CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

For the years ended December 31, 2022 and 2021. Expressed in Thousands of Canadian Dollars Unless Otherwise Stated

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

Independent auditor's report

To the Shareholders of CoTec Holdings Corp.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of CoTec Holdings Corp. and its subsidiary (together, the Company) as at December 31, 2022 and 2021, 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, 2022 and 2021;
- the consolidated statements of income (loss) and other comprehensive income (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.

Material uncertainty related to going concern

We draw attention to note 1 to the consolidated financial statements, which describes events or conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Fair value of equity investments in private companies *Refer to note 3 – Summary of significant accounting policies, financial assets and investments and note 4 – Critical accounting estimates and judgments, equity investments to the consolidated financial statements.* As at December 31, 2022, equity investments in private companies amounted to $9.2 million. These investments are measured at fair value through profit or loss (FVTPL). Management exercises significant judgment when determining the fair value of the equity investments in private companies at the end of each reporting period. Management applies the price of recent investment valuation technique where it uses the initial cost of the investment or, where there has been subsequent investment, the price at which a significant amount of new investment into the investee was made, to estimate the enterprise value, but only if deemed to represent fair value and only for a limited period following the date of the relevant transaction. During the year ended December 31, 2022, management used external transactions to support the valuation of the Company's investments into MagIron LLC and Binding Solutions Limited and	Our approach to addressing the matter included the following procedures, among others: • Tested how management determined the fair value for the equity investments in private companies, which included the following: – Tested the reasonableness of the discount rate and investees' valuations by (i) inspecting supporting documentation for subsequent financing equity transactions entered into by the investees and third parties and (ii) considering external market data, as applicable. – Tested the reasonableness of the success factor by considering the financial information of the investee to confirm the milestones achieved in the current year. – Professionals with specialized skill and knowledge assisted with evaluating the appropriateness of the methodology applied by management. – Tested the underlying data used by management. – Assessed management judgment in determining the changes or events subsequent to the relevant transaction that would imply a change in the equity investments' fair value by considering the financial information of the investees and external information with respect to

Key audit matter	How our audit addressed the key audit matter
further considered changes or events subsequent to the relevant transaction that would imply a change in the equity investments' fair value. The valuation of the equity investment in MagIron LLC required significant judgment in that the external transaction with the investee involved 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, management determined that using the pre-determined valuation for the equity was not entirely representative of the value of the equity as at the date of the transaction. As such, management discounted the gain in the equity value over the duration of the conversion period, and also applied a success factor in order to reflect management's expectation of the project being successful as well as the likelihood of a liquidity event. Some of the significant unobservable inputs used in the valuation of such equity investments in private companies were discount rate, success factor and investee's valuation used in subsequent equity financing transactions. We considered this a key audit matter due to the significant judgment applied by management in determining the fair value of the equity investments in private companies, particularly in the use of external transactions to support the valuation of the investee and changes or events subsequent to the relevant transactions that would imply a change in the equity investments fair value. This led to a high degree of auditor judgment in performing procedures relating to the valuation of the equity investments in private companies. The audit effort involved the use of professionals with specialized skill and knowledge.	economic conditions and events that could affect the investees.

Other information

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

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.

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

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

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
April 20, 2023

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF COTEC HOLDINGS CORP.
(Expressed in Thousands of Canadian Dollars)
FOR THE YEARS ENDING DECEMBER 31, 2022 AND 2021

	Dec. 31, 2022	Dec. 31, 2021
ASSETS		
Current		
Cash and cash equivalents	$ 239	$ 400
GST receivable	52	17
Prepaid expenses	51	47
Total current assets	341	463
Non-Current		
BSL investment (Note 6)	4,078	-
MagIron investment (Note 6)	5,156	-
Mkango convertible notes (Note 7)	2,525	-
IZ note receivable (Note 7)	302	-
TOTAL ASSETS	**$ 12,403**	**$ 463**
LIABILITIES		
Current		
Trade and other payables	$ 360	$ 254
Accrued liabilities	1,137	289
Total current liabilities	1,497	543
Non-Current		
Note payable (Note 8)	$ 1,554	$ -
Deferred tax liabilities	-	-
Stock-based compensation liability	132	-
TOTAL LIABILITIES	3,182	543
EQUITY		
Share capital (Note 5)	96,619	90,996
Contributed surplus	12,395	10,206
Deficit	(99,793)	(101,282)
TOTAL EQUITY	9,221	(79)
TOTAL LIABILITIES AND EQUITY	**$ 12,403**	**$ 463**

Corporate information and going concern (Note 1)

On behalf of the Board:

(signed) Julian Treger Director

(signed) Lucio Genovese Director

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) OF COTEC HOLDINGS CORP.
(Expressed in Thousands of Canadian Dollars)
FOR THE YEARS ENDING DECEMBER 31, 2022 AND 2021

	2022	2021
INCOME		
Gain on equity investment (Note 6)	3,969	-
Gain on convertible notes receivable (Note 7)	53	-
EXPENSES		
Professional consulting fees	(534)	(143)
G&A expenses	(1,505)	(375)
Share-based compensation (Note 5)	(434)	(88)
Operating income (loss)	**1,548**	**(606)**
Finance expense (Note 8)	(28)	-
Finance income	38	-
Foreign exchange (loss) gain	(69)	(1)
Net finance expense	(60)	(1)
Income tax expense	-	(1)
Comprehensive income (loss) for the year	**$ 1,489**	**$ (608)**
Net income (loss) per common share (Note 10)		
Basic	$0.05	($0.03)
Diluted	$0.05	($0.03)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY OF COTEC HOLDINGS CORP.
(Expressed in Thousands of Canadian Dollars)
FOR THE YEARS ENDING DECEMBER 31, 2022 AND 2021

	Share Capital		Commitment to Issue Shares	Contributed Surplus		Deficit	Total Equity
	Number	**Amount**	**Amount**	**Options**	**Warrants**	**Amount**	**Amount**
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**
Issuances of warrants	-	(149)	-	-	149	-	**-**
Equity-settled share-based compensation	-	-	-	88	-	-	**88**
Balance – Dec. 31, 2021	**23,058,319**	**$ 90,996**	**$ -**	**$ 10,058**	**$ 149**	**$ (101,282)**	**$ (79)**
Balance – Jan. 1, 2022	**23,058,319**	**$ 90,996**	**$ -**	**$ 10,058**	**$ 149**	**$ (101,282)**	**$ (79)**
Net income for the year	-	-	-	-	-	1,489	**1,489**
Shares issued for cash	12,654,701	6,892	-	-	-	-	**6,892**
Share issue costs	-	(172)	-	-	-	-	**(172)**
Commitment to issue shares (Note 12)	-	-	124	-	-	-	**124**
Issuance of warrants	-	(2,036)	-	-	2,036	-	**-**
Exercise of warrants	4,040,404	816	-	-	(149)	-	**667**
Equity-settled share-based compensation	-	-	-	302	-	-	**302**
Balance – Dec. 31, 2022	**39,753,424**	**$ 96,495**	**$ 124**	**$ 10,360**	**$ 2,035**	**$ (99,793)**	**$ 9,221**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS OF COTEC HOLDINGS CORP.
(Expressed in Thousands of Canadian Dollars)
FOR THE YEARS ENDING DECEMBER 31, 2022 AND 2021

		2022		2023
OPERATING ACTIVITIES				
Net Income (loss) for the year	$	1,489	$	(608)
Add items not affecting cash				
Gain on equity investment (Note 6)		(3,969)		-
Loss on convertible note receivable		(53)		-
Share-based compensation		433		88
Income tax expense		-		-
Non-cash finance expense & foreign exchange		57		-
Changes in non-cash working capital balances related to operations				
GST receivable		(35)		(10)
Prepaid expenses		(4)		(40)
Trade and other payables and accrued liabilities		954		466
Cash used by operating activities		**(1,128)**		**(103)**
INVESTING ACTIVITIES				
MagIron investment (Note 6)		(2,736)		-
BSL investment (Note 6)		(2,529)		-
Mkango convertible note (Note 7)		(2,437)		
IZ note receivable (Note 7)		(300)		-
Cash used by investing activities		(8,002)		-
FINANCING ACTIVITIES				
Shares issued for cash		7,015		500
Share issue cost		(172)		-
Warrant exercise		667		-
Note payable		1,459		-
Cash from financing activities		8,969		500
Net decrease in cash for the year		**(160)**		**397**
Cash and cash equivalents, beginning of year		400		3
Cash and cash equivalents, end of year	**$**	**239**	**$**	**400**

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

1 Corporate Information and Going Concern

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 $99,793 as at December 31, 2022 (December 31, 2021: ($101,282)). For the year ended December 31, 2022, the Company used cash in operating activities totalling $1,128 (December 31, 2021: ($103)). The Company had cash and cash equivalents of $239 (December 31, 2021: $400) and a working capital deficit of $1,155 as at December 31, 2022 (December 31, 2021: ($80)). 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. 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

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.

(b) Basis of Consolidation

The 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, as well as 1391621 B.C. Ltd.. All intercompany balances and transactions have been eliminated upon consolidation.

These consolidated 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 and Canadian subsidiaries' functional currency is the Canadian 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.

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 subsidiaries CoTec USA Corp. ("CoTec USA") and 1391621 B.C. Ltd.. 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 principal subsidiaries of the Company and their geographic locations as at December 31, 2022, were as follows:

	Incorporation	Percentage of ownership
CoTec USA Corp.	USA	100%
1391621 B.C. Ltd.	Canada	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, 1391621 B.C. Ltd., and US-based subsidiary, CoTec USA, is the Canadian dollar.

3.4 Financial Assets and Investments

(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 ("FVTPL")), 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 FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL 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 Investments

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 FVTPL are recognized in other gains/(losses) in the statement of profit or loss as applicable.

For any equity investments in private companies, the Company monitors its investments for the following indicators to determine if cost is no longer representative of fair value:

a) a significant change in the performance of the investee compared with budgets, plans or milestones.
b) changes in expectation that the investee's technical product milestones will be achieved.
c) a significant change in the market for the investee's equity or its products or potential products.
d) a significant change in the global economy or the economic environment in which the investee operates.
e) a significant change in the performance of comparable entities, or in the valuations implied by the overall market.
f) internal matters of the investee such as fraud, commercial disputes, litigation, changes in management or strategy.
g) evidence from external transactions in the investee's equity, either by the investee (such as a fresh issue of equity), or by transfers of equity instruments between third parties.

The Company will assess the qualitative and quantitative factors of these indicators, placing more emphasis towards independent external transactions in the investee's equity when determining the fair value of its private company equity investments (Note 4).

Convertible Notes

Investments in convertible note instruments are classified as FVTPL. These convertible note instruments are measured at fair value at the end of each reporting period, with any gains or losses arising on re-measurement recognized as a component of net income (loss) under the classification of gain (loss) on revaluation of investments.

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 only 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.

3.8 Income per Share

Income per share is computed based on the weighted average basic number of shares outstanding for the period. Diluted income 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, and equity incentive units granted to employees, directors and consultants, and warrants.

3.9 Share-Based Payments

Stock Options

The Company’s omnibus equity incentive plan (the “Plan”) was approved by the Company’s shareholders at its annual general and special meeting held October 27, 2022. 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 on the grant date, is recognized as an employee benefits expense over the vesting period, 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 Monte Carlo simulation to determine the expected value of the ending share-price as at the end of the vesting period.

(c) Approval of Financial Statements

The Board of Directors approved these consolidated financial statements for issue on April 20, 2023

4 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.

Equity Investments in Private Companies

The determination of fair value of the Company's investments at other than initial cost is subject to certain limitations. Financial information for private companies in which the Company has investments may not be available and, even if available, that information may be limited and/or unreliable.

Management exercises significant judgement when determining the fair value of the equity investment in private companies at the end of each reporting period by using company-specific information and other inputs that are not based on observable market data. Some of the significant unobservable inputs used in the valuation of such investments are the discount rate, success factor, and investee's valuation used in subsequent equity financing transactions (Note 6).

The fair value of long-term investments and convertible notes receivable may be adjusted if:

a) a significant change in the performance of the investee compared with budgets, plans or milestones.
b) changes in expectation that the investee's technical product milestones will be achieved.
c) a significant change in the market for the investee's equity or its products or potential products.
d) a significant change in the global economy or the economic environment in which the investee operates.
e) a significant change in the performance of comparable entities, or in the valuations implied by the overall market.
f) internal matters of the investee such as fraud, commercial disputes, litigation, changes in management or strategy.
g) evidence from external transactions in the investee's equity, either by the investee (such as a fresh issue of equity), or by transfers of equity instruments between third parties.

Adjustments to the fair value of a long-term investment will be based upon management's judgement and any value estimated may not be realized or realizable.

Management applies the price of recent investment valuation technique where it uses the initial cost of the investment, or, where there has been subsequent investment, the price at which a significant amount of new investment into the investee's was made, to estimate the enterprise value, but only if deemed to represent fair value and only for a limited period following the date of the relevant transaction.

During the year ended December 31, 2022, the Company determined that there was sufficient evidence from external transactions in the investees' equity which are indicators that initial cost might no longer be representative of fair value. The Company used these external transactions to support the valuation of the Company's investments into MagIron LLC ("MagIron") as well as Binding Solutions Limited ("BSL").

The valuation of the investment in MagIron LLC required significant judgment in that the external transaction with the investee involved 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, management determined that using the pre-determined valuation for the equity was not entirely representative of the value of the equity as at the date of the transaction. As such, management discounted the gain in equity value over the duration of the conversion period, and also applied a success factor in order to reflect management's expectation of the project being successful as well as the likelihood of a liquidity event.

5 Share Capital

Equity

The Company has unlimited authorized common shares with no par value. Total common shares issued and outstanding as at December 31, 2022, numbered 39,753,424.

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.

(Expressed in Thousands of Canadian Dollars Unless Otherwise Stated)

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 relating to the COB, 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.

On December 28, 2022, the Company completed an initial closing of a non-brokered private placement that was announced on December 20, 2022 ("December Private Placement"). Pursuant to this initial closing, the Company issued a total of 1,264,108 Units at a price of $0.50 per subscription receipt for gross proceeds of $632. Each Unit consists of one common share in the capital of the Company, and one Common Share purchase warrant ("Warrant"). Each Warrant entitles the holder to purchase one Common Share at an exercise price of $0.75 for a period of 12 months following the issuance of the Units.

Using the relative fair value method, $155 was allocated to Contributed Surplus for the Warrants. $471 was allocated to share capital.

Stock Options

Share-based compensation expenses recognized in the Consolidated Statement of Income and Comprehensive Income for the year ended December 31, 2022, and December 31, 2021, is as follows:

	2022	**2021**
	$	**$**
Stock options	(306)	(40)
Equity incentive units	(128)	(48)
Total	**(434)**	**(88)**

The Company's omnibus equity incentive plan (the "Plan") was approved by the Company's shareholders at its annual general and special meeting held October 27, 2022.

(Expressed in Thousands of Canadian Dollars Unless Otherwise Stated)

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 relating to the COB and pursuant to existing agreements with the CEO and Board Chairman (refer to Note 8 Related Party Transactions), 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 $0.42 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.

In connection with the warrants exercised during September 2022, 202,020 stock options have been granted to the CEO of the Company pursuant to the Company's 10% rolling stock option plan. The options have an effective grant date of September 7, 2022 and are exercisable for a period of 10 years at a price of $0.46 per common share, with 1/3 of the options vesting every 12 months, over a 3-year period.

In connection with the warrants exercised during September 2022, 282,828 EIUs have been awarded to the CEO of the Company, at a fair value of $0.35 per EIU.

The weighted average fair value per option granted during the year ended December 31, 2022, was $0.43 (December 31, 2021: $0.17). As at December 31, 2022, there was $337 of share-based compensation expense (December 31, 2021: $1,401) relating to the Company's unvested stock options to be recognized in future periods.

For the year ended December 31, 2022, stock-based compensation expense relating to the vesting of stock options, was $306. A summary of option activity under the Plan during the year ended December 31, 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	1,013,932	0.53
Exercised	-	-
Expired	-	-
Balance – December 31, 2022	**2,455,077**	**0.41**

The number of options outstanding as at December 31, 2022, is shown in the following table:

(Expressed in Thousands of Canadian Dollars Unless Otherwise Stated)

	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	8.73	Nil
October 8, 2021	October 8, 2031	288,229	0.45	8.77	Nil
April 19, 2022	April 19, 2032	711,912	0.55	9.30	Nil
April 19, 2022	April 19, 2023	100,000	0.55	0.30	100,000[1]
September 7, 2022	September 7, 2032	202,020	0.46	9.69	Nil
		2,455,077	**0.41**	**8.64**	**100,000**

1) These stock options were expired at the time of filing the Consolidated Financial Statements

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.

Pursuant to the private placement completed on September 7, 2021, the Company had 4,040,404 warrants outstanding which were exercised in full. 4,040,404 shares were issued in respect of the warrants at an exercise price of $0.165 for gross proceeds of $667. The fair value of the warrants in the amount of $149 were released from Contributed Surplus to Share Capital.

Pursuant to the December Private Placement, the Company issued 1,264,108 warrants. Each 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 warrants was determined as $205. The fair value of the warrants was calculated using the Black-Scholes options pricing model based on a risk-free annual interest rate of 4.03%, an expected life of 1 year, and expected volatility of approximately 122% based on historical volatility, and a dividend yield of nil.

(Expressed in Thousands of Canadian Dollars Unless Otherwise Stated)

A summary of warrant activity under during the year ended December 31, 2022, and December 31, 2021, is as follows:

	Number of warrants #	Weighted average exercise price $
Balance – December 31, 2021	4,040,404	0.17
Issued	12,904,721	0.75
Exercised	(4,040,404)	0.17
Expired	-	-
Balance – December 31, 2022	**12,904,721**	**0.75**

The number of warrants outstanding as at December 31, 2022, is shown in the following table:

Warrants Outstanding					Warrants Exercisable
Date of Grant	**Expiry Date**	**Number Outstanding #**	**Exercise Price $**	**Remaining life (years)**	**Number outstanding #**
April 14, 2022	April 14, 2023	11,390,593	0.75	0.28	11,390,593[1]
April 14, 2022	April 14, 2025	250,020	0.55	2.29	250,020
December 28, 2022	December 28, 2023	1,264,108	0.75	0.99	1,264,108
		12,904,721	**0.75**	**0.39**	**12,904,721**

1) These warrants were expired at the time of filing the Consolidated Financial Statements

6 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 USD120,000 ("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 USD2.12 million, comprising USD2 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 USD5 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 USD30 million, which represents a 126% increase in the Company's initial investment which was at a post-money valuation of USD13.3 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 December 31, 2022 (5.5%), plus 5%, or 10.5%, over the 12-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 80.0%. This gain and any related changes in foreign exchange have been recorded through the statement of income as FVTPL in the amount of $2.419 million. For the year ended December 31, 2022, the change in fair value due to the reduction of discount period as well as increased LIBOR rate was $55 gain, and changes due to FX resulted in a gain of $243. No changes or events subsequent to the relevant transaction that would imply a change in the investment's fair value were identified.

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 USD3.0 million and a maximum of USD4.0 million, to be funded in two tranches as follows:

- an initial investment of USD2.0 million; and
- a subsequent investment of between USD1.0 million and USD2.0 million, 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). This has since been extended to February 28, 2023 – refer to Subsequent Events Note 14.

On April 13, 2022, the Company completed its initial investment of USD2 million, at USD731.50 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 CAD12 million;

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- 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.

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 USD130 million on a fully diluted basis, or USD1,101.25 per share. This valuation represents a 51% increase over the $70 million valuation which the Company has agreed for its initial USD2 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 $1.549 million for the year ended December 31, 2022. No changes or events subsequent to the relevant transaction that would imply a change in the investment's fair value were identified.

	Dec. 31, 2022 **$**	**Dec. 31, 2021** **$**
Balance, beginning of year	-	-
Additions	5,265	-
Disposals	-	-
Fair value adjustment	3,478	
Foreign exchange	490	-
Balance, end of year	**9,234**	**-**

7 Notes Receivable

On June 19, 2022 the Company entered into a convertible loan agreement with Mkango Resources, Ltd. ("Mkango"), for an amount of U.K Pound Sterling ("GBP") GBP500,000 or $781 ("Mkango Loan 1"). 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 is GBP0.27 per Mkango common share ("Mkango Principal Conversion Price"). The conversion price in respect of the accrued interest, is 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.

On September 6, 2022, the Company entered into a second convertible loan agreement with Mkango, for an amount of GBP500,000 or $766 ("Mkango Loan 2"). The loan carries the same terms and conditions as the Mkango Loan 1.

On October 27, 2022, the Company entered in a third convertible loan agreement with Mkango, for an amount of GBP222,500, or $354 ("Mkango Loan 3"). The loan carries the same terms and conditions as the Mkango Loan 1 and 2.

On December 28, 2022, the Company entered into a fourth convertible loan agreement with Mkango, for an amount of GBP325,000, or $537 ("Mkango Loan 4"). The loan carries the same terms and conditions as the Mkango Loan 1, 2, and 3.

The option for the conversion into common shares in the agreement causes the instrument to fail the Solely Payments of the Principal and Interest (SPPI) criterion, as the contractual terms are not only payments of principal and interest on the principal amounts outstanding (it also reflects the value of the issuer's equity). Therefore, the convertible note, as a whole, is classified as FVTPL. Subsequent to initial recognition, the convertible loan receivable is revalued with the changes in fair value recorded in profit or loss.

The Mkango Loans were fair-valued using the Longstaff-Schwartz algorithm based the spot price of the issuer's commons shares, dividend yield of the issuer's common shares, GBP SONIA interest rate curve, historical volatilities of the issuer's common shares with an observation period matching the remaining term-to-maturity of each convertible note, implied volatilities of the CADGBP FX rate, correlation between the issuer's share price and the CADGBP FX rate, and the credit spread of the issuer.

As at December 31, 2022, the Mkango Loan 1 had a fair value revaluation loss of $100, an unrealized $36 gain due to foreign exchange movements, and accrued interest of $20.

As at December 31, 2022, the Mkango Loan 2 had a fair value revaluation gain of $21, an unrealized $51 gain due to foreign exchange movements, and accrued interest of $12.

As at December 31, 2022, the Mkango Loan 3 had a fair value revaluation gain of $23, an unrealized $9 gain due to foreign exchange movements, and accrued interest of $3.

As at December 31, 2022, the Mkango Loan 4 had a fair value revaluation gain of $18, an unrealized $6 loss due to foreign exchange movements, and accrued interest of $0.

On November 22, 2022, the Company has entered into a $300 bridge loan ("Bridge Loan") to International Zeolite Corp. ("IZ"). The Bridge Loan is secured by a first ranking charge in favour of CoTec over all of IZ's assets. IZ is a public company that engages in the exploration, development, production and distribution of the natural industrial mineral zeolite, and trades on the TSX-V under IZ. The Bridge Loan bears interest at 7% per annum as is repayable on the earlier of November 21, 2024, or change of control of IZ. As at December 31, 2022, the Bridge Loan has accrued interest of $2.

(Expressed in Thousands of Canadian Dollars Unless Otherwise Stated)

8 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, Chief Financial Officer, and Board Chairman 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 nine months ended December 31, 2022, and December 31, 2021:

	Dec. 31, 2022 **$**	**Dec. 31, 2021** **$**
Short-term salaries and benefits	(970)	(200)
Share-based compensation	(339)	(80)
Total	**(1,309)**	**(280)**

Short-term salaries, fees and benefits comprise $720 accrued salaries for the CEO and CFO. A further $200 success-based fee to the CEO became payable on completion of the Company’s COB.

Other Related Party Transactions

As at December 31, 2022, a total of $50 was payable to a Director and an Officer for expenses paid on behalf of the Company which is included in trade and other payables. No agreed terms were stipulated for the $50 payable. $720 was accrued for salaries for both the CEO and CFO which is included in accrued liabilities less $39 paid to the CFO prior to December 31, 2022.

On June 29, 2022, the Company entered into an unsecured loan agreement with Kings Chapel International Ltd. (“Kings Chapel”) for an amount of GBP500,000 or $781 (“Kings Chapel Loan 1”). The purpose of the Kings Chapel Loan 1 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 December 31, 2022, the loan had an unrealized $36 loss due to foreign exchange movements, and $20 in accrued interest payable.

On September 6, 2022, the Company entered into a second unsecured loan agreement with Kings Chapel for an amount of GBP250,000 or $378 (“Kings Chapel Loan 2”). The purpose of the Kings Chapel Loan 2 was to partly fund Mkango Loan 2. The Kings Chapel Loan 2 carries the same terms as the Kings Chapel

Loan 1 ("Kings Chapel Loans"). As at December 31, 2022, the loan had $31 loss due to foreign exchange movements, and $6 in accrued interest payable.

On November 23, 2022, the Company entered into a third unsecured loan agreement with Kings Chapel for an amount of $300 ("Kings Chapel Loan 3"). The purpose of the Kings Chapel Loan 3 was to fund the IZ Bridge Loan. The Kings Chapel Loan 3 carries the same terms as the Kings Chapel Loan 1 and 2 ("Kings Chapel Loans"). As at December 31, 2022, the loan had $2 in accrued interest payable.

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 value based on the ending share prices as at the Vesting Date. The fair value of the EIU as at the grant date of $153. The expense will be recognized during the vesting period. For the year ended December 31, 2022, an expense in the amount of ($4) 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 during April 2022, 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 during April 2022 was determined as $396 as at December 31, 2022. The fair value of the EIUs was calculated using Monte Carlo simulation with an expected volatility of approximately 125% based on historical volatility. This was determined by using Monte Carlo simulation to estimate the expected value by averaging the ending stock prices as at the Vesting Date over 10,000 simulations as at December 31, 2022. For the year ended December 31, 2022, $114 was added to the non-current liability and recorded 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.

In connection with the warrants exercised in September 2022, 202,020 stock options have been granted to the CEO of the Company pursuant to the Company's 10% rolling stock option plan so that, as of that date, they 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 effective grant date of September 7, 2022 and are exercisable for a period of 10 years at a price of $0.46 per common share, with 1/3 of the options vesting every 12 months, over a 3-year period.

In connection with the warrants exercised in September 2022, 282,828 EIUs have been awarded to the CEO of the Company so, as of that date, they held EIUs equal to 7% of the number of Common Shares issued. The fair value of the EIUs was calculated using Monte Carlo simulation. The fair value of the 282,828 EIUs awarded to the CEO was determined to be $99 as at September 7, 2022 using an expected volatility of approximately 113% based on historical volatility over 10,000 simulations. Subsequent measurement as at December 31, 2022 was $112. As at December 31, 2022, the fair value of the EIUs was calculated using

Monte Carlo simulation using an expected volatility of approximately 125% based on historical volatility to estimate the expected value by averaging the ending stock prices as at the Vesting Date over 10,000 simulations. For the year ended December 31, 2022, $17 was added to the non-current liability and recorded as share-based compensation expense for the vesting of these EIUs and any changes in fair value.

The Company granted the Chairman options in the amount of 142,382 on the date on which the Company was 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.

For the year ended December 31, 2022, $288 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 December 31, 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 December 31, 2022.

9 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 consolidated statements of financial position at fair value on a recurring basis were categorized as follows:

(Expressed in Thousands of Canadian Dollars Unless Otherwise Stated)

	Fair value at December 31, 2022			
	Level 1	**Level 2(1)**	**Level 3(2)**	**Total**
Equity securities	-	-	9,234	9,234
Convertible notes receivable	-	2,525	-	2,525
Balance, end of period	**-**	**2,525**	**9,234**	**11,759**

(1) The fair value of the convertible note receivable is included in Level 2 as the basis of valuation uses the Longstaff-Schwartz algorithm 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 year ended December 31, 2022, no amounts were transferred between Levels.

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, by varying input parameters to showcase step-changes in fair value. 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	695	695	(695)	(695)

For equity investments, 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).

10 Income Per Share

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

(Expressed in Thousands of Canadian Dollars Unless Otherwise Stated)

	2022	2021
Net Income (loss) attributable to equity holders of CoTec	**$ 1,489**	**$ (608)**
Weighted average number of common shares issued	32,496	20,291
Adjustments for dilutive instruments:		
Stock options	401	-
Warrants	-	-
EIUs	-	-
Diluted weighted average number of shares outstanding	32,897	20,291
Basic net income per share	**$0.05**	($0.03)
Diluted net income per share	**$0.05**	($0.03)

11 Income Tax

Income tax expense differs from the amount that would result from applying the Canadian Federal and Provincial income tax rates to earnings before income taxes. These differences result from the following items:

	For the years ended 2022	2021
Income (loss) before tax	1,489	(608)
Statutory rate	27.00%	27.00%
Expected income tax recovery (expense)	402	(164)
Increase (decrease) due to:		
Tax rate differences for capital items	(535)	-
Non-deductible items for tax purposes	117	-
Losses for which no tax benefit had been recorded	16	164
Tax expense (recovery)	$ -	$ -

Tax rate differences for capital items relate to the non-deductible portion of the fair value adjustments to equity investments and related foreign exchange. The components of the deferred tax assets and liabilities are as follows:

(Expressed in Thousands of Canadian Dollars Unless Otherwise Stated)

	2022	2021
Deferred tax assets:		
Capital losses	543	-
Deferred tax liabilities:		
Investments	543	-
Deferred tax liabilities (net)	**$ -**	**$ -**

The components of temporary differences for which no deferred tax assets have been recognized are as follows:

	2022	2021
Exploration and evaluation assets	3,621	3,621
Share issue costs	138	-
Other	76	-
	$ 3,835	**$ 3,621**

The Company has capital losses for which no tax benefit has been recorded of $73,211. As at December 31, 2022, the Company has available non-capital tax losses for Canadian income tax purposes of $12,975 expiring between 2030 and 2042.

12 Commitments

Subscription Receipts

In connection with the non-brokered December Private Placement, the Company was advanced $124 as at December 31, 2022, representing 61,875 shares of the Company to be issued subject to the TSX-V exchange approval as part of any subsequent closing. See Subsequent Events note for further details.

Stock Options and EIUs

In connection with the non-brokered December Private Placement, 1,264,108 shares were issued as part of the initial closing. As part of the existing agreements with the CEO, there is a commitment to issue 7% of the new common shares issued as EIUs, or 88,487 EIUs, and 5% of the new common shares issued as stock options, or 63,205 stock options. These EIUs and stock options will be issued once the December Private Placement is closed. Refer to ‘Related Party Transactions’ and ‘Subsequent Events’ for further details.

13 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

Credit 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 and the Company's investments in convertible notes. The Company limits its exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality financial institutions as determined by credit rating agencies. Receivables mainly consist of interest receivable from its cashable guaranteed investment certificate ("GIC").

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. As at December 31, 2022, the Company held all its cash in Canadian Dollars, therefore would not incur any currency risk related to its cash position. Sensitivities that create notable step-changes in fair value are shown in Note 9. 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 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 $9,234 are subject to fair value fluctuations. As at December 31, 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 $695 higher/lower.

14 Subsequent Events

December Private Placement

On January 10, 2023, the Company completed a second closing of the December Private Placement. Pursuant to this second closing, the Company issued a total of 2,651,000 Units at a price of $0.50 per Unit for gross proceeds of $1,326.

On February 2, 2023, the Company completed a third and final closing of the December Private Placement. Pursuant to this second closing, the Company issued a total of 5,069,796 Units at a price of $0.50 per Unit for gross proceeds of $2,535.

Definitive Agreement to Invest in Mkango, Maginito

On February 1, 2023 the Company and Mkango entered into definitive agreements in relation to the Mkango Note and the Maginito Investment. The parties also agreed to enter into a co-operation agreement regarding future investments in rare earth processing technology opportunities in the United States on closing of the Maginito Investment.

On February 5, 2023 the Company completed the Mkango Note through a final investment by CoTec of a further GBP452,500 ($739) which was in addition to the funding completed in 2022, for an aggregate investment of GBP2,000,000 ($3,177). The aggregate principal and accrued interest of the Mkango Loans were credited towards the Mkango Note.

On March 16, 2023, the Company acquired a 10% equity stake in Maginito for GBP1,500,000.

BSL Subsequent Subscription

On February 28, 2023 the Company made a Subsequent Subscription of USD500,000 at an implied BSL total equity valuation of USD104 million and was granted the right to complete a further USD1.5 million Subsequent Subscription until June 30, 2023 at an equity valuation equal to 20% less than any follow-on BSL fundraise.

March Fundraising

On March 9, 2023 the Company completed a private placement through the issuance of 7,153,210 units at a price of $0.50 per unit for gross proceeds of $3.6 million. Each unit comprised one common share in the equity of the Company and one warrant, which entitles the holder to acquire one common share in the company at a price of $0.75 for a period of up to 12 months following the subscription date.

Repayment of Kings Chapel Loans

On January 12, 2023 the Company repaid GBP375,000 ($611) of Kings Chapel Loan 1.

On February 2nd and 5th, 2023 the Company repaid the remaining GBP375,000 of Kings Chapel Loan 1 and 2 and the $300 of Kings Chapel Loan 3, respectively.