

Interim Condensed Consolidated Financial Statements

Fortune Minerals Limited

September 30, 2021

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 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

As at	September 30, 2021	December 31, 2020
ASSETS		
Current assets		
Cash and cash equivalents <i>[note 10]</i>	2,253,495	1,078,884
Reclamation security deposits <i>[note 7]</i>	25,233	25,186
Accounts receivable	21,376	68,537
Prepaid expenses	77,706	55,719
Total current assets	2,377,810	1,228,326
Reclamation security deposits <i>[note 7]</i>	150,994	195,671
Capital assets, net <i>[note 8]</i>	330,251	375,153
Mining properties <i>[note 3]</i>	75,014,882	74,541,391
	77,873,937	76,340,541
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	331,597	186,482
Lease liability <i>[note 12]</i>	42,614	39,495
Flow-through share premium	174,739	273,835
Current debt <i>[note 11]</i>	11,039,609	—
Total current liabilities	11,588,559	499,812
Provision for environmental rehabilitation <i>[note 7]</i>	22,925	30,775
Lease liability <i>[note 12]</i>	282,474	314,915
Long-term debts <i>[note 11]</i>	1,277,706	10,008,154
Derivatives <i>[note 5ii[a]]</i>	1,366,850	1,306,541
Total liabilities	14,538,514	12,160,197
SHAREHOLDERS' EQUITY		
Share capital <i>[note 5]</i>	173,350,476	172,538,621
Other reserves <i>[notes 5 and 6]</i>	15,987,782	15,611,882
Deficit	(126,002,835)	(123,970,159)
Total shareholders' equity	63,335,423	64,180,344
	77,873,937	76,340,541

See accompanying notes to the consolidated financial statements

See note 2 going concern uncertainty

Fortune Minerals Limited

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

(expressed in Canadian dollars)

Unaudited

	Three months ended		Nine months ended	
	September 30,	2020	September 30,	2020
	2021		2021	
REVENUE AND OTHER INCOME				
Interest and other income <i>[note 14]</i>	86,040	49,104	100,144	97,900
	86,040	49,104	100,144	97,900
EXPENSES				
General and administrative	184,306	146,496	548,353	709,579
Stock-based compensation <i>[note 6]</i>	—	—	299,205	—
Interest	382,889	336,778	1,107,283	976,952
Corporate development	30,436	31,169	72,768	105,910
Amortization <i>[note 8]</i>	14,965	3,451	44,902	10,397
Change in fair value related to derivative liability <i>[note 5ii.a]</i>	(1,285,950)	(287,171)	60,309	(425,900)
	(673,354)	230,723	2,132,820	1,376,938
Net income (loss) and comprehensive income (loss) for the period	759,394	(181,619)	(2,032,676)	(1,279,038)
Basic and diluted income (loss) per share <i>[note 18]</i>	0.00	0.00	(0.01)	0.00

See accompanying notes to the consolidated financial statements

CASH FLOWS
(expressed in Canadian dollars)

Unaudited

For the nine-month periods ended September 30,

	2021	2020
OPERATING ACTIVITIES		
Net loss for the period from continuing operations	(2,032,676)	(1,279,038)
Add (deduct) items not involving cash		
Accretion	(7,850)	(9,715)
Amortization	44,902	10,397
Flow-through share premium	(99,096)	(83,557)
Stock-based compensation	299,205	—
Non-cash portion of loan discount <i>[note 11]</i>	660,939	566,560
Non-cash portion of lease expense	(29,322)	—
Loss on disposal of capital assets	—	180
Change in fair value related to derivative liability	60,309	(425,900)
Changes in non-cash working capital balances related to operations		
Accounts receivable	47,161	429,667
Prepaid expenses	(21,987)	1,664
Accounts payable and accrued liabilities	145,115	15,326
Accrued interest on debentures	430,516	410,392
Cash used in operating activities	(502,784)	(364,024)
INVESTING ACTIVITIES		
Increase in exploration and evaluation expenditures, net	(306,439)	(504,653)
Purchase of capital assets, including in mining properties	(69,757)	(20,048)
Posting of security for reclamation security deposits, net	(370)	(1,385)
Receipt of reclamation security deposit	45,000	—
Proceeds on disposal of capital assets	—	1,354
Cash used in investing activities	(331,566)	(524,732)
FINANCING ACTIVITIES		
Proceeds on issuance of units, net	486,755	(12,311)
Proceeds on exercise of warrants	10,000	—
Proceeds of government loan	—	40,000
Proceeds on exercise of options	34,500	—
Proceeds on issuance of debt, net	1,477,706	—
Cash provided by financing activities	2,008,961	27,689
Decrease in cash and cash equivalents during the period, net	1,174,611	(861,067)
Cash and cash equivalents, beginning of period	1,078,884	2,104,901
Cash and cash equivalents, end of period <i>[note 10]</i>	2,253,495	1,243,834

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(expressed in Canadian dollars)

Unaudited

	Common shares		Warrants		Subtotal	Other reserves	Deficit	Total shareholders' equity
	#	\$	#	\$				
December 31, 2019	359,553,220	172,401,004	450,000	8,616	172,409,620	15,611,882	(122,254,500)	65,767,002
Issued as a result of:								
Share issuance costs	—	(12,311)	—	—	(12,311)	—	—	(12,311)
Net loss for the period	—	—	—	—	—	—	(1,279,038)	(1,279,038)
September 30, 2020	359,553,220	172,388,693	450,000	8,616	172,397,309	15,611,882	(123,533,538)	64,475,653
December 31, 2020	361,716,886	172,508,747	1,531,833	29,874	172,538,621	15,611,882	(123,970,159)	64,180,344
Issued as a result of:								
Private offerings [notes 5i,[a] and 11[c]]	3,871,426	431,639	6,435,713	370,361	802,000	—	—	802,000
Share issuance costs [note 5i,[a]]	—	(44,181)	—	(11,064)	(55,245)	—	—	(55,245)
Exercise of warrants [note 5ii,[b]]	100,000	11,965	(100,000)	(1,965)	10,000	—	—	10,000
Exercise of stock options [note 6]	350,000	55,100	—	—	55,100	(20,600)	—	34,500
Stock options granted [note 6]	—	—	—	—	—	396,500	—	396,500
Net loss for the period	—	—	—	—	—	—	(2,032,676)	(2,032,676)
September 30, 2021	366,038,312	172,963,270	7,867,546	387,206	173,350,476	15,987,782	(126,002,835)	63,335,423

See accompanying notes to the consolidated financial statements

Fortune Minerals Limited

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021

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, 2021 were authorized for issuance by the Board of Directors on November 15, 2021.

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. The Company has sufficient cash to conduct certain critical path activities for the remainder of the year as well as satisfy its eligible exploration and evaluation expenditures obligation of \$582,463 at September 30, 2021. The Company's working capital of \$(9,210,749) at September 30, 2021 includes \$11,039,609 related to debentures maturing in August 2022 and the Company will require further funding to extinguish these debentures. The NICO project also 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 2021 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, especially in light of the impact that COVID-19 could have on the global financial markets as a whole. 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.

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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 ["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 capital and operating costs. The discounted cash flow model is sensitive to changes in estimates of commodity values, discount rates, useful life of a mine and future capital operating costs.

[b] *Fair values*

The fair values of derivatives, warrants, stock options, retirement obligations and other instruments require 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*

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

3. MINING PROPERTIES

As at September 30, 2021, 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, 2021			
	Capital Assets \$	Property Costs \$	Exploration and Evaluation Expenditures \$	Total Mining Properties \$
NICO [i]	6,755,533	2,191,442	65,877,354	74,824,329
Sue-Dianne	—	9,164	168,950	178,114
Other properties	—	—	12,439	12,439
	6,755,533	2,200,606	66,058,743	75,014,882

	December 31, 2020			
	Capital Assets \$	Property Costs \$	Exploration and Evaluation Expenditures \$	Total Mining Properties \$
NICO [i]	6,685,286	2,191,442	65,476,913	74,353,641
Sue-Dianne	—	9,164	166,722	175,886
Other properties	—	—	11,864	11,864
	6,685,286	2,200,606	65,655,499	74,541,391

During the nine months ended September 30, 2021, there was no change to Property Costs [September 30, 2020 – Nil], Exploration and Evaluation Expenditures increased by \$403,244 [September 30, 2020 – \$ 522,998] and Capital Assets increased by \$70,247 [September 30, 2020 –

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**NOTES TO INTERIM CONDENSED CONSOLIDATED
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September 30, 2021

\$512]. There were no disposals, write-offs or amortization during the nine months ended September 30, 2021.

Exploration and evaluation expenditures capitalized to mining properties during the nine months ended September 30, 2021 and 2020 include the following:

	September 30, 2021	September 30, 2020
Employee and contractor compensation and benefits	\$ 293,253	\$ 396,627
Amortization	13,845	18,345
Stock-based compensation	82,960	—

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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 \$
Cost								
As at December 31, 2020	6,580,916	1,179,717	593,724	595,034	50,655	25,000	6	9,025,052
Additions	69,313	—	—	14,779	—	—	—	84,092
As at September 30, 2021	6,650,229	1,179,717	593,724	609,813	50,655	25,000	6	9,109,144
Accumulated amortization								
As at December 31, 2020	—	1,126,180	590,923	588,885	33,778	—	—	2,339,766
Amortization for the period	—	8,032	631	1,385	3,797	—	—	13,845
As at September 30, 2021	—	1,134,212	591,554	590,270	37,575	—	—	2,353,611
Net book value								
As at December 31, 2020	6,580,916	53,537	2,801	6,149	16,877	25,000	6	6,685,286
As at September 30, 2021	6,650,229	45,505	2,170	19,543	13,080	25,000	6	6,755,533

Included in surface facilities under construction during the nine months ended September 30, 2021 is \$51,078 [September 30, 2020 - \$18,476] of directly attributable employee and contractor compensation and benefits and \$14,335 [September 30, 2020 - \$Nil] of stock-based compensation.

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September 30, 2021

***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 a related hydrometallurgical processing plant for NICO at a site in Saskatchewan, Canada or other suitable locations it has identified in southern Canada. In December 2012, the Company purchased lands near Saskatoon, Saskatchewan on which it had proposed to construct the Saskatchewan Metals Processing Plant. On March 25, 2019, Fortune received a decision from the Rural Municipality of 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 in June 2019.

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. The Company is also investigating other alternative sites for the hydrometallurgical refinery, including several brownfield locations with existing facilities to mitigate capital cost escalation.

In June 2020, the Company was awarded a matching grant of \$144,000 from the Government of the Northwest Territories through the Mining Incentive Program (“MIP”). As of September 30, 2021, the full amount of the grant had been received and was used to support geophysical surveys conducted at the NICO Project site in August and September 2020. In May 2021, the Company was awarded another matching grant of \$144,000 through MIP, which the Company is using to support an ongoing drill program at site. As of September 30, 2021, \$122,400 has been received and the remaining amount will be received once the Company meets its spending requirements and files a final report. The Company has elected to present the Government grants as a reduction to exploration expenditures and is included in the line mining properties on the consolidated statements of financial position.

***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

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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 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, 2021.

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, 2021, the Company considered whether there had been any significant changes to impairment indicators from its previous impairment assessment completed at December 31, 2020 and whether any new indicators were present. Management determined that as a result of obtaining limited 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\$1,800/oz for gold, US\$25/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. Expected future cash flows used to determine the value in use are inherently uncertain and could materially change over time. Any significant change in these assumptions could result in a fair value that is less than the carrying value.

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

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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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, 2021, the weighted average number of common shares outstanding was 363,876,382 [December 31, 2020 - 359,943,389].

[a] On May 20, 2021 and June 11, 2021, the Company entered into subscription agreements to sell 3,114,284 and 757,142 units, respectively, at a price of \$0.14 per unit, raising gross proceeds of \$542,000. Each unit consists of one common share and one half of a common share purchase warrant. One warrant entitles the holder to purchase one common share of the Company for \$0.20 on or before November 20, 2022 and December 11, 2022, respectively. The fair value of the shares and warrants issued was \$431,639 and \$110,361, respectively. The value of the warrants was estimated using the Black-Scholes option pricing model with the following weighted average assumptions used for grants as follows: dividend yield of 0%, expected volatility of 122%, risk free interest rate of 0.32% and expected life of 1.5 years. Share issuance costs of \$51,516 were incurred to complete the financing.

[b] Additional share issuance costs of \$3,729 incurred in the nine months ended September 30, 2021 related to a private placement of units entered into October 2020.

ii. Share Purchase Warrants

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

	2021		2020	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Warrants outstanding, beginning of period	1,531,833	\$ 0.10	450,000	\$ 0.09
Issue of warrants [notes 5i.[a] and 11[c]]	6,435,713	0.14	—	—
Exercise of warrants [note 5ii.[b]]	(100,000)	0.10	—	—
Warrants outstanding, end of period	7,867,546	\$ 0.13	450,000	\$ 0.09

[a] 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,

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	2021		2020	
	Class A	Class B	Class A	Class B
Derivatives outstanding, beginning of period	—	52,683,043	8,484,296	52,683,043
Derivatives outstanding, end of period	—	52,683,043	8,484,296	52,683,043

There were no Class B warrants exercised during the nine months ended September 30, 2021.

The exercise price for Class B warrants at September 30, 2021 was \$0.204 [September 30, 2020 - \$0.204].

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, 2021 and 2020 are as follows: dividend yield of 0% [2020 – 0%], expected volatility of 108.78% [2020 - 116.57%], risk free interest rate of 0.52% [2020 – 0.23%] and expected life of 0.87 years [2020 – 1.87 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 \$0.003 [2020 - \$0.01], will result in the value of the derivative changing by approximately \$137,000 [2020 – \$140,000].

- [b] During the nine months ended September 30, 2021, 100,000 warrants were exercised raising gross proceeds of \$10,000. These warrants had a book value of \$1,965.
- [c] Subsequent to September 30, 2021, 1,431,833 warrants were exercised raising gross proceeds of \$136,433.

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.

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6. STOCK-BASED COMPENSATION

The estimated fair value of 6,500,000 options granted during the nine months ended September 30, 2021 has been allocated to stock-based compensation expenses and mining properties in the amounts of \$299,205 and \$97,295, respectively. The other reserves balance was increased by \$396,500, representing the fair value of the options granted. The options granted have a maximum term of three years and vested immediately. The value of the options were estimated using the Black-Scholes option pricing model with the following weighted average assumptions used for grants as follows: dividend yield of 0%, expected volatility of 111.38%, risk free interest rate of 0.17% and expected life of 2.75 years.

A summary of the status of the Company's stock option plan as at September 30, 2021 and December 31, 2020, and changes during the periods ended on those dates are presented below:

	<u>September 30, 2021</u>		<u>December 31, 2020</u>	
	Number	Weighted-	Number	Weighted-
	of shares	average	of shares	average
	#	exercise	#	exercise
		price		price
		\$		\$
Options outstanding, beginning of period	10,550,000	0.14	10,550,000	0.14
Issued	6,500,000	0.095	—	—
Exercised	(350,000)	0.10	—	—
Expired	(2,000,000)	0.12	—	—
Options outstanding, end of period	14,700,000	0.12	10,550,000	0.14
Options vested and outstanding, end of period	14,700,000	0.12	10,550,000	0.14

During the nine months ended September 30, 2021, 350,000 stock options with a book value of \$20,600 were exercised raising gross proceeds of \$34,500 and 2,000,000 options expired unexercised. Subsequent to September 30, 2021, 125,000 stock options were exercised raising gross proceeds of \$12,500.

The following tables summarize information about the options outstanding as at September 30, 2021:

<u>September 30, 2021</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	14,700,000	14,700,000	0.12	1.18

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[i] The weighted average exercise price and weighted average remaining contract life are the same for options outstanding and options vested and outstanding.

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, 2021</u>	<u>December 31, 2020</u>
NICO Project		
Provision for environmental rehabilitation	\$ 22,925	\$ 30,775
Estimated remaining life	20 years	21 years
Discount rate	9%	9%
Total provision for environmental rehabilitation	\$ 22,925	\$ 30,775

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, 2021</u>	<u>December 31, 2020</u>
	Deposit amount	Deposit amount
	\$	\$
NICO Project	150,994	195,671
Arctos Anthracite Project	25,233	25,186
Total Net Book Value	176,227	220,857

The security for the reclamation of the Arctos Anthracite Project is held in the Arctos JV. The Company expects this amount to be released once the Province has completed its reclamation work plan review.

The security held for the NICO and Arctos reclamation security deposits consists of cash balances and highly liquid money market funds in investment accounts with a large Canadian financial institution. During the nine months ended September 30, 2021, the Company allowed one of its land use permits to lapse as some of the activities are covered under another existing land use

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permit. A security amount of \$45,000 was released and the provision for environmental rehabilitation has been adjusted to reflect this decrease.

8. CAPITAL ASSETS

Capital assets consist of the following:

	Computer equipment \$	Furniture and fixtures \$	Software \$	Right-to- use Assets \$	Total \$
Cost					
As at December 31, 2020	180,697	107,363	328,690	353,367	970,117
As at September 30, 2021	180,697	107,363	328,690	353,367	970,117
Accumulated amortization					
As at December 31, 2020	169,877	98,137	314,330	12,620	594,964
Amortization for the period	1,888	1,384	3,769	37,861	44,902
As at September 30, 2021	171,765	99,521	318,099	50,481	639,866
Net book value					
As at December 31, 2020	10,820	9,226	14,360	340,747	375,153
As at September 30, 2021	8,932	7,842	10,591	302,886	330,251

9. EXPENSES BY NATURE

	September 30, 2021	September 30, 2020
Employee and contractor compensation and benefits (i)	300,967	461,076
Operating lease expense – property (ii)	15,828	79,509
Stock-based compensation	299,205	—
Amortization	44,902	10,397
Foreign exchange loss	96	787
Change in fair value related to derivative liability	60,309	(425,900)

(i) \$234,843 [2020 - \$365,974] and \$66,124 [2020 - \$95,102] 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) \$15,828 [2020 - \$Nil] and \$Nil [2020 - \$79,509] of operating lease expense – property is included in interest and general and administrative expenses, respectively, on the consolidated statements of income (loss) and comprehensive income (loss). The Company entered into a new lease in September 2020 and the lease was accounted for by recognizing a right-of-use asset and lease liability.

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10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand, balances with banks and highly liquid money market funds.

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 DEBTS

	September 30, 2021	December 31, 2020
Debentures [a]	\$ 11,039,609	\$ 9,948,154
CEBA [b]	60,000	60,000
Loan [c]	1,217,706	—
Total Long-term debts	\$ 12,317,315	\$10,008,154

[a] The Company has \$8.75 million unsecured debentures outstanding as of September 30, 2021. 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 debts are summarized as follows for the nine months ending September 30, 2021:

	September 30, 2021	December 31, 2020
Debentures at maturity	\$ 8,750,000	\$ 8,750,000
Loan discount	(827,037)	(1,487,976)
Accrued interest on debentures	3,116,646	2,686,130
	\$ 11,039,609	\$ 9,948,154

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;

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- 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, 2021, \$660,939 [September 30, 2020 - \$566,560] of loan discount was amortized using the effective interest rate method.

- [b] In April 2020, the Company received a \$40,000 loan through the Canada Emergency Business Account program (“CEBA”). The CEBA was launched by the Government of Canada in response to the global COVID-19 health crisis, and has been implemented by financial institutions in cooperation with Export Development Canada. In December 2020, the Government of Canada increased the CEBA loan for eligible businesses from \$40,000 to \$60,000 and Fortune applied and received the additional \$20,000 loan expansion.

The loan is summarized as follows for the nine months ending September 30, 2021:

	September 30, 2021	December 31, 2020
Loan payable	\$ 44,165	\$ 40,835
Deferred government grant income	15,835	19,165
	\$ 60,000	\$ 60,000

The loan balance has been recorded at its amortized cost at an effective interest rate of 12%. For the nine months ended September 30, 2021, \$3,225 [December 30, 2020 - \$105] of deferred government grant income was amortized using the effective interest rate method.

If the loan is repaid in full by December 31, 2022, one third, or \$20,000, of the loan will be forgiven. If the loan is not repaid by December 31, 2022, it will be converted into a 3-year term loan bearing interest at 5%, with monthly interest-only payments and the outstanding balance due to be repaid in full by December 31, 2025.

- [c] In September 2021, the Company entered into a secured loan agreement for \$1,500,000. The loan has a term of two years maturing on September 22, 2023, bears interest at 9% per annum, compounding annually and both principal and interest are payable at maturity.

The long-term debts are summarized as follows for the nine months ending September 30, 2021:

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	September 30, 2021	December 31, 2020
Loan payable	\$ 1,472,851	\$ —
Loan discount	27,149	—
Borrowing costs	(22,294)	—
Warrant consideration	(260,000)	—
	\$ 1,217,706	—

As partial consideration for the advance of the loan, the lender received 4,500,000 warrants to purchase common shares in the capital of the Company. One warrant entitles the holder to purchase one common share of the Company for \$0.11 on or before September 22, 2023. The fair value of the warrants issued was \$260,000 and has been offset against the loan payable. Borrowing costs and warrant consideration will be amortized to interest expense over the term of the loan and warrant reserve will be transferred within equity upon exercise or expiry. The value of the warrants was estimated using the Black-Scholes option pricing model with the following weighted average assumptions used for grants as follows: dividend yield of 0%, expected volatility of 118%, risk free interest rate of 0.44% and expected life of 2 years.

12. LEASES

The Company entered into a lease agreement effective September 25, 2020 to lease office space for a term of two years with 5 subsequent renewal periods of one year each. Monthly lease payments are \$5,000 and will increase at an annual rate of 3%.

The lease liability is summarized as follows for the nine months ending September 30,

	2021	2020
Opening balance	\$ 354,410	\$ 353,367
Interest Expense	15,828	—
Lease Payments	(45,150)	—
	\$ 325,088	\$ 353,367

13. 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. Under normal course of operations, 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 receivable, accounts payable and accrued liabilities, lease liability, provision for environmental rehabilitation, long-term debts and

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derivatives. Refer to Note 20 for potential implications of COVID-19 risks that the Company is exposed to.

i. Financial instruments by category

Financial assets

	Financial assets at amortized cost	
	September 30, 2021	December 31, 2020
Cash and cash equivalents	\$ 2,253,495	\$ 1,078,884
Reclamation security deposits	176,227	220,857
Accounts receivable	21,376	68,537
Total financial assets	<u>\$ 2,451,098</u>	<u>\$ 1,368,278</u>

Financial liabilities

	Financial liabilities at fair value through profit or loss		Financial liabilities at amortized cost	
	September 30, 2021	December 31, 2020	September 30, 2021	December 31, 2020
Accounts payable and accrued liabilities	\$ —	\$ —	\$ 331,597	\$ 186,482
Lease liability	—	—	325,088	354,410
Provision for environmental rehabilitation	—	—	22,925	30,775
Long-term debts	—	—	12,317,315	10,008,154
Derivatives	1,366,850	1,306,541	—	—
Total financial liabilities	<u>\$ 1,366,850</u>	<u>\$ 1,306,541</u>	<u>\$ 12,996,925</u>	<u>\$ 10,579,821</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 lease liability measured at amortized cost has a fair value of approximately \$314,000 [December 31, 2020 - \$340,450] estimated using an 8% discount rate. The fair value of the long-term debts measured at amortized cost has a fair value of approximately \$12,907,000 [December 31, 2020 - \$10,601,000] estimated using a 10% discount rate.

iii. Financial instruments measured at fair value

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

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	Level 3	
	September 30, 2021	December 31, 2020
Derivatives	\$ 1,366,850	\$ 1,306,541

There were no transfers between levels during the year. The change in fair value of level 3 financial instruments of \$60,309 [September 30, 2020 – (\$425,900)] 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, 2021. Payments due by year are as follows:

	Total	September 30, 2021			
		2021	2022	2023	Greater than 4 years
Accounts payable and accrued liabilities	\$ 331,597	\$ 331,597	\$ —	\$ —	\$ —
Lease liability	394,598	15,450	62,418	64,291	252,439
Provision for environmental rehabilitation	143,000	—	—	—	143,000
Long-term debts	10,310,000	—	8,750,000	1,500,000	60,000
Accrued interest on long-term debts	3,895,668	—	3,613,518	282,150	—
	<u>\$15,074,863</u>	<u>\$ 347,047</u>	<u>\$12,425,936</u>	<u>\$ 1,846,441</u>	<u>\$ 455,439</u>

14. INTEREST AND OTHER INCOME

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

	2021	2020
Interest income	\$ 1,144	\$ 15,310
Foreign exchange loss	(96)	(787)
Loss on disposal of capital assets	—	(180)
Flow-through share premium income	99,096	83,557
Total Interest and Other Income	\$ 100,144	\$ 97,900

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15. INCOME TAXES

The Company has non-capital loss carryforwards totaling \$54,450,000, net capital loss carryforwards of \$19,176,000, un-deducted debt and share issuance costs of \$167,000 and unused investment tax credits on pre-production mining costs of \$1,974,000. 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 \$17,534,000 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, 2021 \$	December 31, 2020 \$
Deferred income tax assets		
Net operating loss carryforwards	14,310,000	13,952,000
Undeducted debt and share issuance costs <i>[i]</i>	44,000	72,000
Unused investment tax credits on pre-production costs	1,974,000	1,974,000
Tax value of exploration and evaluation expenditures and capital assets in excess of book value	1,206,000	1,314,000
	17,534,000	17,312,000
Less valuation allowance related to operating losses, share issuance costs and unused investments tax credits	(17,534,000)	(17,312,000)
Deferred income tax assets	—	—

[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:

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	September 30, 2021 \$	September 30, 2020 \$
Combined federal and provincial/state income tax rate	26.50%	26.50%
Corporate income tax recovery at statutory rate	(543,000)	(336,000)
Increase (decrease) in income taxes resulting from		
Non-deductible stock-based compensation and other expenses	255,000	150,000
Non-deductible change in fair value of derivative	8,000	(113,000)
Rate difference	(171,000)	(174,000)
Non-taxable flow-through share premium	(26,000)	(22,000)
Tax value of loss carryforwards not recognized	477,000	495,000
	—	—

16. 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 debts, 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.

17. RELATED PARTY TRANSACTIONS

For the nine months ended September 30, 2021, the Company paid key management personnel including officers, directors or their related entities for salaries and benefits, consulting services and/or management services and legal services.

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

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	September 30, 2021	September 30, 2020
Salaries and benefits	\$ 115,045	\$ 114,605
Consulting services	260,194	410,443
Legal services	39,550	37,005
Fair value of stock options granted	323,300	—
	\$ 738,089	\$ 562,053

As at September 30, 2021, \$42,819 [2020 - \$22,851] was owing to key management personnel for services provided during the period.

18. LOSS PER SHARE

Basic loss per share is calculated by dividing net loss for the year by the weighted average number of common shares outstanding in each respective year. Diluted 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 year, if dilutive.

i. Basic loss per share	September 30, 2021	September 30, 2020
Net loss	\$ (2,032,676)	\$ (1,279,038)
Weighted average number of common shares	363,876,382	359,553,220
Basic loss per share	\$ (0.01)	\$ 0.00

ii. Diluted loss per share

For calculating diluted loss per share, for the three and nine months ended September 30, 2021 and 2020, the following weighted average options, warrants and derivative warrants had an exercise price less than the average market price for the period:

	2021		2020	
	Three months ended September 30,	Nine months ended September 30,	Three months ended September 30,	Nine months ended September 30,
Options	10,300,000	10,300,000	—	—
Warrants	1,431,833	1,431,833	—	—
Derivative Warrants	—	—	—	—
	11,731,833	11,731,833	—	—

The diluted loss per share computation for the nine months ending September 30, 2021 and the three and nine months ending September 30, 2020 is equal to the basic loss per share as inclusion of the above would have been anti-dilutive. The diluted income per share computation for the three months ended September 30, 2021 is as follows:

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	Three months ended September 30, 2021
Net income	\$ 759,294
Weighted average number of common shares (diluted)	368,010,604
Diluted gain per share	\$ 0.00

19. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	2021	2020
Interest and investment income received	\$ 1,144	\$ 15,312

20. STANDARDS, AMENDMENTS AND INTERPRETATIONS

i. Future accounting standards

The Company has not yet determined the full extent of the impact of the following new standards, amendments and interpretations, which have not been applied in these unaudited interim condensed consolidated financial statements:

- IAS 1 amendments on classification – effective for the December 31, 2022 year end. On January 23, 2020, the IASB issued ‘Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)’ providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date.

21. COVID-19

The COVID-19 global pandemic has disrupted economic activities and supply chains. Although the disruption from the virus is expected to be temporary, given the dynamic nature of these circumstances, the duration of business disruption and the related financial impact cannot be reasonably estimated at this time. The Company’s ability to continue to service debt and meet obligations as they come due is dependent on the continued ability to obtain financing and maintain cash flows.

The Company has applied for government support programs introduced in response to the global pandemic. Included in net loss and comprehensive loss for the year is \$113,373 of Government

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grants obtained relating to supporting the payroll of the Company's employees. The Company has elected to present this Government grant as a reduction to payroll expenses and is included in the line general and administrative expenses on the consolidated statements of income (loss) and comprehensive income (loss).