COTEC

(Formerly EastCoal Inc.)

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

For the years ended December 31, 2021 and 2020

Independent auditor's report

To the Shareholders of CoTec Holdings Corp. (formerly EastCoal Inc.)

Our opinion

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

What we have audited
The Company's consolidated financial statements comprise:

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

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

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

Other information

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
April 22, 2022

COTEC

(Formerly EastCoal Inc.)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(all tabular amounts in thousands of Canadian dollars)

	Dec. 31, 2021	Dec. 31, 2020
ASSETS		
Current		
Cash	$ 400	$ 3
GST receivable	17	7
Prepaid expenses	47	7
TOTAL ASSETS	**$ 463**	**$ 17**
LIABILITIES		
Current		
Trade and other payables	$ 254	$ 76
Accrued liabilities	$ 289	$ -
TOTAL LIABILITIES	543	76
EQUITY		
Share capital (Note 3)	90,996	90,646
Contributed surplus	10,206	9,969
Deficit	(101,282)	(100,674)
TOTAL EQUITY	(79)	(59)
TOTAL LIABILITIES AND EQUITY	**$ 463**	**$ 17**

Corporate information (Note 1)

On behalf of the Board:

(signed) Abraham Jonker Director ***(signed) Lucio Genovese*** Director

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

(Formerly EastCoal Inc.)
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(all tabular amounts in thousands of Canadian dollars)

	2021	2020
Expenses		
Professional consulting fees	(143)	(31)
General and administrative expenses	(375)	(55)
Share-based compensation	(88)	-
Operating loss	**(606)**	**(86)**
Finance expense	-	(17)
Foreign exchange loss	(1)	-
Net finance expense	**(1)**	**(17)**
Tax	(1)	-
Loss and comprehensive loss for the year	**$ (608)**	**$ (103)**
Net loss per common share		
Basic and diluted	$(0.03)	$(0.01)
Weighted average number of common shares outstanding		
Basic and diluted	20,290,919	15,353,372

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

COTEC

(Formerly EastCoal Inc.)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(all tabular amounts in thousands of Canadian dollars)

	Share Capital		Contributed Surplus		Deficit	Total Equity
	Number	**Amount**	**Options**	**Warrants**		
Balance – Jan. 1, 2020	**11,440,384**	**$ 90,134**	**$ 9,969**	**$ -**	**$(100,571)**	**$ (468)**
Net loss for the year	-	-	-	-	(103)	**(103)**
Share issue for cash	7,577,531	512	-	-	-	**512**
Balance – Dec. 31, 2020	**19,017,915**	**$ 90,646**	**$ 9,969**	**$ -**	**$ (100,674)**	**$ (59)**
Balance – Jan. 1, 2021	**19,017,915**	**$ 90,646**	**$ 9,969**	**$ -**	**$ (100,674)**	**$ (59)**
Net loss for the year	-	-	-	-	(608)	**(608)**
Shares issued for cash	4,040,404	500	-	-	-	**500**
Issuance of warrants	-	(149)	-	149	-	**-**
Share-based compensation	-	-	88	-	-	**88**
Balance – Dec.31, 2021	**23,058,319**	**$ 90,996**	**$ 10,058**	**$ 149**	**$ (101,282)**	**$ (79)**

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

COTEC

(Formerly EastCoal Inc.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(all tabular amounts in thousands of Canadian dollars)

	2021	2020
OPERATING ACTIVITIES		
Loss for the year	$ (608)	$ (103)
Add items not affecting cash		
Share-based compensation	88	-
Finance expense	-	17
Changes in non-cash working capital balances		
GST receivable	(10)	3
Prepaid expenses	(40)	(2)
Trade and other payables	466	78
Cash used in by operating activities	(103)	(7)
Financing Activities		
Private placement financing	500	-
Net increase in cash for the year	397	(7)
Cash, beginning of year	3	10
Cash, end of year	**$ 400**	**$ 3**

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

1 Corporate Information

CoTec Holdings Corp. (the "Company") was incorporated on December 15, 1986 under the laws of the Province of British Columbia, Canada. Its registered address is Suite 428, 755 Burrard Street, Vancouver, BC, V6Z 1X6, Canada.

On August 12, 2021 the Company announced a change in its business focus. The Company now focuses on investment in disruptive and scalable technology in the mineral extraction industry and in parallel acquiring assets to which the technology could be applied. On August 25, 2021 the Company announced the changing of its name from EastCoal Inc. to CoTec Holdings Corp.

2 Basis of presentation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("**IFRS**"). The Company has consistently applied the accounting policies in all periods presented. These consolidated financial statements were approved by the Board of Directors on April 22, 2022.

3 Summary of Significant Accounting Policies

The significant accounting policies used in the preparation of these consolidated financial statements are as follows:

3.1 Basis of Measurement

The consolidated financial statements have been prepared under the historical cost convention.

3.2 Consolidation

The financial statements of the Company consolidate the accounts of CoTec and its 100% wholly owned subsidiary Gramsico Holdings Ltd. ("**Gramsico**"). Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Company. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

The Company is currently going through de-registration of the Company's Cyprus based subsidiary. Gramsico is expected to be fully de-registered in Q2 2022 and no further material costs are expected.

The principal subsidiaries of the Company and their geographic locations at December 31, 2021 were as follows:

	Incorporation	Percentage of ownership
Gramsico Holdings Ltd	Cyprus	100%

3.3 Foreign Currency Translation

The financial statements for the Company and each of its subsidiaries are prepared using their functional currencies. Functional currency is the currency of the primary economic environment in which an entity operates. The functional currency of the parent company, CoTec, and Cypriot subsidiary, Gramsico Holdings Ltd, is the Canadian dollar.

3.4 Financial Assets and Investments

The Company classifies financial assets and investments in the following categories:

- at fair value through profit and loss ("**FVPL**"),
- at fair value through other comprehensive income ("**FVOCI**"), or
- at amortized cost.

The Company determines the classification of financial assets and investments at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVPL, for other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVOCI.

The Company's accounting policy for each of the categories is as follows:

Financial assets at FVPL

Financial assets carried at FVPL are initially recorded at fair value and transaction costs are expensed in the consolidated statement of income (loss). Realized and unrealized gains and losses arising from changes in the fair value of the financial assets held at FVPL are included in the consolidated statement of income (loss) in the period in which they arise.

Financial assets at FVOCI

Investments in equity instruments at FVOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income (loss).

Financial assets at amortized cost

A financial asset is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of contractual cash flows, and the asset's contractual cash flows are comprised solely of payments of principal and interest. They are classified as current assets or non-current assets based on their maturity date, and are initially recognized at fair value and subsequently carried at amortized cost.

3.5 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

3.6 Share Capital

The Company has one class of shares, common shares, which are classified as equity. These are recorded at the proceeds received less any direct issue costs and related taxes.

3.7 Income Taxes

Current income tax represents the expected income tax payable (or recoverable) on taxable income for the period using income tax rates enacted or substantially enacted at the end of the reporting period and taking into account any adjustments arising from prior years.

The Company uses the liability method of accounting for income taxes under which deferred tax assets and liabilities are recognized when there are differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using substantively enacted or enacted tax rates in effect in the period in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as part of the provision for income taxes in the period that includes the enactment date. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax assets and liabilities as applicable are presented as non-current on the consolidated statement of financial position.

(all tabular amounts in thousands of Canadian dollars)

3.8 Loss per Share

Loss per share is computed based on the weighted average basic number of shares outstanding for the period. Diluted loss per share is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. The Company's potentially dilutive common shares are comprised of stock options granted to employees, directors and consultants, and warrants.

4 Significant Accounting Judgements and Estimation Uncertainties

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

5 Equity

The Company has unlimited authorized common shares with no par value. On September 7, 2021 the Company completed a non-brokered private placement (the "Private Placement") of 4,040,404 units (the "**Units**") at a price of $0.12375 per Unit, for gross proceeds of $500k. Each Unit was comprised of one common share in the share capital of the Company and one non-transferable share purchase warrant (a "**Warrant**"). Using the relative fair value method, $351k was allocated to share capital for the equity raise, and $149k was allocated to contributed surplus for the Warrants. Total common shares issued and outstanding as at December 31, 2021 are 23,058,319.

Stock Options

Share-based compensation expenses recognized in the Consolidated Statement of Loss and Comprehensive Loss for the years ended December 31, 2021 and 2020 is as follows:

	2021	**2020**
	$	**$**
Stock options	(40)	-
Equity incentive units	(48)	-
Total	**(88)**	**-**

The Company's Share Option Plan (the "**Plan**") was approved by the Company's shareholders most recently at its annual general and special meeting held September 20, 2021. The purpose of the Plan is to attract, retain and motivate directors, officers, employees and external service providers by providing them with the opportunity to acquire a proprietary interest in the Company and to benefit from its growth.

Under the Plan, the Board of Directors may grant options to directors, officers, employees or consultants with the number of outstanding options at any time limited to a maximum of 10% of the number of issued and outstanding common shares. The vesting periods for individual awards of options are determined at the discretion of the Corporate Governance, Compensation and Nominating Committee.

On September 24, 2021, 1,152,916 stock options were granted to a Director of the Company. The options are exercisable for a period of 10 years at a price of $0.30 per common share, with 1/3 of the options vesting every 12 months. The fair value of the options was calculated using the Black-Scholes option pricing model based on a risk-free annual interest rate of 1.38%, an expected life of 10 years, an expected volatility of approximately 63% based on historical volatility, and a dividend yield of nil. Furthermore, if at any time during the period from the day the Company is listed on the TSX-V until March 31, 2023, the Company issues additional common shares (or securities convertible into, or exchangeable for, common shares) pursuant to any financing transactions or as consideration for the acquisition of any assets or businesses, the Company will further grant to this Director on each closing date of such transactions, additional options to purchase common shares equal to 5% of the number of common shares issued or issuable pursuant to such financing transaction or acquisition (subject to the Company having a sufficient number of options remaining in its unallocated option pool to issue such additional options).

On October 8, 2021, 288,229 stock options were granted to a Director of the Company. The options are exercisable for a period of 10 years at a price of $0.45 per common share, with 1/3 of the options vesting every 12 months. The fair value of the options was calculated using the Black-Scholes option pricing model based on a risk-free annual interest rate of 1.62%, an expected life of 10 years, an expected volatility of approximately 63% based on historical volatility, and a dividend yield of nil. Furthermore, if at any time during the period from the day the Company is listed on the TSX-V until March 31, 2023, the Company issues additional common shares (or securities convertible into, or exchangeable for, common shares) pursuant to any financing transactions or as consideration for the acquisition of any assets or businesses, the Company will further grant to this Director on each closing date of such transactions, additional options to purchase common shares equal to 1.25% of the number of common shares issued or issuable pursuant to such financing transaction or acquisition (subject to the Company having a sufficient number of options remaining in its unallocated option pool to issue such additional options).

The weighted average fair value per option granted during the year ended December 31, 2021, was $0.17 (2020: nil). As at December 31, 2021, there was $1,401k of share-based compensation expense (2020: nil) relating to the Company's unvested stock options to be recognized in future periods.

(all tabular amounts in thousands of Canadian dollars)

For the twelve months ended December 31, 2021, stock-based compensation expense relating to the vesting of stock options, was $40k.

A summary of option activity under the Plan during the years ended December 31, 2021 and 2020 is as follows:

	Number of options #	Weighted average exercise price $
Balance – December 31, 2020	-	-
Issued	1,441,145	0.33
Exercised	-	-
Expired	-	-
Balance – December 31, 2021	**1,441,145**	**0.33**

The number of options outstanding as at December 31, 2021, by issue date is shown in the following table:

Options Outstanding					Options Exercisable
Date of Grant	Expiry Date	Number Outstanding #	Exercise Price $	Remaining life (years)	Number outstanding #
September 24, 2021	September 24, 2031	1,152,916	0.30	9.73	Nil
October 8, 2021	October 8, 2031	288,229	0.45	9.77	Nil
		1,441,145	**0.33**	**9.74**	**Nil**

As at December 31, 2021, 1,441,145 stock options were outstanding, with nil options vested.

Warrants

Pursuant to the Private Placement on September 7, 2021 the Company issued 4,040,404 Warrants. Each Warrant entitles the holder to acquire one common share in the Company at a price of $0.165 per share for a period of 12 months following the date of issuance. The warrants were assigned a fair value of $149k using the relative fair value method. The fair value of the warrants was calculated using the Black-Scholes option pricing model based on a risk-free annual interest rate of 0.52%, an expected life of 1 year, and expected volatility of approximately 66% based on historical volatility, and a dividend yield of nil.

(all tabular amounts in thousands of Canadian dollars)

As at December 31, 2021, 4,040,404 Warrants were outstanding, with 4,040,404 shares issuable upon exercise of warrants.

6 Related party transactions

All related party transactions were incurred in the normal course of operations and are recorded at the amount agreed upon by the related parties.

Compensation of Key Management

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. The Company has identified the Chief Executive Officer and Chief Financial Officer as its key management personnel. The remuneration of key management is determined by the compensation committee of the Board of Directors. The consulting fees and other compensation of key management personnel were as follows for the years ended December 31, 2021 and 2020:

	2021	**2020**
	$	**$**
Short-term salaries and benefits	(200)	-
Share-based compensation	(80)	-
Total	**(280)**	**-**

Other Related Party Transactions

As at December 31, 2021, a total of $159k was payable to Directors and an Officer for expenses paid on behalf of the Company which is included in trade and other payables. Included in this balance, $15k was payable to an Officer, and $144k was payable to Directors. It was agreed that $72k of the $144k loan will be repaid through any subsequent equity raise post the Proposed COB. No agreed terms were stipulated for the $15k and remaining $72k loans.

On August 11, 2021, 2,305,831 equity incentive units (the "**Units**") were granted to the CEO-designate of the Company. Each Unit is equivalent in value to one common share of the Company, and will vest on the earlier of i) August 30, 2024, provided that the 30-day volume weighted average trading price ("**VWAP**") of the common shares as of that date on the principal stock exchange on which they are then traded is at least $0.50 per share (adjusted as required to give effect to any stock splits, consolidations or other reorganizations of the common shares after the date hereof), and ii) the date on which the Company completes a change of control (the "**Vesting Date**"), provided in either case that the Director becomes engaged with the Company as Executive Chair or CEO and remain so engaged as of the Vesting Date. If the Units vest in accordance with the aforementioned conditions, then no later than 10 days after the Vesting Date, the Company will deliver in respect of every Unit, at its discretion, either i) one common share or ii) a cash payment equal to the VWAP of the common shares on the primary stock exchange for the five trading days immediately preceding the Vesting Date. Given the current cash position of the Company, it is more likely at this stage that these Units will be settled with common shares and as such have been recorded as Equity-settled Share-Based Compensation. As of December 31, 2021, $48k was recorded as share-based compensation expense for the vesting of these Units.

The Company has entered into an agreement with the CEO-designate to award a cash bonus of $200k subject to the Company being listed on the TSX-V. The Company has accrued $200k related to the aforementioned bonus on the estimated probability of the required event occurring as at December 31, 2021. In addition, equity incentive units in the amount of 7% of the new common shares issued for the private placement in connection with the transition to the TSX-V, will be granted to the CEO-designate on the date the Company is listed on the TSX-V. These Units will be treated as a share issuance cost and will be paid in cash. Furthermore, if at any time during the period from the day the Company is listed on the TSX-V until March 31, 2023, the Company issues additional common shares (or securities convertible into, or exchangeable for, common shares) pursuant to any financing transactions or as consideration for the acquisition of any assets or businesses, the Company will further grant to the CEO-designate on each closing date of such transactions, additional Units equal to 7% of common shares issued or issuable pursuant to such financing transaction or acquisition.

The Company also awarded the Chairman a cash bonus of $50k subject to the Company being listed on the TSX-V. The Company has accrued $50k related to the aforementioned bonus on the estimated probability of the required event occurring as at December 31, 2021. In addition, Units in the amount of 1.75% of the new common shares issued for the private placement in connection with the transition to the TSX-V, will be granted to the Chairman on the date the Company is listed on the TSX-V. These units will be treated as a share issuance cost, will vest on September 20, 2024, and will be paid in cash. The Units will have the same terms and conditions as set out above and require that the Chairman remain engaged with the Company until its vesting date.

Subject to the Company being listed on the TSX-V, the Company will issue the Chairman Units equal to 1.75% of the number of Common Shares issued pursuant to the Financing. The Units will vest and be settled on the earlier of (i) September 30, 2024, provided that the 30-day volume weighted average trading price of the Common Shares as of that date on the principal stock exchange on which they are then traded is at least $0.50 and (ii) the date on which the Company completes a change of control transaction, provided in either case that the Chairman continues to be a member of the Board as of the vesting date. Subject to vesting, the Company will, no later than 10 days after the vesting date in respect of every Unit, deliver to the Chairman, in its discretion, either (i) one Common Share (which will not be issued from treasury but rather would be purchased by or on behalf of the Company over the facilities of the primary stock exchange on which the Common Shares are listed) or (ii) a cash payment equal to the volume weighted average closing price of the Common Shares on the primary stock exchange on which the Common Shares are then listed for the five trading days immediately preceding the vesting date or, if the Common Shares are not listed and posted for trading on any stock exchange, the fair market value of the Common Shares as determined by the board of directors of the Company in its sole discretion.

(all tabular amounts in thousands of Canadian dollars)

Subject to the Company being listed on the TSX-V, the Company will also grant the Chairman additional options on the date on which the Company is listed on the TSX-V so that, as of that date, he will hold options to purchase a total number of Common Shares equal to 1.25% of the Company's issued and outstanding Common Shares as of the date on which the Company is listed on the TSX-V. All additional options granted will have an exercise price equal to the most recent closing price of the Common Shares as of the date of grant, a term of 10 years and will be subject to vesting over three years, with 1/3 of each option grant vesting each year subject to your continued employment with or engagement by the Company.

For the transactions noted above in connection with the Company being listed on the TSX-V, please refer to the Subsequent Events notes as the Company has officially been granted approval from the TSX-V.

7 Income Tax

The tax on the Company's profit before tax differs from the amount that would result using the combined Canadian federal and provincial income tax rate of 27.00% (2020: 27.00%) to loss before income taxes. These differences result from the following items:

	For the years ended	
	Dec. 31, 2021	**Dec. 31, 2020**
Loss before tax	(608)	(103)
Statutory rate	27.00%	27.00%
Income tax recovery computed at statutory rates	(164)	(28)
Tax effects of:		
Movement in deferred tax not recognized	164	28
Tax expense (recovery)	**$ 1**	**$ -**

(all tabular amounts in thousands of Canadian dollars)

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	Dec. 31, 2021	Dec. 31, 2020
Deferred tax assets:		
- To be recovered after more than 12 months	10,123	9,959
- To be recovered within 12 months	-	-
Deferred tax assets not recognized	(10,123)	(9,959)
Deferred tax liabilities:		
- To be recovered after more than 12 months	-	-
- To be recovered within 12 months	-	-
Deferred tax liabilities (net)	**$ -**	**$ -**

	Dec. 31, 2021	Dec. 31, 2020
Deferred tax assets:		
- Non capital losses carried forward	2,957	2,793
- Capital losses carried forward	6,186	6,186
- Mineral properties	980	980
Deferred tax assets not recognized	(10,123)	(9,959)
Deferred tax liabilities (net)	**$ -**	**$ -**

The movement of the deferred income tax account is as follows:

	Dec. 31, 2021	Dec. 31, 2020
At January 1, 2021	-	-
Charge to the income statement	-	-
Business Combination	-	-
Change due to foreign exchange rate fluctuations	-	-
At December 31, 2021	**$ -**	**$ -**

At December 31, 2021, the Company had $10,123k of Canadian federal net operating loss carry forwards (2020: $9,959k). These loss carry forwards expire at various dates between 2029 and 2037.

8 Financial Risk Factors

8.1 Credit and Interest Rate 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 maximum exposure to credit risk at the reporting date is limited to is the carrying value of cash.

8.2 Fair Value

The Company's financial assets and liabilities consist of cash and cash equivalents, trade and other payables and borrowings. The estimated fair values of cash, accounts payable and accrued liabilities, approximate their respective carrying values.

8.3 Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

9 Capital Management

The Company's objectives when managing its capital is to ensure it will be able to continue as a going concern while maximizing the return to shareholders.

The capital of the Company consists of common shares, warrants, options and debt instruments. The Company manages and adjusts its capital structure based on available funds in order to support its business activities. The Company manages its capital structure and makes adjustments to it considering changes in economic conditions, the risk characteristics of the underlying assets and working capital requirements. In order to maintain or adjust its capital structure, the Company may issue new shares, seek debt financing, or acquire or dispose of assets. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Board of Directors reviews and approves any material transactions out of the ordinary course of business, including proposals on acquisitions or other major investments or divestitures, transactions involving equity instruments, as well as capital and operating budgets. The Company is not subject to any externally imposed capital requirements. Management reviews its capital management approach on an on-going basis and believes that this approach, given its relative size, is reasonable.

10 Subsequent events

Private Placement

On February 10, 2022 the Company completed an initial closing of a brokered and non-brokered private placement in connection to its Proposed Change of Business ("**COB**"). Pursuant to this initial closing, the Company issued a total of 6,646,298 subscription receipts at a price of $0.55 per subscription receipt for gross proceeds of $3,655,519.

On April 5, 2022, the Company completed a second and final closing of the brokered and non-brokered private placement in connection to its Proposed COB. Pursuant to this second closing, the Company issued a total of 4,744,195 subscription receipts at a price of $0.55 per subscription receipt for gross proceeds of $2,609,282.

When the placements are combined, the Corporation issued an aggregate of 11,390,593 subscription receipts pursuant to the Private Placement for gross proceeds of $6,265,759.

Following completion of the Proposed COB, the subscription receipts were automatically exchanged for one unit of the Company. Each unit consists of one common share of the Company (a "**Common Share**") and one common share purchase warrant of the Corporation (each whole warrant, a "**Warrant**"). Each Warrant entitles the holder thereof to purchase one Common Share at an exercise price of $0.75 for a period of 12 months from the date of issuance.

TSX-V Approval of Proposed COB

On April 4, 2022, the Company received conditional approval of its Proposed COB from the TSX-V and final approval to file its filing statement on SEDAR was obtained on April 6, 2022. The Proposed COB was completed on April 14, 2022 and the Company's shares resumed trading on April 19, 2022.

Binding Solutions Limited ("BSL") Initial Investment

BSL is a UK based company governed by the laws of England and Wales that has developed a proprietary cold agglomeration technology for the production of high-quality clean pellets from primary materials, waste dumps, and stockpiles.

Pursuant to the terms of a subscription agreement between the Company and BSL dated December 10, 2021, as amended (the "**BSL Subscription Agreement**"), the Company has agreed to subscribe for a minimum of US$3.0 million and a maximum of US$4.0 million, to be funded in two tranches as follows:

- an initial investment of US$2.0m; and

- a subsequent investment of between US$1.0m and US$2.0m, with the amount determined by the Company, to be completed within six months of the date of the initial investment (or such later date as BSL and the Company may agree).

Pursuant to the BSL Subscription Agreement, BSL has made a number of customary representations and warranties to the Company with respect to BSL and its business and has agreed to indemnify the Company against any losses the Company may incur as a result of any inaccuracies of BSL's representations and warranties, subject to certain limits. On April 13, 2022 the Company completed its initial investment of US$2m, or approximately 2% of the outstanding shares.

The Company's obligation to complete the subsequent investment in BSL is subject to the following conditions, each of which may be waived by the Company in its sole discretion:

- the Company having completed one or more financing transactions for gross proceeds of not less than CAD$12 million;

- BSL's representations and warranties set out in the subscription agreement continuing to be true and correct in all material respects;

- BSL having performed all of its obligations under the subscription agreement; and

- the absence of any material adverse change to BSL, its subsidiaries or their respective business or operations since the date of the subscription agreement.

In addition, on April 11, 2022, the Company and BSL entered into an investment agreement pursuant to which the Company received the exclusive right to apply BSL's pelletization technology to ferroalloy and slag waste projects in Canada, Germany, Austria and the Netherlands for a period of 36 months from the date of the investment agreement. Such application would be via one or more joint venture entities that would initially be owned 50/50 by CoTec and BSL and on terms and conditions set out in the investment agreement.