

Interim Condensed Consolidated Financial Statements

Fortune Minerals Limited

March 31, 2024

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

**CONSOLIDATED STATEMENTS OF
FINANCIAL POSITION**

(expressed in Canadian dollars)

Unaudited

As at	March 31, 2024	December 31, 2023
ASSETS		
Current assets		
Cash and cash equivalents <i>[note 10]</i>	225,231	673,635
Accounts receivable	38,420	26,328
Prepaid expenses	64,300	59,772
Total current assets	327,951	759,735
Reclamation security deposits <i>[note 7]</i>	201,448	199,329
Deposits on capital assets <i>[note 4i]</i>	400,000	355,000
Capital assets, net <i>[note 8]</i>	230,605	246,781
Total assets	1,160,004	1,560,845
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities		
Accounts payable and accrued liabilities	216,481	187,451
Lease liability <i>[note 12]</i>	54,665	53,399
Flow-through share premium <i>[note 5i[b]]</i>	185,587	201,427
Current debt <i>[note 11i]</i>	9,495,696	9,274,663
Total current liabilities	9,952,429	9,716,940
Provision for environmental rehabilitation <i>[note 7]</i>	139,719	138,671
Lease liability <i>[note 12]</i>	154,752	169,204
Total liabilities	10,246,900	10,024,815
SHAREHOLDERS' DEFICIENCY		
Share capital and warrants <i>[note 5]</i>	182,028,274	182,028,274
Other reserves <i>[notes 5iii, 6]</i>	17,258,719	17,258,719
Deficit	(208,373,889)	(207,750,963)
Total shareholders' deficiency	(9,086,896)	(8,463,970)
Total liabilities and shareholders' deficiency	1,160,004	1,560,845

See accompanying notes to the consolidated financial statements

See note 2 going concern uncertainty

Commitments and contingencies [notes 11, 12 and 20]

Fortune Minerals Limited**CONSOLIDATED STATEMENTS OF LOSS AND
COMPREHENSIVE LOSS**

(expressed in Canadian dollars)

For the three months ended March 31,

	2024	2023
		(Note 3)
INCOME		
Interest and other income <i>[note 14]</i>	20,513	1,363
Total income	20,513	1,363
EXPENSES		
General and administrative	222,091	252,359
Interest	264,347	321,723
Corporate development	18,194	30,818
Exploration and evaluation expenditures <i>[note 4]</i>	122,631	65,679
Amortization <i>[note 8]</i>	16,176	17,508
Total expenses	643,439	688,087
Net loss and comprehensive loss for the period	(622,926)	(686,724)
Basic and diluted loss per share <i>[note 18]</i>	(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 three months ended March 31,

	2024	2023 (Note 3)
OPERATING ACTIVITIES		
Net loss for the period from continuing operations	(622,926)	(686,724)
Add (deduct) items not involving cash		
Amortization [note 8]	16,176	17,508
Flow-through share premium	(15,840)	—
Interest expense on debentures and loans payable [note 11]	261,033	317,226
Interest expense on lease liability [note 12]	3,314	3,678
Change in fair value related to provision for environmental rehabilitation [note 7]	1,048	574
Changes in non-cash working capital balances related to operations		
Accounts receivable	(12,092)	5,192
Prepaid expenses	(4,528)	(79,790)
Accounts payable and accrued liabilities	29,030	30,667
Cash used in operating activities	(344,785)	(391,669)
INVESTING ACTIVITIES		
Deposits on capital assets	(45,000)	(30,000)
Posting of security for reclamation security deposits	(2,119)	(1,641)
Cash used in investing activities	(47,119)	(31,641)
FINANCING ACTIVITIES		
Lease payments	(16,500)	(5,500)
Proceeds on issuance of units	—	484,100
Share issuance costs	—	(55,290)
Repayment of corporate facility	(40,000)	—
Cash provided (used) by financing activities	(56,500)	423,310
Decrease in cash and cash equivalents during the period, net	(448,404)	—
Cash and cash equivalents, beginning of the period	673,635	78,650
Cash and cash equivalents, end of the period [note 10]	225,231	78,650
Cash and cash equivalents is comprised of the following;		
Cash on hand and balances with banks	83,343	64,906
Short-term investments	141,888	13,744
Supplemental Cash Flow Disclosure		
Shares for debt settlement	—	68,365

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY
(expressed in Canadian dollars)

Unaudited

	Common shares		Warrants		Subtotal	Other reserves	Deficit (Note 3)	Total shareholders' deficiency
	#	\$	#	\$	\$	\$	\$	\$
December 31, 2022	459,751,506	180,098,532	10,025,750	431,499	180,530,031	16,694,979	(204,900,389)	(7,675,379)
Issued as a result of:								
Private offerings	7,892,356	376,549	8,155,356	185,916	562,465	—	—	562,465
Share issuance costs	—	(44,251)	—	(21,039)	(65,290)	—	—	(65,290)
Net income for the period	—	—	—	—	—	—	(686,724)	(686,724)
March 31, 2023	467,643,862	180,430,830	18,181,106	596,376	181,027,206	16,694,979	(205,587,113)	(7,864,928)
December 31, 2023	499,643,862	181,558,107	33,541,106	470,167	182,028,274	17,258,719	(207,750,963)	(8,463,970)
Issued as a result of:								
Net loss for the period	—	—	—	—	—	—	(622,926)	(622,926)
March 31, 2024	499,643,862	181,558,107	33,541,106	470,167	182,028,274	17,258,719	(208,373,889)	(9,086,896)

See accompanying notes to the consolidated financial statements

Fortune Minerals Limited

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2024

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 three months ended March 31, 2024, were authorized for issuance by the Board of Directors on May 13, 2024.

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 \$9,624,478 on March 31, 2024, which includes \$9,495,696 related to debt maturing December 31, 2024, 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. 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. 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. Title Risk

The Company is in the process of exploring its mineral property and the recoverability of the amounts expended on its mineral property is dependent upon future profitable production or proceeds from the disposition of properties.

The business of mining and exploration involves a high degree of risk and there can be no assurance that the Company's exploration programs will result in profitable mining operations. The Company's continued existence is dependent upon the discovery of economically recoverable

Fortune Minerals Limited

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2024

reserves and resources, securing and maintaining title and beneficial interest in its properties, making the required payments pursuant to mineral property option agreements and/or securing additional financing; all of which are uncertain.

Although the Company has taken steps to verify title to exploration properties in which it has an interest in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to other licensing requirements or regulations, social licensing requirements unregistered prior agreements, unregistered claims, aboriginal land claims and non-compliance with regulatory requirements.

iv. Basis of Consolidation

These interim condensed consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Fortune Minerals Limited is the ultimate parent company of the consolidated group. Subsidiaries are consolidated from the date on which the Company obtains control and continue to be consolidated until control ceases. Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. These financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions. Where the ownership of a subsidiary is less than 100%, and a non-controlling interest exists, any losses of that subsidiary are attributed to the non-controlling interests even if that results in a deficit. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

A joint arrangement is defined as one over which two or more parties have joint control, which is the contractually agreed sharing of control over an arrangement. This exists only when the decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control. There are two types of joint arrangements, joint operations ["JO"] and joint ventures ["JV"]. A JO is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. A JV is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. As at March 31, 2024, the Company assessed its investment in Arctos Anthracite as a JV, and has accounted for it under the equity method. During the three months ended March 31, 2024, the Arctos JV did not have any assets or liabilities other than the reclamation security deposit, for which the Company is solely responsible for [Note 4ii, 7].

These interim condensed consolidated financial statements have been prepared on a historical cost basis. In addition, these interim condensed consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

v. 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.

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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"] 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.

vi. *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.

In particular, the Company has identified the following areas where significant judgments, estimates, and assumptions are required. Further information on each of these areas and how they impact the various accounting policies are described below and also in the relevant notes to the financial statements.

[a] *Income, value added, withholding and other taxes*

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
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[b] Share-based payments and warrants

Management estimates the values for share-based payments and warrants using market-based valuation techniques. The fair value of the market-based share awards is determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

[c] Discount rates and lease terms used in application of IFRS 16, Leases

The determination of the Company's lease liabilities and right-of-use assets depends on certain assumptions, which include the selection of the discount rate. The discount rate is set by reference to the Company's incremental borrowing rate. Management determines the incremental borrowing rate for each leased asset by taking into account the Company's credit standing, the guarantee, the term and the value of the underlying leased asset, as well as the economic environment in which the leased asset is operated. Incremental borrowing rates can be changed due to macroeconomic changes in the environment. To determine the appropriate lease term, management considers all relevant facts and circumstances that create an economic incentive for the Company to exercise a renewal option or not to exercise a termination option. The periods covered by the renewal options are included in the lease term only if management is reasonably certain it will renew the lease. Changes in the assumptions used may have a significant effect on the interim condensed consolidated financial statements.

[d] Estimation of decommissioning and reclamation costs and timing of expenditure

The cost estimates are updated annually to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

[e] Valuation of financial instruments

The Company makes estimates and assumptions relating to the fair value measurement and disclosure of its long-term debts. The fair values are determined using a variety of valuation techniques. The inputs to these models are derived from

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observable market data where possible, but where observable market data are not available, management's judgment is required to establish fair values.

[f] *Estimated useful lives and depreciation of property and equipment and right-of-use assets*

Depreciation and amortization of property and equipment and right-of-use assets are dependent upon estimates of useful lives and when the asset is available for use, which are determined through the exercise of judgment and are dependent upon estimates that take into account factors such as economic and market conditions, frequency of use, anticipated changes in laws and technological improvements.

[g] *Impairment of property and equipment and right-of-use assets*

The assessment of any impairment on property and equipment and right-of-use assets is dependent upon estimates of recoverable amounts. As the recoverable amount is the higher of fair value less costs of disposal ["FVLCD"] and value in use ["VIU"], management must consider factors such as economic and market conditions, estimated future cash flows, discount rates and asset-specific risks.

[h] *Going concern*

The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgement. Management monitors future cash requirements to assess the Company's ability to meet these future funding requirements. Further information regarding going concern is outlined in Note 2ii.

3. CHANGE IN ACCOUNTING POLICY

During the year ended December 31, 2023, the Company changed its accounting policy of capitalizing exploration and evaluation expenditures. The Company believes expensing such costs as incurred provides more reliable and relevant financial information. Cost of exploration properties, including the cost of acquiring prospective properties and exploration rights, and exploration and evaluation costs are expensed until it has been established that mineral property is commercially viable. Previously, the Company capitalized these amounts. The interim condensed consolidated financial statements for the three months ended March 31, 2023 have been restated to reflect adjustments made as a result of this change in accounting policy

The change in accounting policy requires full retrospective application. IAS 1 – Presentation of Financials Statements also requires a third statement of financial position be presented. As at December 31, 2022 and January 1, 2022, the following adjustments were recorded to the consolidated statements of financial position:

Fortune Minerals Limited

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2024

	As Previously Reported	Effect of change in accounting policy	As currently reported
As at January 1, 2022			
Capital assets, net	\$ 316,988	\$ 77,092	\$ 394,080
Mining properties	76,049,941	(76,049,941)	—
Deficit	(126,383,375)	(75,972,849)	(202,356,224)
As at December 31, 2022			
Capital assets, net	\$ 258,400	\$ 248,246	\$ 506,646
Mining properties	45,795,993	(45,795,993)	—
Deficit	(159,352,642)	(45,547,747)	(204,900,389)

For the three months ended March 31, 2023, the following adjustments were recorded to the consolidated statements of loss and comprehensive loss:

	As Previously Reported	Effect of change in accounting policy	As currently reported
Three months ended March 31, 2023			
Exploration and evaluation expenditures	\$ —	\$ 65,679	\$ 65,679
Amortization	13,995	3,513	17,508
Total expenses	\$ 618,895	\$ 69,192	\$ 688,087
Net loss and comprehensive loss for the year	\$ 617,532	\$ 69,192	\$ 686,724
Basic and diluted loss per share	(0.00)	(0.00)	(0.00)

For the three months ended March 31, 2023, the following adjustments were recorded to the consolidated statements of cash flows:

	As Previously Reported	Effect of change in accounting policy	As currently reported
Three months ended March 31, 2023			
Net loss for the year from continuing operations	\$ (617,532)	\$ (69,192)	\$ (686,724)
Amortization	13,995	3,513	17,508
Cash used in operating activities	\$ (273,306)	\$ (65,679)	\$ (338,985)
Increase in exploration and evaluation expenditures, net	\$ (59,259)	\$ 59,259	\$ —
Purchase of capital assets, including in mining properties	(36,420)	6,420	(30,000)
Cash used in investing activities	\$ (97,320)	\$ 65,679	\$ (31,641)

4. EXPLORATION AND EVALUATION EXPENDITURES

Exploration and evaluation expenditures incurred by the Company on its properties during the three months ended March 31, 2024 and 2023 were spent on the projects as follows:

	March 31, 2024	March 31, 2023
NICO	\$ 122,631	\$ 65,054
Other Projects	—	625
Total exploration and evaluation expenditures	\$ 122,631	\$ 65,679

Fortune Minerals Limited

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2024

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.

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, 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. The option has been extended on the same terms as the original extension and is set to expire on May 15, 2024 with an increase in monthly option payment of \$25,000 and \$12,500 for April and May 2024, respectively. Subsequent to March 31, 2024, the Company has negotiated a further extension of the term of the option with payment of a \$1,000,000 deposit by May 21, 2024 and completion of the acquisition by June 28, 2024. As at March 31, 2024, the Company has made a total of \$400,000 [December 31, 2023 - \$355,000] in payments as part of the agreement.

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 was completed. Management considers the reclamation to be completed and is awaiting the return of the remainder of the security deposit.

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, expiring May 1, 2025. If both partners do not wish to exercise the repurchase option, each of them may do so individually. No value was attributed to the option at the time of the agreement or as at March 31, 2024.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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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 March 31, 2024, the weighted average number of common shares outstanding was 499,643,862 [December 31, 2023 - 472,850,054].

ii. Share Purchase Warrants

The following is a summary of changes in warrants for the three months ended March 31,

	2024		2023	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Warrants outstanding, beginning of period	33,541,106	\$ 0.08	10,025,750	\$ 0.10
Issue of warrants	—	—	8,155,356	0.10
Warrants outstanding, end of period	33,541,106	\$ 0.08	18,181,106	\$ 0.10

The following is a summary of the outstanding warrants for the three months ended March 31, 2024 and March 31, 2023;

Outstanding Warrants March 31, 2024	Outstanding Warrants March 31, 2023	Expiry Date	Exercise Price \$
—	4,500,000	September 22, 2023	0.11
1,667,000	1,667,000	August 26, 2024	0.10
3,858,750	3,858,750	December 2, 2024	0.08
2,846,643	2,846,643	February 3, 2025	0.10
35,000	35,000	February 3, 2025	0.07
714,285	714,285	March 6, 2025	0.10
4,331,428	4,331,428	March 15, 2025	0.10
228,000	228,000	March 15, 2025	0.07
5,000,000	—	June 15, 2025	0.10
2,100,000	—	October 27, 2025	0.04
11,000,000	—	December 14, 2025	0.07
1,760,000	—	December 14, 2025	0.05
33,541,106	18,181,106		

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', '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.

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2024

6. STOCK-BASED COMPENSATION

A summary of the status of the Company's stock option plan as at March 31, 2024 and December 31, 2023, and changes during the periods ended on those dates are presented below:

	<u>March 31, 2024</u>		<u>December 31, 2023</u>	
	Number	Weighted-	Number	Weighted-
	of shares	average	of shares	average
	#	exercise	#	exercise
		price		price
		\$		\$
Options outstanding, beginning of period	28,200,000	0.08	17,950,000	0.10
Issued	—	—	12,150,000	0.05
Expired	(5,400,000)	0.11	(1,900,000)	0.11
Options outstanding, end of period	22,800,000	0.07	28,200,000	0.08
Options vested and outstanding, end of period	22,800,000	0.07	28,200,000	0.08

The following tables summarizes information about the options outstanding as at March 31, 2024:

<u>March 31, 2024</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 – 0.11	22,800,000	22,800,000	0.07	1.8

[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:

	March 31, 2024	December 31, 2023
NICO Project		
Provision for environmental rehabilitation	\$ 139,719	\$ 138,671
Estimated remaining life	22 years	22 years
Discount rate	3.0%	3.0%
Average inflation rate	2.1%	2.1%
Total provision for environmental rehabilitation	\$ 139,719	\$ 138,671

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.

The following is an analysis of the provision for environmental rehabilitation:

Balance, December 31, 2023	\$ 138,671
Accretion	1,048
Balance, March 31, 2024	\$ 139,719

Reclamation security deposits consist of the following:

	March 31, 2024	December 31, 2023
	Deposit amount	Deposit amount
	\$	\$
NICO Project	174,465	172,649
Arctos Anthracite Project	26,983	26,680
Total Net Book Value	201,448	199,329

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.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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8. CAPITAL ASSETS

Capital assets consist of the following for the periods ending March 31, 2024 and December 31, 2023:

	March 31, 2024	December 31, 2023
Corporate capital assets [a]	189,036	202,583
Capital assets at NICO [b]	41,569	44,198
Total capital assets	\$ 230,605	\$ 246,781

[a] Corporate Capital Assets

	Computer equipment \$	Furniture and fixtures \$	Software \$	Right-to- use Assets \$	Total \$
Cost					
As at December 31, 2023	177,042	107,363	328,690	353,367	966,462
As at March 31, 2024	177,042	107,363	328,690	353,367	966,462
Accumulated amortization					
As at December 31, 2023	172,430	102,640	324,746	164,063	763,879
Amortization for the period	346	236	345	12,620	13,547
As at March 31, 2024	172,776	102,876	325,091	176,683	777,426
Net book value					
As at December 31, 2023	4,612	4,723	3,944	189,304	202,583
As at March 31, 2024	4,266	4,487	3,599	176,684	189,036

[b] Capital Assets at NICO

	Surface facilities \$	Camp structures \$	Mobile equipment \$	Site furniture and equipment \$	Asset retirement obligation ["ARO"] \$	Total \$
Cost						
As at December 31, 2023	1,179,717	593,724	609,813	53,369	6	2,436,629
As at March 31, 2024	1,179,717	593,724	609,813	53,369	6	2,436,629
Accumulated amortization						
As at December 31, 2023	1,152,312	592,763	601,006	46,350	—	2,392,431
Amortization for the period	1,370	72	661	526	—	2,629
As at March 31, 2024	1,153,682	592,835	601,667	46,876	—	2,395,060
Net book value						
As at December 31, 2023	27,405	961	8,807	7,019	6	44,198
As at March 31, 2024	26,035	889	8,146	6,493	6	41,569

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9. EXPENSES BY NATURE

	March 31, 2024	March 31, 2023
Employee and contractor compensation and benefits (i)	\$ 199,742	\$ 202,233
Interest expense on lease liability	3,314	3,678
Amortization	16,176	17,508
Other	356	462

(i) \$123,069 [2023 - \$123,251], \$63,139 [2023 - \$54,198] and \$13,534 [2023 - \$24,784] of employee and contractor compensation benefits are included in general and administrative, exploration and evaluation and corporate development expenses, respectively, on the consolidated statements of loss and comprehensive loss

10. CASH AND CASH EQUIVALENTS

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

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.

11. DEBTS

i. Current Debts

	March 31, 2024	December 31, 2023
Debenture [a]	6,233,421	6,079,818
Loan [b]	3,151,650	3,047,619
Loan [c]	110,625	107,226
CEBA ii[a]	—	40,000
Total current debts	\$ 9,495,696	\$ 9,274,663

[a] The Company has a \$5,298,651 secured debenture outstanding as of March 31, 2024. The debenture is secured by all of the assets of the Company, including the NICO Project. The debenture bears interest at 10% per annum, compounding monthly, and both principal and interest are payable at maturity. The loan matures on December 31, 2024.

For the three months ended March 31, 2024, \$153,603 [December 31, 2023 - \$574,287] was recognized as accretion expense using the effective interest rate method.

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The debenture is summarized as follows for the periods ended March 31, 2024 and December 31, 2023:

	March 31, 2024	December 31, 2023
Debenture	\$ 5,298,651	\$ 5,298,651
Accrued interest	934,770	781,167
	\$ 6,233,421	\$ 6,079,818

- [b] The Company has a secured loan agreement for \$2,750,000 outstanding as of March 31, 2024. The loan is secured by the NICO leases. The loan bears interest at 9% per annum, compounding annually and both principal and interest are payable at maturity. The loan matures on December 31, 2024.

The loan is summarized as follows for the periods ended March 31, 2024 and December 31, 2023:

	March 31, 2024	December 31, 2023
Loan	\$ 3,047,619	\$ 3,007,348
Accrued interest	104,031	40,271
	\$ 3,151,650	\$ 3,047,619

For the three months ended March 31, 2024, \$104,031 [December 31, 2023 - \$703,534] was amortized to interest expense using the effective interest rate method.

- [c] The Company has a secured loan agreement for a maximum amount of \$250,000, of which \$110,000 had been drawn down as at March 31, 2024. The loan is secured by the NICO leases. The loan bears interest at 9% per annum, compounding annually and both principal and interest are payable at maturity. The loan matures on December 31, 2024.

The loan is summarized as follows for the periods ended March 31, 2024 and December 31, 2023:

	March 31, 2024	December 31, 2023
Loan	\$ 107,226	\$ 104,977
Accrued interest	3,399	2,249
	\$ 110,625	\$ 107,226

For the three months ended March 31, 2024, \$3,399 [December 31, 2023 - \$2,249] was amortized to interest expense using the effective interest rate method.

- [d] 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

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response to the global COVID-19 health crisis and has been implemented by financial institutions in cooperation with Export Development Canada.

The CEBA loan was fully repaid by January 18, 2024, and as a result of fully repaying the loan by the deadline, one third, or \$20,000, of the loan was forgiven. The \$20,000 was recorded at December 31, 2023 as an offset to general and administrative expenses.

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%. The Company recorded a Right-to-use Asset [ROU Asset] in capital assets [Note 8] and corresponding lease liability. The ROU Asset is being amortized over the term of the lease, including the estimated extension of the lease terms. Effective September 2022, the Company renewed its lease for a 2-year term.

The lease liability is summarized as follows for the three months ended March 31,

	2024	2023
Opening balance	\$ 222,603	\$ 271,250
Interest Expense	3,314	4,497
Lease Payments	(16,500)	(16,500)
	<u>\$ 209,417</u>	<u>\$ 259,247</u>
Current portion of lease liability	\$ 54,665	\$ 49,830
Long-term portion of lease liability	<u>\$ 154,752</u>	<u>\$ 209,417</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, commodity 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, and current debts.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below. There have been no significant changes in the risks, objectives, policies and procedures for managing risk during the three months ended March 31, 2024.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's credit risk is primarily attributable to cash and cash equivalents, reclamation security deposits and amounts receivable. Cash and cash equivalents and reclamation security deposits are held with major banks in Canada.

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Amounts receivable are due from the government of Canada. Management believes that the credit risk with respect to its financial instruments is remote.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at March 31, 2024, the Company's current assets of \$327,951 [December 31, 2023 - \$759,735] were not sufficient to settle current liabilities. All of the Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Foreign Currency Risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. Management believes the foreign exchange risk derived from currency conversions at this time are small and therefore, does not hedge its foreign exchange risk.

i. Financial instruments by category

Financial assets

	Financial assets at amortized cost	
	March 31, 2024	December 31, 2023
Cash and cash equivalents	\$ 225,231	\$ 673,635
Reclamation security deposits	201,448	199,329
Accounts receivable	38,420	26,328
Total financial assets	<u>\$ 465,099</u>	<u>\$ 899,292</u>

Financial liabilities

	Financial liabilities at amortized cost	
	March 31, 2024	December 31, 2023
Accounts payable and accrued liabilities	\$ 216,481	\$ 187,451
Lease liability	209,417	222,603
Current debts	9,495,696	9,274,663
Long-term debt	—	—
Total financial liabilities	<u>\$ 9,921,594</u>	<u>\$ 9,684,717</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 \$208,000 [December 31, 2023 - \$220,000] estimated using an 8% discount

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rate. The fair value of the current debt measured at amortized cost has a fair value of approximately \$9,329,000 [December 31, 2023 - \$9,070,000] estimated using a 14.5% discount rate.

As at March 31, 2024, the Company had no financial instruments carried at fair value to classify in the fair value hierarchy.

iii. Contractual maturities of financial liabilities

The following table details the Company's contractual maturities for its financial liabilities as at March 31, 2024. Payments due by year are as follows:

	Total	March 31, 2024			
		2024	2025	2026	Greater than 3 years
Accounts payable and accrued liabilities	\$ 216,481	\$ 216,481	\$ —	\$ —	\$ —
Lease liability	237,620	50,160	68,660	70,720	48,080
Provision for environmental rehabilitation	167,569	—	—	—	167,569
Current debt	8,158,651	8,158,651	—	—	—
Accrued interest on long-term debts	2,172,734	2,172,734	—	—	—
	\$10,953,055	\$ 10,598,026	\$68,660	\$ 70,720	\$ 215,649

14. INTEREST AND OTHER INCOME

Interest and other income consist of the following for the three months ended March 31,

	2024	2023
Interest income	\$ 5,029	\$ 1,825
Foreign exchange loss	(356)	(462)
Flow-through share premium income	15,840	—
Total Interest and Other Income	\$ 20,513	\$ 1,363

15. INCOME TAXES

The Company has non-capital loss carryforwards totaling \$59,950,000, net capital loss carryforwards of \$20,131,000, un-deducted debt and share issuance costs of \$219,800 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 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

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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.

Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:

	March 31, 2024 \$	December 31, 2023 \$
Deferred income tax assets		
Net operating loss carryforwards	15,755,000	15,300,000
Undeducted debt and share issuance costs	58,000	63,000
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	16,321,000	15,780,000
Total temporary differences	34,108,000	33,117,000

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

	March 31, 2024 \$	March 31, 2023 \$
Combined federal and provincial/state income tax rate	26.50%	26.50%
<u>Net Loss</u>	<u>(622,926)</u>	<u>(686,724)</u>
Corporate income tax recovery at statutory rate	(165,000)	(182,000)
Increase (decrease) in income taxes resulting from		
Non-deductible stock-based compensation and other expenses	1,500	48,000
Tax value of loss carryforwards not recognized	163,500	134,000
	—	—

16. 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

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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.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the Toronto Stock Exchange ("TSX") which requires adequate working capital or financial resources such that, in the opinion of TSX, the listed issuer will be able to continue as a going concern. TSX will consider, among other things, the listed issuer's ability to meet its obligations as they come due, as well as its working capital position, quick asset position, total assets, capitalization, cash flow and earnings as well as accountants' or auditors' disclosures in the interim condensed consolidated financial statements regarding the listed issuer's ability to continue as a going concern.

17. RELATED PARTY TRANSACTIONS

For the three months ended March 31, 2024, the Company paid key management personnel including officers, directors or their related entities for salaries and benefits and consulting services and/or management services.

The following compensation was earned by key management personnel for services provided during the period ended:

	March 31, 2024	March 31, 2023
Salaries and benefits	\$ 43,642	\$ 43,206
Consulting services	90,535	96,765
	\$ 134,177	\$ 139,971

As at March 31, 2024, \$25,400 [2023 - \$47,746] was owing to key management personnel for services provided during the period. Amounts outstanding are unsecured, not-interest bearing with no fixed terms of repayment.

18. BASIC AND DILUTED 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 year. Diluted loss per share, which reflects the maximum possible dilution from the potential exercise of outstanding stock options and warrants is the same as basic loss per share. For the three months ending March 31, 2024 and 2023, the conversion of stock options and warrants was not included in the diluted loss per share calculation because the calculation would be anti-dilutive.

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	March 31, 2024	March 31, 2023
Net loss	\$ (622,926)	\$ (686,724)
Weighted average number of common shares	499,643,862	460,293,422
Basic loss per share	\$ (0.00)	\$ (0.00)

19. STANDARDS, AMENDMENTS, AND INTERPRETATIONS

i. New accounting standards

- IAS 1 – Presentation of Financial Statements [“IAS 1”] – effective for the December 31, 2024 year end. This standard has been adopted by the Company and there is no significant impact on the Company’s consolidated financial statements.

20. COMMITMENT AND CONTINGENCIES

The Company's exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and are generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

Pursuant to the terms of the flow-through share agreements, the Company is required to comply with its flow-through contractual obligations with subscribers with respect to the Income Tax Act (Canada). The Company has indemnified the subscribers of current and previous flow-through share offerings against any tax related amounts that become payable by the shareholder as a result of the Company not meeting its expenditure commitments. The Company is committed to incur flow-through eligible expenditures of \$1,407,990 by December 31, 2024.