

Consolidated Financial Statements

**Fortune Minerals Limited**

December 31, 2022 and 2021

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## Independent Auditor's Report

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### To the Shareholders of Fortune Minerals Limited

#### Opinion

We have audited the consolidated financial statements of Fortune Minerals Limited and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021 and the consolidated statements of loss and comprehensive loss, cash flows and changes in shareholders' equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

#### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Group requires further funding to extinguish debentures maturing in December 2023 and advance its mining projects through to production. As stated in Note 2, these events and conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern we have determined the matters described below to be the key audit matters to be communicated in our report.

## *Impairment of capitalized exploration and evaluation expenditures*

### **Description of the key audit matter**

Exploration and evaluation assets are the most significant item on the Group's financial statements. The assessment of whether there are indicators of impairment is subject to professional judgment. The identification of impairment events is judgmental and the determination of an impairment charge is subject to estimation. The assessment is also sensitive to changes in assumptions, in particular with respect to estimate of cost of capital expenditures, operating costs, future commodity prices, future foreign exchange rates and discount rates.

### **How our audit addressed the key audit matter**

Our audit approach specifically focused on the valuation of the NICO mining property. Our procedures included, among others, using internal valuation experts assisting us in evaluating the model and assumptions used, in particular the expected capital expenditures, operating costs, future commodity prices, future exchange rates and discount rates, which are key to the outcome of the impairment test.

We further focused on the adequacy of the Company's disclosures on the accounting policy for impairment in Note 2 and disclosures on key assumptions of the asset impairment in Note 4 of the financial statements. Refer to notes 3 and 4 which detail the impairment during the year.

### **Other Information**

Management is responsible for the other information. The other information comprises:

- The information included in the Management's Discussion and Analysis of Financial Conditions and Results of Operations for the year ended December 31, 2022.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management's Discussion and Analysis of Financial Conditions and Results of Operations for the year ended December 31, 2022 prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

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

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

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

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences



of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lillian Krascic.

*BDO Canada LLP*

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario

May 19, 2023

## RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements and the Management Discussion and Analysis are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise as they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis given currently available information to ensure that the consolidated financial statements are presented fairly, in all material respects.

The Company maintains systems of internal accounting and administrative controls in order to provide, on a reasonable basis, assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board, and its members are outside directors. The Committee meets with management as well as the external auditors to discuss auditing matters and financial reporting issues and to review the consolidated financial statements, the Management's Discussion and Analysis and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or reappointment of the external auditors.

The consolidated financial statements have been audited by BDO Canada LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of shareholders. The external auditors have free access to the Audit Committee.

*[Signed]*  
Robin Goad  
*President and*  
*Chief Executive Officer*

*[Signed]*  
Patricia Penney  
*Interim Chief*  
*Financial Officer*

**Fortune Minerals Limited**  
Incorporated under the laws of Ontario

**CONSOLIDATED STATEMENTS OF  
FINANCIAL POSITION**  
(expressed in Canadian dollars)

As at	December 31, 2022	December 31, 2021
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents <i>[note 10]</i>	78,650	1,802,920
Reclamation security deposits <i>[note 7]</i>	25,592	25,249
Accounts receivable	82,083	194,039
Prepaid expenses	51,966	65,922
<b>Total current assets</b>	<b>238,291</b>	<b>2,088,130</b>
Reclamation security deposits <i>[note 7]</i>	153,143	151,088
Capital assets, net <i>[note 8]</i>	258,400	316,988
Mining properties <i>[note 3]</i>	45,795,993	76,049,941
	<b>46,445,827</b>	<b>78,606,147</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	239,750	440,266
Lease liability <i>[note 12]</i>	48,647	43,665
Current debt <i>[note 11i]</i>	7,976,943	11,426,277
<b>Total current liabilities</b>	<b>8,265,340</b>	<b>11,910,208</b>
Provision for environmental rehabilitation <i>[note 7]</i>	25,516	23,409
Lease liability <i>[note 12]</i>	222,603	271,250
Long-term debts <i>[note 11ii]</i>	60,000	1,343,008
Derivatives <i>[note 5ii[b]]</i>	—	1,200,000
<b>Total liabilities</b>	<b>8,573,459</b>	<b>14,747,875</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital <i>[note 5]</i>	180,530,031	174,430,765
Other reserves <i>[notes 5 and 6]</i>	16,694,979	15,810,882
Deficit	(159,352,642)	(126,383,375)
<b>Total shareholders' equity</b>	<b>37,872,368</b>	<b>63,858,272</b>
	<b>46,445,827</b>	<b>78,606,147</b>

*See accompanying notes to the consolidated financial statements*  
*See note 2 going concern uncertainty*

*[Signed]*

Robin Goad  
Director

*[Signed]*

Mahendra Naik  
Director

**Fortune Minerals Limited**

**CONSOLIDATED STATEMENTS OF LOSS AND  
COMPREHENSIVE LOSS**

(expressed in Canadian dollars)

For the year ended December 31,

	2022	2021
<b>REVENUE AND OTHER INCOME</b>		
Interest and other income <i>[note 14]</i>	7,861	276,961
	<b>7,861</b>	276,961
<b>EXPENSES</b>		
General and administrative	915,853	781,653
Stock-based compensation <i>[note 6]</i>	587,180	299,205
Interest	2,107,307	1,568,798
Corporate development	575,339	86,175
Amortization <i>[note 8]</i>	58,142	60,887
Change in fair value related to derivative liability <i>[note 5ii.[b]]</i>	(1,200,000)	(106,541)
Gain on extinguishment of debt <i>[notes 5i[d] and 11i[b]]</i>	(1,266,693)	—
Impairment Charge <i>[notes 3 and 4]</i>	31,200,000	—
	<b>32,977,128</b>	2,690,177
<b>Net loss and comprehensive loss for the year</b>	<b>(32,969,267)</b>	(2,413,216)
<b>Basic and diluted loss per share <i>[note 18]</i></b>	<b>(0.09)</b>	(0.01)

*See accompanying notes to the consolidated financial statements*

**Fortune Minerals Limited**

# **CONSOLIDATED STATEMENTS OF CASH FLOWS**

(expressed in Canadian dollars)

For the year ended December 31,

	2022	2021
<b>OPERATING ACTIVITIES</b>		
Net loss for the year from continuing operations	(32,969,267)	(2,413,216)
Add (deduct) items not involving cash		
Accretion	2,107	(7,366)
Amortization	58,142	60,887
Flow-through share premium	—	(273,835)
Stock-based compensation	587,180	299,205
Non-cash portion of interest expense [note 11i.]	1,163,670	935,122
Non-cash portion of lease expense	(43,665)	(39,495)
Loss on disposal of capital assets	347	—
Change in fair value related to derivative liability	(1,200,000)	(106,541)
Gain on extinguishment of debt [notes 5i[d] and 11i[b]]	(1,266,693)	—
Non-cash financing activities [notes 5i[a] and [e]]	416,418	—
Impairment charge	31,200,000	—
Changes in non-cash working capital balances related to operations		
Accounts receivable	111,956	(125,502)
Prepaid expenses	13,956	(10,203)
Accounts payable and accrued liabilities	(200,516)	253,784
Accrued interest on debt [note 11i.]	924,101	612,572
<b>Cash used in operating activities</b>	<b>(1,202,264)</b>	<b>(814,588)</b>
<b>INVESTING ACTIVITIES</b>		
Increase in exploration and evaluation expenditures, net	(386,081)	(1,320,522)
Purchase of capital assets, including in mining properties	(339,052)	(93,455)
Posting of security for reclamation security deposits, net	(2,398)	(480)
Receipt of reclamation security deposit	—	45,000
Proceeds on disposal of capital assets	1,200	—
<b>Cash used in investing activities</b>	<b>(726,331)</b>	<b>(1,369,457)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds on issuance of units, net	224,745	948,711
Proceeds on exercise of warrants	—	146,433
Proceeds on exercise of options	38,000	339,500
Proceeds on issuance of debt, net [note 11i[a]]	1,191,580	1,473,437
Repayment of debt	(1,250,000)	—
<b>Cash provided by financing activities</b>	<b>204,325</b>	<b>2,908,081</b>
<b>Increase (decrease) in cash and cash equivalents during the year, net</b>	<b>(1,724,270)</b>	<b>724,036</b>
Cash and cash equivalents, beginning of year	1,802,920	1,078,884
<b>Cash and cash equivalents, end of year [note 10]</b>	<b>78,650</b>	<b>1,802,920</b>

See accompanying notes to the consolidated financial statements

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

	Common shares		Warrants		Subtotal	Other reserves	Deficit	Total shareholders' equity
	#	\$	#	\$	\$	\$	\$	\$
<b>December 31, 2020</b>	<b>361,716,886</b>	<b>172,508,747</b>	<b>1,531,833</b>	<b>29,874</b>	<b>172,538,621</b>	<b>15,611,882</b>	<b>(123,970,159)</b>	<b>64,180,344</b>
Issued as a result of:								
Private offerings	7,442,825	931,635	6,435,713	370,361	1,301,996	—	—	1,301,996
Share issuance costs	—	(82,221)	—	(11,064)	(93,285)	—	—	(93,285)
Exercise of warrants	1,531,833	177,618	(1,531,833)	(31,185)	146,433	—	—	146,433
Exercise of stock options	3,400,000	537,000	—	—	537,000	(197,500)	—	339,500
Stock options granted	—	—	—	—	—	396,500	—	396,500
Net loss for the year	—	—	—	—	—	—	(2,413,216)	(2,413,216)
<b>December 31, 2021</b>	<b>374,091,544</b>	<b>174,072,779</b>	<b>6,435,713</b>	<b>357,986</b>	<b>174,430,765</b>	<b>15,810,882</b>	<b>(126,383,375)</b>	<b>63,858,272</b>
Issued as a result of:								
Private offerings <i>[notes 5i,[a][b] and 11i,[a]]</i>	85,259,962	5,986,670	5,525,750	174,798	6,161,468	—	—	6,161,468
Share issuance costs <i>[note 5i,[b]]</i>	—	(23,317)	—	(1,988)	(25,305)	—	—	(25,305)
Exercise of stock options <i>[note 6]</i>	400,000	62,400	—	—	62,400	(24,400)	—	38,000
Stock options granted <i>[note 6]</i>	—	—	—	—	—	809,200	—	809,200
Expiration of warrants <i>[note 5ii,[a]]</i>	—	—	(1,935,713)	(99,297)	(99,297)	99,297	—	—
Net loss for the year	—	—	—	—	—	—	(32,969,267)	(32,969,267)
<b>December 31, 2022</b>	<b>459,751,506</b>	<b>180,098,532</b>	<b>10,025,750</b>	<b>431,499</b>	<b>180,530,031</b>	<b>16,694,979</b>	<b>(159,352,642)</b>	<b>37,872,368</b>

See accompanying notes to the consolidated financial statements

## **Fortune Minerals Limited**

# **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2022 and 2021

## **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 consolidated financial statements of Fortune Minerals Limited ["the Company"] for the year ended December 31, 2022, were authorized for issuance by the Board of Directors on May 12, 2023.

## **2. BASIS OF PRESENTATION**

### *i. Statement of Compliance*

These 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"].

### *ii. Going Concern of Operations*

These 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 \$8,027,049 on December 31, 2022, which includes \$7,976,943 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 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 consolidated financial statements are presented in Canadian dollars ["CDN"], which is also the Company's and its subsidiaries' functional currency.

These 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.

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

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

#### *iv. Judgments and Estimates*

The preparation of 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 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 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 debentures, warrant values, derivatives, share based compensation, asset retirement obligation, interest expense and accretion.

#### **[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 consolidated financial statements, the notes to the consolidated financial statements were ordered such that the most relevant information was presented earlier in the notes

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

and the disclosures that management deemed to be immaterial were excluded from the notes to consolidated financial statements. The determination of the relevance and materiality of disclosures involves significant judgment.

### 3. MINING PROPERTIES

The Company capitalizes exploration and evaluation expenditures, including directly attributable salary and overhead costs relating to mineral properties until the costs are expected to be recouped through the successful development of the area of interest [or alternatively by its sale], or where activities in the area have not yet reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves, and active operations are continuing or planned for the future.

As at December 31, 2022, 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:

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

	December 31, 2021			
	Capital Assets \$	Property Costs \$	Exploration and Evaluation Expenditures \$	Total Mining Properties \$
NICO [i]	6,770,583	2,191,442	66,897,363	75,859,388
Sue-Dianne	—	9,164	168,950	178,114
Other properties	—	—	12,439	12,439
	<b>6,770,583</b>	<b>2,200,606</b>	<b>67,078,752</b>	<b>76,049,941</b>

During the year ended December 31, 2022, Property Costs decreased by \$890,919 [December 31, 2021 – Nil], Exploration and Evaluation Expenditures decreased by \$26,882,358 [December 31,

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

2021 – increased by \$1,423,253] and Capital Assets decreased by \$2,461,825 [December 31, 2021 – increased by \$105,068]. There were no disposals, write-offs or amortization during the year ended December 31, 2022, except for \$18,846 [December 31, 2021 - \$19,771] of amortization of capital assets and recognition of an impairment charge of \$31,200,000 which has been allocated to Capital Assets, Property Costs and Exploration and Evaluation Expenditures in the amounts of \$2,898,886, \$890,919 and \$27,410,195, respectively. See Note 4 for additional disclosure on impairment.

Exploration and evaluation expenditures capitalized to mining properties during the year ended December 31, 2022 and 2021 include the following:

	<b>December 31, 2022</b>	December 31, 2021
Employee and contractor compensation and benefits	<b>\$ 289,470</b>	\$ 443,055
Amortization	<b>18,846</b>	19,771
Stock-based compensation	<b>122,910</b>	82,960

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

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 \$
<b>Cost</b>								
As at December 31, 2020	6,580,916	1,179,717	593,724	595,034	50,655	25,000	6	9,025,052
Additions	87,575	—	—	14,779	2,714	—	—	105,068
<b>As at December 31, 2021</b>	<b>6,668,491</b>	<b>1,179,717</b>	<b>593,724</b>	<b>609,813</b>	<b>53,369</b>	<b>25,000</b>	<b>6</b>	<b>9,130,120</b>
<b>Accumulated amortization</b>								
As at December 31, 2020	—	1,126,180	590,923	588,885	33,778	—	—	2,339,766
Amortization for the year	—	10,711	840	2,953	5,267	—	—	19,771
<b>As at December 31, 2021</b>	<b>—</b>	<b>1,136,891</b>	<b>591,763</b>	<b>591,838</b>	<b>39,045</b>	<b>—</b>	<b>—</b>	<b>2,359,537</b>
<b>Net book value</b>								
As at December 31, 2020	6,580,916	53,537	2,801	6,149	16,877	25,000	6	6,685,286
<b>As at December 31, 2021</b>	<b>6,668,491</b>	<b>42,826</b>	<b>1,961</b>	<b>17,975</b>	<b>14,324</b>	<b>25,000</b>	<b>6</b>	<b>6,770,583</b>
<b>Cost</b>								
As at December 31, 2021	6,668,491	1,179,717	593,724	609,813	53,369	25,000	6	9,130,120
Additions	247,061	—	—	—	—	190,000	—	437,061
Impairment Charge	(2,898,886)	—	—	—	—	—	—	(2,898,886)
<b>As at December 31, 2022</b>	<b>4,016,666</b>	<b>1,179,717</b>	<b>593,724</b>	<b>609,813</b>	<b>53,369</b>	<b>215,000</b>	<b>6</b>	<b>6,668,295</b>
<b>Accumulated amortization</b>								
As at December 31, 2021	—	1,136,891	591,763	591,838	39,045	—	—	2,359,537
Amortization for the year	—	8,568	588	5,393	4,297	—	—	18,846
<b>As at December 31, 2022</b>	<b>—</b>	<b>1,145,459</b>	<b>592,351</b>	<b>597,231</b>	<b>43,342</b>	<b>—</b>	<b>—</b>	<b>2,378,383</b>
<b>Net book value</b>								
As at December 31, 2021	6,668,491	42,826	1,961	17,975	14,324	25,000	6	6,770,583
<b>As at December 31, 2022</b>	<b>4,016,666</b>	<b>34,258</b>	<b>1,373</b>	<b>12,582</b>	<b>10,027</b>	<b>215,000</b>	<b>6</b>	<b>4,289,912</b>

Included in surface facilities under construction during the year ended December 31, 2022, is \$102,917 [December 31, 2021 - \$64,209] of directly attributable employee and contractor compensation and benefits and \$99,110 [December 31, 2021 - \$14,335] of stock-based compensation.

## **Fortune Minerals Limited**

# **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2022 and 2021

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

The NICO project and the related claims 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 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 June 30, 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 attributed to the option at the time of the agreement or as at the year ended December 31, 2022.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2022 and 2021

### **4. ASSET IMPAIRMENT**

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

As at December 31, 2022, the Company considered whether there had been any significant changes to impairment indicators from its previous impairment assessment completed at December 31, 2021 and whether any new indicators were present. Management determined that as a result of obtaining limited financing during the year and a significant prolonged increase in the rate of inflation, 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 the NICO project exceeded the recoverable amount. The recoverable amount of the NICO project was determined based on the NICO project's value in use. The Company estimated the value in use of the NICO project using a discount rate of 9.4% [December 31, 2021 – 8%]. The relevant assets were impaired to their recoverable amounts of \$45,602,638 [December 31, 2021 - \$75,859,388], which is the carrying value at December 31, 2022 and an impairment of \$31,200,000 [December 31, 2021 - \$Nil] has been recognized on the consolidated statements of loss and comprehensive loss. The assumptions used in determining the value in use for the NICO project are 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 9.4% was used in the cash flow analysis.

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:

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

Change in Model Key Input	Change in Recoverable Amount of NICO \$ million December 31, 2022	Change in Recoverable Amount of NICO \$ million December 31, 2021
Effect of:		
Increase/decrease discount rate by 1%	\$ (40)/48	\$ (62)/71
Increase/decrease exchange rate by \$0.01	(14)/14	(18)/19
Increase/decrease gold price by \$100	20/(20)	28/(28)
Increase/decrease cobalt price by \$1	24/(23)	29/(29)
Increase/decrease bismuth price by \$1	19/(19)	27/(27)
Increase/decrease operating costs by 5%	(27)/27	(34)/34

## 5. SHARE CAPITAL AND RESERVES

The Company's common shares, share warrants and flow-through shares are classified as equity instruments, except for the warrants described in ii[a] below, which are classified as a derivative liability.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of taxes, from the proceeds.

Any premium between the amount recognized in common shares and the amount that investors pay for flow-through shares is recognized as a liability, which is recognized as income on flow-through share premium when the eligible expenditures have been renounced.

### i. Common Shares

The Company is authorized to issue an unlimited number of common shares without par value. As of December 31, 2022, the weighted average number of common shares outstanding was 383,335,164 [December 31, 2021 - 365,416,852].

[a] On June 24, 2022, the Company issued 457,456 common shares at a price of \$0.1093 per share [being the 5-day volume weighted average price of the Company's common shares on the TSX as at close of trading on May 12, 2022] as partial consideration for the services provided by Haywood Securities Inc. ["Haywood"]. Fortune has engaged Haywood to act as financial advisor to the Company to support its near-term financing objectives. This \$50,000 initial engagement fee and related share issuance cost is included in the line corporate development on the consolidated statements of loss and comprehensive loss.

[b] On August 18, 2022, the Company issued an aggregate of 3,500,000 common shares of the Company ["the Extension Shares"] to the holders of the 2015 Debentures at a deemed price of \$0.10 per Extension Share as additional consideration for the extension of the

## Fortune Minerals Limited

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

maturity date of the 2015 Debentures from August 12, 2022 to November 30, 2022. The fair value of the shares issued was \$350,000. See Note 11 for additional disclosure related to the debt extension.

- [c] On August 26, 2022, the Company entered into a subscription agreement to sell 3,334,000 units at a price of \$0.075 per unit, raising gross proceeds of \$250,050. Each unit consists of one common share and one half of a common share purchase warrant. One warrant entitles the holder to purchase one common share of the Company for \$0.10 on or before August 26, 2024. The fair value of the shares and warrants issued was \$194,600 and \$55,450, 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 of 108.21%, risk free interest rate of 3.56% and expected life of 2 years. Share issuance costs of \$6,709 were incurred to complete the financing.
- [d] On November 30, 2022, the Company entered into an agreement with one of the holders of the 2015 Debentures to retire its debt for a cash payment of \$1,250,000 and the remainder in common shares. An aggregate of 73,500,000 common shares of the Company was issued, on December 2, 2022, at a deemed price of approximately \$0.082 per share to settle the balance of \$6,030,173. The fair value of the shares issued was \$5,145,000 based on the share price on the TSX as at close of trading on November 30, 2022. The difference of \$885,173 was allocated to a gain on extinguishment of debt on the Consolidated Statements of Loss and Comprehensive Loss. Share issuance costs of \$17,059 were incurred to complete this share issuance. See Note 11 for additional disclosure related to the debt settlement.
- [e] On December 2, 2022, the Company issued 4,468,506 shares and 3,858,750 warrants to its financial advisor in lieu of \$366,418 of fees earned on the debt settlement. One warrant entitles the holder to purchase one common share of the Company for \$0.082 on or before December 2, 2024. The fair value of the shares and warrants issued was \$247,070 and \$119,348 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 of 109.86%, risk free interest rate of 3.72% and expected life of 2 years. Share issuance costs of \$1,537 were incurred to complete the financing.
- [f] Subsequent to December 31, 2022, the Company entered into subscription agreements to sell 7,892,356 units 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. 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. These warrants have an exercise price of \$0.07 and can be exercised within two years of issuance.

## ii. Share Purchase Warrants

The following is a summary of changes in warrants for the year ended December 31,

## Fortune Minerals Limited

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

	2022		2021	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Warrants outstanding, beginning of year	6,435,713	\$ 0.14	1,531,833	\$ 0.10
Issue of warrants [note 5i.[c] and [e]]	5,525,750	0.10	6,435,713	0.14
Exercise of warrants	—	—	(1,531,833)	0.10
Expiry of Warrants [note 5ii.[a]]	(1,935,713)	0.20	—	—
Warrants outstanding, end of year	10,025,750	\$ 0.10	6,435,713	\$ 0.14

[a] During the year ended December 31, 2022, 1,935,713 [December 31, 2021 – Nil] warrants with an exercise price of \$0.20 expired unexercised. These warrants had a book value of \$99,297.

[b] The warrants issued on August 12, 2015, were subject to adjustment from time to time in the event of Share Reorganizations, Rights Offerings, Special Distributions, General Offerings and Capital Reorganizations, such that the warrants would not result in a fixed number of shares being issued for a fixed amount of consideration. As a result, the warrants were classified as a financial liability [derivative] and revalued at each reporting period. The change in the warrants fair value is reported on the Consolidated Statements of Loss and Comprehensive Loss. These warrants expired on August 12, 2022.

The following is a summary of changes in derivatives for the year ended December 31,

	2022	2021
	Class B	Class B
Derivatives outstanding, beginning of year	52,683,043	52,683,043
Expiration of derivatives	(52,683,043)	—
Derivatives outstanding, end of year	—	52,683,043

### 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 Company has a fixed stock-based compensation plan, approved by the shareholders at the Company's annual meeting held on June 22, 2005. The plan was most recently confirmed and approved at the Company's annual meeting held on June 23, 2020. Under the plan, the Company

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

may grant options to eligible individuals for up to 10% of the issued and outstanding common shares, subject to certain conditions. As at December 31, 2022, the Company has 27,525,151 [2021 – 26,509,154] options available for grant in addition to any options issued and outstanding. The exercise price of each option is equal to or higher than the market price of the Company's stock on the date of grant. The plan does not provide for a maximum term. Options are granted and their terms determined at the discretion of the Board of Directors.

The Company recognizes an expense for option awards using the fair value method of accounting based on the Black-Scholes model. The expense is capitalized to a similar extent as the optionee's salary, wages or fees are capitalized.

The estimated fair value of 11,900,000 options granted during the year ended December 31, 2022 [2021 – 6,500,000] has been allocated to stock-based compensation expenses and mining properties in the amounts of \$587,180 [2021 - \$299,205] and \$222,020 [2021 – 97,295], respectively. The other reserves balance was increased by \$809,200 [2021 - \$396,500], representing the fair value of the options granted. The options granted have a maximum term of three years [2021 – 3 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% [2021 – 0%], expected volatility of 109.17% [2021 – 111.38%], risk free interest rate of 2.60% [2021 – 0.17%] and expected life of 2.75 years [2021 – 2.75 years].

A summary of the status of the Company's stock option plan as at December 31, 2022 and December 31, 2021, and changes during the year ended on those dates are presented below:

	<u>December 31, 2022</u>		<u>December 31, 2021</u>	
	Number of shares #	Weighted- average exercise price \$	Number of shares #	Weighted- average exercise price \$
<b>Options outstanding, beginning of year</b>	<b>9,800,000</b>	<b>0.13</b>	10,550,000	0.14
Issued	<b>11,900,000</b>	<b>0.105</b>	6,500,000	0.095
Exercised	<b>(400,000)</b>	<b>0.095</b>	(3,400,000)	0.10
Expired	<b>(3,350,000)</b>	<b>0.185</b>	(3,850,000)	0.12
<b>Options outstanding, end of year</b>	<b>17,950,000</b>	<b>0.10</b>	9,800,000	0.13
<b>Options vested and outstanding, end of year</b>	<b>17,950,000</b>	<b>0.10</b>	9,800,000	0.13

During the year ended December 31, 2022, 400,000 [2021 – 3,400,000] stock options with a book value of \$24,400 [2021 - \$197,500] were exercised raising gross proceeds of \$38,000 [2021 - \$339,500] and 3,350,000 [2021 – 3,850,000] options expired unexercised. Subsequent to year end, 1,900,000 options expired unexercised.

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

The following table summarizes information about the options outstanding as at December 31, 2022:

December 31, 2022				
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	17,950,000	17,950,000	0.10	2.17

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

December 31, 2021				
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	9,800,000	9,800,000	0.13	1.45

[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

Provision is made for asset retirement, restoration and for environmental rehabilitation costs [which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas] in the financial period when the related environmental disturbance occurs, resulting in a legal or constructive obligation to the Company. 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.

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

	December 31, 2022	December 31, 2021
<b>NICO Project</b>		
Provision for environmental rehabilitation	\$ 25,516	\$ 23,409
Estimated remaining life	20 years	20 years
Discount rate	9%	9%
<b>Total provision for environmental rehabilitation</b>	<b>\$ 25,516</b>	<b>\$ 23,409</b>

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

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 \$143,000 and \$25,000, respectively.

Reclamation security deposits consist of the following:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
	Deposit amount \$	Deposit amount \$
NICO Project	153,143	151,088
Arctos Anthracite Project	25,592	25,249
Total Net Book Value	178,735	176,337

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.

Subsequent to December 31, 2022, the reclamation security deposit held for the NICO project was increased from \$143,000 to \$167,569, upon renewal of its land use permit.

#### 8. CAPITAL ASSETS

Expenditures incurred to replace a component of an item of capital assets that is accounted for separately are capitalized. Amortization of corporate capital assets and capital assets used in the exploration and evaluation phase is recorded using the declining balance method, with management reviewing the useful lives of capital assets at each consolidated statement of financial position reporting date to verify the asset is being amortized over a period equivalent to the useful life of the asset.

The assets are amortized at the following rates:

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

<b>Asset class</b>	<b>Rate of amortization %</b>
Surface facilities	20
Furniture and fixtures	20 to 30
Camp structures	30
Mobile equipment	30
Computer equipment	30
Site furniture and equipment	30
Software	35
Leasehold improvements	50

Capital assets consist of the following for the year ending December 31, 2022 and 2021:

	<b>Computer equipment \$</b>	<b>Furniture and fixtures \$</b>	<b>Software \$</b>	<b>Right-to- use Assets \$</b>	<b>Total \$</b>
<b>Cost</b>					
As at December 31, 2020	180,697	107,363	328,690	353,367	970,117
Additions	2,722	—	—	—	2,722
<b>As at December 31, 2021</b>	<b>183,419</b>	<b>107,363</b>	<b>328,690</b>	<b>353,367</b>	<b>972,839</b>
<b>Accumulated amortization</b>					
As at December 31, 2020	169,877	98,137	314,330	12,620	594,964
Amortization for the year	3,534	1,846	5,026	50,481	60,887
<b>As at December 31, 2021</b>	<b>173,411</b>	<b>99,983</b>	<b>319,356</b>	<b>63,101</b>	<b>655,851</b>
<b>Net book value</b>					
As at December 31, 2020	10,820	9,226	14,360	340,747	375,153
<b>As at December 31, 2021</b>	<b>10,008</b>	<b>7,380</b>	<b>9,334</b>	<b>290,266</b>	<b>316,988</b>
	<b>Computer equipment \$</b>	<b>Furniture and fixtures \$</b>	<b>Software \$</b>	<b>Right-to- use Assets \$</b>	<b>Total \$</b>
<b>Cost</b>					
As at December 31, 2021	183,419	107,363	328,690	353,367	972,839
Additions	1,101	—	—	—	1,101
Disposals	(7,478)	—	—	—	(7,478)
<b>As at December 31, 2022</b>	<b>177,042</b>	<b>107,363</b>	<b>328,690</b>	<b>353,367</b>	<b>966,462</b>
<b>Accumulated amortization</b>					
As at December 31, 2021	173,411	99,983	319,356	63,101	655,851
Amortization for the year	2,918	1,476	3,267	50,481	58,142
Disposals	(5,931)	—	—	—	(5,931)
<b>As at December 31, 2022</b>	<b>170,398</b>	<b>101,459</b>	<b>322,623</b>	<b>113,582</b>	<b>708,062</b>
<b>Net book value</b>					
As at December 31, 2021	10,008	7,380	9,334	290,266	316,988
<b>As at December 31, 2022</b>	<b>6,644</b>	<b>5,904</b>	<b>6,067</b>	<b>239,785</b>	<b>258,400</b>

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Computer equipment with a net book value of \$1,547 was disposed of during the year for net proceeds of \$1,200, resulting in a loss of \$347, which has been realized and is included in interest and other income on the consolidated statements of loss and comprehensive loss.

#### 9. EXPENSES BY NATURE

	December 31, 2022	December 31 2021
Employee and contractor compensation and benefits (i)	561,928	425,769
Operating lease expense – property (ii)	19,535	21,514
Stock-based compensation	587,180	299,205
Amortization	58,142	60,887
Foreign exchange loss	812	96
Change in fair value related to derivative liability	(1,200,000)	(106,541)
(i) \$458,025 [2021 - \$352,941] and \$103,903 [2021 - \$72,828] 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.

#### 11. DEBTS

##### i. Current Debts

	December 31, 2022	December 31, 2021
Debentures [a]	5,507,760	11,426,277
Loan [b]	2,469,183	—
Total Long-term debts	\$ 7,976,943	\$ 11,426,277

[a] On August 12, 2022 the Company and the holders of the 2015 Debentures entered into new secured term debentures (the "Amended Debentures") to replace the original

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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unsecured 2015 Debentures which matured on August 12, 2022. The Amended Debentures had an aggregate principal amount of \$12,363,518 (being equal to the aggregate principal and accrued interest of the 2015 Debentures on August 12, 2022), matured on November 30, 2022, bearing interest at a rate of 10% per annum, compounded monthly in arrears for the extension period between August 12, 2022 and November 30, 2022, and were secured by all of the assets of the Company, including the NICO Project.

As additional consideration for the extension of the maturity date of the 2015 Debentures, the Company paid to the holders of the Amended Debentures an extension fee of an aggregate of \$350,000 upon issuance of the Amended Debentures. This extension fee was satisfied by the issuance of an aggregate of 3,500,000 common shares of the Company (the "Extension Shares") to the holders of the Amended Debentures at a deemed price of \$0.10 per Extension Share. The fair value of the shares issued was \$350,000 and has been included in borrowing costs, which will be amortized to interest expense over the term of the Amended Debentures. Total borrowing costs of \$408,420 was incurred to extend the debentures.

On November 30, 2022 the Company reached agreements with the holders of the Amended Debentures to settle the outstanding amounts. One of the holders agreed to retire its debt totaling \$7,280,173 including principal and interest as at November 30, 2022. A cash payment of \$1,250,000 was paid to the holder and the remaining debt was settled through the issuance of common shares [see note 5i.[d]].

The second holder of the Amended Debentures totaling \$5,461,376 including principal and interest as at November 30, 2022 agreed to extend the maturity date to December 31, 2023.

The debentures are summarized as follows for the year ended December 31, 2022 and 2021:

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Debentures payable	<b>\$ 5,298,651</b>	\$ 8,750,000
Loan discount	—	(588,675)
Accrued interest on debentures	<b>209,109</b>	3,264,952
	<b><u>\$ 5,507,760</u></b>	<b><u>\$ 11,426,277</u></b>

While the Amended Debentures are outstanding, the Company cannot take the following actions without the prior written approval of its creditors:

- 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;

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- 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 incurrence of accounts payable by the Company in an aggregate total in excess of \$1,200,000 between June 30, 2022 and December 31, 2022, other than transaction costs relating to prospective joint ventures, equity raises or other financings (including fees of accountants, lawyers, brokers and other advisors relating to such transactions, due diligence costs, listing fees and other ordinary course transaction costs);
- 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.

The 2015 Debentures had been recorded at their amortized cost at an effective interest rate of 18%. For the year ended December 31, 2022, \$588,675 [December 31, 2021 - \$899,301] of loan discount, related to the 2015 Debentures, was amortized using the effective interest rate method. An additional \$408,420 of borrowing costs, related to the Amended Debentures, has been amortized to interest expense for the year ended December 31, 2022.

[b] In September 2021, the Company entered into a secured loan agreement for \$1,500,000. The loan had a term of two years maturing on September 22, 2023, bearing interest at 9% per annum, compounding annually and both principal and interest are payable at maturity. On November 30, 2022 the Company increased the secured loan agreement by an additional amount of \$1,250,000, with the proceeds being used to make the cash settlement in the retirement of the Debentures. The maturity date of the secured loan agreement was also extended to December 31, 2023 at this time. The increase in the loan and maturity extension has been accounted for as an extinguishment of the original loan payable and the recognition of a new loan payable using a discount rate of 30%. A gain on extinguishment of \$381,520 has been recognized in the Consolidated Statements of Loss and Comprehensive Loss.

The loan is summarized as follows for the year ended December 31, 2022 and 2021:

	<b>December 31, 2022</b>	December 31, 2021
Loan payable	\$ 2,408,604	\$ 1,500,000
Accrued interest	60,579	33,750
Borrowing costs	—	(23,242)
Warrant consideration	—	(227,500)
	<u>\$ 2,469,183</u>	<u>\$ 1,283,008</u>

As partial consideration for the advance of the loan, the lender received 4,500,000 warrants to purchase common shares in the capital of the Company. One warrant entitles the holder to purchase one common share of the Company for \$0.11 on or before September 22, 2023. At initial recognition, the equity component of the loan was separated from the liability component. The fair value of the liability portion was measured by an effective interest rate of

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18%. A conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the loan as a whole. The remaining Borrowing costs and warrant consideration of \$119,402 at November 30, 2022 was taken into income when the loan was extinguished. At December 31, 2022, \$166,575 has been amortized to interest expense.

#### ii. Long-Term Debt

	December 31, 2022	December 31, 2021
CEBA [a]	60,000	60,000
Loan [11i.b]	—	1,283,008
Total Long-term debts	\$ 60,000	\$ 1,343,008

[a] In April 2020, the Company received a \$40,000 loan through the Canada Emergency Business Account program (“CEBA”). 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. In December 2020, the Government of Canada increased the CEBA loan for eligible businesses from \$40,000 to \$60,000 and Fortune applied and received the additional \$20,000 loan expansion.

The loan is summarized as follows for the year ended December 31, 2022 and 2021:

	December 31, 2022	December 31, 2021
Loan payable	\$ 50,428	\$ 45,239
Deferred government grant income	9,572	14,761
	\$ 60,000	\$ 60,000

The loan balance has been recorded at its amortized cost at an effective interest rate of 12%. For the year ended December 31, 2022, \$5,189 [December 31, 2021 - \$4,299] of deferred government grant income was amortized using the effective interest rate method.

If the loan is repaid in full by December 31, 2023, one third, or \$20,000, of the loan will be forgiven. If the loan is not repaid by December 31, 2023, 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.

## 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. Subsequent to year end, the Company

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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 year ended December 31,

	2022	2021
Opening balance	\$ 314,915	\$ 354,410
Interest Expense	19,535	21,105
Lease Payments	(63,200)	(60,600)
	<u>\$ 271,250</u>	<u>\$ 314,915</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 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, current and long-term debts, and derivatives.

#### i. Financial instruments by category

Financial assets

	Financial assets at amortized cost December 31, 2022	December 31, 2021
Cash and cash equivalents	\$ 78,650	\$ 1,802,920
Reclamation security deposits	178,735	176,337
Accounts receivable	82,083	194,039
Total financial assets	<u>\$ 339,468</u>	<u>\$ 2,173,296</u>

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

#### Financial liabilities

	Financial liabilities at fair value through profit or loss		Financial liabilities at amortized cost	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Accounts payable and accrued liabilities	\$ —	\$ —	\$ 239,750	\$ 440,266
Lease liability	—	—	271,250	314,915
Provision for environmental rehabilitation	—	—	25,516	23,409
Current debts	—	—	7,976,943	11,426,277
Long-term debt	—	—	60,000	1,343,008
Derivatives	—	1,200,000	—	—
Total financial liabilities	\$ —	\$ 1,200,000	\$ 8,573,459	\$ 13,547,875

#### 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 \$267,000 [December 31, 2021 - \$305,000] estimated using an 8% discount rate. The fair value of the current debt measured at amortized cost has a fair value of approximately \$8,440,000 [December 31, 2021 - \$11,661,000] estimated using a 10% discount rate. The fair value of the long-term debt measured at amortized cost has a fair value of approximately \$49,800 [December 31, 2021 - \$1,560,000] estimated using a 10% discount rate.

#### iii. Financial instruments measured at fair value

The fair value hierarchy of financial instruments measured at fair value is provided below:

	Level 3	
	December 31, 2022	December 31, 2021
Derivatives	\$ —	\$ 1,200,000

There were no transfers between levels during the year. The change in fair value of level 3 financial instruments of \$1,200,000 [December 31, 2021 – \$106,541] is attributed to the change in fair value calculated on the derivative at the reporting date and has been recognized in the consolidated statements of loss and comprehensive loss. The derivative warrants expired unexercised on August 12, 2022.

#### iv. Contractual maturities of financial liabilities

The following table details the Company's contractual maturities for its financial liabilities as at December 31, 2022. Payments due by year are as follows:

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

	Total	December 31, 2022			
		2023	2024	2025	Greater than 3 years
Accounts payable and accrued liabilities	\$ 239,750	\$ 239,750	\$ —	\$ —	\$ —
Lease liability	320,120	66,000	66,660	68,660	118,800
Provision for environmental rehabilitation	143,000	—	—	—	143,000
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	—	—	—
	<b>\$10,047,761</b>	<b>\$ 9,590,641</b>	<b>\$66,660</b>	<b>\$ 128,660</b>	<b>\$ 261,800</b>

#### 14. INTEREST AND OTHER INCOME

Interest and other income consist of the following for the year ended December 31,

	2022	2021
Interest income	<b>\$ 9,020</b>	\$ 3,222
Foreign exchange loss	<b>(812)</b>	(96)
Loss on disposal of capital assets	<b>(347)</b>	—
Flow-through share premium income	—	273,835
<b>Total Interest and Other Income</b>	<b>\$ 7,861</b>	<b>\$ 276,961</b>

#### 15. INCOME TAXES

The Company has non-capital loss carryforwards totaling \$57,027,000, net capital loss carryforwards of \$19,895,000, un-deducted debt and share issuance costs of \$111,000 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 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 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 \$26,517,000 has been recognized related to the uncertainty of realizing the benefit of deferred income tax assets in future years.

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

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

	December 31, 2022 \$	December 31, 2021 \$
<b>Deferred income tax assets</b>		
Net operating loss carryforwards	15,138,000	14,448,000
Undeducted debt and share issuance costs [i]	29,000	38,000
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	9,376,000	1,140,000
	26,517,000	17,600,000
Less valuation allowance related to operating losses, share issuance costs and unused investments tax credits	(26,517,000)	(17,600,000)
<b>Deferred income tax assets</b>	—	—

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

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

	December 31, 2022 \$	December 31, 2021 \$
<b>Combined federal and provincial/state income tax rate</b>	26.50%	26.50%
Corporate income tax provision (recovery) at statutory rate	(8,737,000)	(640,000)
Increase (decrease) in income taxes resulting from		
Non-deductible stock-based compensation and other expenses	129,000	327,000
Non-deductible change in fair value of derivative	(318,000)	(28,000)
Non-deductible change in gain on debt extinguishment	(335,700)	—
Non-deductible change in impairment charge	8,268,000	—
Rate difference	(24,400)	(172,000)
Non-taxable flow-through share premium	—	(73,000)
Tax value of loss carryforwards not recognized	1,018,100	586,000
	—	—

## 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.

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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 year ended December 31, 2022, 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 paid or awarded to key management personnel for services provided during the year ended:

	<b>December 31, 2022</b>	December 31, 2021
Salaries and benefits	\$ 163,564	\$ 162,744
Consulting services	359,557	376,291
Legal services	—	62,550
Fair value of stock options granted	646,000	323,300
	<b>\$ 1,169,121</b>	<b>\$ 924,885</b>

As at December 31, 2022, \$22,743 [2021 - \$47,046] was owing to key management personnel for services provided during the year.

#### 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 year, if dilutive.

<i>i.</i> Basic loss per share	<b>December 31, 2022</b>	December 31, 2021
Net loss	\$ (32,969,267)	\$ (2,413,216)
Weighted average number of common shares	383,335,164	365,416,852
Basic loss per share	<b>\$ (0.09)</b>	<b>\$ (0.01)</b>

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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*ii.* Diluted loss per share

For calculating diluted loss per share, for the year ended December 31, 2022 and 2021, the following weighted average options and warrants had an exercise price less than the average market price for the year:

	2022	2021
Options	13,596,438	6,400,000
Warrants	1,973,586	—
	<b>15,570,024</b>	<b>6,400,000</b>

The diluted income per share computation for the year ended December 31, 2022 and 2021 is equal to the basic loss per share as inclusion of the above would have been anti-dilutive.

### 19. CONSOLIDATED STATEMENTS OF CASH FLOWS

Supplemental cash flow information for the year ended December 31:

	2022	2021
Interest and investment income received	<b>\$ 9,020</b>	\$ 3,222

### 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 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.