

Interim Condensed Consolidated Financial Statements

**Fortune Minerals Limited**

September 30, 2019

# **Fortune Minerals Limited**

## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

**Under National Instrument 51-102, Part 4, Subsection 4.3(3)(a), if an auditor has not performed a review of the interim interim condensed consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.**

**The accompanying unaudited consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.**

**The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.**

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

**CONSOLIDATED STATEMENTS OF  
 FINANCIAL POSITION**

(expressed in Canadian dollars)

Unaudited

See note 2 going concern uncertainty

As at	September 30, 2019	December 31, 2018
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents <i>[note 10]</i>	1,932,986	3,611,228
Reclamation security deposits <i>[note 7]</i>	25,000	25,000
Accounts receivable	58,924	99,187
Prepaid expenses	53,869	58,774
<b>Total current assets</b>	<b>2,070,779</b>	<b>3,794,189</b>
Reclamation security deposits <i>[note 7]</i>	193,546	191,245
Capital assets, net <i>[note 8]</i>	52,405	67,770
Mining properties <i>[note 3]</i>	73,678,943	74,272,856
	<b>75,995,673</b>	<b>78,326,060</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	143,866	321,906
<b>Total current liabilities</b>	<b>143,866</b>	<b>321,906</b>
Provision for environmental rehabilitation <i>[note 7]</i>	39,032	36,564
Long-term debt <i>[note 11]</i>	8,318,214	7,442,171
Derivatives <i>[note 5ii[b]]</i>	3,696,044	3,292,724
<b>Total liabilities</b>	<b>12,197,156</b>	<b>11,093,365</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital <i>[note 5]</i>	172,444,028	173,663,326
Other reserves <i>[notes 5 and 6]</i>	14,805,743	13,129,875
Deficit	(123,451,254)	(119,560,506)
<b>Total shareholders' equity</b>	<b>63,798,517</b>	<b>67,232,695</b>
	<b>75,995,673</b>	<b>78,326,060</b>

See accompanying notes

Fortune Minerals Limited

**CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND  
COMPREHENSIVE INCOME (LOSS)**

(expressed in Canadian dollars)

Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
<b>REVENUE AND OTHER INCOME</b>				
Interest and other income <i>[note 13]</i>	8,533	17,218	29,553	69,909
	<b>8,533</b>	17,218	<b>29,553</b>	69,909
<b>EXPENSES</b>				
General and administrative	241,974	432,197	912,839	1,232,022
Interest	302,208	272,250	876,043	790,195
Corporate development	74,797	97,280	241,798	354,779
Amortization <i>[note 8]</i>	5,122	5,363	15,365	16,025
Change in fair value related to derivative liability <i>[note 5ii.[b]]</i>	(779,643)	(1,328,170)	403,320	(11,043,900)
Impairment charge <i>[note 3i.]</i>	—	—	1,470,936	—
	<b>(155,542)</b>	(521,080)	<b>3,920,301</b>	(8,650,879)
<b>Net income (loss) and comprehensive income (loss) for the period</b>	<b>164,075</b>	538,298	<b>(3,890,748)</b>	8,720,788
<b>Basic and diluted income (loss) per share <i>[note 17]</i></b>	<b>—</b>	—	<b>(0.01)</b>	0.03

See accompanying notes

**Fortune Minerals Limited**

**CONSOLIDATED STATEMENTS OF  
CASH FLOWS**

(expressed in Canadian dollars)

Unaudited

For the nine-month periods ended September 30,

	2019	2018
<b>OPERATING ACTIVITIES</b>		
Net income (loss) for the period from continuing operations	(3,890,748)	8,720,788
Changes in non-cash working capital balances related to operations		
Accounts receivable	40,263	168,705
Prepaid expenses	4,905	6,162
Accounts payable and accrued liabilities	(178,040)	(322,903)
Accrued interest on debentures	390,140	371,340
	<u>(3,633,480)</u>	<u>8,944,092</u>
Add (deduct) items not involving cash		
Accretion	2,468	2,264
Amortization	15,365	16,025
Stock-based compensation	65,430	164,140
Non-cash portion of loan discount <i>[note 11]</i>	485,903	418,855
Change in fair value related to derivative liability	403,320	(11,043,900)
Impairment charge <i>[note 3i.]</i>	1,470,936	—
<b>Cash used in operating activities</b>	<u>(1,190,058)</u>	<u>(1,498,524)</u>
<b>INVESTING ACTIVITIES</b>		
Increase in exploration and evaluation expenditures	(1,280,765)	(1,927,319)
Purchase of capital assets, including in mining properties	(650,118)	(1,183,355)
Posting of security for reclamation security deposits, net	(2,301)	(1,588)
Proceeds on sale of mining properties	1,080,000	—
<b>Cash used in investing activities</b>	<u>(853,184)</u>	<u>(3,112,262)</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds on issuance of shares, net	—	(35,269)
Proceeds on exercise of derivatives	—	493,417
Proceeds on exercise of options <i>[note 6]</i>	365,000	106,250
<b>Cash provided by financing activities</b>	<u>365,000</u>	<u>564,398</u>
<b>Decrease in cash and cash equivalents during the period, net</b>	<u>(1,678,242)</u>	<u>(4,046,388)</u>
Cash and cash equivalents, beginning of period	3,611,228	8,524,567
<b>Cash and cash equivalents, end of period <i>[note 10]</i></b>	<u>1,932,986</u>	<u>4,478,179</u>

See accompanying notes

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(expressed in Canadian dollars)

Unaudited

	Common shares		Warrants		Subtotal	Other reserves	Deficit	Total shareholders' equity
	#	\$	#	\$				
<b>December 31, 2017</b>	<b>333,443,319</b>	<b>170,302,749</b>	<b>27,770,880</b>	<b>2,620,279</b>	<b>172,923,028</b>	<b>12,940,075</b>	<b>(128,109,193)</b>	<b>57,753,910</b>
Issued as a result of:								
Share issuance costs, net of tax	—	(35,269)	—	—	(35,269)	—	—	(35,269)
Exercise of derivatives	3,709,901	493,417	—	—	493,417	—	—	493,417
Exercise of stock options	1,450,000	181,550	—	—	181,550	(75,300)	—	106,250
Stock options granted	—	—	—	—	—	164,140	—	164,140
Net loss for the period	—	—	—	—	—	—	8,720,788	8,720,788
<b>September 30, 2018</b>	<b>338,603,220</b>	<b>170,942,447</b>	<b>27,770,880</b>	<b>2,620,279</b>	<b>173,562,726</b>	<b>13,028,915</b>	<b>(119,388,405)</b>	<b>67,203,236</b>
<b>December 31, 2018</b>	<b>340,003,220</b>	<b>171,060,047</b>	<b>27,605,880</b>	<b>2,603,279</b>	<b>173,663,326</b>	<b>13,129,875</b>	<b>(119,560,506)</b>	<b>67,232,695</b>
Issued as a result of:								
Exercise of stock options <i>[note 6]</i>	7,300,000	613,200	—	—	613,200	(248,200)	—	365,000
Stock options granted <i>[note 6]</i>	—	—	—	—	—	91,570	—	91,570
Expiration of warrants <i>[note 5ii. [a]]</i>	—	—	(12,900,000)	(1,832,498)	(1,832,498)	1,832,498	—	—
Net loss for the period	—	—	—	—	—	—	(3,890,748)	(3,890,748)
<b>September 30, 2019</b>	<b>347,303,220</b>	<b>171,673,247</b>	<b>14,705,880</b>	<b>770,781</b>	<b>172,444,028</b>	<b>14,805,743</b>	<b>(123,451,254)</b>	<b>63,798,517</b>

See accompanying notes

## Fortune Minerals Limited

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

September 30, 2019

## 1. CORPORATE INFORMATION

Fortune Minerals Limited's business activity is the exploration and development of mineral properties in Canada. Fortune Minerals Limited is incorporated under the laws of Ontario, domiciled in London, Ontario, Canada, and its shares are publicly traded on the Toronto Stock Exchange and the OTCQB in the United States.

The unaudited interim condensed consolidated financial statements of Fortune Minerals Limited ["the Company"] for the nine months ended September 30, 2019 were authorized for issuance by the Board of Directors on November 13, 2019.

## 2. BASIS OF PRESENTATION

### *i. Statement of Compliance*

These unaudited interim condensed consolidated financial statements of the Company have been prepared by management in accordance with International Financial Reporting Standards ["IFRS"] as issued by the International Accounting Standards Board ["IASB"] and in accordance with International Accounting Standard ["IAS"] 34, *Interim Financial Reporting*.

### *ii. Going Concern of Operations*

These unaudited interim condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of the Company's assets and discharge of its liabilities and commitments in the normal course of business. With the existing working capital of \$1,926,913 at September 30, 2019, the Company has sufficient cash to conduct certain critical path activities in 2019. However, the NICO project requires further funding to advance the project through to production. This results in the existence of a material uncertainty that casts significant doubt about the Company's ability to continue as a going concern. Management is actively working to achieve positive cash flows beyond 2019 and is continually pursuing and considering various financing opportunities. The Company has historically been successful in financing its activities, however, there can be no assurances that the Company will be able to obtain continued support from existing lenders or obtain sufficient financing on terms acceptable to management to be able to meet its current liabilities as they come due. These unaudited interim condensed consolidated financial statements do not include adjustments, which may be material, to the amounts and classification of assets and liabilities that would be necessary should the going concern principle not be appropriate.

### *iii. Basis of Measurement*

These unaudited interim condensed consolidated financial statements are presented in Canadian dollars ["CDN"], which is also the Company's and its subsidiary's functional currency.

These unaudited interim condensed consolidated financial statements reflect the financial position and results of operations of the Company and its wholly owned subsidiaries Fortune Minerals NWT Inc. ["FMNWT"], Fortune Minerals Saskatchewan Inc. ["FMSI"], Fortune Coal Limited ["FCL"], and Fortune Minerals Mining Limited ["FMML"]. The Arctos Anthracite Joint Venture

## Fortune Minerals Limited

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

September 30, 2019

["Arctos JV"] is accounted for as a joint operation and FCL recognizes its 50% interest in the assets, liabilities, income, loss and expenses. All intercompany transactions and balances have been eliminated upon consolidation.

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

#### *iv. Judgment and Estimates*

The preparation of unaudited interim condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. The reported amounts and note disclosures are determined using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. Actual results, however, may differ from the estimates used in the unaudited interim condensed consolidated financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis.

Judgments and estimates made by management in the application of IFRS that have a significant risk of resulting in a material adjustment on the unaudited interim condensed consolidated financial statements in the current fiscal period are as follows:

#### **[a]** *Impairment of non-financial assets*

The Company undertakes an impairment assessment at the end of each reporting period and uses its judgment when identifying impairment indicators. Significant inputs into the discounted cash flow model included estimates of commodity values, discount rates, useful life of a mine and future operating costs.

#### **[b]** *Fair values*

The fair values of derivatives, warrants, stock options, retirement obligations and other instruments requires the use of estimates of such factors as market rates of return, market volatility, interest rates, future operating results all of which are subject to measurement uncertainty. Changes in any of these factors could have an impact on the amount recorded for debentures, warrant values, derivatives, share based compensation, asset retirement obligation, interest expense and accretion.

#### **[c]** *Exploration and evaluation expenditures*

The Company uses its judgment when identifying which costs can be capitalized as exploration and evaluation expenditures.

In addition, in preparing the unaudited interim condensed consolidated financial statements, the notes to the unaudited interim condensed consolidated financial statements were ordered such that the most relevant information was presented earlier in the notes and the disclosures that

## Fortune Minerals Limited

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

September 30, 2019

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

### 3. MINING PROPERTIES

As at September 30, 2019, the Company's mining properties are categorized in the exploration and evaluation stage since the necessary financing has not yet been obtained and a construction decision has not yet been approved by the Board of Directors. For management purposes, the group is organized into cash generating units based on the significant mining properties that the Company is currently exploring and evaluating or developing. Management monitors the monthly expenditures of its operating segments separately for the purpose of making decisions about resource allocation and financing requirements.

Interests in mining properties consist of the following:

	September 30, 2019			
	Capital Assets \$	Property Costs \$	Exploration and Evaluation Expenditures \$	Total Mining Properties \$
NICO [i]	6,666,985	2,191,442	64,638,087	73,496,514
Sue-Dianne	—	9,164	161,976	171,140
Other properties	—	—	11,289	11,289
	<b>6,666,985</b>	<b>2,200,606</b>	<b>64,811,352</b>	<b>73,678,943</b>

  

	December 31, 2018			
	Capital Assets \$	Property Costs \$	Exploration and Evaluation Expenditures \$	Total Mining Properties \$
NICO [i]	8,587,377	2,191,442	63,314,411	74,093,230
Sue-Dianne	—	9,164	159,748	168,912
Other properties	—	—	10,714	10,714
	<b>8,587,377</b>	<b>2,200,606</b>	<b>63,484,873</b>	<b>74,272,856</b>

During the nine months ended September 30, 2019, there was no change to Property Costs [September 30, 2018 – Nil] and Exploration and Evaluation Expenditures increased by \$1,326,479 [September 30, 2018 - \$1,948,764]. There were no disposals, write-offs or amortization, with the exception of the disposal of capital assets discussed in note 3i. below.

**Fortune Minerals Limited**

**NOTES TO INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

[unaudited]

September 30, 2019

Exploration and evaluation expenditures capitalized to mining properties during the nine months ended September 30, 2019 and 2018 include the following:

	<b>September 30, 2019</b>	September 30, 2018
	\$	\$
Employee and contractor compensation and benefits	<b>577,019</b>	483,227
Amortization	<b>22,394</b>	21,445
Stock-based compensation	<b>23,320</b>	—

**Fortune Minerals Limited**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

[unaudited]

September 30, 2019

Capital assets in mining properties consist of the following:

	Surface facilities under construction \$	Surface facilities \$	Camp structures \$	Mobile equipment \$	Site furniture and equipment \$	Land and land acquisition costs \$	Asset retirement obligation ["ARO"] \$	Total \$
<b>Cost</b>								
<b>As at December 31, 2018</b>	7,583,538	1,179,717	593,724	595,034	19,947	900,356	6	10,872,322
Additions	588,353	—	—	—	30,708	33,877	—	652,938
Disposals/Impairment Charge	(1,641,703)	—	—	—	—	(909,233)	—	(2,550,936)
<b>As at September 30, 2019</b>	<b>6,530,188</b>	<b>1,179,717</b>	<b>593,724</b>	<b>595,034</b>	<b>50,655</b>	<b>25,000</b>	<b>6</b>	<b>8,974,324</b>
<b>Accumulated amortization</b>								
<b>As at December 31, 2018</b>	—	1,096,046	588,008	582,486	18,405	—	—	2,284,945
Amortization for the period	—	12,557	1,286	2,823	5,728	—	—	22,394
<b>As at September 30, 2019</b>	<b>—</b>	<b>1,108,603</b>	<b>589,294</b>	<b>585,309</b>	<b>24,133</b>	<b>—</b>	<b>—</b>	<b>2,307,339</b>
<b>Net book value</b>								
As at December 31, 2018	7,583,538	83,671	5,716	12,548	1,542	900,356	6	8,587,377
<b>As at September 30, 2019</b>	<b>6,530,188</b>	<b>71,114</b>	<b>4,430</b>	<b>9,725</b>	<b>26,522</b>	<b>25,000</b>	<b>6</b>	<b>6,666,985</b>

Included in surface facilities under construction during the nine months ended September 30, 2019 is \$50,543 [September 30, 2018 - \$58,993] of directly attributable employee and contractor compensation and benefits and \$2,820 [September 30, 2018 - \$Nil] of stock-based compensation.

## **Fortune Minerals Limited**

### **NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

[unaudited]

September 30, 2019

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

The NICO project and the related claims in the Marian River Area, Northwest Territories are wholly owned by the Company. The Company plans to locate the hydrometallurgical processing plant for NICO at a site in Saskatchewan, Canada or other suitable jurisdiction. In December 2012, the Company purchased lands near Saskatoon, Saskatchewan on which it proposed to construct the Saskatchewan Metals Processing Plant [“SMPP”]. On March 25, 2019, Fortune received a decision from the Rural Municipality of Corman Park [“Corman Park”] rejecting the Company’s application to change the zoning of its lands in Saskatchewan from Agriculture to M2 Rural Industrial. The rezoning was required to construct and operate a hydrometallurgical facility to process metal concentrates from the Company’s planned NICO mine in the Northwest Territories. As a result of the rezoning decision the Company made a decision to sell its land in Saskatchewan for proceeds of \$1,080,000.

The net costs of design, development, construction and related costs incurred for the SMPP have been accumulated and capitalized as surface facilities under construction until such time as the physical assets are completed and available for use, at which time they will be classified as appropriate. No amortization has been charged against these assets as they are not yet available for use. As a result of the sale of land, the Company completed an impairment assessment of the SMPP capitalized costs and recognized impairment charges of \$1,470,936. The Company determined that assets with a net book value of \$2,550,936 were directly attributable to the site sold and recorded them at their recoverable amount of \$1,080,000, which is equal to the proceeds received on the sale of the land.

In April 2019, the Company entered into an option to purchase an alternative site in Saskatchewan which has already been planned for industrial use and meets the Company’s infrastructure and services requirements.

#### ***ii.* Arctos Anthracite Project, British Columbia [“Arctos”]**

On May 1, 2015 the Company, FCL, Posco Canada Ltd. [“POSCAN”] and POSCO Klappan Coal Ltd. [“POSCO Klappan”] entered into an agreement [the “Arctos Sale Agreement”] with Her Majesty the Queen in Right of the Province of British Columbia [the “Province”] and British Columbia Railway Company [“BC Rail”] pursuant to which the Arctos JV sold its interests of the coal licenses comprising the Arctos project to BC Rail.

The Company, FCL, POSCAN and POSCO Klappan also entered into an Amendment to Exploration, Development and Mine Operating Joint Venture Agreement [“Amended Agreement”] to restructure the Arctos JV and share the proceeds from the sale of the Arctos coal licenses on an equal basis after purchasing the royalty held by the previous owner of the property. Pursuant to the Amended Agreement, FCL transferred 30% of its interest in the Arctos JV to POSCO Klappan, thereby reducing its interest from 80% to 50%, in exchange for the elimination of the future capital contribution to be made by FCL. The Company was made solely responsible for reclamation of the Arctos property except for the access road for which the Province will be

## **Fortune Minerals Limited**

# **NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

[unaudited]

September 30, 2019

responsible. The Company was entitled to receive the cash provided as security for its reclamation obligations once the reclamation is complete.

Going forward, under the Arctos Sale Agreement, the Arctos JV partners maintain the exclusive right to purchase back the coal licenses at the same price for a 10-year option period. If both partners do not wish to exercise the repurchase option, each of them may do so individually. No value was attributed to the option at the time of the agreement or as at the nine months ended September 30, 2019.

#### **4. ASSET IMPAIRMENT**

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

At September 30, 2019, the Company considered whether there had been any significant changes to impairment indicators from its previous impairment assessment completed at December 31, 2018 and whether any new indicators were present. Management determined that as a result of not obtaining financing during the period, substantive expenditure on further exploration for and evaluation of mineral resources of the NICO project cannot be budgeted or planned and completed an impairment assessment of the NICO project. As a result of that analysis, management has determined that the carrying value of its projects is not impaired or does not require a reversal of a prior impairment charge.

The model used by management to evaluate the NICO property for impairment is based on management's intention to develop and produce gold, cobalt, bismuth and copper simultaneously. For the purposes of assessing the impairment of the project, the financial model used a discounted cash flow model using the best estimates for items such as plant capital, operating costs, commodity prices, transportation costs, discount rates and expected margins. Should the intention of management change with respect to the development of how this project may proceed, the economic model may result in significantly different results. It also does not reflect how any other organization would develop the project.

Assumptions underlying the estimate of the recoverable amount included expected commodity prices based on forecasted averages of US\$1,300/oz for gold, US\$35/lb for cobalt and US\$5/lb for bismuth and an exchange rate of US\$0.75:C\$1.00. A discount rate of 8% was used in the cash flow analysis. These factors resulted in a recoverable amount in excess of book value of NICO. Accordingly, no impairment was recognized on the NICO project.

Asset impairment testing is subject to numerous assumptions, inherent risks and uncertainties, and the risk that these assumptions may not be realized.

## Fortune Minerals Limited

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

September 30, 2019

#### 5. SHARE CAPITAL AND RESERVES

##### i. Common Shares

The Company is authorized to issue an unlimited number of common shares without par value. As at September 30, 2019, the weighted average number of common shares outstanding was 345,627,762 [December 31, 2018 - 338,392,567].

The Company did not enter into any agreements to issue shares during the nine months ended September 30, 2019.

The following is a summary of changes in shares for the nine months ended September 30,

	<b>2019</b>	2018
Shares outstanding, beginning of period	<b>340,003,220</b>	333,443,319
Exercise of derivatives [note 5ii.[b]]	—	3,709,901
Exercise of options [note 6]	<b>7,300,000</b>	1,450,000
Shares outstanding, end of period	<b>347,303,220</b>	338,603,220

##### ii. Share Purchase Warrants

The following is a summary of changes in warrants for the nine months ended September 30,

	<b>2019</b>		<b>2018</b>	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Warrants outstanding, beginning of period	<b>27,605,880</b>	\$ <b>0.30</b>	27,770,880	\$ 0.30
Expiry of Warrants [note 5ii.[a]]	<b>(12,900,000)</b>	<b>0.35</b>	—	—
Warrants outstanding, end of period	<b>14,705,880</b>	\$ <b>0.25</b>	27,770,880	\$ 0.30

[a] During the nine months ended September 30, 2019, 12,900,000 [September 30, 2018 – Nil] warrants with an exercise price of \$0.35 expired unexercised. These warrants had a book value of \$1,832,498.

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

The following is a summary of changes in derivatives for the nine months ended September 30,

## Fortune Minerals Limited

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

September 30, 2019

	2019		2018	
	Class A	Class B	Class A	Class B
Derivatives outstanding, beginning of period	8,484,296	51,718,040	12,194,197	51,718,040
Exercise of derivatives	—	—	(3,709,901)	—
Shares outstanding, end of period	8,484,296	51,718,040	8,484,296	51,718,040

The exercise price for Class A and Class B warrants at September 30, 2019 were \$0.133 [September 30, 2018 - \$0.133] and \$0.208 [September 30, 2018 - \$0.208], respectively.

There were no Class A or Class B warrants exercised during the nine months ended September 30, 2019. During the nine months ended September 30, 2018, 3,709,901 Class A warrants were exercised with an exercise price of \$0.133 raising gross proceeds of \$493,417.

The determination of the fair value of the resulting derivative requires the Company to make a number of assumptions and estimates regarding the inputs into the model used to determine the value of the warrants. The assumptions used for the nine months ended September 30, 2019 and 2018 are as follows: dividend yield of 0% [2018 – 0%], expected volatility of between 111.89% and 160.20 [2018 – 75.66 and 115.31%], risk free interest rate of 1.59% [2018 – 2.19% and 2.30] and expected life of between 0.87 and 2.87 years [2018 – 1.87 and 3.87 years]. These assumptions will change from time to time and the impact will be reflected in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). Small changes to the inputs into the model can have a substantial impact on the value of the warrants. A change in the warrant unit value of approximately 10%, or approximately \$0.01 [2018 - \$0.01], will result in the value of the derivative changing by approximately \$369,000 [2018 – \$388,700].

#### iii. Nature and Purpose of Equity and Reserves

The reserves recorded in equity on the Company's Consolidated Statements of Financial Position include 'Other Reserves', 'Accumulated Deficit' and 'Accumulated Other Comprehensive Income'.

'Other Reserves' is used to recognize the value of stock option grants and amendments and expiration of share purchase warrants.

'Accumulated Deficit' is used to record the Company's change in deficit from earnings from year to year.

'Accumulated Other Comprehensive Income' is used to record foreign currency translation.

## 6. STOCK-BASED COMPENSATION

The other reserves balance was increased by \$91,570, representing the fair value of 2,100,000 options granted in the prior year and vested during the nine months ended September 30, 2019, and has been allocated to general and administrative expenses, corporate development costs,

**Fortune Minerals Limited**

**NOTES TO INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

[unaudited]

September 30, 2019

exploration and evaluation expenditures and capital assets in the amounts of \$50,580, \$14,850, \$23,320 and \$2,820, respectively. No options have been granted during the nine months ended September 30, 2019.

A summary of the status of the Company's stock option plan as at September 30, 2019 and December 31, 2018, and changes during the periods ended on those dates are presented below:

	<u>September 30, 2019</u>		<u>December 31, 2018</u>	
	Number of shares #	Weighted- average exercise price \$	Number of shares #	Weighted- average exercise price \$
<b>Options outstanding, beginning of period</b>	<b>19,750,000</b>	<b>0.12</b>	19,050,000	0.15
Granted	—	—	5,200,000	0.11
Exercised	(7,300,000)	0.05	(2,850,000)	0.06
Expired or cancelled	(1,750,000)	0.28	(1,650,000)	0.55
<b>Options outstanding, end of period</b>	<b>10,700,000</b>	<b>0.14</b>	19,750,000	0.12
<b>Options vested and outstanding, end of period</b>	<b>8,625,000</b>	<b>0.15</b>	17,650,000	0.12

During the nine months ended September 30, 2019, 7,300,000 stock options with a book value of \$248,200 were exercised for aggregate gross proceeds of \$365,000 and 1,750,000 stock options expired unexercised.

The following tables summarize information about the options outstanding as at September 30, 2019:

<u>September 30, 2019</u>				
Range of exercise prices	Number outstanding	Number vested and outstanding	Weighted average exercise price – all [i]	Weighted average remaining contract life – all [i]
\$	#	#	\$	years
Nil – 0.49	10,700,000	8,625,000	0.14	2.22

[i] The weighted average exercise price and weighted average remaining contract life are the same for options outstanding and options vested and outstanding with the exception of 4,150,000 options exercisable at \$0.10 of which only 2,075,000 have vested at September 30, 2019.

## Fortune Minerals Limited

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

September 30, 2019

#### 7. PROVISION FOR ENVIRONMENTAL REHABILITATION AND SECURITY DEPOSITS

Although the ultimate amount of the environmental rehabilitation provision is uncertain, the estimate of these obligations is based on information currently available including the most recently estimated mine life and applicable regulatory requirements. Significant closure activities include primarily land rehabilitation for impacts to date.

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

	<u>September 30, 2019</u>	December 31, 2018
<b>NICO Project</b>		
Provision for environmental rehabilitation	<b>\$39,032</b>	\$36,564
Estimated remaining life	<b>18 years</b>	19 years
Discount rate	<b>9%</b>	9%
<b>Total provision for environmental rehabilitation</b>	<b>\$39,032</b>	\$36,564

The Company has provided reclamation security deposits in the form of a letter of credit in favour of the Government of the Northwest Territories and the Province for NICO and Arctos, respectively.

Reclamation security deposits consist of the following:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
	<b>Deposit amount \$</b>	Deposit amount \$
NICO Project	<b>193,546</b>	191,245
Arctos Anthracite Project	<b>25,000</b>	25,000
<b>Total Net Book Value</b>	<b>218,546</b>	216,245

The security for the reclamation of the Arctos Anthracite Project is held in the Arctos JV. As at September 30, 2019, the security deposit amount in the Arctos JV was \$25,000 [December 31, 2018 - \$25,000]. The Company expects this amount to be released once the Province has completed its reclamation workplan review.

The security held for the NICO and Arctos reclamation security deposits consists of cash balances and short-term fixed income deposits with original maturity dates shorter than three months in investment accounts with a large Canadian financial institution.

## Fortune Minerals Limited

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

September 30, 2019

#### 8. CAPITAL ASSETS

Capital assets consist of the following:

	Computer equipment \$	Furniture and fixtures \$	Software \$	Total \$
<b>Cost</b>				
As at December 31, 2018	200,792	117,216	328,690	646,698
<b>As at September 30, 2019</b>	<b>200,792</b>	<b>117,216</b>	<b>328,690</b>	<b>646,698</b>
<b>Accumulated amortization</b>				
As at December 31, 2018	182,438	101,787	294,703	578,928
Amortization for the period	4,130	2,314	8,921	15,365
<b>As at September 30, 2019</b>	<b>186,568</b>	<b>104,101</b>	<b>303,624</b>	<b>594,293</b>
<b>Net book value</b>				
As at December 31, 2018	18,354	15,429	33,987	67,770
<b>As at September 30, 2019</b>	<b>14,224</b>	<b>13,115</b>	<b>25,066</b>	<b>52,405</b>

#### 9. EXPENSES BY NATURE

	September 30, 2019	September 30, 2018
Employee and contractor compensation and benefits (i)	<b>679,962</b>	760,952
Operating lease expense – property (ii)	<b>69,320</b>	70,109
Stock-based compensation (iii)	<b>65,430</b>	164,140
Amortization	<b>15,365</b>	16,025
Foreign exchange gain	<b>(85)</b>	(601)
Change in fair value related to derivative liability	<b>403,320</b>	(11,043,900)
Impairment charge	<b>1,470,936</b>	—

(i) \$476,083 [2018 - \$513,381] and \$203,879 [2018 - \$247,571] of employee and contractor compensation benefits are included in general and administrative and corporate development expenses, respectively, on the consolidated statements of income (loss) and comprehensive income (loss)

(ii) Operating lease expense – property is included in general and administrative expenses on the consolidated statements of income (loss) and comprehensive income (loss)

(iii) \$50,580 [2018 - \$164,140] and \$14,850 [2018 - \$Nil] of stock-based compensation are included in general and administrative expenses and corporate development expense, respectively, on the consolidated statements of income (loss) and comprehensive income (loss)

## Fortune Minerals Limited

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

September 30, 2019

#### 10. CASH AND CASH EQUIVALENTS

The Company's investment policy is to invest its cash in highly liquid, short-term, interest bearing investments in order to have funds available on a short-term basis. Where cash is not expected to be required in the short-term, the policy is to invest in investments with an intermediate to long-term horizon that still allows for conversion to cash, if required.

#### 11. LONG-TERM DEBT

The Company has \$8.75 million unsecured debentures outstanding as of September 30, 2019. The debentures have a term of seven years maturing on August 12, 2022, bear interest at 5% per annum, compounding semi-annually and both principal and interest are payable at maturity.

The long-term debt is summarized as follows for the nine months ending September 30, 2019:

	<b>September 30, 2019</b>	December 31, 2018
Debentures at maturity	\$ <b>8,750,000</b>	\$ 8,750,000
Loan discount	<b>(2,432,382)</b>	(2,918,285)
Accrued interest on debentures	<b>2,000,596</b>	1,610,456
	<b>\$ 8,318,214</b>	\$ 7,442,171

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

- The merger, amalgamation, combination, consolidation, tender for the shares of or similar business transaction whereby its creditors are not the holders, directly or indirectly, of a majority of the voting securities or its ultimate controlling person immediately after such closing;
- The sale of all or substantially all of its assets, other than to a wholly-owned subsidiary or to a NICO Joint Venture;
- The creation, incurrence, assumption or suffering to exist, or otherwise becoming liable for any indebtedness on terms that are less advantageous to the Company or causing any material asset of the Company to be posted as collateral or security, unless all net proceeds of such indebtedness are applied to explore, develop, construct, operate or otherwise advance the NICO project;
- The repurchase of equity or the declaration of dividends or distributions of any kind; and
- The settlement of any litigation, arbitration, or administrative proceeding in relation to the NICO project for an amount in excess of \$125,000.

The loan balances have been recorded at their amortized cost at an effective interest rate of 18%. For the nine months ended September 30, 2019, \$485,903 [September 30, 2018 - \$418,855] of loan discount was amortized using the effective interest rate method.

## Fortune Minerals Limited

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

September 30, 2019

#### 12. FINANCIAL INSTRUMENTS

The Company is exposed to risks through its operations that arise from its use of financial instruments, which include credit risk, interest rate risk, market price risk, liquidity risk and foreign exchange risk. The Company's management believes that these risks are minimal due to the nature of the financial instruments. The principal financial instruments used by the Company, from which financial instrument risk arises, are cash and cash equivalents, reclamation security deposits, accounts receivables, accounts payable and accrued liabilities, provision for environmental rehabilitation, long-term debt and derivatives.

##### *i.* Financial instruments by category

###### Financial assets

	Financial assets at amortized cost	
	September 30, 2019	December 31, 2018
Cash and cash equivalents	\$ 1,932,986	\$ 3,611,228
Reclamation security deposits	218,546	216,245
Accounts receivables	58,924	99,187
Total financial assets	<u>\$ 2,210,456</u>	<u>\$ 3,926,660</u>

###### Financial liabilities

	Financial liabilities at fair value through profit or loss		Financial liabilities at amortized cost	
	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
Accounts payable and accrued liabilities	\$ —	\$ —	\$ 143,866	\$ 321,906
Provision for environmental rehabilitation	—	—	39,032	36,564
Long-term debt	—	—	8,318,214	7,442,171
Derivatives	3,696,044	3,292,724	—	—
Total financial liabilities	<u>\$ 3,696,044</u>	<u>\$ 3,292,724</u>	<u>\$ 8,501,112</u>	<u>\$ 7,800,641</u>

##### *ii.* Financial instruments at amortized cost

The fair value of the Company's cash and cash equivalents, reclamation security deposits, accounts receivable, and accounts payable and accrued liabilities approximate their carrying values due to their short-term nature. The fair value of the long-term debt measured at amortized cost has a fair value of approximately \$9,406,000 estimated using a 10% discount rate.

## Fortune Minerals Limited

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

September 30, 2019

*iii.* Financial instruments measured at fair value

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

	Level 3	
	September 30, 2019	December 31, 2018
Derivatives	<u>3,696,044</u>	<u>3,292,724</u>

There were no transfers between levels during the period. The change in fair value of level 3 financial instruments of \$403,320 is attributed to the change in fair value calculated on the derivative at the reporting date and has been recognized in the consolidated statements of income (loss) and comprehensive income (loss).

*iv.* Contractual maturities of financial liabilities

The following table details the Company's contractual maturities for its financial liabilities as at September 30, 2019. Payments due by year are as follows:

	Total	2019	2022	Greater than 5 years
Accounts payable and accrued liabilities	\$ 143,866	\$ 143,866	\$ —	\$ —
Provision for environmental rehabilitation	188,000	—	—	188,000
Long-term debt	8,750,000	—	8,750,000	—
Accrued interest on debentures	3,613,518	—	3,613,518	—
	<u>\$12,695,384</u>	<u>\$ 143,866</u>	<u>\$12,363,518</u>	<u>\$ 188,000</u>

### 13. INTEREST AND OTHER INCOME

Interest and other income consist of the following for the nine months ended September 30,

	2019	2018
Interest income	<b>29,468</b>	69,308
Foreign exchange loss	<b>85</b>	601
Total Interest and Other Income	<b>29,553</b>	69,909

## Fortune Minerals Limited

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

September 30, 2019

#### 14. INCOME TAXES

The Company has non-capital loss carryforwards totaling \$49,200,000, net capital loss carryforwards of \$18,370,000, un-deducted debt and share issuance costs of \$459,000 and unused investment tax credits on pre-production mining costs of \$1,975,000. The non-capital losses will begin to expire in 2026. The Company has completed feasibility studies for its principal project and undertaken related permitting and financing activities. The benefit of certain non-capital losses and un-deducted share issuance costs has been recorded in the unaudited interim condensed consolidated financial statements only to the extent of existing taxable temporary differences. The potential benefits of these carry-forward non-capital losses, capital losses, and other deductible temporary differences have not been recognized in these unaudited interim condensed consolidated financial statements as it is not considered probable that sufficient future taxable profit will allow the deferred tax asset to be recovered. A valuation allowance of \$16,241,000 has been recognized related to the uncertainty of realizing the benefit of deferred income tax assets in future years.

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

	September 30, 2019	December 31, 2018
	\$	\$
<b>Deferred income tax assets</b>		
Net operating loss carryforwards	12,888,000	12,564,000
Undeducted debt and share issuance costs <i>[i]</i>	122,000	169,000
Unused investment tax credits on pre-production costs	1,974,500	1,974,500
Tax value of exploration and evaluation expenditures and capital assets in excess of book value	1,256,500	922,500
	<b>16,241,000</b>	15,630,000
Less valuation allowance related to operating losses, share issuance costs and unused investments tax credits	<b>(16,241,000)</b>	(15,630,000)
<b>Deferred income tax assets</b>	<b>—</b>	<b>—</b>

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

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

## Fortune Minerals Limited

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

September 30, 2019

	September 30, 2019 \$	September 30, 2018 \$
<b>Combined federal and provincial/state income tax rate</b>	<b>26.50%</b>	26.50%
Corporate income tax provision (recovery) at statutory rate	<b>(1,031,000)</b>	2,300,000
Increase (decrease) in income taxes resulting from		
Non-deductible stock-based compensation and other expenses	<b>142,500</b>	158,000
Non-deductible change in fair value of derivative	<b>107,000</b>	(2,950,000)
Rate difference	<b>(170,000)</b>	25,000
Tax value of loss carryforwards not recognized	<b>951,500</b>	467,000
	—	—

#### 15. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are: [i] to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and provide returns for shareholders, and [ii] to maintain a flexible capital structure that optimizes the cost of capital at an acceptable risk. The Company includes the components of shareholders' equity, long-term debt, cash and cash equivalents and short-term investments, if any, in the management of capital.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents and short-term investments.

To facilitate the management of its capital requirements, the Company prepares forecasts or expenditure budgets for its activities that are used to monitor performance. Variances to plan will result in adjustments to capital deployment subject to various factors and industry conditions. The Company's activities and associated forecasts or budgets are approved by the Board of Directors.

The Company is not subject to any externally imposed capital requirements limiting or restricting the use of its capital. In order to maximize ongoing development efforts, the Company does not pay out dividends at this time.

#### 16. RELATED PARTY TRANSACTIONS

For the nine months ended September 30, 2019, the Company paid key management personnel including officers, directors or their related entities for consulting services and/or management services.

The following compensation was paid or awarded to key management personnel for services provided during the nine months ended:

## Fortune Minerals Limited

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

September 30, 2019

	September 30, 2019 \$	September 30, 2018 \$
Salaries and benefits	22,157	16,549
Consulting services	743,657	637,050
Legal services	42,950	64,146
Fair value of stock options granted	—	140,000
	<b>808,764</b>	<b>857,745</b>

As at September 30, 2019, \$13,417 [2018 - \$28,380] was owing to key management personnel for services provided during the period.

#### 17. INCOME (LOSS) PER SHARE

Basic income (loss) per share is calculated by dividing net income (loss) for the period by the weighted average number of common shares outstanding in each respective period. Diluted income (loss) per share reflects the potential dilution of securities by adding other common stock equivalents in the weighted average number of common shares outstanding during the period, if dilutive.

i. Basic income (loss) per share	September 30, 2019	September 30, 2018
Net income (loss)	\$ (3,890,748)	\$ 8,720,788
Weighted average number of common shares	345,627,762	338,237,511
Basic income (loss) per share	\$ (0.01)	\$ 0.03

#### ii. Diluted income (loss) per share

For calculating diluted income (loss) per share, for the three and nine months ended September 30, 2019 and 2018, the following weighted average options, warrants and derivative warrants had an exercise price less than the average market price for the period:

	2019		2018	
	Three months ended September 30,	Nine months ended September 30,	Three months ended September 30,	Nine months ended September 30,
Options	—	3,769,110	11,200,000	15,600,000
Warrants	—	—	—	165,000
Derivative Warrants	—	—	—	60,202,336
	—	<b>3,769,110</b>	11,200,000	<b>75,967,336</b>

The diluted loss per share computation for the nine months ending September 30, 2019 is equal to the basic loss per share as inclusion of the above would have been anti-dilutive. The diluted

## Fortune Minerals Limited

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

September 30, 2019

income per share computation for the three and nine months ended September 30, 2018 is as follows:

	<b>Three months ended September 30, 2018</b>	<b>Nine months ended September 30, 2018</b>
Net income	\$ 538,298	\$ 8,720,788
Weighted average number of common shares (diluted)	344,535,412	357,860,442
Diluted income per share	<u>\$ 0.00</u>	<u>\$ 0.02</u>

### 18. CONSOLIDATED STATEMENTS OF CASH FLOWS

Supplemental cash flow information for the nine months ending September 30:

	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Interest and investment income received	<u><b>32,978</b></u>	<u>58,646</u>

### 19. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET IN EFFECT

*i.* New accounting standards

- IFRS 16 Leases – effective for the December 31, 2019 year end. This standard has been adopted by the Company and there was no significant impact on the Company's unaudited interim condensed consolidated financial statements.