

FATHOM NICKEL INC.

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars, unless otherwise stated)

FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021



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Independent Auditor's Report

To the Shareholders of Fathom Nickel Inc.

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group 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 (IFRS).

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 Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2.2 in the consolidated financial statements, which indicates that the group incurred a net loss of \$1,146,725 during the year ended December 31, 2022 and, as of that date, the Group had an accumulated deficit of \$6,512,479. As stated in Note 2.2, these events or conditions, along with other matters as set forth in Note 2.2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. 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 matter described below to be the key audit matters to be communicated in our report.



Impairment Indicators Assessment of Exploration and Evaluation Assets

Description of the key audit matter

Exploration and Evaluation Assets are valued at \$10,239,334. Management is required to assess whether any indicators of impairment exist at the end of each reporting period. If indicators were identified then an impairment test is required. The assessment of any indicators of impairment requires high levels of judgement and as such are significant to the audit.

See Note 3.8 to the consolidated financial statements.

How the key audit matter was addressed in the audit

Our approach in addressing this matter include the following procedures, among others:

- Evaluate management's assessment of whether impairment indicators exist and obtain evidence regarding management's conclusion on indicators;
- Obtain evidence to evaluate the completeness and accuracy of the information presented by management.
- Review the adequacy of the disclosure in the consolidated financial statements, including disclosures related to significant judgements and estimates.

Other Information

Management is responsible for the other information. The other information comprises the information included in 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.

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

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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 Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.



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

Auditor's Responsibilities for the Audit of the 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 judgement and maintain professional skepticism throughout the audit. We also:

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

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



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

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

The engagement partner on the audit resulting in this independent auditor's report is Justin R. Friesen.

Chartered Professional Accountants

Calgary, Alberta
May 1, 2023

FATHOM NICKEL INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT

	<i>Note</i>	Dec 31, 2022	Dec 31, 2021
ASSETS			
Current assets			
Cash and cash equivalents		\$ 2,956,035	\$ 8,087,554
Interest receivable		4,450	1,450
Goods and services tax receivable	9	521,500	308,883
Deposits and prepaids		207,474	195,758
		<u>\$ 3,689,459</u>	<u>8,593,645</u>
Non-current assets			
Exploration and evaluations assets	7	\$ 10,239,334	\$ 5,519,697
Right of use asset, net	8	224,080	268,970
Capital assets, net		12,733	6,682
		<u>10,476,147</u>	<u>5,795,349</u>
Total assets		<u>\$ 14,165,606</u>	<u>\$ 14,388,994</u>
EQUITY AND LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		\$ 118,083	\$ 235,556
Flow through premium liability	10, 14	274,000	1,000,000
Current portion of lease obligation	8	55,748	12,316
		<u>447,831</u>	<u>1,247,872</u>
Lease obligation	8	213,798	261,247
Total liabilities		<u>\$ 661,629</u>	<u>\$ 1,509,119</u>
Equity			
Share capital	10	\$ 18,131,836	\$ 17,000,721
Contributed surplus	10	1,884,620	1,244,908
Deficit		(6,512,479)	(5,365,754)
		<u>13,503,977</u>	<u>12,879,875</u>
Total equity and liabilities		<u>\$ 14,165,606</u>	<u>\$ 14,388,994</u>
Basis of measurement and going concern	2.2		
Commitments	14		
Events after the reporting year	15		

Approved on behalf of the Board on May 1, 2023:

Signed: "Ian Fraser"

Signed: "John Morgan"

FATHOM NICKEL INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021

	<i>Note</i>	2022	2021
Expenses			
Finance expense	6	\$ -	\$ 2,672,145
Share based compensation	10, 13	525,402	936,368
Administrative consulting fees	13	452,360	235,371
Investor relations and capital markets consulting		309,976	618,129
Advertising and promotion		303,951	236,471
Legal and accounting		135,816	352,031
Insurance		100,889	67,626
Market making services		84,000	28,000
Exchange, transfer agent and commission fees		72,964	145,575
Travel and entertainment		62,862	66,573
Depreciation		47,927	4,671
Telecommunications		36,252	11,300
Dues, fees and subscriptions		16,494	7,030
Shareholder communications		16,043	7,907
Interest on lease liability		10,265	857
Bank charges		5,728	3,746
Office rent		4,084	1,344
Office supplies		3,031	6,394
Courier		654	614
Loss on currency exchange		-	453
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Operating loss		2,188,698	5,402,605
Flow through premium renounced	10, 14	(1,000,000)	(625,863)
Interest income		(41,973)	(19,314)
Net loss and comprehensive loss		\$ 1,146,725	\$ 4,757,428
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Net loss per share	12	\$ 0.02	\$ 0.12
Weighted average outstanding shares	12	55,505,156	38,365,620

FATHOM NICKEL INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021

	Note	Share Capital			Contributed surplus	Deficit	Total
		Common Shares	Special Warrants	Amount			
Balance, December 31, 2020		12,495,037	- \$	1,994,392 \$	94,200 \$	(608,326) \$	1,480,266
Common shares issued on completion of the RTO by Fathom Minerals Ltd.	6	13,295,038	-	2,659,007	-	-	2,659,007
Common shares issued for cash, net of share issue costs	10	3,675,000	-	719,065	-	-	719,065
Flow-through special warrants issued for cash, net of share issue costs	10	-	3,129,317	2,030,744	-	-	2,030,744
Non flow-through special warrants issued for cash, net of share issue costs	10	-	12,486,323	-	-	-	-
Non flow-through special warrants issued for services	10	-	230,678	161,475	-	-	161,475
Unrenounced flow-through share premium	10	-	-	(625,863)	-	-	(625,863)
Fair value of compensation options	10	-	-	(46,297)	214,340	-	168,043
Fair value of broker warrants		-	-	(34,879)	-	-	(34,879)
Fair value of options		-	-	-	936,368	-	936,368
Conversion of flow-through special warrants into common shares	10	3,129,317	(3,129,317)	1,542,523	-	-	1,542,523
Conversion of non flow-through special warrants into common shares	10	12,486,323	(12,486,323)	6,154,836	-	-	6,154,836
Conversion of non flow-through special warrants into common shares	10	230,678	(230,678)	113,707	-	-	113,707
Flow-through shares issued for cash, net of share issue costs	10	10,000,000	-	3,332,011	-	-	3,332,011
Unrenounced flow-through share premium	10	-	-	(1,000,000)	-	-	(1,000,000)
Loss and comprehensive loss		-	-	-	-	(4,757,428)	(4,757,428)
Balance, December 31, 2021		55,311,393	- \$	17,000,721 \$	1,244,908 \$	(5,365,754) \$	12,879,875
Fair value of options	10	-	-	-	525,402	-	525,402
Common shares issued for property acquisition	10	150,000	-	13,500	-	-	13,500
Flow-through shares issued for cash, net of share issue costs	10	27,411,667	-	1,505,925	-	-	1,505,925
Unrenounced flow-through share premium	10	-	-	(274,000)	-	-	(274,000)
Fair value of broker warrants	10	-	-	(114,310)	114,310	-	-
Loss and comprehensive loss		-	-	-	-	(1,146,725)	(1,146,725)
Balance, December 31, 2022		82,873,060	- \$	18,131,836 \$	1,884,620 \$	(6,512,479) \$	13,503,977

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

FATHOM NICKEL INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Net loss for the year	\$ (1,146,725)	\$ (4,757,428)
Add back / Deduct non cash expenses		
Finance expense	-	2,672,145
Stock based compensation	525,402	936,368
Reversal of flow-through liability	(1,000,000)	(625,863)
Depreciation	47,927	4,671
Interest on lease liability	10,265	857
	(1,563,131)	(1,769,250)
Working capital changes		
Goods and services tax receivable	(212,617)	(288,770)
Interest receivable	(3,000)	(1,450)
Prepays and deposits	(11,716)	(190,758)
Accounts payable and accrued liabilities	(117,473)	90,750
Cash flows used in operating activities	(1,907,937)	(2,159,478)
Cash flows from investing activities		
Capital assets	(9,088)	(7,617)
Exploration and evaluation assets	(4,756,137)	(3,940,155)
Saskatchewan Targeted Mineral Exploration Incentive	50,000	-
Cash flows used in investing activities	(4,715,225)	(3,947,772)
Cash flows from financing activities		
Issue of common shares for cash, net of share issuance costs	1,505,925	4,051,076
Issue of special warrants for cash, net of share issuance costs	-	10,136,449
Payments on lease obligations	(14,282)	-
Repayment of amounts due to directors	-	(1,991)
Cash provided by financing activities	1,491,643	14,185,534
Net change in cash	(5,131,519)	8,078,284
Cash, beginning of the year	8,087,554	9,270
Cash, end of the year	\$ 2,956,035	\$ 8,087,554

FATHOM NICKEL INC.

	2022	2021
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Cash flows from operating activities		
Net loss for the year	\$ (1,146,725)	\$ (4,757,428)
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Finance expense	-	2,672,145
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The accompanying notes are an integral part of these financial statements

FATHOM NICKEL INC.

Notes to Consolidated Financial Statements

1. REPORTING ENTITY

Fathom Minerals Ltd. ("FML") is an exploration stage company engaged in locating, acquiring and exploring for base and precious metals in Canada. FML was incorporated pursuant to the Business Corporations Act (Alberta) on April 27, 2012. On January 22, 2021, FML acquired 100% of Fathom Nickel Inc. ("FNI" or the "Company"), a privately-held Alberta corporation, in a reverse takeover ("RTO") transaction. The RTO was effected by means of a share-for-share exchange under which the former shareholders of FML acquired control of FNI. (Note 6). On May 25, 2021 FNI commenced trading on the CNSX under the symbol FNI.

The annual audited consolidated financial statements ("annual financial statements") as at and for the years ended December 31, 2022 and 2021 comprise all entities in which FNI has a controlling interest. The consolidated entity is referred to as the Company or Fathom Nickel Inc. Intercompany balances and transactions are eliminated on consolidation.

The address of the Company's corporate office and principal place of business is #730, 521 – 3rd Avenue SW, Calgary, Alberta, T2P 3T3.

The consolidated financial statements were authorized for issue by the board of directors on May 1, 2023.

2. BASIS OF PRESENTATION

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretation as made by the International Accounting Standards Interpretation Committee ("IFRIC").

2.2 Basis of measurement and going concern

These financial statements have been prepared on a historical cost basis, except for certain financial instruments which have been measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Going Concern

The Company's ability to continue to operate and to meet its obligations as they come due is dependent upon its ability to obtain additional financing as necessary to locate and develop its properties or related opportunities with economic potential. The ultimate outcomes of these matters cannot presently be determined because they are contingent on future events.

As at December 31, 2022, the Company has working capital of \$3,241,628 (2021 - \$7,345,773), had not yet achieved profitable operations, had accumulated deficit of \$6,512,479 (2021 - \$5,365,754) and may incur further losses in the development of its business, all of which create material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern.

The company's continued existence is dependent upon its ability to locate suitable properties containing economically viable reserves and the ability of the company to raise capital or alternative financing, if necessary. Although the company has been successful with raising capital in the past, there can be no assurance that the Company will be successful in future capital raises.

2. BASIS OF PRESENTATION (continued)

These audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than normal course of business and at amounts different from those in the accompanying Consolidated financial statements.

2.3 Functional and presentation currency

The financial statements are presented in Canadian dollars, which is the functional and presentation currency of FNI and all entities under its control.

3. ACCOUNTING POLICIES:

3.1 Financial instruments

Details of classifications of financial instruments are discussed below.

Recognition and initial measurement

Financial instruments are initially measured at fair value, net of transaction costs, other than financial instruments classified as fair value through profit and loss (“FVTPL”). On initial recognition, financial assets are classified in the following measurement categories: amortized cost, FVTPL, or fair value through other comprehensive income (“FVOCI”). The classification depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified in the following measurement categories: fair value through profit or loss, or amortized cost.

i) Classification and Measurement: IFRS 9 requires to classify and measure financial assets based on their contractual cash flow characteristics and the Company’s business model for the financial asset. All financial assets and financial liabilities, including derivatives, are recognized at fair value on the Statements of Financial Position when the Company becomes party to the contractual provisions of a financial instrument or non-financial derivative contract. Subsequent to initial recognition, financial assets must be classified and measured at either amortized cost, FVTPL, or at FVTOCI.

FATHOM NICKEL INC.
Notes to Consolidated Financial Statements

3. ACCOUNTING POLICIES (continued)

Classification and subsequent measurement

Financial assets are not reclassified subsequent to their initial recognition, unless the Company changes its business model for managing the financial assets, in which case all affected financial assets are reclassified on the first day of the reporting year following the change in the business model.

	<u>Classification</u>	<u>Subsequent Measurement</u>
Cash and cash equivalent Accounts payable and accrued liabilities	Amortized cost	Amortized cost, using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Market securities	FVTPL	Net gains and losses, including interest or dividend income are recognized in profit or loss.

Financial assets impairment

ii) *Impairment of Financial Assets*: IFRS 9 introduced an impairment model for financial assets measured at amortized cost as well as certain other instruments. The expected credit loss model requires entities to account for expected credit losses on financial assets at the date of initial recognition, and to account for changes in expected credit losses at each reporting date to reflect changes in credit risk.

The Company recognizes an allowance for expected credit losses (“ECL”) on financial assets based on a 12-month ECL or lifetime ECL. ECL are probability-weighted estimates of credit losses, which are measured at the present value of the difference between the cash flow due to the Company and the cash flow that the Company expects to receive. ECL are discounted at the effective interest rate of the financial assets.

Financial assets considered to have low credit risk have an impairment provision recognized during the year limited to 12-month ECL. When credit risk has increased significantly, subsequent to initial measurement, the allowance is based on the lifetime ECL.

Financial instruments recorded at fair value:

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – valuation techniques based on 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);
- Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

3. ACCOUNTING POLICIES (continued)

Cash and cash equivalents are recorded at fair value based on a Level 1 designation.

There were no changes to the fair value designations for the above financial instruments during the year.

Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid investments with a maturity of three months or less from the purchase date. As at December 31, 2022, the balance was comprised of cash in bank.

Common shares:

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and stock options are recognized as a deduction from equity, net of any tax effects.

3.2 Significant accounting estimates and judgments

The preparation of these financial statements in compliance with IFRS 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 reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates, which by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates:

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- The fair value of stock options issued using the Black Scholes option pricing model;
- Management assumption of no material restoration, rehabilitation and environmental costs, based on the facts and circumstances that existed during the period;
- The recoverability of deferred tax assets and liabilities; and
- The Company finances some exploration and evaluation expenses through the issuance of flow-through shares and flow-through special warrants. The resource expenditure deductions for income tax purposes are renounced to investors in accordance with the appropriate income tax legislation. The difference ("premium") between the amounts recognized in common shares (equal to the quoted price on the date of issue) and the amount the investors pay for the shares is recognized as a flow-through share related liability. The flow-through share liability is reversed into the statement of loss and comprehensive loss as a recovery of deferred income taxes when the eligible expenditures are incurred.

3. ACCOUNTING POLICIES (continued)

Critical accounting judgments:

The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assumptions made by management.

Management has determined that exploration and evaluation costs incurred which were capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including geologic and other technical information, scoping and feasibility studies, accessibility of facilities and existing permits in order to determine if there are indicators of impairment.

3.3 Income taxes

The Company uses the Asset and Liabilities method to determine income tax and deferred tax.

Income tax expense is comprised of current and deferred tax expense. Current tax expense is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes and are presented as non-current liabilities.

Income tax expense is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity. Income taxes are calculated using the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and for tax losses and other deductions carried forward.

3. ACCOUNTING POLICIES (continued)

Deferred income tax assets and liabilities are calculated using substantively enacted tax rates expected to apply when the asset is realized, or the liability is settled. An asset is recognized on the statement of financial position when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably. The effect on deferred tax assets and liabilities of changes in tax rates are recognized in income in the period in which the change is substantively enacted.

Deferred taxes are not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

3.4 Flow-through shares

The Company will, from time to time, issue flow-through shares to finance a portion of its exploration programs. These shares transfer the tax deductibility of the qualifying resource expenditures to investors. On issuance, the Company splits the flow-through shares into: i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability; and ii) share capital (Note 10). When expenses are incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The deferred tax liability will be reduced to the extent that deferred tax asset is available to offset. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures. The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

3.5 Restoration, rehabilitation and environmental obligations

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying account of the asset, as soon as the obligation to incur such costs arises. Discount rates, using a pre-tax rate that reflects the time value of money, are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either a unit-of-production or the straight-line method as appropriate. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage, which are created on an ongoing basis during production, are accounted for at their net present values and charged against profits as extraction progresses.

The obligation is increased for the accretion and the corresponding amount is recognized as a finance expense. The obligation is also adjusted for changes in the estimated timing, amount of expected future cash flow, and changes in the discount rate. Such changes in estimates are added to or deducted from the related asset except where deductions are greater than the carrying value of the related asset in which case the amount of the excess is recognized in the statement of operations.

3. ACCOUNTING POLICIES (continued)

Due to uncertainties concerning environmental remediation, the ultimate cost to the Company of future site restoration could differ from the amounts provided. The estimate of the total provision for future site closure and reclamation costs is subject to change based on amendments to laws and regulations, changes in technology, price increases and changes in interest rates, and as new information concerning the Company's closure and reclamation obligations becomes available.

The Company has no material restoration, rehabilitation and provision as at December 31, 2022 and 2021.

3.6 Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, when it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The Company had no material provisions as at December 31, 2022 and 2021.

3.7 Exploration and evaluation asset

i) Pre-exploration costs

Pre-exploration costs are expensed in the year in which they were incurred. Pre-exploration costs are those incurred prior to obtaining the legal right to explore.

ii) Exploration and evaluation expenditures

Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation ("E&E") expenditures are recognized and capitalized, in addition to the acquisition costs. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractors and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs and share based payments to employees and consultants, are expensed in the period in which they occur.

The acquisitions of mineral property interests are initially measured at cost. Mineral property acquisition costs and development expenditures incurred subsequent to the determination of the feasibility of mining operations and approval of development by the Company are capitalized until the property to which they relate is placed into production, sold or allowed to lapse.

Mineral property acquisition costs include the cash consideration and the fair market value of shares issued for mineral property interests pursuant to the terms of the relevant agreements. These costs will be amortized over the estimated life of the property following commencement of commercial production, or written off if the property is sold, allowed to lapse, or when an impairment of value has been determined to have occurred.

3. ACCOUNTING POLICIES (continued)

iii) Developed and producing properties

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as property, plant and equipment. Once commercial production has commenced, these costs are amortized using the units-of-production method based on proven and probable reserves. Production facilities and equipment are stated at cost and will be depreciated using the units-of-production method at rates sufficient to depreciate the assets over their estimated useful lives, not to exceed the life of the mine to which the assets relate.

3.8 Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest Company of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets ("cash-generating unit" or "CGU").

An impairment loss is recognized if the carrying amount of an asset or its CGU's exceed its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (Company of units) on a pro rata basis.

3.9 Revenue recognition

The Company currently has no revenue from active mining operations.

3.10 Loss per share

The calculation of basic loss per share is based on loss for the year divided by the weighted average number of common shares outstanding for the year. Diluted loss per share is equal to basic loss per share as the effect of potentially dilutive options and warrants would be anti-dilutive as the Company is in a loss position.

3.11 Comprehensive income

Comprehensive income is the change in equity (net assets) of the Company during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes to equity during a year except those resulting from investments by owners and distributions to owners. Comprehensive income is comprised of net income (loss) for the period and other comprehensive income (loss). This standard requires certain gains and losses that would otherwise be recorded as part of net earnings to be presented in "other comprehensive income" until it is considered appropriate to recognize into net earnings.

3. ACCOUNTING POLICIES (continued)

The Company had no comprehensive income or loss transactions, other than its net loss, presented in the Statements of Loss and Comprehensive Loss, nor has the Company accumulated other comprehensive income during the periods that have been presented.

3.12 Share-based payments

Where equity-settled share options are awarded to employees and consultants, the fair value (Note 10) of the options at the date of grant is charged to profit or loss over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, any unrecognized expense is recognized immediately. In addition, the incremental fair value of the options, measured as the difference between the fair value immediately before and after the modification, is charged to the statement of operations and comprehensive loss over the remaining vesting period.

Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in the profit or loss over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods and services received in the statement of operations and comprehensive loss, unless they are an expense directly related to the issuance of the shares. Options or warrants granted related to the issuance of shares are recorded as a reduction of share capital. When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by reference to the fair value of the equity instruments issued.

All equity-settled share-based payments are reflected in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount previously recognized in contributed surplus is credited to share capital, adjusted for any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company accounts for the cancellation as an acceleration of vesting and recognizes immediately the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

FATHOM NICKEL INC.

Notes to Consolidated Financial Statements

3. ACCOUNTING POLICIES (continued)

3.13 Government incentives

The Company is entitled to the refundable Saskatchewan Targeted Mineral Exploration Incentive ("TMEI") grant as a result of incurring qualifying mineral exploration expenses in Saskatchewan. These amounts are recognized when the amount to be received can be reasonably estimated and collection is reasonably assured. Once recovered, these amounts are treated as a reduction to the carrying value of mineral properties.

3.14 Changes to significant accounting policies

There have been no significant changes in accounting policies applicable for the current year.

Future accounting changes

We have assessed the following new standards and interpretations as having a possible impact on us in the future. We intend to adopt these standards and interpretations, if applicable, as at the required effective dates indicated below and are currently assessing the impact on our consolidated financial statements.

1) Amendments to IAS 1 – Classification of Liabilities as current or non-current

The amendments specify that the requirements for a right to be unconditional has been removed. Instead, now right to defer settlements must have substance and exist at the end of the reporting period. The amendments apply retrospectively for annual reporting periods beginning on or after January 1, 2023.

4. DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

4.1 Share-based payment transactions

Share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Under this method, the fair value of the equity-settled share-based payment is measured on the date of grant using the Black-Scholes option pricing model, and is recognized as an expense or capitalized, depending on the nature of the grant, with a corresponding increase in equity, over the period that the employees earn the options.

4. DETERMINATION OF FAIR VALUES (continued)

Equity-settled, share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service using the Black-Scholes option pricing model. The Black-Scholes option pricing model requires the input of subjective assumptions, including the expected term of the option and stock price volatility.

4.2 Flow-through shares

The Company finances some exploration and evaluation expenses through the issuance of flow-through shares with flow-through special warrants. The resource expenditure deductions for income tax purposes are renounced to investors in accordance with the appropriate income tax legislation. The difference ("premium") between the amounts recognized in common shares and the amount the investors pay for the shares is recognized as a flow-through share related liability which is reversed into the statement of loss and comprehensive loss as a recovery of deferred income taxes when the eligible expenditures are incurred. The amount recognized as a flow-through share liability represents the difference between the quoted price of the common shares and the amount the investor pays for the flow-through shares, net of allocated issue costs.

5. FINANCIAL RISK MANAGEMENT

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- interest rate risk
- commodity price risk
- capital risk management

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

5. FINANCIAL RISK MANAGEMENT (continued)

(i) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's other receivables, and cash and equivalents.

The Company considers this risk to be low.

Cash and cash equivalents

At times when the Company's cash position is positive, cash deposits are made with financial institutions having reasonable local credit ratings.

(i) Liquidity risk

Liquidity risk encompasses the risk that a company cannot meet its financial obligations in full. The Company's main sources of liquidity are its cash and cash equivalents. These funds are primarily used to operating cost, finance working capital, exploration expenditures, evaluation expenditures, and acquisitions.

The Company manages its liquidity risk by regularly monitoring its cash flows from operating activities and holding adequate amounts of cash and cash equivalents, include raising financing through issuance of shares or other third-party sources of financing, if and when needed.

Accounts payable and accrued liabilities are current financial instruments expected to be settled in the normal course of operations. The lease obligation is repayable as described in Note 8.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company considers the interest rate risk to be low, as the Company does not have material external debt.

(iii) Commodity price risk

The value of the Company's exploration and evaluation assets are related to the price of nickel and other mineral commodities. Adverse changes in the price of nickel, copper and other base and precious metals can also significantly impair the economic viability of the Company's projects, along with the ability to obtain future financing.

Nickel and other mineral commodities prices historically have fluctuated widely and are affected by numerous factors outside of the Company's control, including, but not limited to, industrial demand, levels of worldwide production, short-term changes in supply and demand due to speculative hedging activities, macro-economic variables and certain other factors related specifically to nickel and other mineral commodities.

FATHOM NICKEL INC.
Notes to Consolidated Financial Statements

5. FINANCIAL RISK MANAGEMENT (continued)

(iv) Capital risk management

The primary objective of managing the Company's capital is to ensure that there is sufficient capital available to support the funding and operating requirements of the Company in a way that optimizes the cost of capital, maximizes shareholders' returns, matches the current strategic business plan and ensures that the Company remains in a sound financial position.

There were no changes to the Company's approach to capital management during the year, as compared to the prior year.

6. REVERSE TAKE-OVER

Pursuant to a Share Purchase Agreement (the "SPA") dated January 6, 2021, the Company agreed to acquire 100% of the issued and outstanding common shares of FML via a share-for-share exchange (the "Transaction"). Each former shareholder of FML shareholder received one (1) share of the Company in exchange for each share of FML beneficially owned. As FNI was an entity with no operations, it did not meet the definition of a business under IFRS 3. Accordingly, the Transaction is accounted for as a reverse acquisition along with a share-based payment in accordance with IFRS 2. The Transaction closed on January 22, 2021. Immediately upon closing of the Transaction, the original shareholders of FNI held 13,295,038 common shares. There were 25,790,075 shares outstanding at that date of which former shareholders of FML held 48.4%. After the Transaction, the Management and Directors of FML were appointed to their respective Board and Management positions with the Company. As a result, the acquirer is determined to be FML. The shares held by the original shareholders of FNI were valued at a price of \$0.20/share for a total transaction value of \$2,659,007. The fair value of the Company was determined based on the number of shares issued to shareholders of FNI at a price of \$0.20/share around the time of the Transaction.

\$2,659,007 has been allocated as follows:

Accounts payable and accrued liabilities	\$ (13,138)
Finance expense	<u>2,672,145</u>
	<u>\$ 2,659,007</u>

Consideration comprised of:

Fair value of common shares	<u>\$ 2,659,007</u>
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FATHOM NICKEL INC.
Notes to Consolidated Financial Statements

7. EXPLORATION AND EVALUATION ASSETS

Albert Lake Exploration & Evaluation Asset

	2022	2021
Balance beginning of year – Albert Lake Property	\$ 5,519,697	\$ 1,483,587
Acquisition cost and leases	180,350	35,120
Exploration (Note 13)	4,488,037	4,050,990
Saskatchewan TMEI payment	(50,000)	(50,000)
Balance end of year – Albert Lake Property	\$ 10,138,084	\$ 5,519,697

At year end, the Company's 100% owned Albert Lake Property was comprised of 31 contiguous mineral dispositions (totaling 90.460 hectares) issued by and registered with the Saskatchewan Ministry of Energy and Resources. The Albert Lake Property is located approximately 135 kilometers northwest of La Ronge in north central Saskatchewan.

The Company is required to incur annual minimum work program expenditures ranging between \$15.00 and \$25.00 per hectare in order to maintain title to the dispositions. Excess qualifying exploration expenditures can be carried forward indefinitely to be applied to future years' work requirements. The Company is required to incur annual qualifying expenditures that will increase to approximately \$1.4 million per year beginning in 2023 in order to maintain all dispositions in good standing. However, based on available expenditures carried-forward from prior years, the minimum required expenditure for 2023 is \$650,717.

The initial six mineral dispositions, totaling 10,439 hectares, were acquired from Uravan Minerals Inc. in April 2015 in exchange for the issuance of 2,000,000 common shares of the Company. This original 10,439 hectares was subject to a 2% net smelter return ("NSR") royalty interest pertaining to any future commercial production from the associated mineral dispositions. However, during the period ended December 31, 2022, the Company purchased this Uravan NSR for a one-time payment of \$175,000.

On June 8, 2015, the Company acquired an additional 1,348 hectares in two mineral dispositions from an individual land consultant in exchange for the issuance of 500,000 common shares of the Company and a cash payment of \$5,000. The 1,348 hectares covered by the purchase agreement are subject to a 1% NSR royalty interest pertaining to any future commercial production from the associated mineral dispositions. The NSR can be acquired at any time, at the option of the Company, for cash payments totaling \$500,000.

The Company acquired 20 mineral dispositions directly through the staking system of the Saskatchewan Ministry of Energy and Resources during the period from 2016 through 2021. In June 2022 the Company acquired 3 mineral dispositions totaling 315 hectares from a third party in exchange for the reimbursement of direct staking costs together with a 2% NSR. The NSR can be bought down to 1% for a cash payment of \$1,000,000 at the Company's option.

The Saskatchewan Targeted Mineral Exploration Incentive ("TMEI") provides for a 25% rebate on qualified eligible mineral exploration expenditures, up to an annual limit of \$50,000. The Company qualified for the full \$50,000 TMEI rebate in both 2021 and 2022. TMEI rebates are recorded as a reduction to the exploration and evaluation asset at the Albert Lake project.

FATHOM NICKEL INC.
Notes to Consolidated Financial Statements

7. EXPLORATION AND EVALUATION ASSETS (continued)

Gochager Lake Exploration & Evaluation Asset

	Period ended	Year ended
	Dec. 31, 2022	Dec. 31, 2021
Balance beginning of period – Gochager Lake Property	\$ -	\$ -
Acquisition cost and leases	22,500	-
Exploration	78,750	-
Balance end of year – Gochager Lake Property	\$ 101,250	\$ -

On September 16, 2022, the Company entered into an Option Earn-In Agreement (the "Gochager Option") with a third-party vendor (the "Optionor") to earn an interest in the Gochager Lake Property ("Gochager") based on a combination of cash payments, share issuances and exploration expenditures over a four-year period.

Gochager is comprised of nine mineral dispositions totalling 4,696 hectares located in north-central Saskatchewan, approximately 75 km north of the town of La Ronge.

Option Agreement Terms:

Pursuant to the terms of the Gochager Option, the Company is required to issue the following common shares and complete the following cash payments to the Optionor, and incur the following exploration expenditures:

- (a) issue an aggregate of 920,000 common shares of the Company to the Optionor as follows:
 - (i) 150,000 on the date of the execution of the Gochager Option (the "Execution Date") or as soon as practicable thereafter (completed);
 - (ii) 170,000 on the first anniversary of the Execution Date;
 - (iii) 250,000 on the second anniversary of the Execution Date; and
 - (iv) 350,000 on the third anniversary of the Execution Date

- (b) pay an aggregate of \$92,000 in cash to the Optionor as follows:
 - (i) \$9,000 on the Execution Date of the Gochager Option or as soon as practicable thereafter;
 - (ii) \$15,000 on the first anniversary of the Execution Date;
 - (iii) \$30,000 on the second anniversary of the Execution Date; and
 - (iv) \$40,000 on the third anniversary of the Execution Date;

- (c) incur an aggregate of \$2,000,000 in exploration expenditures on Gochager as follows:
 - (i) \$125,000 by the first anniversary of the Execution Date;
 - (ii) \$250,000 cumulative by the second anniversary of the Execution Date;
 - (iii) \$400,000 cumulative by the third anniversary of the Execution Date;
 - (iv) \$2,000,000 cumulative by the fourth anniversary of the Execution Date.

7. EXPLORATION AND EVALUATION ASSETS (continued)

Earn-In Thresholds

Upon the Company satisfying each of the Earn-In Threshold Conditions below, the Company will have exercised the Option and acquired that percentage of an undivided right, title and interest in and to the Property at each respective threshold:

- a. A minimum of \$350,000 in exploration expenditures, plus the share and cash payments required to be paid by the first anniversary of the Execution Date shall result in the transfer of a 10% undivided legal and beneficial interest in and to Gochager;
- b. a minimum of \$750,000 in cumulative exploration expenditures, plus the share and cash payments required to be paid by the second anniversary of the Execution Date shall result in the transfer of an additional 25% undivided legal and beneficial interest in and to Gochager, for a cumulative ownership interest of the Company of 35%;
- c. a minimum of \$1,200,000 in cumulative exploration, plus the share and cash payments required to be paid by the third anniversary of the Execution Date shall result in the transfer of an additional 20% undivided legal and beneficial interest in and to Gochager, for a cumulative ownership interest of the Company of 55%;
- d. a minimum of \$1,600,000 in cumulative exploration expenditures shall result in the transfer of an additional 20% undivided legal and beneficial interest in and to Gochager, for a cumulative ownership interest of the Company of 75%; and
- e. a minimum of \$2,000,000 in cumulative exploration expenditures shall result in the transfer of an additional 25% undivided legal and beneficial interest in and to Gochager, for a cumulative ownership interest of the Company of 100%.

At its sole option, the Company can expedite its anniversary payments so as to earn the full 100% prior to the 4th anniversary provided all required payments (cash and shares) have been made and the required \$2,000,000 in exploration expenditures has been satisfied.

On the Company successfully exercising the Gochager Option and earning a 100% interest in Gochager, the Company shall grant to the optionor a 2.0% net smelter return royalty on the Property (the "NSR"). The Company shall have the right to purchase 1.0% of the Royalty from the optionor for \$1,000,000 at any time.

FATHOM NICKEL INC.
Notes to Consolidated Financial Statements

8. RIGHT OF USE ASSET

	2022	2021
Balance beginning of year	\$ 268,970	\$ -
Additions	-	272,706
Depreciation	(44,890)	(3,736)
Balance end of year	\$ 224,080	\$ 268,970

Depreciation for the right of use asset is recorded in non-current assets on the consolidated statement of financial position. A lease liability of \$269,546 (2021 - \$273,563) related to the right of use asset is recorded as lease obligation (current and non-current) in the consolidated statement of financial position.

The lease payments related to the lease liabilities are as follows:

2023	\$ 55,748
2024	56,793
2025	59,200
2026+	124,722
	\$ 296,463
Implied interest	(26,917)
	\$ 269,546

9. GOODS AND SERVICES TAX

	Dec 31, 2022	Dec 31, 2021
Goods and Services Tax	\$ 521,500	\$ 308,883

FATHOM NICKEL INC.
Notes to Consolidated Financial Statements

10. SHARE CAPITAL

Authorized: Unlimited number of common shares without a value

	Year ended December 31, 2022	Year ended Dec 31, 2021
	Number of common shares	
Authorized and issued		
Balance, beginning of the year	55,311,393	12,495,037
Issued on completion of the RTO (Note 6)	-	13,295,038
Issued for cash, pre-IPO (i)	-	3,675,000
Issued on conversion of Special Warrants (iii)	-	15,846,318
Issued for property acquisition (vi)	150,000	-
Issued for cash pursuant to flow-through financing (iv),(v)	27,411,667	10,000,000
Balance, end of the year	82,873,060	55,311,393
Balance, beginning of the year	\$ 17,000,721	\$ 1,994,392
Issued on completion of the RTO (Note 6)	-	2,659,007
Issued for cash (i)	-	719,065
Issued on conversion of NFT Special Warrants (iii)	-	7,811,066
Issued on conversion of FT Special Warrants (iii)	-	2,111,043
Flow through premium liability (v)	(274,000)	(1,625,863)
Issued for property acquisition (vi)	13,500	-
Issued for cash pursuant to flow-through financing (iv),(v)	1,505,925	3,332,011
Balance, end of the year	\$ 18,246,146	\$ 17,000,721

Special Warrants

	Year ended Dec 31, 2022	Year ended Dec 31, 2021
	Number of Special Warrants	
Balance, beginning of the period	-	-
Issued for cash (ii)	-	15,615,640
Issued for services(ii)	-	230,678
Converted to common shares upon CSE listing (iii)	-	(15,846,318)
Balance, end of the period	-	-
Balance, beginning of the period	\$ -	\$ -
Issued for cash, net of share issuance costs (ii)	-	9,760,634
Issued for services (ii)	-	161,475
Special warrant liability (ii), (iii)	-	(7,811,066)
Flow through premium liability (ii)	-	(625,863)
Transfer flow through premium to common shares (ii)	-	625,863
Conversion of FT Special Warrants to common shares (ii)	-	(2,111,043)
Balance, end of the period	\$ -	\$ -

- (i) Subsequent to the closing of the Transaction described in Note 6, the Company completed a private placement of 3,675,000 common shares (the "Private Placement") at a price \$0.20 per share for gross proceeds of \$735,000. The Private Placement was sold on a non-brokered basis to accredited investors. The Company incurred issuance costs of \$15,935 related to the private placement.
- (ii) On March 15, 2021, FNI completed a brokered financing of 12,486,323 Non-Flow Through Special Warrant Units (the "NFT Special Warrant Units ") at a price \$0.70 per NFT Special Warrant Unit and, 3,129,317 Flow Through Special Warrant Units (the "FT Special Warrant Units") at a price \$0.77 per FT Special Warrant for gross proceeds of \$11,150,000. Together the NFT Special Warrant Units and the FT Special Warrant Units are referred to as "Special Warrants". Each FT

FATHOM NICKEL INC.

Notes to Consolidated Financial Statements

10. SHARE CAPITAL (continued)

Special Warrant was exchangeable, at no additional cost, into one FNI common share. Each NFT Special Warrant Unit was exchangeable, at no additional cost, into one FNI common share and one half of one FNI share purchase warrants ("FNI Unit"). However, had the final receipt for the non-offering prospectus not been obtained within 60 days of the closing of the Special Warrant financing (ie, May 14, 2021), then, as a penalty to the Company, each holder of a NFT Special Warrant would have been entitled to 1.15 Units per Special Warrant instead of one (1) Unit. As a result, and because the number of common shares to be issued on conversion of the NFT Special Warrant Units was variable, the net proceeds related to the NFT Special Warrant Units was presented as a liability from the date of closing of the Special Warrant Financing through the date of conversion. See paragraph (v) below.

Each full FNI share purchase warrant entitles the holder to purchase one FNI common share at an exercise price of \$1.00 per FNI common share within two years of the Listing Date.

Each NFT Special Warrant was deemed to be automatically exercised immediately on the earlier of: (i) the date that is the fifth Business Day after the date on which the receipt for a final prospectus qualifying the distribution of the NFT Shares issuable upon the exercise or deemed exercise of the NFT Special Warrants has been issued by the last of the Securities Regulators in a Designated Jurisdictions; and (ii) the date that is 4 months and one day after the issuance of the NFT Special Warrant. The Company received the receipt for the final prospectus on May 13, 2021, thus triggering the automatic conversion of the Special Warrants into FNI common shares and FNI Units as at May 18, 2021 (see (v) below). As the receipt for the final prospectus was obtained prior to the 60th day from the closing of the Special Warrant financing, no penalty was applied and each NFT Special Warrant Holder received 1.0 Units on conversion.

As FNI's was not yet trading then, the flow through premium liability associated with the issuance of the FT Special Warrants was calculated at \$0.20 per FT Special Warrant, based on a share price of \$0.57, which in turn was estimated by determining the standalone value of a warrant using the Black-Scholes model and subtracting this from the unit price. The following weighted average assumptions were used: (I) dividend yield of 0%; (II) expected volatility of 110%; (III) a risk free interest rate of 1%; (IV) an expected life of 2 years and (V) a Special Warrant price of \$0.70. Expected volatility was based on comparable companies. This resulted in a flow through premium liability of \$625,863.

In connection with the issuance of the Special Warrants the Company paid \$1,013,551 in fees. It also issued 230,678 NFT Special Warrants issued to the Agents which were valued at the NFT Special Warrant price of \$0.70 per NFT Special Warrant as described above, resulting in a fair value of \$161,475. The agents were also granted 1,071,669 broker special warrants, exercisable at a price of \$0.70 per broker warrant into one common share and ½ common share purchase warrant of FNI for a period of two years from the date of the closing of the financing, or March 15, 2023. Each whole common share purchase warrant, in turn, is exercisable into one (1) common share at a price of \$1.00 per share for a period of two years from the closing of the financing, or March 15, 2023.

The fair value of the common share purchase warrants issued were estimated at the date of grant using the Black-Scholes model with the following weighted average assumptions: (I) dividend yield of 0%; (II) expected volatility of 110%; (III) a risk free interest rate of 1%; (IV) an expected life of 2 years and (V) a Special Warrant price of \$0.70. Expected volatility was based on comparable companies. This resulted in a fair value of \$0.20 per broker warrant for a total of \$214,340.

The total share issuance costs for the issuance of the Special Warrants amounted to \$1,389,366.

- (iii) On May 18, 2021, 5 days after the final receipt of the final non-offering prospectus, each

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outstanding NFT Special Warrant Units automatically converted into one FNI common share and one half of one FNI share purchase warrant. On conversion, the outstanding Special Warrant Liability of \$7,811,066 was eliminated and Share Capital was increased by this amount.

On May 18, 2021 each outstanding FT Special Warrant was converted into one FNI common share valued, net of fees and expenses, at \$2,111,043.

- (iv) On November 29, 2021, FNI completed a brokered financing of 10,000,000 flow through shares at a price \$0.40 per share for gross proceeds of \$4,000,000.

The flow through premium liability associated with the issuance of the flow through shares was calculated at \$0.10 per flow through share, based on a market price of \$0.30 per share on the closing date of the financing, and subtracting this from the unit price. This resulted in a flow through premium liability of \$1,000,000.

In connection with the issuance of the flow through shares the Company paid \$280,000 in fees. The agents were also granted 280,000 broker warrants, exercisable at a price of \$0.40 per broker warrant into one common share of FNI for a period of two years from the date of the closing of the financing, or November 29, 2023.

The fair value of the broker warrants issued were estimated at the date of grant using the Black-Scholes model with the following weighted average assumptions: (I) dividend yield of 0%; (II) expected volatility of 110%; (III) a risk free interest rate of 1%; (IV) an expected life of 2 years and (V) a broker warrant price of \$0.40. Expected volatility was based on comparable companies. This resulted in a fair value of \$0.15 per broker warrant for a total of \$42,340.

The total share issuance costs for the issuance of the flow through shares amounted to \$387,989, exclusive of the agent's \$280,000 as noted above.

- (v) On December 29, 2022, FNI completed a non-brokered private placement of 27,411,667 flow through shares at a price \$0.06 per share for gross proceeds of \$1,644,700.

The flow through premium liability associated with the issuance of the flow through shares was calculated at \$0.01 per flow through share, based on a market price of \$0.05 per share on the closing date of the financing, and subtracting this from the selling price. This resulted in a flow through premium liability of \$274,000.

In connection with the issuance of the flow through shares the Company paid \$107,785 in fees. The agents were also granted 1,778,910 broker warrants, exercisable at a price of \$0.06 per broker warrant into one common share of FNI for a period of three years from the date of the closing of the financing, or December 29, 2025.

The fair value of the broker warrants issued were estimated at the date of grant using the Black-Scholes model with the following weighted average assumptions: (I) dividend yield of 0%; (II) expected volatility of 110%; (III) a risk free interest rate of 3%; (IV) an expected life of 3 years and (V) a broker warrant price of \$0.06. Expected volatility was based on comparable companies. This resulted in a fair value of \$0.04 per broker warrant for a total of \$71,970.

The total share issuance costs for the issuance of the flow through shares amounted to \$138,775, inclusive of the agent's \$107,785 as noted above.

- (vi) Upon execution of Gochager Option on September 16, 2022, FNI issued 150,000 common shares at the market price of \$0.09 per share to the Optionor of Gochager. See Note 7.

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Stock option plan

The Company has a stock option plan to provide employees, directors, officers and consultants with options to purchase common shares of the Company. Under the plan, the exercise price of each option equals the market price of the Company's stock on the day of grant and the maximum term of option is four years. Options vest immediately upon issuance. The maximum number of shares which may be issued under the program shall not exceed 10% of the issued and outstanding shares. The following summarizes the employees, directors, officers and consultants stock options that have been granted, exercised, expired, vested or cancelled during the period ended December, 2022 and December 2021:

	Number of Options Issued/(Cancelled)	Number of Options Vested	Weighted Average Exercise Price
Balance, Dec 31, 2020	-	-	\$ -
Granted	3,000,000	-	0.70
Vested	-	1,020,000	
Balance, December 31, 2021	3,000,000	1,020,000	\$ 0.70
Granted	1,200,000	-	0.22
Vested	-	2,190,000	
Cancelled	(975,000)	(727,500)	0.22
Balance, December 31, 2022	3,225,000	2,482,500	\$ 0.56

The fair value of the options issued in 2021 were estimated at the date of grant using the Black-Scholes model with the following weighted average assumptions: (I) dividend yield of 0%; (II) expected volatility of 110%; (III) a risk-free interest rate of 1%; (IV) an expected life of 5 years and (V) a common share price of \$0.57. Expected volatility was based on comparable companies. This resulted in a fair value of \$0.44 per options for a total of \$1,306,144. The options vest 1/3 at the grant date, 1/3 on 1st on the first anniversary and 1/3 on 2nd on the second anniversary.

The fair value of the options issued in 2022 were estimated at the date of grant using the Black-Scholes model with the following weighted average assumptions: (I) dividend yield of 0%; (II) expected volatility of 110%; (III) a risk-free interest rate of 1%; (IV) an expected life of 5 years and (V) a common share price of \$0.22. Expected volatility was based on comparable companies. This resulted in a fair value of \$0.16 per options for a total of \$205,515. The options vest 100% at the grant date.

During 2021, the Company granted 115,000 restricted share units (RSUs) to officers of the Company. The RSUs vest 1/3 on 1st on the first anniversary, 1/3 on 2nd on the second anniversary, and 1/3 on 3rd on the third anniversary. During 2022, 55,000 RSUs were cancelled without exercise, leaving 60,000 unexercised RSUs outstanding.

Stock based compensation shares related to the RSUs for the period ending December 31, 2021 was not material.

Warrants

Other than the broker warrants issued in connection with the issuance of special warrants and flow through shares as noted above there were no other warrants issued during the period or outstanding at December 31, 2022 or December 31, 2021.

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11. INCOME TAX

The provision for income taxes varies from the amount that would be computed by applying the expected tax rate to income (loss) before income taxes. The principal reasons for the differences between such "expected" income tax expense and the amount actually recorded are as follows:

	Dec 31, 2022	Dec 31, 2021
Loss before income taxes	\$ <u>(1,146,725)</u>	\$ <u>(4,757,428)</u>
Recovery based on statutory rate of 23.0% (2021 – 230%)	(263,747)	(1,094,208)
Net non-deductible expense	123,083	692,053
Changes in tax rates	-	-
Share issuance cost	(31,918)	(476,857)
Other	(57,951)	(241,273)
Tax effect on flow-through shares	-	589,364
Changes in unrecognized deferred tax assets	230,533	530,921
Total income tax expense	<u>\$ -</u>	<u>\$ -</u>

The deferred tax liability and asset calculated using a substantially enacted tax rate of 23% (2021-24%) is as follows:

	Dec 31, 2022	Dec 31, 2021
Deferred income tax asset		
Other	10,406	1,056
Share issuance cost	311,921	381,849
Undeducted non-capital losses	1,118,512	661,071
	63,020	230,000
Mineral properties and exploration and evaluation assets	<u>(738,939)</u>	<u>(739,589)</u>
	764,920	534,388
Deferred tax assets not recognized	<u>(764,920)</u>	<u>(534,388)</u>
	<u>\$ -</u>	<u>\$ -</u>

As at December 31, 2022, the Company has estimated non-capital losses for Canadian income tax purposes that may be carried forward to reduce taxable income derived in future years. A summary of these tax losses is provided below.

	Dec 31, 2022
2035	\$ 266,735
2036	120,299
2037	130,544
2038	89,645
2039	76,543
2040	30,649
2041	2,159,808
2042	1,988,870
	<u>\$ 4,863,093</u>

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12. EARNINGS/LOSS PER SHARE

The calculation of basic loss per share for the year ended December 31, 2022 of \$0.02 (2021 – \$0.12) was based on the loss attributable to shareholders of the Company of \$1,146,725 (2021 - \$4,757,428), and a weighted average number of common shares of 55,505,156 (2021 – 38,365,620).

13. RELATED PARTIES

The following related party transactions occurred and were charged in the financial statements during the years ended December 31, 2022 and 2021 as follows:

Consulting fees	Dec 31, 2022	Dec 31, 2021
Administrative and exploration-related consulting fees:		
Administrative consulting fees were charged by officers for corporate administrative and financial management services	\$ 452,360	\$ 235,371
Consulting fees were charged by officers for geological management of the Company's exploration and evaluation asset (Note 7)	\$ 169,040	\$ 188,469
Legal fees charged by a law firm of which a director of the Company is a partner	\$ 107,008	\$ 434,989

Amounts accrued and paid as administrative consulting fees are expensed disclosed in the Statement of Loss as administrative consulting fees. Amounts accrued and paid as geological consulting fees are capitalized to the exploration and evaluation asset account (Note 7). Legal fees associated with equity financings are disclosed as a share issuance cost and recorded as a reduction to share capital. Legal fees on account of general corporate and other non-financing matters are expensed in the Statement of Loss as legal and accounting fees.

Key management personnel and compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including directors and key management positions of CEO, President, CFO and Vice President, Exploration.

Key management compensation	Dec 31, 2022	Dec 31, 2021
Key management consulting fees	\$ 407,200	\$ 423,840
Compensation for loss of office	\$ 214,200	\$ -
Share based compensation	\$ 436,637	\$ 842,731
	\$ 1,058,037	\$ 1,266,571

14. COMMITMENTS AND CONTINGENCIES

The Company completed a non-brokered flow-through financing on December 29, 2022 for total gross proceeds of \$1,644,700 (Note 10). The Company is therefore required to incur qualifying exploration expenditures on eligible Canadian exploration and development expenses totalling \$1,644,700 prior to December 31, 2023 in order to satisfy the spending commitment in respect of funds raised via this flow-through financing in 2022.

The Company completed two flow-through financings during the year ended December 31, 2021 for total gross proceeds of \$6,409,574 (Note 10). The first tranche of \$2,409,574 flow-through financing was completed on March 15, 2021. Between April and November 2021, the Company incurred sufficient qualifying exploration and development expenditures to fully satisfy its spending requirements related to this first tranche flow-through obligation. Thus, the Company derecognized the first tranche of flow through premium of \$625,863. The second tranche of \$4,000,000 flow-through financing was completed on November 29, 2021. In December 2021, the Company incurred \$154,880 of qualifying exploration expenditures. During 2022, the Company incurred sufficient qualifying exploration expenditures on eligible Canadian exploration and development expenses to satisfy the remaining spending commitment in respect of funds raised via flow-through financings in 2021 prior to December 31, 2022, thus the corresponding flow through premium liability was de-recognized.

As disclosed in Exploration and Evaluation Asset (Note 7), the Company is required to incur annual minimum work program expenditures ranging between \$15.00 and \$25.00 per hectare in order to maintain title to the mineral dispositions. Excess qualifying exploration expenditures can be carried forward indefinitely to be applied to future years' work requirements. At December 2022, all of the Company's mineral dispositions were in good standing and did not require any level of expenditure to remain in good standing through the end of 2023.

The Company's activities are subject to environmental regulation (including regular environmental impact assessments and permitting) in each of the jurisdictions in which its mineral properties are located. Such regulations cover a wide variety of matters including, without limitation, prevention of waste, pollution and protection of the environment, labour relations and worker safety. The Company may also be subject under such regulations to clean-up costs and liability for toxic or hazardous substances which may exist on or under any of its properties or which may be produced as a result of its operations. It is likely that environmental legislation and permitting will evolve in a manner which will require stricter standards and enforcement. This may include increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a higher degree of responsibility for companies, their directors and employees.

The Company has not determined and is not aware that any provision for such costs is required and is unable to determine the impact on its financial position of environmental laws, if any, and regulations that may be enacted in the future due to the uncertainty surrounding the form that these laws and regulations may take.

15. EVENTS AFTER THE REPORTING YEAR

Acquisition of Watts Lake Mineral Claims

On March 21, 2023, pursuant to an agreement with SKRR Exploration Inc., the Company acquired the Watts Lake Mineral Claims. The Watts Lake Mineral Claims encompass twenty-four (24) mineral claims totalling 13,708 hectares. Under the terms of the Acquisition Agreement, Fathom will acquire a 100% interest in the Watts Lake Mineral Claims by making an initial cash payment of CAD\$75,000 and issuing 2,000,000 common shares of Fathom to SKRR upon Canadian Securities Exchange (the "CSE") approval of the Acquisition Agreement. The Acquisition Agreement provides for a 2% net smelter return ("NSR") royalty in favour of Edge Geological Consulting Inc., a company controlled by Ross McElroy. The NSR is subject to a buy down to 1% for CAD\$1,000,000. Fathom will also make an additional cash payment of \$75,000 to SKRR within 60 days of the execution of the Acquisition Agreement.

Cancellation and Issuance of Stock Options

On February 28, 2023, pursuant to its stock option plan and the policies of the Canadian Stock Exchange, the Company granted incentive stock options to certain directors, officers and consultants of the Company for the right to purchase up to an aggregate 5,000,000 common shares of the Company, exercisable at a price of \$0.085 per share for a period of 60 months. The options issued under this grant vest in three equal tranches (one-third on the date of grant and one-third on each of the first two anniversaries of the date of grant).

On March 14, 2023, pursuant to its stock option plan and the policies of the Canadian Stock Exchange, the Company cancelled 2,300,000 incentive stock options previously granted to certain directors, officers and consultants of the Company for the right to purchase up to an aggregate 2,300,000 common shares of the Company, that were exercisable at a price of \$0.70 per share for a period of 60 months.