

Interim Condensed Consolidated Financial Statements

Fortune Minerals Limited

September 30, 2023

Fortune Minerals Limited

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, Subsection 4.3(3)(a), if an auditor has not performed a review of the interim condensed interim condensed consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

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

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Fortune Minerals Limited
Incorporated under the laws of Ontario

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(expressed in Canadian dollars)

Unaudited

As at	September 30, 2023	December 31, 2022
ASSETS		
Current assets		
Cash and cash equivalents <i>[note 10]</i>	46,438	78,650
Reclamation security deposits <i>[note 7]</i>	26,379	25,592
Accounts receivable	14,415	82,083
Prepaid expenses	109,218	51,966
Total current assets	196,450	238,291
Reclamation security deposits <i>[note 7]</i>	170,853	153,143
Capital assets, net <i>[note 8]</i>	216,525	258,400
Mining properties <i>[note 3]</i>	46,191,324	45,795,993
	46,775,152	46,445,827
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	128,409	239,750
Lease liability <i>[note 12]</i>	52,201	48,647
Flow-through share premium <i>[note 5i[b]]</i>	247,136	—
Current debt <i>[note 11i]</i>	8,949,763	7,976,943
Total current liabilities	9,377,509	8,265,340
Provision for environmental rehabilitation <i>[note 7]</i>	24,636	25,516
Lease liability <i>[note 12]</i>	182,882	222,603
Long-term debts <i>[note 11ii]</i>	60,000	60,000
Total liabilities	9,645,027	8,573,459
SHAREHOLDERS' EQUITY		
Share capital <i>[note 5]</i>	181,194,174	180,530,031
Other reserves	17,319,479	16,694,979
Deficit	(161,383,528)	(159,352,642)
Total shareholders' equity	37,130,125	37,872,368
	46,775,152	46,445,827

See accompanying notes to the consolidated financial statements

See note 2 going concern uncertainty

Fortune Minerals Limited

**CONSOLIDATED STATEMENTS OF LOSS AND
COMPREHENSIVE LOSS**

(expressed in Canadian dollars)

Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
REVENUE AND OTHER INCOME				
Interest and other income <i>[note 14]</i>	4,858	1,271	8,077	5,093
	4,858	1,271	8,077	5,093
EXPENSES				
General and administrative	153,146	227,171	665,237	670,759
Stock-based compensation <i>[note 6]</i>	274,500	—	274,500	587,180
Interest	335,727	562,319	986,153	1,513,352
Corporate development	23,592	53,023	71,198	183,457
Amortization <i>[note 8]</i>	13,940	14,550	41,875	43,660
Change in fair value related to derivative liability	—	(3,000)	—	(1,200,000)
	800,905	854,063	2,038,963	1,798,408
Net loss and comprehensive loss for the period	(796,047)	(852,792)	(2,030,886)	(1,793,315)
Basic and diluted loss per share <i>[note 18]</i>	0.00	0.00	0.00	0.00

See accompanying notes to the consolidated financial statements

Fortune Minerals Limited
**CONSOLIDATED STATEMENTS OF
CASH FLOWS**

(expressed in Canadian dollars)

Unaudited

For the nine-month periods ended September 30,

	2023	2022
OPERATING ACTIVITIES		
Net loss for the period from continuing operations	(2,030,886)	(1,793,315)
Add (deduct) items not involving cash		
Accretion	(880)	1,580
Amortization	41,875	43,660
Flow-through share premium	(2,864)	—
Stock-based compensation	274,500	587,180
Non-cash portion of loan discount <i>[note 11]</i>	352,235	880,109
Non-cash portion of lease expense	(36,167)	(32,440)
Non-cash financing activities <i>[note 5i[a]]</i>	68,365	400,000
Loss on disposal of capital assets	—	60
Change in fair value related to derivative liability	—	(1,200,000)
Changes in non-cash working capital balances related to operations		
Accounts receivable	67,668	162,088
Prepaid expenses	(111,341)	(13,115)
Accounts payable and accrued liabilities	(57,252)	(204,750)
Accrued interest on debt	620,585	269,179
Cash used in operating activities	(814,162)	(899,764)
INVESTING ACTIVITIES		
Increase in exploration and evaluation expenditures, net	(156,006)	(324,291)
Purchase of capital assets, including in mining properties	(149,325)	(280,046)
Posting of security for reclamation security deposits, net	(18,497)	(1,108)
Cash used in investing activities	(323,828)	(605,445)
FINANCING ACTIVITIES		
Proceeds on issuance of units, net	1,105,778	243,341
Proceeds on exercise of options	—	38,000
Proceeds on issuance of debt, net	—	(58,420)
Cash provided by financing activities	1,105,778	222,921
Decrease in cash and cash equivalents during the period, net	(32,212)	(1,282,288)
Cash and cash equivalents, beginning of period	78,650	1,802,920
Cash and cash equivalents, end of period <i>[note 10]</i>	46,438	520,632

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(expressed in Canadian dollars)

Unaudited

	Common shares		Warrants		Subtotal	Other reserves	Deficit	Total shareholders' equity
	#	\$	#	\$	\$	\$	\$	\$
December 31, 2021	374,091,544	174,072,779	6,435,713	357,986	174,430,765	15,810,882	(126,383,375)	63,858,272
Issued as a result of:								
Private offerings	7,291,456	594,600	1,667,000	55,450	650,050	—	—	650,050
Share issuance costs	—	(5,221)	—	(1,488)	(6,709)	—	—	(6,709)
Exercise of stock options	400,000	62,400	—	—	62,400	(24,400)	—	38,000
Stock options granted	—	—	—	—	—	809,200	—	809,200
Net income for the period	—	—	—	—	—	—	(1,793,315)	(1,793,315)
September 30, 2022	381,783,000	174,724,558	8,102,713	411,948	175,136,506	16,595,682	(128,176,690)	63,555,498
December 31, 2022	459,751,506	180,098,532	10,025,750	431,499	180,530,031	16,694,979	(159,352,642)	37,872,368
Issued as a result of:								
Private offerings <i>[notes 5i[a]]</i>	17,892,356	1,009,624	13,155,356	252,841	1,262,465	—	—	1,262,465
Flow-through share premium deferred gain <i>[note 5i[b]]</i>	—	(250,000)	—	—	(250,000)	—	—	(250,000)
Share issuance costs <i>[notes 5i[a] and [b]]</i>	—	(65,290)	—	(23,032)	(88,322)	—	—	(88,322)
Stock options granted <i>[note 6]</i>	—	—	—	—	—	364,500	—	364,500
Expiration of warrants <i>[note 5ii.[a]]</i>	—	—	(4,500,000)	(260,000)	(260,000)	260,000	—	—
Net loss for the period	—	—	—	—	—	—	(2,030,886)	(2,030,886)
September 30, 2023	477,643,862	180,792,866	18,681,106	401,308	181,194,174	17,319,479	(161,383,528)	37,130,125

See accompanying notes to the consolidated financial statements

Fortune Minerals Limited

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2023

1. CORPORATE INFORMATION

Fortune Minerals Limited's business activity is the exploration and development of mineral properties in Canada. Fortune Minerals Limited is incorporated under the laws of Ontario, domiciled in London, Ontario, Canada, and its shares are publicly traded on the Toronto Stock Exchange ["TSX"] and the OTCQB in the United States.

The interim condensed consolidated financial statements of Fortune Minerals Limited ["the Company"] for the nine months ended September 30, 2023, were authorized for issuance by the Board of Directors on November 8, 2023.

2. BASIS OF PRESENTATION

i. Statement of Compliance

These interim condensed consolidated financial statements of the Company have been prepared by management in accordance with International Financial Reporting Standards ["IFRS"] as issued by the International Accounting Standards Board ["IASB"] and in accordance with International Accounting Standard ["IAS"] 34, *Interim Financial Reporting*.

ii. Going Concern of Operations

These interim condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of the Company's assets and discharge of its liabilities and commitments in the normal course of business. With the Company's negative working capital of \$9,181,059 on September 30, 2023, which includes \$8,949,763 related to debt maturing December 31, 2023, the Company will require additional further funding to repay these debts. The NICO project also requires further funding to advance the project through to production. This results in the existence of a material uncertainty that casts significant doubt about the Company's ability to continue as a going concern. Management is actively working to achieve positive cash flows beyond 2023 and is continually pursuing and considering various financing opportunities. The Company has historically been successful in financing its activities, however, there can be no assurances that the Company will be able to obtain continued support from existing lenders or obtain sufficient financing on terms acceptable to management to be able to meet its current liabilities as they come due, especially considering the impact inflation, increasing interest rates, and the Russia/Ukraine conflict could have on the global financial markets. These interim condensed consolidated financial statements do not include adjustments, which may be material, to the amounts and classification of assets and liabilities that would be necessary should the going concern principle not be appropriate.

iii. Basis of Measurement

These interim condensed consolidated financial statements are presented in Canadian dollars ["CDN"], which is also the Company's and its subsidiaries' functional currency.

These interim condensed consolidated financial statements reflect the financial position and results of operations of the Company and its wholly owned subsidiaries Fortune Minerals NWT Inc. ["FMNWT"], Fortune Minerals Saskatchewan Inc. ["FMSI"], Fortune Coal Limited ["FCL"], and Fortune Minerals Mining Limited ["FMML"]. The Arctos Anthracite Joint Venture ["Arctos JV"]

Fortune Minerals Limited

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September 30, 2023

is accounted for as a joint operation and FCL recognizes its 50% interest in the assets, liabilities, income, loss, and expenses. All intercompany transactions and balances have been eliminated upon consolidation.

The accounting policies have been applied consistently to all years presented in these interim condensed consolidated financial statements, unless otherwise indicated.

iv. Judgments and Estimates

The preparation of interim condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. The reported amounts and note disclosures are determined using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. Actual results, however, may differ from the estimates used in the interim condensed consolidated financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis.

Judgments and estimates made by management in the application of IFRS that have a significant risk of resulting in a material adjustment on the interim condensed consolidated financial statements in the current fiscal year are as follows:

[a] *Impairment of non-financial assets*

The Company undertakes an impairment assessment at the end of each reporting period and uses its judgment when identifying impairment indicators. In determining whether an asset is impaired, the Company has to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. Significant inputs into the discounted cash flow model included estimates of commodity values, discount rates, useful life of a mine and future capital and operating costs. The discounted cash flow model is sensitive to changes in estimates of commodity values, discount rates, useful life of a mine and future capital operating costs. See note 4 for additional disclosure.

[b] *Fair values*

The fair values of derivatives, warrants, stock options, retirement obligations and other instruments require the use of estimates of such factors as market rates of return, market volatility, interest rates, future operating results all of which are subject to measurement uncertainty. Changes in any of these factors could have an impact on the amount recorded for debt, warrant values, share-based compensation, asset retirement obligation, interest expense and accretion.

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[c] *Exploration and evaluation expenditures*

The Company uses its judgment when identifying which costs can be capitalized as exploration and evaluation expenditures.

In addition, in preparing the interim condensed consolidated financial statements, the notes to the interim condensed consolidated financial statements were ordered such that the most relevant information was presented earlier in the notes and the disclosures that management deemed to be immaterial were excluded from the notes to interim condensed consolidated financial statements. The determination of the relevance and materiality of disclosures involves significant judgment.

3. MINING PROPERTIES

As at September 30, 2023, the Company's mining properties are categorized in the exploration and evaluation stage since the necessary financing has not yet been obtained and a construction decision has not yet been approved by the Board of Directors. For management purposes, the group is organized into cash generating units based on the significant mining properties that the Company is currently exploring and evaluating or developing. Management monitors the monthly expenditures of its operating segments separately for the purpose of making decisions about resource allocation and financing requirements.

Interests in mining properties consist of the following:

September 30, 2023				
	Capital Assets \$	Property Costs \$	Exploration and Evaluation Expenditures \$	Total Mining Properties \$
NICO [i]	4,461,702	1,300,523	40,232,864	45,995,089
Sue-Dianne	—	9,164	174,058	183,222
Other properties	—	—	13,013	13,013
	4,461,702	1,309,687	40,419,935	46,191,324

December 31, 2022				
	Capital Assets \$	Property Costs \$	Exploration and Evaluation Expenditures \$	Total Mining Properties \$
NICO [i] and note 4	4,289,912	1,300,523	40,012,203	45,602,638
Sue-Dianne	—	9,164	171,178	180,342
Other properties	—	—	13,013	13,013
	4,289,912	1,309,687	40,196,394	45,795,993

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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During the nine months ended September 30, 2023, there was no change to Property Costs [September 30, 2022 – \$Nil], Exploration and Evaluation Expenditures increased by \$223,541 [September 30, 2022 – \$461,335] and Capital Assets increased by \$182,325 [September 30, 2022 – \$379,156]. There were no disposals, write-offs or amortization during the nine months ended September 30, 2023, except for \$10,535 [September 30, 2022 - \$14,134] of amortization of capital assets.

Exploration and evaluation expenditures capitalized to mining properties during the nine months ended September 30, 2023 and 2022 include the following:

	September 30, 2023	September 30, 2022
Employee and contractor compensation and benefits	\$ 117,116	\$ 229,791
Amortization	10,535	14,134
Stock-based compensation	57,000	122,910

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Capital assets in mining properties consist of the following:

	Surface facilities under construction \$	Surface facilities \$	Camp structures \$	Mobile equipment \$	Site furniture and equipment \$	Land and land acquisition costs \$	Asset retirement obligation ["ARO"] \$	Total \$
Cost								
As at December 31, 2022	4,016,666	1,179,717	593,724	609,813	53,369	215,000	6	6,668,295
Additions	62,325	—	—	—	—	120,000	—	182,325
As at September 30, 2023	4,078,991	1,179,717	593,724	609,813	53,369	335,000	6	6,850,620
Accumulated amortization								
As at December 31, 2022	—	1,145,459	592,351	597,231	43,342	—	—	2,378,383
Amortization for the period	—	5,139	309	2,831	2,256	—	—	10,535
As at September 30, 2023	—	1,150,598	592,660	600,062	45,598	—	—	2,388,918
Net book value								
As at December 31, 2022	4,016,666	34,258	1,373	12,582	10,027	215,000	6	4,289,912
As at September 30, 2023	4,078,991	29,119	1,064	9,751	7,771	335,000	6	4,461,702

Included in surface facilities under construction during the nine months ended September 30, 2023, is \$22,925 [September 30, 2022 - \$88,052] of directly attributable employee and contractor compensation and benefits and \$33,000 [September 30, 2022 - \$99,110] of stock-based compensation.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2023

i. NICO Project, Northwest Territories [“NICO”]

The NICO project and the related leases in the Marian River Area, Northwest Territories are wholly owned by the Company. The Company plans to locate a related hydrometallurgical processing plant for NICO at a site in Alberta, Canada.

In January 2022, the Company entered into an option to purchase a brownfield site in Alberta [the “2022 Option”]. The site was formerly a steel fabrication plant, and the Company had until July 2022 to carry out additional due diligence and complete the purchase for \$5.5 million. A non-refundable deposit of \$100,000 was paid as part of the 2022 Option. In July 2022, the Company entered into an extension to the 2022 Option extending the option to September 30, 2022, in consideration for the payment of \$15,000 per month, deductible from the purchase price. On September 30, 2022, the Company amended the extension to the 2022 Option to extend the option to December 31, 2022, in consideration for the payment of \$15,000 per month, deductible from the purchase price, provided the option has not been exercised on or before the date the consideration is due. The 2022 Option is also subject to the Vendor’s right to list the property, subject to Fortune’s right of first refusal or to complete the option purchase for any month an extension payment has been made at the agreed purchase price. On December 20, 2022, the 2022 Option was amended to extend the option to September 30, 2023, on the same terms as the previous amendment. On July 31, 2023, the Company entered into an extension to the 2022 Option to extend the option to December 31, 2023 on the same terms as the previous amendment.

ii. Arctos Anthracite Project, British Columbia [“Arctos”]

On May 1, 2015, the Company, FCL, Posco Canada Ltd. [“POSCAN”] and POSCO Klappan Coal Ltd. [“POSCO Klappan”] entered into an agreement [the “Arctos Sale Agreement”] with Her Majesty the Queen in Right of the Province of British Columbia [the “Province”] and British Columbia Railway Company [“BC Rail”] pursuant to which the Arctos JV sold its interests of the coal licenses comprising the Arctos project to BC Rail.

The Company, FCL, POSCAN and POSCO Klappan also entered into an Amendment to Exploration, Development and Mine Operating Joint Venture Agreement [“Amended Agreement”] to restructure the Arctos JV and share the proceeds from the sale of the Arctos coal licenses on an equal basis after purchasing the royalty held by the previous owner of the property. Pursuant to the Amended Agreement, FCL transferred 30% of its interest in the Arctos JV to POSCO Klappan, thereby reducing its interest from 80% to 50%, in exchange for the elimination of the future capital contribution to be made by FCL. The Company was made solely responsible for reclamation of the Arctos property except for the access road for which the Province will be responsible. The Company was entitled to receive the cash provided as security for its reclamation obligations once the reclamation is complete.

Going forward, under the Arctos Sale Agreement, the Arctos JV partners maintain the exclusive right to purchase back the coal licenses at the same price for a 10-year option period. If both partners do not wish to exercise the repurchase option, each of them may do so individually. No value was

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2023

attributed to the option at the time of the agreement or as at the nine months ended September 30, 2023.

4. ASSET IMPAIRMENT

The Company's capital assets, mining properties and intangible assets are reviewed for an indication of impairment at each interim condensed consolidated statement of financial position reporting date.

As at September 30, 2023, the Company considered whether there had been any significant changes to impairment indicators from its previous impairment assessment completed at December 31, 2022 and whether any new indicators were present. Management determined that as a result of obtaining limited financing during the year, substantive expenditure on further exploration for and evaluation of mineral resources of the NICO project cannot be budgeted or planned and completed an impairment assessment of the NICO project. As a result of that analysis, management has determined that the carrying value of its projects is not impaired or does not require a reversal of a prior impairment charge.

The model used by management to evaluate the NICO property for impairment is based on management's intention to develop and produce gold, cobalt, bismuth, and copper simultaneously. For the purposes of assessing the impairment of the project, the financial model used a discounted cash flow model using the best estimates for items such as plant capital, operating costs, commodity prices, transportation costs, discount rates, timing for the beginning of commercial operations and expected margins. Should the intention of management change with respect to the development of how this project may proceed, the economic model may result in significantly different results. It also does not reflect how any other organization would develop the project.

Assumptions underlying the estimate of the recoverable amount included expected commodity prices based on forecasted averages of US\$1,800/oz for gold, US\$28.75/lb. for cobalt and US\$5.5/lb. for bismuth and an exchange rate of US\$0.75:C\$1.00. A discount rate of 9% was used in the cash flow analysis. These factors resulted in a recoverable amount in excess of book value of NICO. Accordingly, no impairment was recognized on the NICO project. Expected future cash flows used to determine the value in use are inherently uncertain and could materially change over time. Any significant change in these assumptions could result in a fair value that is less than the carrying value.

Asset impairment testing is subject to numerous assumptions, inherent risks and uncertainties, and the risk that these assumptions may not be realized. The impairment model is sensitive to several of the model key input variable. The following table indicates the estimated impact on the recoverable amount:

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Change in Model Key Input	Change in Recoverable Amount of NICO \$ million September 30, 2023
Effect of:	
Increase (decrease) discount rate by 1%	\$ (40)/48
Increase (decrease) exchange rate by \$0.01	(14)/14
Increase (decrease) gold price by \$100	20/(20)
Increase (decrease) cobalt price by \$1	24/(23)
Increase (decrease) bismuth price by \$1	19/(19)
Increase (decrease) operating costs by 5%	(27)/27

5. SHARE CAPITAL AND RESERVES

i. Common Shares

The Company is authorized to issue an unlimited number of common shares without par value. As of September 30, 2023, the weighted average number of common shares outstanding was 469,864,594 [December 31, 2022 - 383,335,164].

- [a] On February 3, 2023, March 6, 2023, and March 15, 2023, the Company entered into subscription agreements to sell 2,846,643, 714,285 and 4,331,428 units respectively, raising gross cash proceeds of \$484,100. Each unit consists of one common share and one common share purchase warrant. One warrant entitles the holder to purchase one common share of the Company for \$0.10 for two years from the date of issuance. The fair value of the shares and warrants issued was \$376,549 and \$175,916, respectively. The value of the warrants was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: dividend yield of 0%, expected volatility between 98.35% and 108.17%, risk free interest rate between 3.51% and 4.22% and expected life of two years. Of the shares issued, 976,643 were issued in lieu of 11 months of rent on the Company's leased office, with a fair value of \$68,365. Finder's fees with a fair value of \$18,410 was earned on the transactions and settled in cash and the issuance of 263,000 warrants. The fair value of these warrants was \$10,000. These warrants have an exercise price of \$0.07 and can be exercised within two years of issuance. The value of these warrants was estimated using the Black-Scholes option pricing model using the same assumptions as above. Share issuance costs of \$65,290 were incurred to complete the financing.
- [b] On June 15, 2023, the Company entered into a flow-through agreement to issue 10,000,000 units, at a price of \$0.07 per share for aggregate gross proceeds of \$700,000. Each unit consists of one common share and one-half common share purchase warrant. One warrant entitles the holder to purchase one common share of the Company for \$0.10 for two years from the date of issuance. The fair value of the shares and warrants issued was \$633,075 and \$66,925, respectively. The value of the warrants was estimated using the Black-

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Scholes option pricing model with the following weighted average assumptions: dividend yield of 0%, expected volatility of 95.86%, risk free interest rate between of 4.44% and expected life of two years. The total flow-through share premium recognized was \$250,000, calculated as the difference between the market price of the Company's shares on the day the flow-through financing closed and the price that the investor paid for the shares. Share issuance costs of \$23,032 were incurred to complete the financing.

ii. Share Purchase Warrants

The following is a summary of changes in warrants for the nine months ended September 30,

	2023		2022	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Warrants outstanding, beginning of period	10,025,750	\$ 0.10	6,435,713	\$ 0.14
Issue of warrants [note 5i.[a] and [b]]	13,155,356	0.10	1,667,000	0.10
Expiry of Warrants [note 5ii.[a]]	(4,500,000)	0.11	—	—
Warrants outstanding, end of period	18,681,106	\$ 0.10	8,102,713	\$ 0.13

[a] During the nine months ended September 30, 2023, 4,500,000 warrants with an exercise price of \$0.11 expired unexercised. These warrants had a book value of \$260,000.

iii. Nature and Purpose of Equity and Reserves

The reserves recorded in equity on the Company's Consolidated Statements of Financial Position include 'Other Reserves', 'Accumulated Deficit' and 'Accumulated Other Comprehensive Income'.

'Other Reserves' is used to recognize the value of stock option grants and amendments and expiration of share purchase warrants.

'Accumulated Deficit' is used to record the Company's change in deficit from earnings from year to year.

'Accumulated Other Comprehensive Income' is used to record foreign currency translation.

6. STOCK-BASED COMPENSATION

The estimated fair value of 12,150,000 options granted during the nine months ended September 30, 2023 has been allocated to stock-based compensation expenses and mining properties in the amounts of \$274,500 and \$90,000, respectively. The other reserves balance was increased by \$364,500, representing the fair value of the options granted. The options granted have a maximum term of three years and vested immediately. The value of the options were estimated using the Black-Scholes option pricing model with the following weighted average assumptions used for grants as follows: dividend yield of 0%, expected volatility of 108.93%, risk free interest rate of 4.72% and expected life of 2.75 years.

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A summary of the status of the Company's stock option plan as at September 30, 2023 and December 31, 2022, and changes during the period ended on those dates are presented below:

	<u>September 30, 2023</u>		<u>December 31, 2022</u>	
	Number of shares #	Weighted- average exercise price \$	Number of shares #	Weighted- average exercise price \$
Options outstanding, beginning of period	17,950,000	0.10	9,800,000	0.13
Issued	12,150,000	0.045	11,900,000	0.105
Exercised	—	—	(400,000)	0.095
Expired	(1,900,000)	0.12	(3,350,000)	0.185
Options outstanding, end of period	28,200,000	0.08	17,950,000	0.10
Options vested and outstanding, end of period	28,200,000	0.08	17,950,000	0.10

The following table summarizes information about the options outstanding as at September 30, 2023:

<u>September 30, 2023</u>				
Range of exercise prices	Number outstanding	Number vested and outstanding	Weighted average exercise price – all [i]	Weighted average remaining contract life – all [i]
\$	#	#	\$	years
Nil – 0.49	28,200,000	28,200,000	0.08	1.91

[i] The weighted average exercise price and weighted average remaining contract life are the same for options outstanding and options vested and outstanding.

7. PROVISION FOR ENVIRONMENTAL REHABILITATION AND SECURITY DEPOSITS

Although the ultimate amount of the environmental rehabilitation provision is uncertain, the estimate of these obligations is based on information currently available including the most recently estimated mine life and applicable regulatory requirements. Significant closure activities include primarily land rehabilitation for impacts to date.

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The provision for environmental rehabilitation and key assumptions are as follows:

	September 30, 2023	December 31, 2022
NICO Project		
Provision for environmental rehabilitation	\$ 24,636	\$ 25,516
Estimated remaining life	22 years	20 years
Discount rate	9%	9%
Total provision for environmental rehabilitation	\$ 24,636	\$ 25,516

The Company has provided reclamation security deposits in the form of a letter of credit in favour of the Government of the Northwest Territories and the Province for NICO and Arctos, respectively, in the amounts of \$167,569 and \$25,000, respectively.

Reclamation security deposits consist of the following:

	September 30, 2023	December 31, 2022
	Deposit amount \$	Deposit amount \$
NICO Project	170,853	153,143
Arctos Anthracite Project	26,379	25,592
Total Net Book Value	197,232	178,735

The security for the reclamation of the Arctos Anthracite Project is held in the Arctos JV. The Company expects this amount to be released once the Province has completed its reclamation work plan review.

The security held for the NICO and Arctos reclamation security deposits consists of cash balances and highly liquid money market funds in investment accounts with a large Canadian financial institution.

In April 2023, the reclamation security deposit held for the NICO project was increased from \$143,000 to \$167,569, upon renewal of a land use permit. The estimated remaining life of the provision was also increased by three years. As a result, the provision for environmental rehabilitation was decreased by \$1,985.

8. CAPITAL ASSETS

Capital assets consist of the following for the nine months ending September 30, 2023:

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	Computer equipment \$	Furniture and fixtures \$	Software \$	Right-to- use Assets \$	Total \$
Cost					
As at December 31, 2022	177,042	107,363	328,690	353,367	966,462
As at September 30, 2023	177,042	107,363	328,690	353,367	966,462
Accumulated amortization					
As at December 31, 2022	170,398	101,459	322,623	113,582	708,062
Amortization for the period	1,537	886	1,592	37,860	41,875
As at September 30, 2023	171,935	102,345	324,215	151,442	749,937
Net book value					
As at December 31, 2022	6,644	5,904	6,067	239,785	258,400
As at September 30, 2023	5,107	5,018	4,475	201,925	216,525

9. EXPENSES BY NATURE

	September 30, 2023	September 30 2022
Employee and contractor compensation and benefits (i)	\$ 417,390	\$ 408,360
Operating lease expense – property (ii)	13,333	14,065
Stock-based compensations	274,500	587,180
Amortization	41,875	43,660
Foreign exchange loss	497	812
Change in fair value related to derivative liability	—	(1,200,000)

(i) \$357,102 [2022 - \$330,532] and \$60,288 [2022 - \$77,828] of employee and contractor compensation benefits are included in general and administrative and corporate development expenses, respectively, on the consolidated statements of loss and comprehensive loss

(ii) Operating lease expense – property is included in interest expense on the consolidated statements of loss and comprehensive loss. The Company entered into a new lease in September 2020 and the lease was accounted for by recognizing a right-of-use asset and lease liability.

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand, balances with banks and highly liquid money market funds.

The Company's investment policy is to invest its cash in highly liquid, short-term, interest-bearing investments in order to have funds available on a short-term basis. Where cash is not expected to be required in the short-term, the policy is to invest in investments with an intermediate to long-term horizon that still allows for conversion to cash, if required.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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11. DEBTS

i. Current Debts

	September 30, 2023	December 31, 2022
Debenture [a]	5,933,671	5,507,760
Loan [b]	3,016,092	2,469,183
Total current debts	\$ 8,949,763	\$ 7,976,943

[a] The Company has a \$5,298,651 secured debenture outstanding as of September 30, 2023. The debenture matures on December 31, 2023, bears interest at 10% per annum, compounding monthly, and both principal and interest are payable at maturity.

The debenture is summarized as follows for the nine months ended September 30, 2023:

	September 30, 2023	December 31, 2022
Debentures payable	\$ 5,298,651	\$ 5,298,651
Accrued interest on debentures	635,020	209,109
	\$ 5,933,671	\$ 5,507,760

While the debenture is outstanding, the Company cannot take the following actions without the prior written approval of its creditor:

- The merger, amalgamation, combination, consolidation, tender for the shares of or similar business transaction whereby its creditors are not the holders, directly or indirectly, of a majority of the voting securities or its ultimate controlling person immediately after such closing;
- The sale of all or substantially all of its assets;
- The creation, incurrence, assumption or suffering to exist, or otherwise becoming liable for any indebtedness on terms that are less advantageous to the Company or causing any material asset of the Company to be posted as collateral or security;
- The repurchase of equity or the declaration of dividends or distributions of any kind; and
- The settlement of any litigation, arbitration, or administrative proceeding in relation to the NICO project for an amount in excess of \$125,000.

[b] The Company has a secured loan agreement for \$2,750,000 outstanding as of September 30, 2023. The loan matures on December 31, 2023, bears interest at 9% per annum, compounding annually and both principal and interest are payable at maturity.

The loan is summarized as follows for the nine months ended September 30, 2023:

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	September 30, 2023	December 31, 2022
Loan payable	\$ 2,469,183	\$ 2,408,604
Accrued interest	546,909	60,579
	\$ 3,016,092	\$ 2,469,183

The loan has been recorded at its amortized cost at an effective interest rate of 30%. For the nine months ended September 30, 2023, \$352,235 [December 31, 2022 - \$60,579] was amortized to interest expense using the effective interest rate method.

[c] Subsequent to September 30, 2023, the Company secured a loan in the amount of \$250,000. The loan matures on January 31, 2024, bears interest at 9% per annum, compounding annually and both principal and interest are payable at maturity.

ii. Long-Term Debt

	September 30, 2023	December 31, 2022
CEBA	60,000	60,000
Total long-term debt	\$ 60,000	\$ 60,000

[a] The Company received a \$60,000 loan through the Canada Emergency Business Account program ("CEBA") in 2020. The CEBA was launched by the Government of Canada in response to the global COVID-19 health crisis and has been implemented by financial institutions in cooperation with Export Development Canada.

The loan is summarized as follows for the nine months ended September 30, 2023:

	September 30, 2023	December 31, 2022
Loan payable	\$ 52,547	\$ 50,428
Deferred government grant income	7,453	9,572
	\$ 60,000	\$ 60,000

The loan balance has been recorded at its amortized cost at an effective interest rate of 12%. For the nine months ended September 30, 2023, \$2,119 [December 31, 2022 - \$5,189] of deferred government grant income was amortized using the effective interest rate method.

If the loan is repaid in full by January 18, 2024, one third, or \$20,000, of the loan will be forgiven. If the loan is not repaid by January 18, 2024, it will be converted into a 2-year term loan bearing interest at 5%, with monthly interest-only payments and the outstanding balance due to be repaid in full by December 31, 2025.

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12. LEASES

The Company entered into a lease agreement effective September 25, 2020, to lease office space for a term of two years with 5 subsequent renewal periods of one year each and monthly lease payments of \$5,000 increasing at an annual rate of 3%. Effective September 2022, the Company renewed its lease for a 2-year term at \$66,000 per year. In February 2023, the Company entered into an agreement, as part of a private placement, to issue shares for 11 months of rental payments.

The lease liability is summarized as follows for the nine months ended September 30,

	2023	2022
Opening balance	\$ 271,250	\$ 314,915
Interest Expense	13,333	14,065
Lease Payments	(49,500)	(46,505)
	<u>\$ 235,083</u>	<u>\$ 282,475</u>

13. FINANCIAL INSTRUMENTS

The Company is exposed to risks through its operations that arise from its use of financial instruments, which include credit risk, interest rate risk, market price risk, liquidity risk and foreign exchange risk. Under the normal course of operations, the Company's management believes that these risks are minimal due to the nature of the financial instruments. The principal financial instruments used by the Company, from which financial instrument risk arises, are cash and cash equivalents, reclamation security deposits, accounts receivable, accounts payable and accrued liabilities, lease liability, provision for environmental rehabilitation, and current and long-term debts.

i. Financial instruments by category

Financial assets

	Financial assets at amortized cost September 30, 2023	December 31, 2022
Cash and cash equivalents	\$ 46,438	\$ 78,650
Reclamation security deposits	197,232	178,735
Accounts receivable	14,415	82,083
Total financial assets	<u>\$ 258,085</u>	<u>\$ 339,468</u>

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Financial liabilities

	Financial liabilities at amortized cost	
	September 30, 2023	December 31, 2022
Accounts payable and accrued liabilities	\$ 128,409	\$ 239,750
Lease liability	235,083	271,250
Provision for environmental rehabilitation	24,636	25,516
Current debts	8,949,763	7,976,943
Long-term debt	60,000	60,000
Total financial liabilities	<u>\$ 9,397,891</u>	<u>\$ 8,573,459</u>

ii. Financial instruments at amortized cost

The fair value of the Company's cash and cash equivalents, reclamation security deposits, accounts receivable, and accounts payable and accrued liabilities approximate their carrying values due to their short-term nature. The fair value of the lease liability measured at amortized cost has a fair value of approximately \$232,000 [December 31, 2022 - \$267,000] estimated using an 8% discount rate. The fair value of the current debt measured at amortized cost has a fair value of approximately \$9,064,000 [December 31, 2022 - \$8,440,000] estimated using a 10% discount rate. The fair value of the long-term debt measured at amortized cost has a fair value of approximately \$53,500 [December 31, 2022 - \$49,800] estimated using a 10% discount rate.

iii. Contractual maturities of financial liabilities

The following table details the Company's contractual maturities for its financial liabilities as at September 30, 2023. Payments due by year are as follows:

		September 30, 2023			
	Total	2023	2024	2025	Greater than 3 years
Accounts payable and accrued liabilities	\$ 128,409	\$ 128,409	\$ —	\$ —	\$ —
Lease liability	254,120	—	66,660	68,660	118,800
Provision for environmental rehabilitation	167,569	—	—	—	167,569
Current debt	8,048,651	8,048,651	—	—	—
Long-term debts	60,000	—	—	60,000	—
Accrued interest on long-term debts	1,236,240	1,236,240	—	—	—
	<u>\$9,894,989</u>	<u>\$ 9,413,300</u>	<u>\$66,660</u>	<u>\$ 128,660</u>	<u>\$ 286,369</u>

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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14. INTEREST AND OTHER INCOME

Interest and other income consist of the following for the nine months ended September 30,

	2023	2022
Interest income	\$ 5,710	\$ 5,965
Foreign exchange loss	(497)	(812)
Flow-through share premium income	2,864	—
Loss on disposal of capital assets	—	(60)
Total Interest and Other Income	\$ 8,077	\$ 5,093

15. INCOME TAXES

The Company has non-capital loss carryforwards totaling \$55,726,000, net capital loss carryforwards of \$20,074,000, un-deducted debt and share issuance costs of \$147,000 and unused investment tax credits on pre-production mining costs of \$1,974,000. The non-capital losses will begin to expire in 2026. The Company has completed feasibility studies for its principal project and undertaken related permitting and financing activities. The benefit of certain non-capital losses and undeducted share issuance costs has been recorded in the interim condensed consolidated financial statements only to the extent of existing taxable temporary differences. The potential benefits of these carry-forward non-capital losses, capital losses, and other deductible temporary differences have not been recognized in these interim condensed consolidated financial statements as it is not considered probable that sufficient future taxable profit will allow the erred tax asset to be recovered. A valuation allowance of \$26,940,000 has been recognized related to the uncertainty of realizing the benefit of deferred income tax assets in future years.

Significant components of the Company's deferred income tax assets and liabilities are as follows:

	September 30, 2023 \$	December 31, 2022 \$
Deferred income tax assets		
Net operating loss carryforwards	15,600,000	15,138,000
Undeducted debt and share issuance costs [i]	39,000	29,000
Unused investment tax credits on pre-production costs	1,974,000	1,974,000
Tax value of exploration and evaluation expenditures and capital assets in excess of book value	9,327,000	9,376,000
	26,940,000	26,517,000
Less valuation allowance related to operating losses, share issuance costs and unused investments tax credits	(26,940,000)	(26,517,000)
Deferred income tax assets	—	—

[i] The aggregate deferred tax impact of share issuance costs is charged to share capital.

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The reconciliation of income taxes computed at the statutory income tax rates to the provision for (recovery of) income taxes for the period ended is as follows:

	September 30, 2023 \$	September 30, 2022 \$
Combined federal and provincial/state income tax rate	26.50%	26.50%
Corporate income tax recovery at statutory rate	(538,000)	(475,000)
Increase (decrease) in income taxes resulting from		
Non-deductible stock-based compensation and other expenses	95,000	389,000
Non-deductible change in fair value of derivative	—	(318,000)
Rate difference	(14,000)	(171,000)
Tax value of loss carryforwards not recognized	457,000	575,000
	—	—

16. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are: [i] to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and provide returns for shareholders, and [ii] to maintain a flexible capital structure that optimizes the cost of capital at an acceptable risk. The Company includes the components of shareholders' equity, long-term debts, cash and cash equivalents and short-term investments, if any, in the management of capital.

The Company manages the capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents and short-term investments.

To facilitate the management of its capital requirements, the Company prepares forecasts or expenditure budgets for its activities that are used to monitor performance. Variances to plan will result in adjustments to capital deployment subject to various factors and industry conditions. The Company's activities and associated forecasts or budgets are approved by the Board of Directors.

The Company is not subject to any externally imposed capital requirements limiting or restricting the use of its capital. In order to maximize ongoing development efforts, the Company does not pay out dividends currently.

17. RELATED PARTY TRANSACTIONS

For the nine months ended September 30, 2023, the Company paid key management personnel including officers, directors or their related entities for salaries and benefits and consulting services and/or management services.

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The following compensation was paid or awarded to key management personnel for services provided during the period ended:

	September 30, 2023	September 30, 2022
Salaries and benefits	\$ 124,212	\$ 123,450
Consulting services	235,377	277,390
Fair value of stock options granted	333,000	646,000
	\$ 692,589	\$ 1,046,840

As at September 30, 2023, \$28,515 [2022 - \$14,450] was owing to key management personnel for services provided during the period.

18. LOSS PER SHARE

Basic loss per share is calculated by dividing net loss for the period by the weighted average number of common shares outstanding in each respective period. Diluted loss per share reflects the potential dilution of securities by adding other common stock equivalents in the weighted average number of common shares outstanding during the period, if dilutive.

i. Basic loss per share	September 30, 2023	September 30, 2022
Net loss	\$ (2,030,886)	\$ (1,793,315)
Weighted average number of common shares	469,864,594	375,575,869
Basic loss per share	\$ (0.00)	\$ (0.00)

ii. Diluted loss per share

For calculating diluted loss per share, for the three and nine months ended September 30, 2023 and 2022, the following weighted average options and warrants had an exercise price less than the average market price for the period:

	2023		2022	
	Three months ended September 30,	Nine months ended September 30,	Three months ended September 30,	Nine months ended September 30,
Options	—	1,264,932	—	17,900,000
Warrants	—	—	—	6,667,000
	—	1,264,932	—	24,567,000

The diluted loss per share computation for the nine months ended September 30, 2023 and the nine months ended September 30, 2022, is equal to the basic loss per share as inclusion of the above would have been anti-dilutive.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
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19. CONSOLIDATED STATEMENTS OF CASH FLOWS

Supplemental cash flow information for the nine months ended September 30:

	2023	2022
Interest and investment income received	\$ 5,710	\$ 5,965

20. STANDARDS, AMENDMENTS, AND INTERPRETATIONS

i. Future accounting standards

The Company has not yet determined the full extent of the impact of the following new standards, amendments, and interpretations, which have not been applied in these interim condensed consolidated financial statements :

- IAS 1 amendments on classification – tentatively effective for reporting periods beginning on or after January 1, 2024. On January 23, 2020, the IASB issued ‘Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)’ providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. This amendment was effective for reporting periods beginning on or after January 1, 2023. In June 2021, the IASB tentatively decided to defer the effective date of the 2020 Amendments to IAS 1 by one year, to no earlier than January 1, 2024.