COTEC

(Formerly EastCoal Inc.)

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2022

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

(Formerly EastCoal Inc.)
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited – Expressed in Thousands of Canadian Dollars)

	Jun. 30, 2022	Dec. 31, 2021
ASSETS		
Current		
Cash	$ 618	$ 400
GST receivable	34	17
Prepaid expenses	3	47
Total current assets	655	463
Non-Current		
BSL Investment (Note 4)	3,880	-
MagIron Investment (Note 4)	4,853	-
Mkango convertible note (Note 5)	783	-
TOTAL ASSETS	**$ 10,172**	**$ 463**
LIABILITIES		
Current		
Trade and other payables	$ 197	$ 254
Accrued liabilities	541	289
Total current liabilities	738	543
Non-Current		
Note payable (Note 6)	$ 784	$ -
Deferred tax liabilities	$ 610	$ -
Stock-Based Compensation liability	$ 7	$ -
TOTAL LIABILITIES	2,139	543
EQUITY		
Share capital (Note 3)	95,209	90,996
Contributed surplus	12,195	10,206
Deficit	(99,370)	(101,282)
TOTAL EQUITY	8,033	(79)
TOTAL LIABILITIES AND EQUITY	**$ 10,172**	**$ 463**

Corporate information and going concern (Note 1)

On behalf of the Board:

(signed) Julian Treger Director

(signed) Lucio Genovese Director

COTEC

(Formerly EastCoal Inc.)
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Unaudited – Expressed in Thousands of Canadian Dollars)

	For the three months ended		For the six months ended	
	Jun. 30, 2022	**Jun. 30, 2021**	**Jun. 30, 2022**	**Jun. 30, 2021**
INCOME				
Gain on equity securities (Note 4)	3,468	-	3,468	-
EXPENSES				
Professional consulting fees	(139)	-	(289)	-
G&A expenses	(411)	(16)	(544)	(20)
Share-based compensation (Note 3)	(45)	-	(114)	-
Operating income (loss)	**2,872**	**(16)**	**2,521**	**(20)**
Income tax expense	(610)	-	(610)	-
Comprehensive income (loss) for the period	**$ 2,262**	**$ (16)**	**$ 1,911**	**$ (20)**
Net income (loss) per common share (Note 9)				
Basic	$0.07	$(0.00)	$0.07	$(0.00)
Diluted	$0.06	$(0.00)	$0.06	$(0.00)

(Formerly EastCoal Inc.)
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited – Expressed in Thousands of Canadian Dollars)

	Share Capital		Contributed Surplus		Deficit	Total Equity
	Number	Amount	Options	Warrants		
Balance – Jan. 1, 2021	**19,017,915**	**$ 90,646**	**$ 9,969**	**$ -**	**$(100,674)**	**$ (59)**
Net loss for the period	-	-	-	-	(20)	**(20)**
Balance – Jun. 30, 2021	**19,017,915**	**$ 90,646**	**$ 9,969**	**$ -**	**$ (100,694)**	**$ (79)**
Balance – Jan. 1, 2022	**23,058,319**	**$ 90,996**	**$ 10,058**	**$ 149**	**$ (101,282)**	**$ (79)**
Net income for the period	-	-	-	-	1,911	**1,911**
Shares issued for cash	11,390,593	6,266	-	-	-	**6,266**
Share issue costs	-	(172)	-	-	-	**(172)**
Issuance of warrants	-	(1,881)	-	1,881	-	**-**
Equity-settled share-based compensation	-	-	107	-	-	**107**
Balance – Jun. 30, 2022	**34,448,912**	**$ 95,209**	**$ 10,165**	**$ 2,030**	**$ (99,370)**	**$ 8,033**

COTEC

(Formerly EastCoal Inc.)
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited – Expressed in Thousands of Canadian Dollars)

	For the six months ended Jun. 30, 2022	Jun. 30, 2021
OPERATING ACTIVITIES		
Net Income (loss) for the period	$ 1,911	$ (20)
Add items not affecting cash		
Gain on equity securities	(3,468)	
Share-based compensation	114	-
Income tax expense	610	
Changes in non-cash working capital balances related to operations		
GST receivable	(17)	(1)
Prepaid expenses	44	-
Trade and other payables and accrued liabilities	196	21
Cash used by operating activities	**(610)**	**-**
INVESTING ACTIVITIES		
MagIron investment	(2,736)	-
BSL investment	(2,529)	-
Cash used by investing activities	(5,265)	-
FINANCING ACTIVITIES		
Shares issued for cash	6,266	-
Share issue cost	(172)	-
Cash from financing activities	6,094	-
Net increase in cash for the period	**219**	**-**
Cash, beginning of period	400	3
Cash, end of period	**$ 618**	**$ 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.

The Company has experienced recurring operating losses and has an accumulated deficit of $99,370 as at June 30, 2022. For the six-month period ended June 30, 2022, the Company used cash in operating activities totalling $610. The Company had cash of $618 and a working capital deficit of $83 as at June 30, 2022. Working capital is defined as current assets less current liabilities and provides a measure of the Company's ability to settle liabilities that are due within one year with assets that are also expected to be converted into cash within one year.

The Company's continued operation is dependent upon its ability to raise additional funding. Although the directors believe that the Company should be able to secure future fundraising as required, there are no assurances that the Company will be successful in achieving this goal. As a result, there are material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern and realize its assets and discharge its liabilities in the normal course of business. These consolidated financial statements have been prepared on a going concern basis, which assumes the Company will realize on its assets and discharge its liabilities in the normal course of operations, and do not include adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. These adjustments could be material.

2 Basis of Presentation

(a) Statement of Compliance with International Financial Reporting Standards

These condensed consolidated interim financial statements (the "interim financial statements"), which are presented in Canadian dollars, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board applicable to the preparation of interim financial statements, including International Accounting Standards ("IAS") 34, "Interim Financial Reporting". They do not include all information required for a complete set of IFRS financial statements. However, selected notes are included to explain events and transactions that are significant to an understanding of the changes and performance since the Company's last annual financial statements as at and for the year ended December 31, 2021.

(b) Basis of Consolidation

The interim financial statements include the accounts for the Company and its wholly owned subsidiary, CoTec USA Corp. which was incorporated in May 2022 in order to house the investment in MagIron. All intercompany balances and transactions have been eliminated upon consolidation.

These condensed consolidated interim financial statements are presented in Canadian dollars which is also the parent company's functional currency. The functional currency for each entity consolidated with the Company is determined by the currency of the primary economic environment in which it operates.

The US subsidiary's functional currency is the CAD dollar.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the average exchange rates for the period.

(c) Accounting Policies

Except as set out below, the accounting policies, estimates and judgements, methods of computation and presentation followed in these interim financial statements are the same as those applied in the Company's annual financial statements for the year ended December 31, 2021. Accordingly, these interim financial statements should be read in conjunction with the Company's most recent annual financial statements.

Share-Based Payments

Stock Options

The Company's Share Option Plan (the "Plan") was approved by the Company's shareholders at its annual general and special meeting held September 20, 2021. 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.

The fair value of options granted under the Plan is recognized as an employee benefits expense, with a corresponding increase in equity.

Each tranche is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. At the end of each period, the Company revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. The total expense is recognized over the tranche's vesting period by a charge to earnings, with a corresponding increase to contributed surplus based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

Equity Incentive Units

The Company grants equity-incentive units to certain employees and directors. The agreements entitle the other party to receive, at Company's discretion, (i) cash for amounts that are based on the price of equity instruments of the Company; or (ii) equity instruments (common shares) of the Company, provided the specified vesting conditions, if any, are met, The measurement of the equity-incentive units depends on how the arrangement is classified:

- Equity-settled share-based payments – the Company measures the fair value of equity instruments granted at the measurement date, based on market prices if available, taking into account the terms and conditions upon which those equity instruments were granted. If market prices are not available, the Company estimates the fair value of the equity instruments granted using a valuation technique to estimate what the price of those equity instruments would have been on the measurement date in an arm's length transaction between knowledgeable, willing parties. The fair value of those equity instruments shall be measured at grant date. In an equity-settled transaction, an expense and a corresponding increase in equity are recognized over the vesting period.

- Cash-settled share-based payments – in a cash-settled transaction, an expense and a corresponding liability are recognized over the vesting period. The liability shall be measured, initially and at the end of each reporting period until settled, at the fair value of the share appreciation rights, by applying an option pricing model, taking into account the terms and conditions on which the share appreciation rights were granted, and the extent to which the employees have rendered service to date.

- Choice of settlement (arrangements that provide the Company with a choice of whether the Company settles the transaction in cash or by issuing equity instruments) - the Company shall determine whether it has a present obligation to settle in cash and account for the share-based payment transaction accordingly. The entity has a present obligation to settle in cash if the choice of settlement in equity instruments has no commercial substance (e.g. because the entity is legally prohibited from issuing shares), or the entity has a past practice or a stated policy of settling in cash, or generally settles in cash whenever the counterparty asks for cash settlement. If the entity has a present obligation to settle in cash, it shall account for the transaction in accordance with the requirements applying to cash-settled share-based payment transactions. If no such obligation exists, the entity shall account for the transaction in accordance with the requirements applying to equity-settled share-based payment transactions.

The fair value of the units is measured using the Black-Scholes option pricing model, as well as Monte Carlo simulation to determine the probability of the ending share-price as at the end of the vesting period.

Investments and Other Financial Assets

(i) Classification

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (OCI) or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

(ii) Recognition and Derecognition

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Equity Instruments

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Company's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognized in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(d) Approval of Financial Statements

The Board of Directors approved these interim financial statements for issue on August 24, 2022

Critical Accounting Estimates and Judgements

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported expenses during the year. Actual results could differ from these estimates.

In preparing the interim condensed consolidated financial statements, except as outlined below the significant judgments made by management in applying the Company's accounting policies and key sources of estimation uncertainty were the same as those applied to the annual audited consolidated financial statements for the year ended December 31, 2021.

Equity Investments

During the period ended June 30, 2022, the Company determined that there was sufficient evidence from external transactions in the investees' equity which are indicators that cost might no longer be representative of fair value.

The revaluation of the investment in MagIron LLC required significant judgment in that the external transaction with the investee was the issuing of a convertible note to an external party. The convertible note gave the note holder the option to convert to equity at any time during a certain duration at a pre-determined valuation for the equity. Given this extended time period, the Company determined that using the updated equity valuation was not entirely representative of the value of the equity as at the date of the transaction. As such, the Company discounted the gain in equity value over the duration of the conversion period, and also applied an estimated success factor in order to reflect management's expectation of the project being successful as well as the likelihood of a liquidity event.

3 Share Capital

Equity

The Company has unlimited authorized common shares with no par value. Total common shares issued and outstanding as at June 30, 2022, numbered 34,448,912.

Private Placement

On February 10, 2022, the Company completed an initial closing of a brokered and non-brokered private placement in connection to its change of business ("COB"). Pursuant to this initial closing, the Company issued a total of 6,646,398 subscription receipts at a price of $0.55 per subscription receipt for gross proceeds of $3,657.

On April 5, 2022, the Company completed a second and final closing of the brokered and non-brokered private placement in connection to its 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.

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 $6,266.

Following completion of the COB on April 14, 2022 and pursuant to the subscription receipt agreement, each subscription receipt was automatically exchanged for one unit of the Company ("Unit"). Each Unit consists of one common share of the Company (a "Common Share") and one common share purchase warrant of the Corporation ("Financing Warrant"). Each Financing 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.

In consideration for the services rendered by Odeon Capital Group, LLC ("Agent") in connection with the brokered financing, CoTec agreed to pay the Agent a cash fee equal to $71. In addition to the Agent's cash fee, upon the satisfaction of the escrow release conditions, the Agent received compensation options (the "Agent Warrants") equal to 5% of the number of subscription receipts issued in connection with the brokered financing, being an amount equal to 128,181 Agent Warrants. Each Agent Warrant is exercisable for one Common Share at the issue price of $0.55 for a period of 36 months from the date of issuance.

In addition, in connection with the Non-Brokered Financing, CoTec agreed to pay a cash finder's fee to certain brokers whose clients participated in the Brokered Financing fee in an amount equal to 5% of the gross proceeds raised in the Non-Brokered Financing from such clients (the "Finder's Cash Fee"). The Finder's Cash Fee was payable to PI Financial Corp. ($14), Haywood Securities Inc. ($14) and Canaccord Genuity Corp. ($40). In addition to the cash fee, upon the satisfaction of the escrow release conditions, the brokers received compensation options (the "Finder Warrants") equal to 5% of the number of subscription receipts issued in connection with the Brokered Financing to clients of such brokers, being an amount equal to 24,900 Finder Warrants for PI Financial Corp., 24,545 Finder Warrants for Haywood Securities Inc. and 72,394 Finder Warrants for Canaccord Genuity Corp. Each Finder Warrant is exercisable for one Common Share at the issue price of $0.55 for a period of 36 months from the date of issuance.

Using the relative fair value method, $1,881 was allocated to Contributed Surplus for the Financing Warrants, Agent Warrants, and Finder Warrants. $4,213 was allocated to share capital, net of share issue costs of $172 pursuant to the Private Placement.

Stock Options

Share-based compensation expenses recognized in the Consolidated Statement of Income and Comprehensive Income for the six months ended June 30, 2022, and June 30, 2021, is as follows:

(Unaudited – Expressed in Thousands of Canadian Dollars Unless Otherwise Stated)

	Jun. 30, 2022 $	Jun. 30, 2021 $
Stock options	(133)	-
Equity incentive units	19	-
Total	**(114)**	**-**

The Company's Share Option Plan (the "Plan") was approved by the Company's shareholders at its annual general and special meeting held September 20, 2021.

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.

In connection with the Private Placement and pursuant to existing agreements with the CEO and Board Chairman (refer to section 6 Transactions with Related Parties), additional stock options and equity incentive units ("EIUs") were granted and issued. In total, 711,912 stock options were granted on April 19, 2022, at an exercise price of $0.55 and expiry of April 19, 2032. In addition, 996,677 EIUs were awarded on April 19, 2022, at a fair value of $0.09 per EIU.

In addition, 50,000 options were granted to each of the former CEO and CFO of the Company on April 19, 2022, at an exercise price of $0.55, an expiry of April 19, 2023 and vested upon granting.

The weighted average fair value per option granted during the three months ended June 30, 2022, was $0.43 (March 31, 2021: nil). As at June 30, 2022, there was $423 of share-based compensation expense (March 31, 2021: nil) relating to the Company's unvested stock options to be recognized in future periods.

For the six months ended June 30, 2022, stock-based compensation expense relating to the vesting of stock options, was $133.

A summary of option activity under the Plan during the six months ended as at June 30, 2022, and December 31, 2021, is as follows:

	Number of options \#	Weighted average exercise price $
Balance – December 31, 2021	1,441,145	0.33
Granted	811,912	0.55
Exercised	-	-
Expired	-	-
Balance – June 30, 2022	**2,253,057**	**0.41**

(Unaudited – Expressed in Thousands of Canadian Dollars Unless Otherwise Stated)

The number of options outstanding as at June 30, 2022, 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	9.23	Nil
October 8, 2021	October 8, 2031	288,229	0.45	9.27	Nil
April 19, 2022	April 19, 2032	711,912	0.55	9.80	Nil
April 19, 2022	April 19, 2023	100,000	0.55	0.80	100,000
		2,253,057	**0.41**	**9.05**	**100,000**

Warrants

Pursuant to the Private Placement completed April 14, 2022, the Company issued 11,390,593 Financing Warrants. Each Financing Warrant entitles the holder to acquire one common share in the Company at a price of $0.75 per share, for a period of twelve months following the date of issuance. The fair value of the Financing Warrants was determined as $2,532. The fair value of the warrants was calculated using the Black-Scholes option pricing model based on a risk-free annual interest rate of 2.26%, an expected life of 1 year, and expected volatility of approximately 102% based on historical volatility, and a dividend yield of nil.

Also pursuant to the Private Placement completed on April 14, 2022, the Company issued 250,020 Agent Warrants and Finders Warrants ("Agent and Finders Warrants"). Each Agent and Finders Warrant entitles the holder to acquire one common share in the Company at a price of $0.55 per share, for a period of 36 months following the date of issuance. The fair value of the Agent and Finders Warrants was determined as $106. The fair value of the warrants was calculated using the Black-Scholes option pricing model based on a risk-free annual interest rate of 2.39%, an expected life of 3 years, and expected volatility of approximately 102% based on historical volatility, and a dividend yield of nil.

Using the relative fair value method, $1,881 was recognized in contributed surplus for all of the Financing Warrants, Agent Warrants and Finders Warrants.

A summary of warrant activity under during the six months ended as at June 30, 2022, and December 31, 2021, is as follows:

(Unaudited – Expressed in Thousands of Canadian Dollars Unless Otherwise Stated)

	Number of warrants #	Weighted average exercise price $
Balance – December 31, 2021	4,040,404	0.17
Issued	11,640,613	0.75
Exercised	-	-
Expired	-	-
Balance – June 30, 2022	**15,681,017**	**0.60**

The number of warrants outstanding as at June 30, 2022, by issue date is shown in the following table:

		Warrants Outstanding			**Warrants Exercisable**
Date of Grant	**Expiry Date**	**Number Outstanding #**	**Exercise Price $**	**Remaining life (years)**	**Number outstanding #**
September 7, 2021	September 7, 2022	4,040,404	0.17	0.19	4,040,404
April 14, 2022	April 14, 2023	11,390,593	0.75	0.79	11,390,593
April 14, 2022	April 14, 2025	250,020	0.55	2.79	250,020
		15,681,017	**0.60**	**0.67**	**15,681,017**

4 Equity Investments

MagIron LLC (“MagIron”)

The Company entered into an exclusivity agreement with US based MagIron LLC (“MagIron”) on January 27, 2022 (“Exclusivity Agreement”). Under the Exclusivity Agreement, CoTec received the exclusive right to negotiate a potential investment in MagIron for a specified period ending on March 31, 2022, subject to an exclusivity payment of US$120 (“Exclusivity Payment”). CoTec paid the Exclusivity Payment on January 28, 2022, at an exchange rate of 1.28415, resulting in $154 being capitalized to the balance sheet.

On May 15, 2022, CoTec entered into an agreement to acquire a 15.8% equity interest in MagIron LLC (“MagIron”) for US$2.12 million, comprising US$2 million cash contribution ($2.6 million) and the Exclusivity Payment. The transaction completed on May 16, 2022. MagIron is a U.S. based private company that acquired an iron ore project that it intends to refurbish and bring back into production. The investment includes terms customary for an investment of this nature, including Board representation subject to CoTec maintaining a 10% equity interest.

MagIron announced on June 24, 2022, that it had completed a private placement of a US$5 million secured convertible note on June 15, 2022. The convertible note has the right to convert into shares of MagIron for a period of 18 months at a conversion price that reflects a pre-money valuation of US$30 million, which represents a 126% increase in the Company’s initial investment which was at a post-money valuation of

US$13.3 million. Given the uncertainties around several project milestones which in turn affect the probability of conversion to equity for the convertible note, CoTec has opted to discount this gain by the interest rate agreed between MagIron and the arm's length third party for the convertible note, which is the 12-month LIBOR rate as at June 15, 2022 (3.6%), plus 5%, or 8.6%, over the 18-month period. Furthermore, CoTec has applied an overall success factor of 70% to this gain, in order to reflect management's expectation of the project being successful as well as the likelihood of a liquidity event. Discounting the gain and applying the success factor yields an overall gain of 77.7%. This gain and any related changes in foreign exchange have been recorded through the statement of income as FVTPL in the amount of $2.117 million.

Binding Solutions Limited ("BSL") Initial Investment

BSL is a UK based private 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 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).

On April 13, 2022, the Company completed its initial investment of US$2 million, at US$731.50 per share, or approximately 2% of the outstanding shares of BSL.

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 BSL Subscription Agreement continuing to be true and correct in all material respects;
- BSL having performed all of its obligations under the BSL 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 BSL Subscription Agreement.

(Unaudited – Expressed in Thousands of Canadian Dollars Unless Otherwise Stated)

In addition, on April 11, 2022, the Company and BSL entered into an investment agreement ("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.

Subsequent to the Company's equity investment into BSL, BSL had received an equity investment from an Asian based corporate group at a valuation of US$130 million on a fully diluted basis, or US$1,101.25 per share. This valuation represents a 51% increase over the $70 million valuation which the Company has agreed for its initial US$2 million in BSL. This gain and any related changes in foreign exchange have been recorded through the statement of income as FVTPL in the amount of $1.351 million.

	Jun. 30, 2022	**Dec. 31, 2021**
	$	**$**
Balance, beginning of period	-	-
Additions	5,265	-
Disposals	-	-
Fair value adjustment – equity	3,424	
Fair value adjustment – FX	44	-
Balance, end of period	**8,733**	**-**

5 Notes Receivable

On June 19, 2022 Company entered into a convertible loan agreement with Mkango Resources, Ltd. ("Mkango"), for an amount of U.K Pound Sterling ("GBP") GBP$500, or CAD$781 ("Mkango Loan"). Mkango is a public company that trades on the TSX-V under MKA, and also trades on the LSE under MKA.L. Mkango's principal business is rare earth element and associated minerals exploration and development. The loan carries an interest rate of 5% per annum compounded annually, and the full amount of the principal and interest is due and payable on June 30, 2024. At any time prior to the maturity date, the Company has the right to convert all or any part of the principal sum and accrued interest ("Mkango Conversion Amount") into Mkango common shares ("Mkango Conversion Shares"). The conversion price in respect of the Mkango Loan shall be GBP$0.27 per Mkango common share ("Mkango Principal Conversion Price"). The conversion price in respect of the accrued interest, shall be the higher of the Mkango Principal Conversion Price, and the closing price of Mkango shares on the TSX-V on the date immediately preceding the date of the conversion notice.

The option to settle the Mkango Conversion Amount through Mkango Conversion Shares represents an embedded derivative in the form of a call option to the Company. As a result, the Mkango Loan in its entirety was classified as a financial asset at FVTPL.

(Unaudited – Expressed in Thousands of Canadian Dollars Unless Otherwise Stated)

The Company's investment in the Mkango Loan receivable can be converted into equity of Mkango at any time prior to maturity. As a result, the instrument is composed of an asset component and an embedded derivative component. An embedded derivative is a component of a hybrid contract that also includes a non-derivative host, with the effect that some of the value of the combined instrument vary in a way similar to a stand-alone derivative. The embedded derivative component within the convertible loan receivable is assessed in its entirety, and the convertible loan receivable as a whole is measured at fair value through profit or loss. Subsequent to initial recognition, the convertible loan receivable is revalued using Black-Scholes option pricing model with the difference in fair value recorded in profit or loss.

As at June 30, 2022, the fair value of the Mkango Loan was $783. As at June 30, 2022, the Mkango loan had an unrealized $2 gain due to foreign exchange movements.

6 Related Party Transactions

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 six months ended June 30, 2022, and June 30, 2021:

	Jun. 30, 2022 **$**	**Jun. 30, 2021** **$**
Short-term salaries and benefits	220	-
Share-based compensation	71	-
Total	**291**	**-**

Other Related Party Transactions

As at June 30, 2022, a total of $98 was payable to a Director and an Officer for expenses paid on behalf of the Company which is included in trade and other payables. Included in this balance is $78 payable to an Officer and $20 payable to a Director and Officer of the Company. No agreed terms were stipulated for the $98 payable. $220 was accrued for salaries for both the CEO and CFO which is included in accrued liabilities.

On June 29, 2022, the Company entered into an unsecured loan agreement with Kings Chapel International Ltd. ("Kings Chapel") for an amount of GBP$500, or $781 ("Kings Chapel Loan"). The purpose of the Kings Chapel Loan was to fund the Mkango Loan. Kings Chapel is associated with the Company's CEO, Julian Treger. The Kings Chapel Loan bears interest of 5% per year compounded annually and shall be due and payable on the maturity date, June 29, 2024. This financial liability has been classified and measured at amortized cost. As at June 30, 2022, the loan had an unrealized $2 loss due to foreign exchange movements.

On August 11, 2021, 2,305,831 EIUs were granted to the CEO of the Company. Each EIU 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 EIUs 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 EIUs will be settled with common shares and as such have been recorded as Equity-settled Share-Based Compensation. In order to measure the fair value of the EIUs awarded on August 11, 2021, management used Monte Carlo simulation to determine the expected range of ending share prices as at the Vesting Date. The proportion of prices which were above $0.50 were used as a probability factor which was applied to the Black Scholes model which was used to determine the fair value of the EIU as at the grant date of $76. The expense will be recognized during the vesting period. For the six months ended June 30, 2022, an expense in the amount of $12 has been recognized.

During April 2022, EIUs in the amount of 7% of the new common shares issued, or 797,342 EIUs, for the private placement in connection with the transition to the TSX-V, have been awarded to the CEO on the date the Company listed on the TSX-V. The agreement for the EIUs in the amount of 7% of the new common shares issued stipulate the same vesting conditions and settlement via cash payment as the EIUs awarded on August 11, 2021, however settlement via Common Shares 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. Thus, these EIUs will be treated as a liability-classified award, with any changes in fair value to be reflected as share-based compensation expense. 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 award to the CEO on each closing date of such transactions, additional EIUs equal to 7% of common shares issued or issuable pursuant to such financing transaction or acquisition.

Following the listing of the Company on the TSX-V, the Company issued the Chairman EIUs equal to 1.75% of the number of Common Shares issued, or 199,335 EIUs, pursuant to the Financing. The EIUs 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. These EIUs will be treated as a liability-classified award, with any changes in fair value to be reflected as share-based compensation expense.

The fair value of the 996,677 EIUs awarded to the CEO and Chairman was determined as $89 as at June 30, 2022. The fair value of the EIUs was calculated using Monte Carlo simulation and the Black-Scholes option pricing model. As at June 30, 2022, the fair value of the EIUs were calculated using the Black-Scholes option pricing model based on a risk-free annual interest rate of 3.09%, an expected life of 2.23 years, and expected volatility of approximately 104% based on historical volatility, and a dividend yield of nil. A probability factor of 17.8% was applied to the Black-Scholes calculation which was determined by using Monte Carlo simulation to estimate the proportion of stock prices as at the Vesting Date which were above the $0.50 threshold over 100,000 simulations as at June 30, 2022. For the six months ended June 30, 2022, $7 was recorded as a non-current liability and as share-based compensation expense for the vesting of these EIUs and any changes in fair value.

The Company granted the CEO options in the amount of 569,530 on the date on which the Company listed on the TSX-V so that, as of that date, he held options to purchase a total number of Common Shares equal to 5% of the Company's issued and outstanding Common Shares. The options have an exercise price of $0.55, being the closing price of the trading day following the date on which the shares were re-listed on the TSX-V, a term of 10 years and will be subject to vesting over three years, using a graded vesting approach applied for accounting purposes with 1/3 of each option grant vesting each year subject to their continued employment with or engagement by the Company.

The Company granted the Chairman options in the amount of 142,382 on the date on which the Company is listed on the TSX-V so that, as of that date, he held options to purchase a total number of Common Shares equal to 1.25% of the Company's issued and outstanding Common Shares. The options have an exercise price of $0.55, being the closing price of the trading day following the date on which the shares were re-listed on the TSX-V, a term of 10 years and will be subject to vesting over three years, using a graded vesting approach applied for accounting purposes with 1/3 of each option grant vesting each year subject to their continued employment with or engagement by the Company.

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For the six months ended June 30, 2022, $115 was recorded as share-based compensation expense for the vesting of these stock options.

On April 14, 2022, the Company awarded the CEO a cash bonus of $200 subject to the Company being listed on the TSX-V. An accrual of $200 related to the aforementioned bonus is included in accrued liabilities as at June 30, 2022.

On April 14, 2022, the Company awarded the Chairman a cash bonus of $50 subject to the Company being listed on the TSX-V. An accrual of $50 related to the aforementioned bonus is included in accrued liabilities as at June 30, 2022.

7 Fair Value Measurements of Financial Instruments

The categories of fair value hierarchy that reflect the significance of inputs used in making fair value measurements are as follows:

Level 1 – quoted in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data

The levels in the fair value hierarchy into which our financial assets and liabilities that are measured and recognized in the condensed interim statements of financial position at fair value on a recurring basis were categorized as follows:

	Fair value at June 30, 2022			
	Level 1	**Level 2(1)**	**Level 3(2)**	**Total**
Equity securities(i)	-	-	8,733	8,733
Convertible note receivable(ii)	-	783	-	783
Balance, end of period	**-**	**783**	**8,733**	**9,516**

(1) The fair value of the convertible note receivable is included in Level 2 as the basis of valuation uses the Black-Scholes valuation methodology which uses observable market data as inputs.

(2) Equity securities of MagIron are included in Level 3 as the basis of valuation do not have regular market pricing, but whose fair value can be determined based on a combination of evidence from an external arm's length transaction associated with the investee's equity, as well as certain assumptions used in the calculation of the fair value are not based on observable market data. Equity securities of BSL are included in Level 3 as the basis of valuation do not have a regular market pricing, but whose fair value can be determined based on evidence from external transactions in the investee's equity.

The carrying value of cash, receivables, and accounts payable approximates fair value due to the short-term nature of the financial instruments. During the six months ended June 30, 2022, no amounts were transferred between Levels.

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Sensitivity Analysis for Recurring Fair Value Measurements Categorized within Level 3

Sensitivity analysis of financial instruments is performed to measure favourable and unfavourable changes in fair value of financial instruments which are affected by the unobservable parameters, using a statistical technique. When the fair value is affected by more than two input parameters, the amounts represent the most favourable or unfavourable.

The results of the sensitivity analysis for effect on profit or loss (before tax) from changes in inputs for the major financial instruments which are categorized within Level 3 and subject to sensitivity analysis are as follows:

	Favourable changes ($)		**Unfavourable changes ($)**	
	Profit or loss	Equity	Profit or loss	Equity
Financial assets at FVTPL	449	449	(449)	(449)

For equity securities, changes in their fair value are calculated by considering changes of discount rate (1% increase/decrease), changes in equity revaluation (10% increase/decrease), and changes in the MagIron success factor (10% increase/decrease).

8 Income Per Share

The calculations of basic and diluted income per share are based on the following:

	For the three months ended		**For the six months ended**	
	Jun. 30, 2022	**Jun. 30, 2021**	**Jun. 30, 2022**	**Jun. 30, 2021**
Net Income attributable to equity holders of CoTec	**$ 2,262**	**$ (16)**	**$ 1,911**	**$ (20)**
Weighted average number of common shares issued	32,822	19,018	27,967	19,018
Adjustments for dilutive instruments:				
Stock options	544	-	544	-
Warrants	2,783	-	2,783	-
Diluted weighted average number of shares outstanding	36,148	19,018	31,293	19,018
Basic net income per share	**$0.07**	$(0.00)	**$0.07**	$(0.00)
Diluted net income per share	**$0.06**	$(0.00)	**$0.06**	$(0.00)

9 Risk Management

The Company is exposed to various financial instrument risks and assesses the impact and likelihood of this exposure. These risks include, credit risk, currency risk, and liquidity risk. Where material, these risks are reviewed and monitored by the Board of Directors.

Credit Risk
*C*redit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and receivables. The Company limits its exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality financial institutions. Receivables mainly consist of interest receivable.

Currency risk
The Company's operations are in Canada, the United States, and the United Kingdom. The international nature of the Company's operations results in foreign exchange risk as transactions are denominated in foreign currency. The Company's operating expenses are incurred primarily in Canadian dollars, its assets in British Pounds, and its liabilities are denominated primarily in Canadian dollars, or US dollars. The fluctuation of the Canadian dollar will, consequently, have an impact upon the reported profitability of the Company and may also affect the value of the Company's assets and liabilities. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

Liquidity Risk
Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. The Company has historically relied upon equity financings, and short-term debt to satisfy its capital requirements and will continue to depend heavily upon these financing activities. All of the Company's accounts payable and accrued liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms. The Kings Chapel Loan matures June 29, 2024. The Company is exposed to risk that it will encounter difficulty in satisfying liabilities on maturity. The loan is an unsecured promissory note. There can be no assurance the Company will be able to obtain required financing in the future on acceptable terms. The Company will need additional capital in the future to finance ongoing expenses, such capital to be derived from the exercise of outstanding stock options, and, or the completion of other equity financings. The Company has limited financial resources, has no source of operating income and has no assurance that additional funding will be available to it for future development of its projects, although the Company has been successful in the past in financing its activities through the previously mentioned financing activities. The ability of the Company to arrange additional financing in the future will depend, in part, on the prevailing capital market conditions, and underlying success of its investments. In recent years, the securities markets have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. Any quoted market for the common shares may be subject to market trends generally, notwithstanding any

potential success of the Company in creating revenue, cash flows or earnings which are subject to risks around the Company being able to operate as a going concern (see Note 1)

Price Risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors the commodity prices of iron ore, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company. The Company's marketable securities amounting to $8,733 are subject to fair value fluctuations. As at June 30, 2022, if the fair value of the Company's marketable securities had decreased/increased by 10% with all other variables held constant, income and comprehensive income for the period would have been approximately $449 higher/lower.