86,998	-	-	208,401
Broker warrants on private placement	-	-	-	182,869	-	-	182,869
Share-based compensation	-	-	15,269	-	-	-	15,269
Net income for the year	-	-	-	-	763,305	-	763,305
Other comprehensive loss	-	-	-	-	-	(125,651)	(125,651)
Balance - September 30, 2022	177,155,444	11,645,219	1,023,808	2,042,939	(6,400,738)	(124,930)	8,186,298
Balance - September 30, 2020	109,006,378	4,550,229	-	-	(4,041,632)	-	508,597
Concurrent Financing	37,445,310	4,051,635	-	696,824	-	-	4,748,459
RTO acquisition	4,411,764	889,899	60,513	-	-	-	950,412
Share-based compensation	-	-	948,026	-	-	-	948,026
Other comprehensive loss	-	-	-	-	-	721	721
Net loss for the year	-	-	-	-	(3,122,411)	-	(3,122,411)
Balance - September 30, 2021	150,863,452	9,491,763	1,008,539	696,824	(7,164,043)	721	4,033,804

(1) Accumulated other comprehensive income

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

Consolidated Statements of Cash Flows

For the years ended September 30,

Expressed in US Dollars

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities		
Net income (loss) for the year	763,305	(3,122,411)
Items not affecting cash:		
Depreciation	944	-
Interest expense	12,625	4,596
Loss on share issuance for debt (Note 7)	30,183	
Unrealized loss on foreign exchange	(163,190)	721
Listing expense, non-cash portion	-	1,121,985
Share-based compensation	15,269	948,026
Change in non-cash working capital:		
Decrease (increase) in other receivables	23,572	(154,557)
Increase (decrease) in trade and other payables	(312,708)	266,418
Decrease (increase) in prepaid expenses	44,738	(51,884)
Net cash from (used) in operating activities	<u>414,738</u>	<u>(987,106)</u>
Cash Flows from Investing Activities		
Evaluation and exploration expenditures	(4,110,514)	(344,026)
Acquisitions of property, plant and equipment	(4,056)	(2,318)
Net cash used in investing activities	<u>(4,114,570)</u>	<u>(346,344)</u>
Cash Flows from Financing Activities		
Increase in capital	2,969,388	4,748,459
Cash (paid) received on borrowings	(13,300)	(66,400)
Cash paid (received) on interest	(12,625)	(5,131)
Net cash from financing activities	<u>2,943,463</u>	<u>4,676,928</u>
Net change in cash	<u>(756,369)</u>	<u>3,343,478</u>
Foreign exchange loss on cash	37,539	-
Change in cash	<u>(718,830)</u>	<u>3,343,478</u>
Cash and cash equivalents, beginning of year	3,351,439	7,961
Cash and cash equivalents, end of year	<u>2,632,609</u>	<u>3,351,439</u>

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

Fredonia Mining Inc.

Notes to the Consolidated Financial Statements

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1. BUSINESS OF THE COMPANY

Fredonia Mining Inc. (the “Company”) is a mining extraction company incorporated under the Business Corporations Act (Alberta) on September 19, 2012, under the name Richmond Road Capital Corporation (“RRCC”). On June 24, 2021, the Company completed a transaction (the “Transaction”) whereby RRCC acquired all of the outstanding shares of Fredonia Management Limited, a private corporation registered under the laws of the territory of the British Virgin Islands with mining assets in the country of Argentina. The Transaction constituted a reverse asset acquisition in accordance with IFRS, whereby the shareholders of Fredonia Management Limited took control of RRCC (Note 3). Following the completion of the Transaction, the Company changed its name from Richmond Road Capital Corporation to Fredonia Mining Inc. References within these financial statements to the “Company” for periods, dates and/or transactions prior to the Transaction are in reference to Fredonia Management Limited, as the corporate entity of interest pre-Transaction. Alternatively, references within these financial statements to the “Company” for periods, dates and/or transactions subsequent to the Transaction are in reference to Fredonia Mining Inc., as the corporate entity of interest post-Transaction. The comparative periods reflected in these financial statements are those of Fredonia Management Limited. The Company is a publicly-traded company with its shares listed on the TSX Venture Exchange (“TSXV”). The Company operates from its primary office in Toronto, Ontario, Canada. Its registered head office is located at 350 Bay St. # 700, Toronto, Ontario, M5H 2S6.

Nature of operations

The Company, directly or indirectly, owns a 100% interest in certain license areas, all within the Deseado Massif geological region in the Province of Santa Cruz, Argentina. The Company’s only material property is the advanced El Dorado-Monserrat Project. The Company also owns the El Aguila, Hornía (Petrificados), and Anita properties.

The Company has not yet established whether its mineral properties contain resources or reserves that are economically recoverable. The recovery of amounts capitalized as mineral properties is dependent upon the discovery of economically recoverable resources or reserves, the ability of the Company to arrange appropriate financing to complete the development of properties, and upon future profitable production, or alternatively, upon the Company's ability to dispose of its interests on an advantageous basis, all of which are uncertain.

2. BASIS OF PRESENTATION

Statement of compliance

The Company’s consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”)

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and interpretations issued by the IFRS Interpretations Committee. The policies applied in the Company's consolidated financial statements are based on IFRS effective for the year ended September 30, 2022.

These consolidated financial statements were approved for issuance by the Company's Board of Directors on January 12, 2023.

Basis of Measurement

These consolidated financial statements have been prepared on the historical cost basis except for certain financial and non-financial assets and liabilities, which have been measured at fair value.

The ongoing impact of COVID-19 on the Company's operations and future financial performance is uncertain. The continued impact of COVID-19 will depend on future developments that are uncertain and unpredictable, its continued impact on capital and financial markets on a macro-scale and any new information that may emerge COVID-19 continues to present uncertainty and risk with respect to the Company, its performance, and estimates and assumptions used by management in the preparation of its financial results.

Estimates and judgements made by management in the preparation of these financial statements are subject to a higher degree of measurement uncertainty during this volatile period.

Functional and presentation currency

The Company's functional currency is determined by the currency of the primary economic environment in which it operates. The Company's functional currency is the Canadian dollar ("C\$") and the Company's subsidiaries have functional currencies in the United States dollar ("US"). The consolidated financial statements are presented in US dollars.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

a) Basis of consolidation

Subsidiaries

These consolidated financial statements comprise the financial statements of the Company and its wholly owned subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity to obtain benefits from its activities. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The

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financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

The wholly owned subsidiaries of Fredonia Mining Inc. are as follows:

Fredonia Management Ltd. ("FML") (British Virgin Islands)

Seis R Assets, S.A. ("6R") (British Virgin Islands)

Minera Fredonia, S.A. ("MFSA") (Argentina)

5R, S.A. ("5R") (Argentina)

Transactions eliminated on consolidation

All intercompany balances and transactions are eliminated upon consolidation in preparing the financial statements.

b) Financial Instruments

Financial instruments are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are not offset unless the Company has the current legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously.

The Company characterizes its fair value measurements into a three-level hierarchy depending on the degree to which the inputs are observable, as follows:

- Level 1 inputs are quoted prices in active markets for identical assets and liabilities;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Classification and Measurement of Financial Assets

The initial classification of a financial asset depends upon the Company's business model for managing its financial assets and the contractual terms of the cash flows. There are three measurement categories into which the Company classified its financial assets:

- Amortized Cost: Includes assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest;
- Fair Value through Other Comprehensive Income ("FVOCI"): Includes assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets, where its contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest; or
- Fair Value Through Profit or Loss ("FVTPL"): Includes assets that do not meet the criteria for amortized cost or FVOCI and are measured at fair value through profit or loss. This includes all derivative financial instruments.

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At initial recognition, the Company measures a financial asset at its fair value and, in the case of a financial asset not at FVTPL, including transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are recorded as an expense in net earnings.

Financial assets are reclassified subsequent to their initial recognition only if the business model for managing those financial assets changes. The affected financial assets will be reclassified on the first day of the first reporting period following the change in the business model. A financial asset is derecognized when the rights to receive cash flows from the asset have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Impairment of Financial Assets

The Company recognizes loss allowances for Expected Credit Losses ("ECLs") on its financial assets measured at amortized cost. Due to the nature of its financial assets, the Company measures loss allowances at an amount equal to expected lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the related financial asset. The Company does not have any financial assets that contain a financing component.

As at September 30, 2022, all of the Company's receivables were deemed collectible. The average expected credit loss on the Company's trade accounts receivable was not estimated to be significant.

Classification and Measurement of Financial Liabilities

A financial liability is initially classified as measured at amortized cost or FVTPL. A financial liability is classified as measured at FVTPL if it is held-for-trading, a derivative, or designated as FVTPL on initial recognition. The classification of a financial liability is irrevocable.

Financial liabilities at FVTPL are measured at fair value with changes in fair value, along with any interest expense, recognized in net earnings. Other financial liabilities are initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in net earnings. Any gain or loss on derecognition is also recognized in net earnings.

A financial liability is derecognized when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same counterparty with substantially different terms, or the terms of an existing liability are substantially modified, it is treated as a derecognition of the original liability and the recognition of a new liability. When the terms of an existing financial liability are altered, but the changes are considered non-substantial, it is accounted for as a modification to the existing financial liability. Where a liability is substantially modified it is considered to be extinguished and a gain or loss is recognized in net earnings based on the difference between the carrying amount of the

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liability derecognized and the fair value of the revised liability. Where a liability is modified in a non-substantial way, the amortized cost of the liability is remeasured based on the new cash flows and a gain or loss is recorded in net earnings.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate. The amortization is included in finance expense in the consolidated statement of loss. The losses arising from impairment are recognized in the consolidated statement of loss as a finance cost. Loans and receivables are comprised of cash and cash equivalents and other receivables in the consolidated statement of financial position.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash held at banks and short-term deposits with an original maturity of three months or less.

Other financial liabilities

Other financial liabilities are financial liabilities that are not quoted in an active market and with no intention of being traded. They are included in current liabilities, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current liabilities. Accounts payable are initially recognized at the amount required to be paid less any discount or rebates to reduce the payables to estimated fair value. Accounts payable and borrowings are subsequently measured at amortized cost using the effective interest method. For accounts payable and borrowings that have maturity dates of less than one year, the Company estimates their carrying value approximates their fair value due to their short-term nature.

c) Foreign currency

Transactions in currencies other than each entity's functional currency are initially recorded at the exchange rate as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate as at the date of the consolidated statement of financial position. Non-monetary items are translated using the historical exchange rates prevailing at the dates of the initial transactions. All differences are recorded in net earnings or loss and comprehensive income or loss.

d) Income taxes

Tax expense comprises current and deferred tax. Tax is recognized in the statements of loss except to the extent it relates to items recognized in other comprehensive income or directly in equity.

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Current income tax

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

Deferred taxes are the taxes expected to be payable or recoverable on differences between the carrying amounts of assets in the statement of financial position and their corresponding tax bases used in the computation of taxable profit and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets in a transaction that affects neither the taxable profit nor the accounting profit.

e) Exploration & evaluation assets

Costs incurred by the Company before obtaining the rights to explore a property are expensed. Subsequent to obtaining the rights to explore its mineral properties, the Company's accounting policy is to capitalize mineral property costs relating to the acquisition of rights to explore including acquisition costs for mineral rights, topographical, geological, geochemical and geophysical studies, exploratory drilling, metallurgical testing, trenching, technical feasibility studies and other costs directly attributable to exploration projects, until such time as the properties are technically feasible or put into production, sold, determined to be economically viable or abandoned.

Mineral properties are carried at cost less accumulated impairment losses, if any. The Company assesses the facts and circumstances and determines if there is an indication that the carrying amount of a mineral property may exceed its recoverable amount. If there is an indication of impairment, the Company determines the recoverable amount of this asset by determining the asset's recoverable amount and compares this to the carrying amount as at the reporting date. If the carrying amount exceeds the recoverable amount, an impairment loss is recognized in the statement of loss.

Exploration and evaluation costs are not amortized prior to the conclusion of appraisal activities. At the completion of appraisal activities, if technical feasibility is demonstrated and commercial reserves are discovered, then the carrying value of the relevant exploration and evaluation asset will be reclassified as a property, plant and equipment asset into the cash-generating unit ("CGU") to which it relates, but only after the carrying value of the relevant exploration and evaluation asset has been assessed for impairment and, where appropriate, its carrying value adjusted. Technical feasibility and commercial viability are considered to be demonstrable when proved or probable reserves are determined to exist and necessary

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infrastructure and markets are in place for sustainable operations of the asset. If it is determined that technical feasibility and commercial viability have not been achieved in relation to the exploration and evaluation assets appraised, all other associated costs are written down to the recoverable amount in net income (loss).

f) Property, plant and equipment

The Company's property, plant and equipment is comprised of corporate assets. Corporate assets are recorded at cost less accumulated depreciation. Depreciation is calculated on a declining balance method to write off the cost of these assets, less estimated residual values, over their useful lives.

g) Impairment of non-financial assets

The Company reviews and evaluates impairment of non-financial assets whenever events or changes in circumstances occur that indicates that the carrying amount of the asset will not be recovered from its use or sale. An impairment loss is recognized for the amount by which the carrying amount of the assets exceeds the higher of its fair value and value in use. Fair value is the amount that can be obtained from the sale of an asset in a open market. The value of in use corresponds to the present value of the estimated future cash flows expected to be obtained from the continuing use of the asset and from its sale at the end of its useful life. Impairment losses recognized in previous years are reversed if there is a change in the estimates used from the last time an impairment loss was recognized.

h) Share-based compensation

Share-based compensation expense is determined based on the estimated fair value of shares on the date of grant. Transactions with non-employees are measured at the date when goods and services are received. Where the fair value of goods and services received cannot be reliably measured, the measure of the goods and services received and the corresponding increase in equity indirectly by reference to the fair value of the equity instruments granted, measured at the date goods are obtained or services rendered. Forfeitures are estimated at the grant date and are subsequently adjusted to reflect actual forfeitures. The expense is recognized over the service period, with a corresponding increase to contributed surplus. At the time the stock options or warrants are exercised, the issuance of common shares is recorded as an increase to shareholders' capital and a corresponding decrease to contributed surplus.

i) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Common shares, stock options and warrants are classified as equity instruments.

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j) Earnings per share, basic and diluted

The Company presents basic and diluted earnings per share. Basic earnings per share is calculated by dividing the net profit or loss by the weighted average number of shares outstanding during the year. Diluted earnings per share is determined by adjusting the net profit or loss and the weighted average number of shares outstanding, for all dilutive potential shares, which comprises warrants, convertible debt and options issued. Items with an anti-dilutive impact are excluded from the calculation.

k) Share capital

Common shares are classified as shareholders' equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from shareholders' equity, net of any tax effects.

l) Use of estimates and judgements

The timely preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant estimates and judgments made by management in the preparation of these financial statements are outlined below.

Critical judgments in applying accounting policies

The following are the critical judgments that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in these consolidated financial statements:

i) Impairment of property, plant and equipment and exploration and evaluation assets

Judgments are required to assess when impairment indicators, or reversal indicators, exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future precious metals prices, future costs, discount rates, market value of land and other relevant assumptions.

ii) Exploration and evaluation assets

The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves have been found in assessing economic and technical feasibility.

iii) Income taxes

Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings. To the extent that

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assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

Key sources of estimation uncertainty

The following are the key assumptions concerning the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities.

i) Share-based payments

All equity-settled, share-based awards issued by the Company are recorded at fair value using the Black-Scholes option-pricing model. In assessing the fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

ii) Tax provisions

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse.

iii) Determination of functional currency

As the Company has entities in multiple jurisdictions, the determination of functional currency involves certain judgements in establishing the primary economic environment in which these entities operate. In Argentina, the transactions may be denominated in Argentine pesos or USD. The functional currency is determined by the currency, being presently USD, wherein management's judgement the majority of the operating expenditures are denominated in.

4. REVERSE TAKEOVER TRANSACTION (THE "TRANSACTION")

The Qualifying Transaction was completed pursuant to a business combination agreement (the "Agreement") dated June 24, 2021, between the Company, formerly RRCC, and a corporation existing under the laws of the British Virgin Islands, Fredonia Management Limited (the "Target"). As an initial step to be taken in connection with the Qualifying Transaction, the issued and outstanding RRCC shares and RRCC stock options were consolidated by a factor of 0.73529 (the "Consolidation"), resulting in 4,411,764 post-Consolidation RRCC shares and 441,176 post-Consolidation RRCC stock options. Following the Consolidation of RRCC shares, the Qualifying Transaction was effected by way of a "three-cornered" amalgamation, in which: (a) the BVI subsidiary of RRCC was amalgamated with the Target to form an amalgamated company ("Amalco"); (b) all issued and outstanding shares of the Target were exchanged for 109,006,378 post Consolidation RRCC shares; and (c) Amalco became a wholly-owned subsidiary of the Company and was renamed as Fredonia Management Ltd. Following the completion of the

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Transaction, the Company changed its name to “Fredonia Mining Inc.” and carried on the business previously carried on by the Target.

The Qualifying Transaction constituted a reverse take over and did not constitute a business combination in accordance with IFRS 3. These consolidated financial statements are presented as a continuation of the Target but are issued in the name of the Company as a legal parent. The Qualifying Transaction has been measured at the fair value of the shares and options that are deemed to have been issued to the Company’s historical shareholders. Accordingly, the Qualifying Transaction has been recorded in these consolidated financial statements using a basis of accounting as summarized below:

- a) The historical equity of the Company has been eliminated and the excess of the fair value of deemed issuance of the equity instruments over the fair value of the net assets acquired has been recorded as listing expense in net loss for the year;
- b) The accumulated deficit and other equity balances presented in these consolidated financial statements are those of the Target;
- c) The assets and liabilities of the Target are included in these consolidated financial statements on a pre-transaction basis of accounting;
- d) The net assets of RRCC were measured at their estimated fair value on the date of the Qualifying Transaction; and
- e) Comparative information presented in these consolidated financial statements is that of the Target. The following summarizes the basis of accounting for the reverse takeover described above.

Under this basis of accounting, as consideration for 100% of the outstanding shares of RRCC by way of reverse acquisition, Target issued 4,411,764 shares on a one for one basis to the shareholders of RRCC, and 441,176 stock option to replace RRCC stock options. The shares were assigned a value of \$0.20 (C\$0.25) per share, the value of the recent financing realized through concurrent financing, and the stock options were assigned a value of \$0.14 (C\$0.17) based on a Black-Scholes valuation, for total consideration of \$950,412 (C\$1,177,941) before transaction costs, which has been allocated first to the fair value of the net assets acquired, with any excess to a non-cash cost of acquisition as follows:

Consideration	
4,411,764 shares at a value of \$0.20 (C\$0.25) per share	889,899
441,176 stock options at a value of \$0.14 (C\$0.17) per share	60,513
Transaction costs	277,236
Total Consideration	1,227,648
Net assets (liabilities) of RRCC	
Accounts payable	(171,573)
Total net assets (liabilities) acquired at fair value	(171,573)
Listing Expense	1,399,221

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In parallel with the Qualifying Transaction, the Company completed a concurrent financing (the “Concurrent Financing”) of 37,445,310 subscription receipts for aggregate gross proceeds of \$5,136,117 (C\$6,365,703). Upon completion of the Qualifying Transaction, the units were automatically exchanged for 37,445,310 common shares and 18,722,655 warrants, exercisable at C\$0.25 per warrant to purchase one common share. As a result of the concurrent financing, 2,274,124 Broker warrants are exercisable at C\$0.17 per warrant to purchase one additional common share.

5. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation (“E&E”) assets consist of the following amounts:

	<u>El Aguila</u>	<u>El Dorado</u>	<u>Total</u>
As at September 30, 2020	1	1,404,670	1,404,671
Additions	-	344,026	344,026
As at September 30, 2021	1	1,748,696	1,748,697
Additions	-	4,110,514	4,110,514
As at September 30, 2022	1	5,859,210	5,859,211

The Company’s primary exploration project is the El Dorado-Monserrat Project located in Santa Cruz Province, Argentina assessing for gold-silver mineralization. There is a 1.5% net smelter return royalty on the project.

The Company also has a secondary exploration project being the El Aguila project located in Santa Cruz Province, Argentina. The project is subject to a 1% net profit interest royalty. In addition, the Company had certain amounts owing to the original sellers (Note 7).

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6. PROPERTY, PLANT AND EQUIPMENT

	<u>Equipment</u>	<u>Total</u>
Cost		
Balance, September 30, 2021	2,453	2,453
Additions	4,056	4,056
Disposals	-	-
Balance, September 30, 2022	<u>6,509</u>	<u>6,509</u>
Accumulated amortization		
Balance, September 30, 2021	135	135
Additions	944	944
Disposals	-	-
Balance, September 30, 2022	<u>1,079</u>	<u>1,079</u>
Net book value		
Balance, September 30, 2021	2,318	2,318
Balance, September 30, 2022	<u>5,430</u>	<u>5,430</u>

7. TRADE AND OTHER PAYABLES

	<u>September 30, 2022</u>	<u>September 30, 2021</u>
Consideration payable	-	650,000
Trade accounts payable and accruals	428,977	514,276
Related parties (Note 11)	25,063	102,472
	<u>454,040</u>	<u>1,266,748</u>

On January 24, 2022, the Company completed a debt for shares agreement with the seller wherein the Company eliminated the consideration payable balance of \$650,000 by way of a lump sum cash payment of \$150,000 and the issuance of 2,200,000 Common Shares (Note 9a) to satisfy the remaining obligation of \$500,000. The Common shares issued to settle the remaining debt had a fair value of \$530,183. This resulted in a loss on the issuance of shares of \$30,183 for the year ended September 30, 2022.

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8. BORROWINGS

	September 30, 2022	September 30, 2021
Related parties (Note 11)	-	13,300
	-	13,300

On October 1, 2019 the Company contracted a credit facility with a shareholder and director for up to \$200,000 payable two years after each advance made with interest at LIBOR +1%. During the year ended September 30, 2022, \$nil (September 30, 2021: \$120,400) were drawn from the credit facility at different dates and interest of \$nil (September 30, 2021: \$1,086) was accrued.

During the year ended September 30, 2022, all outstanding balances for the prior year were repaid and the credit facility was terminated.

9. SHARE CAPITAL

a) Common Shares

As at September 30, 2022, the Company was authorized to issue an unlimited number of common shares, with no par value, with holders of common shares entitled to one vote per share. Outstanding common shares as of September 30, 2022 are as follows:

	Common shares	Amount (\$)
Balance, September 30, 2020	109,006,378	4,550,229
Shares issued in Transaction	4,411,764	889,899
Shares issued through Concurrent Financing (net of share issuance costs)	37,445,310	4,051,635
Balance, September 30, 2021	150,863,452	9,491,763
Shares issued to satisfy debt repayment (Note 7)	2,200,000	530,183
Shares issued through private placement	22,606,779	1,501,870
Shares issued through Broker Units	1,485,213	121,403
Balance, September 30, 2022	177,155,444	11,645,219

As mentioned in Note 4, as consideration for 100% of the outstanding shares of RRCC, Fredonia Management Limited issued 4,411,764 shares on a one for one basis to the shareholders of RRCC. The assessed value of the shares issued was \$889,899.

In parallel with the Transaction, the Company completed the Concurrent Financing of 37,445,310 units, each consisting of one common share and one-half of one warrant. This resulted in net proceeds of \$4,748,459, after issuance costs. Of those net proceeds, \$4,051,635 has been attributed to common shares.

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In accordance with the terms of the debt for shares agreement, the Company issued 2,200,000 shares to satisfy the remaining \$500,000 of outstanding debt (Note 7).

On April 27, 2022, the Company announced the closing of a brokered private placement (the “Offering”), consisting of a total of 22,606,779 units of the Company at a price of C\$0.18 per unit for aggregate gross proceeds to the Company of approximately \$3,172,139. Each unit consisted of one common share of the Company and one common share purchase warrant. This resulted in net proceeds of \$2,969,388, after issuance costs. After inclusion of non-cash issuance costs of Broker Units and broker warrants (see below), a net balance of \$1,501,870 has been attributed to common shares, and \$1,076,248 has been attributed to purchase warrants.

As part of the Offering on April 27, 2022, and pursuant to the terms of the agency agreement, the Agent received 1,485,213 units (“Broker Units”) as compensation in lieu of cash. Each Broker Unit consisted of one common share of the Company and one warrant. The aggregate value for the Broker Units of \$208,402 was accounted for as a transaction cost in conjunction with the Offering. Of the gross unit value, \$121,403 has been attributed to common shares. The Company also issued 1,582,475 broker warrants to acquire one common share at a price of C\$0.18 per common share for a period of 24 months.

b) Stock Options

The Company has adopted an incentive stock option plan which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares.

At September 30, 2022, a total of 10,441,176 (September 30, 2021 – 10,191,176) options were issued and outstanding under this plan. Options which are forfeited/expired are available for reissue.

A summary of the changes in stock options is presented below:

	<u>Stock options</u>	<u>Weighted average exercise price (C\$)</u>
Balance, September 30, 2020	-	-
Options issued under the Transaction	441,176	0.14
Options granted	9,750,000	0.17
Balance, September 30, 2021	10,191,176	0.17
Options granted	250,000	0.11
Balance, September 30, 2022	10,441,176	0.17

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For the year ended September 30, 2022, 250,000 stock options were issued by the Company. Under the terms of the Transaction, 441,176 stock options were issued by the Company to replace RRCC stock options, which retained the terms from when originally granted by RRCC.

On September 16, 2022, the Company granted 250,000 options to acquire common shares to certain directors, officers, and consultants of the Company at a price of C\$0.11 per common share, vesting immediately on the date of grant. The options were for a five-year term, expiring on September 16, 2027.

For the stock options issued, the Black-Scholes option pricing model was used to estimate their fair value based on the assumptions of expected stock price volatility of 95%, risk-free interest rate of 3.39%, expected dividend yield of 0%, and an expected option life of 5 years, resulting in an assessed fair value per option of C\$0.08.

On July 27, 2021, the Company granted 9,750,000 options to acquire common shares to certain directors, officers, and consultants of the Company at a price of C\$0.17 per common share, vesting immediately on the date of grant. The options were for a five-year term, expiring on July 27, 2026.

The value of the stock options issued under the terms of the Transaction were included as part of the consideration. The value of the stock options granted in July 27, 2021, was \$948,026, which was expensed as share-based compensation in the year ended September 30, 2021.

The following summarizes information about stock options outstanding as at September 30, 2022:

<u>Exercise prices (C\$)</u>	<u>Number of options outstanding</u>	<u>Weighted average term to expiry (years)</u>	<u>Number of options exercisable</u>
0.14	441,176	0.13	441,176
0.17	9,750,000	3.82	9,750,000
0.11	250,000	4.96	250,000
	10,441,176	3.70	10,441,176

c) Warrants

As at September 30, 2022, a total of 46,671,246 (September 30, 2021 – 20,996,779) warrants were issued and outstanding. A summary of the change in total warrants is presented below:

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	Warrants	Weighted average exercise price (C\$)
Balance, June 24, 2021	-	
Purchase warrants issued on concurrent financing	18,722,655	0.25
Broker warrants issued on concurrent financing	2,274,124	0.17
Balance, September 30, 2021	20,996,779	0.24
Purchase warrants issued on private placement	22,606,779	0.28
Purchase warrants issued on Broker Units	1,485,213	0.28
Broker warrants issued on private placement	1,582,475	0.18
Balance, September 30, 2022	46,671,246	0.26

Purchase Warrants

Pursuant to the Concurrent Financing, the Company issued a total of 18,722,655 purchase warrants, each exercisable into one additional common share at a price of C\$0.25 per share until June 24, 2024. As mentioned previously, a fair value of \$452,788, net of issue costs, was recognized for the issuance of these purchase warrants.

On April 27, 2022, the Company announced the closing of the Offering, consisting of a total of 22,606,779 units of the Company, with each unit consisting of one common share of the Company and one purchase warrant. Each purchase warrant entitles the holder to acquire one common share at a price of C\$0.28 per common share for a period of five years from the closing date of the Offering. Of the net proceeds from the Offering, \$1,076,248 has been attributed to these purchase warrants. Furthermore, as previously mentioned, the agent received compensation consisting of 1,485,213 Broker Units in lieu of cash in conjunction with the Offering with an assessed fair value of \$208,401, which was included in the share issuance costs on the Offering. Each Broker Unit consists of one common share and one purchase warrant with the same terms as the units issued under the Offering. For the aforementioned fair value recognized for these Broker Units, \$121,403 was attributed to the common shares and \$86,998 was attributed to the purchase warrants issued from the Broker Units.

For the purchase warrants issued for the year ended September 30, 2022, the Black-Scholes option pricing model was used to estimate their fair value based on the assumptions of expected stock price volatility of 95%, risk-free interest rate of 2.64%, expected dividend yield of 0%, and an expected warrant life of 5 years, resulting in an assessed fair value per warrant of C\$0.18.

Broker Warrants

Pursuant to the Concurrent Financing, the Company issued 2,274,124 broker warrants to agents of the Concurrent Financing based on the terms of the agency agreement. These broker warrants are for a three-year term, exercisable immediately at a price of C\$0.17 per share and expire February 24, 2023. A fair

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value of \$244,036 was recognized for the issuance of these broker warrants, which was included in share issuance costs on the Concurrent Financing, and is recorded as contributed surplus.

In conjunction with the Offering, the Company also granted the agent 1,582,475 broker warrants entitling the agent to acquire one common share at a price of C\$0.18 per common share for a period of 24 months from the closing date of the Offering. A fair value of \$182,869 was recognized for the issuance of the broker warrants, which was included in the share issuance costs on the Offering.

For the broker warrants issued for the year ended September 30, 2022, the Black-Scholes option pricing model was used to estimate their fair value based on the assumptions of expected stock price volatility of 95%, risk-free interest rate of 2.50%, expected dividend yield of 0%, and an expected warrant life of 2 years, resulting in an assessed fair value per warrant of C\$0.15.

The following summarizes information about total purchase and broker warrants outstanding as at September 30, 2022:

Exercise prices (C\$)	Number of warrants outstanding	Weighted average term to expiry (years)	Number of warrants exercisable
0.17	2,274,124	0.40	2,274,124
0.18	1,582,475	1.58	1,582,475
0.25	18,722,655	1.73	18,722,655
0.28	24,091,992	4.58	24,091,992
	46,671,246	3.13	46,671,246

d) Net Income/Loss per share

For purposes of the net income per share calculations for the year ended September 30, 2022, the calculation of basic and diluted income per share were based on the net income of \$763,305 against each of basic weighted average number of common shares outstanding of 162,717,712 and diluted weighted average number of common shares outstanding of 165,175,914, resulting in net income per share of \$0.005, basic and diluted. In computing diluted net income per share for the year ended September 30, 2022, 44,397,122 warrants were excluded as they were not in-the-money based on the volume weighted average trading price of the Company's common shares of C\$0.23 during the year, and therefore anti-dilutive. For the year ended September 30, 2021, stock options, Broker Warrants, and Purchase Warrants were excluded as their impact was anti-dilutive.

For purposes of the loss per share calculations for the year ended September 30, 2021, there is no difference between the basic loss per share and the diluted loss per share amounts. For the year ended September 30, 2021, stock options, Broker Warrants, and Purchase Warrants were excluded as their impact was anti-dilutive.

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10. INCOME TAXES

The reconciliation of the Company's expected expense (recovery) of income taxes at the statutory rate of 26.5% (2021 – 26.5%) to the Company's provision for income taxes is as follows:

	<u>2022</u>	<u>2021</u>
Loss before income taxes	763,305	(3,122,411)
Expected income tax expense/(recovery)	202,276	(827,439)
Permanent differences	36,881	-
Impact of inflation	108,514	-
Non-deductible interest expense	18,595	13,419
Listing expense	-	297,325
Share-based compensation	4,046	251,227
Other non-deductible expense	(333)	-
Impact of difference in foreign tax rates	(10,244)	142,638
Change in tax benefits not recognized	204,403	269,162
Foreign exchange and other	(564,138)	(146,332)
	<u>-</u>	<u>-</u>

Deferred taxes for the Company have not been recognized in respect of the deductible temporary differences set out below:

	<u>2022</u>	<u>2021</u>
Evaluation and exploration assets	-	-
Accruals	-	-
Interest expense deductible in future periods	1,121,865	979,219
Tax inflation adjustment and others	746,851	28,724
Non-capital losses carried forward - Canada	1,356,214	450,081
Non-capital losses carried forward - Argentina	844,465	1,637,605
	<u>4,069,395</u>	<u>3,095,629</u>

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The Company's unused tax losses expire as follows:

Non-Capital losses - Canada	
2042	847,411
2041	508,773
	<u>1,356,184</u>
Non-Capital losses - Argentina	
2026	329,915
2025	155,383
	<u>485,298</u>

11. RELATED PARTY TRANSACTIONS AND BALANCES

During the years ended September 30, 2022 and 2021, there were separate related party transactions as follows:

- i) Transactions:
 - a) Interest expense incurred for the year ended September 30, 2022 from a loan payable to a director and shareholder were \$0 (2021: \$4,596).
 - b) Rent expense incurred for the year ended September 30, 2022 charged by a company controlled by Directors of the company were \$18,000 (2021: \$18,000).
- ii) Period-end balances:
 - a) As at September 30, 2022, trade and other receivables included \$nil (September 30, 2021 – \$110,223) receivable from a director of the Company.
 - b) As at September 30, 2022, trade and other payables included \$20,000 (September 30, 2021 - \$20,000) payable to a company related to a director for payments made on behalf of the Company.
 - c) As at September 30, 2022, trade and other payables included \$5,063 (September 30, 2021 - \$3,552) payable to a company related to a director in relation to the rent of the administrative office.
 - d) As at September 30, 2022, trade and other payables included \$nil (September 30, 2021 - \$78,620) payable to directors and key management.

All related party transactions were in the normal course of operations.

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Compensation of Key Management

The Company has determined that key management personnel consist of its managers, officers and directors. In addition to salaries and fees paid to key management personnel, these groups also participate in the stock option plan. The total compensation expense, including salaries, fees and stock-based compensation relating to key management personnel for the years ended September 30, 2022 and 2021, was as follows:

	<u>2022</u>	<u>2021</u>
Salary, fees and other benefits	600,586	376,202
Share-based compensation	15,269	948,026
	<u>615,855</u>	<u>1,324,228</u>

12. GAIN ON CURRENCY EXCHANGE

The Company realized gains on the exchange of US dollar contributions to the Argentine subsidiaries for Argentine pesos through third-party financial markets in contrast to the Argentina national posted currency rates. The difference between the official bank rate and the market rate obtained resulted in gains of \$1,949,055 for the year ended September 30, 2022 (\$nil – September 30, 2021).

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's activities are exposed to various financial risks, market risks (including foreign exchange rate risk), credit risk, liquidity risk and capital risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company. The Company uses various methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks.

a) Market Risk

Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures. The Company primarily operates in Argentina. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities denominated in a currency that is not the Company's functional currency. The Company's risk management policy is to review its exposure to non-dollar forecasts operating costs on a case-by-case basis. The majority of the Company's forecast operating costs are in US dollars. The risk is measured using sensitivity analysis and cash flow forecasting.

The carrying amount of the Company's foreign currency denominated monetary assets and liabilities are as follows in US dollars:

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	As at September 30, 2022	
	Assets	Liabilities
Argentine Pesos	293,142	160,853

	As at September 30, 2021	
	Assets	Liabilities
Argentine Pesos	73,261	102,549

Sensitivity

Based on the financial instruments held at September 30, 2022, had the US dollar weakened/strengthened by 10% against these foreign currencies with all other variables held constant, the Company's post-tax loss for the period would have been \$13,229 higher/lower as a result of foreign exchange gains/losses on translation of non-US dollar denominated financial instruments as detailed above. At September 30, 2021, the Company's deficit would have been \$2,929 higher/lower had the US dollar weakened/strengthened by 10% as a result of foreign exchange gains/losses on translation of non-US dollar denominated financial instruments.

Cash flow fair value interest rate risk

The Company has variable interest-bearing borrowings for which general rate fluctuations apply. (Note 8).

The Company estimates that, other factors being constant, a 1% increase in floating rates at year-end would increase net loss before income tax for the years ended September 30, 2022 and 2021 in the amount of \$nil and \$133, respectively.

b) Credit Risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in a financial loss to the Company. Credit risk arises from cash and cash equivalents with banks and financial institutions as well as credit exposures to outstanding receivables.

It is management's opinion that the Company is not exposed to significant credit risk arising from these financial instruments.

c) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash at all times and committed credit facilities to meet the Company's commitments as they arise. The Company manages liquidity risk by

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maintaining adequate cash reserves and by continuously monitoring forecast and actual cash flows. All of the company's liabilities were due in the next 12 months.

d) Fair Value Estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The carrying values of cash and cash equivalents, accounts receivables, borrowings and payables are assumed to approximate their fair values due to their short-term nature.

e) Capital Management

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital, as well as the level of dividends to ordinary shareholders.

The board of directors seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowing and the advantages and security afforded by a sound capital position.

The Company defines capital that it manages as its shareholders' equity. The Company's objectives when managing capital are to safeguard its ability to continue as a going concern and provide increased shareholder value. The Company is not exposed to any externally imposed capital requirements.