# 2016 Annual Financial Report

**Management's Discussion and Analysis and Consolidated Financial Statements**

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

## Year ended December 31, 2016

*This Management's Discussion and Analysis of Financial Conditions and Results of Operations ("MD&A") of Fortune Minerals Limited ("Fortune" or the "Company") is dated March 30, 2017 and should be read in conjunction with the Company's Annual Audited Consolidated Financial Statements and the notes thereto for the year ended December 31, 2016, prepared in accordance with International Financial Reporting Standards ("IFRS"). This discussion contains certain forward-looking information and is expressly qualified by the cautionary statement at the end of this MD&A. All dollar amounts are presented in Canadian dollars unless indicated otherwise. Unless the context otherwise requires, the terms "Fortune" and "the Company" where used herein refer to Fortune Minerals Limited and its subsidiaries on a consolidated basis.*

### SELECTED ANNUAL INFORMATION

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| **Net loss from continuing operations** | (7,874,646) | (10,747,545) | (7,037,400) |
| **Basic and fully diluted loss per common share** | (0.03) | (0.19) | (0.06) |
| **Total assets** | 69,130,987 | 67,958,584 | 181,909,638 |
| **Debt - current** | — | — | 68,350,603 |
| **Debt - non-current** | 5,406,662 | 4,534,683 | — |

### SUMMARY OF QUARTERLY RESULTS

The following table provides selected consolidated financial information that is derived from the unaudited interim consolidated financial statements and audited consolidated financial statements of the Company.

| | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Dec-31** | **Sep-30** | **Jun-30** | **Mar-31** | **Dec-31** | **Sep-30** | **Jun-30** | **Mar-31** |
| **Net gain (loss) from continuing operations** | 226,280 | (2,913,239) | (2,988,883) | (2,198,804) | (500,198) | (2,506,022) | (7,594,663) | (146,662) |
| **Basic and fully diluted loss per common share[(1)] from continuing operations** | — | (0.01) | (0.01) | (0.01) | — | (0.01) | (0.03) | — |
| **Net gain (loss)** | 226,280 | (2,913,239) | (2,988,883) | (2,198,804) | 1,518,988 | (42,087,282) | (3,354,802) | 2,813,778 |
| **Basic and fully diluted loss/gain per common share[(1)]** | — | (0.01) | (0.01) | (0.01) | 0.02 | (0.19) | (0.02) | 0.01 |

Notes:

(1) The sum of quarterly loss per common share for any given period may not equal the year-to-date amount due to rounding.

## OVERVIEW

Fortune's vision is to be a recognized expert in developing, mining and processing precious and specialty minerals projects. Supporting the vision is Fortune's mission to profitably produce precious and specialty metals to meet the needs of our customers and partners by attracting and developing an exceptional team of people motivated to acquire, explore, develop, mine and reclaim resource properties in a safe and responsible manner.

The Company's most significant development asset is its wholly owned NICO gold-cobalt-bismuth-copper project in the Northwest Territories ("NICO") and the related refinery proposed to be constructed near Saskatoon, Saskatchewan.

Fortune has experienced personnel focused on advancing the NICO project towards commercial production, while also minimizing the risks associated with its development. Fortune is committed to developing its project in a socially and environmentally responsible manner.

*NICO Project*

Fortune continues to advance its wholly-owned NICO project and the Company's business activities have been focused on certain priority critical path activities required to advance permitting and financing for the development of that project. The NICO project comprises a proposed mine and mill in the Northwest Territories and a related hydrometallurgical process facility in Saskatchewan, the Saskatchewan Metals Processing Plant ("SMPP") as contemplated by a technical report entitled "*Technical Report and Updated Mineral Reserve Estimate and Front-End Engineering & Design (FEED) Study on the NICO Gold-Cobalt-Bismuth Deposit, Mazenod Lake Area, Northwest Territories, Canada*" dated July 2, 2012 (the "2012 FEED Study") filed on SEDAR at www.sedar.com by the Company under National Instrument 43-101.

An updated feasibility study report was also prepared in order to document a number of improvements that had been made to the NICO project since the 2012 FEED Study had been completed and a contemplated transaction to develop the asset, which was not completed. The report updates the economics for the project from the 2012 FEED Study and a technical report reflecting the updated feasibility study dated May 5, 2014, prepared by Micon International and entitled "*Technical Report on the Feasibility Study for the NICO Gold-Cobalt-Bismuth-Copper Project, Northwest Territories, Canada*" was also filed on SEDAR.

In support of permitting and financing initiatives for NICO, the Company undertook the following activities during the year ended December 31, 2016:

- Continued to hold discussions with the Government of the Northwest Territories ("GNWT") in relation to a socio-economic agreement and funding for the all-weather access road which is critical in determining the construction schedule for the project;
- Continued discussions with various parties to determine all available options for financing the NICO project;
- Continued discussions with companies interested in acquiring off-take for the metals and chemicals Fortune plans to produce from the NICO project; and,
- Strengthened the Board of Directors and management team with personnel with previous operating experience in the Northwest Territories and project finance.

In addition, on March 24, 2016, the Wek'èezhìi Land and Water Board approved the new Type A Land Use Permit, for care and maintenance of the NICO project as well as the Company's Sue-Dianne exploration project.

On January 11, 2017, the Government of Canada (the "GOC"), the GNWT and the Tlicho Government announced federal funding to provide up to 25% of the construction costs for a public highway to the community of Whati. The GNWT, Department of Transportation has submitted the requisite permit applications to the Wek'èezhìi Land and Water Board to build this highway. The application package was developed by the GNWT, with the support of the Tlicho Government, for the 94-kilometre all-season road ("TASR") which would follow a former all-land winter road route to significantly reduce construction costs. Whati is 50 km south of the NICO project which has already received its environmental assessment approval for a mine and concentrator and a spur road from the planned TASR to the mine.

Subsequent to year end, Fortune entered into an engagement with PricewaterhouseCoopers Corporate Finance Inc. ("PwCCF") to assist with securing financing for construction of the NICO project. With the assistance of PwCCF, Fortune plans to secure funds through a combination of strategic partnerships, conventional and supplier debt, product off-take and /or forward sales of a portion of the contained gold.

On May 1, 2015 the Company's wholly-owned subsidiary, Fortune Coal Limited ("FCL") and POSCO Klappan Coal Ltd., FCL's joint venture partner in the Arctos Anthracite Joint Venture ("AAJV"), sold their interests in the coal licenses comprising the Arctos anthracite coal project in northwest British Columbia to British Columbia Railway Company for $18,308,000. The AAJV partners maintain the exclusive right to purchase back the coal licenses at the same price for a 10-year option period.

## RESULTS OF 2016 OPERATIONS

### Summary

The Company's net loss for the year ended December 31, 2016 was $7,874,646 or $0.03 per share compared to $41,109,318 or $0.19 per share for the prior year. The previous year's loss included a loss from discontinued operations related to the Revenue Silver Mine in Colorado ("RSM") which the Company no longer owns.

### Expenses

Expenses decreased in 2016 to $7,874,646 compared to $12,003,045 for the year ended December 31, 2015.

The decrease year over year is primarily attributable to the following:

- Decrease in administrative and corporate development expenditures, primarily as a result of the Company downsizing and cost saving measures.
- Decrease in accretion expenses and recognized loss on disposal of mining properties as a result of the sale of the Arctos project.
- Loss on mining operations from the RSM recognized in 2015.

The above decrease year over year is partially offset by the following:

- Increase in revaluation of derivatives.
- Increase in stock-based compensation expense as a result of stock options being granted during the year compared to no stock options granted in 2015.
- Increase in interest expense related to interest accrued on the Company's long-term debt.

- Fortune has an operating bank account in United States dollars ("$US") to pay certain US vendors and to receive $US payments as well as to manage the timing of conversion of Canadian dollars ("$C") to $US, or vice versa. The foreign exchange loss from converting $US balances in Fortune to $C at December 31, 2016 was $1,405 (December 31, 2015 – gain of $382,895).

Below is a summary of the estimated fair value of stock options granted for the years ended December 31, 2016 and 2015:

| | **2016** | **2015** |
|---|---|---|
| **Options granted during the year** | 12,400,000 | — |
| **Total estimated fair value** | $520,580 | — |
| **Average fair value per option** | $0.04 | — |
| **Allocated to:** | | |
| **Stock-based compensation expense** | $394,250 | — |
| **Exploration and development expenditures** | $105,940 | — |
| **Capital assets within mining properties** | $20,390 | — |

**Deferred Taxes**

The Company has not recognized a net deferred income tax recovery or provision for the year ended December 31, 2016 compared to a recovery of $1,255,500 for the same period in 2015. During the year ended December 31, 2016, recognition of $2,101,000 from the estimated tax loss and $13,000 for investment tax credit on pre-production mining expenditures resulted in an income tax recovery which was offset by a tax provision of $1,448,000 for non-deductible change in fair value of derivative, $356,000 for a loss carryforward not recognized, $217,000 for non-deductible stock-based compensation and other expenses, $53,000 for renunciation of flow-through and $40,000 for tax rate difference. During the same period in 2015, the deferred income tax net recovery of $1,255,500 resulted primarily from a recognition of $10,610,000 from the estimated tax loss, $20,000 for tax rate difference, $19,000 for non-taxable flow-through share premium and $10,000 for investment tax credit on pre-production mining expenditures. The net recovery included a provision of $9,269,100 for a loss carryforward not recognized, $132,400 for renunciation of flow-through expenses and $2,000 for non-deductible stock-based compensation and other expenses. A valuation allowance of $15,372,000 has been recognized related to the uncertainty of realizing the benefit of deferred income tax assets in future years.

**Cash Flow**

Cash used in operating activities during the year ended December 31, 2016 was $1,336,886 compared to $6,952,134 for the same period in 2015. The use of cash in operating activities has decreased as there were no expenditures related to the RSM in 2016. The Company disposed of its interest in the RSM in the third quarter of 2015. The decrease is also attributed to items discussed above in the "Expenses" section.

Cash used in investing activities was $338,913 compared to $8,707,923 when comparing the years ended December 31, 2016 and 2015, respectively. In the prior year, the RSM incurred significant mine development costs, which is included in the cash used in investing activities – discontinued operations. Exploration and evaluation expenditures have decreased from $562,664 in 2015 to $401,156 in 2016 due to reduced spending pending further financing.

The NICO project, along with other exploration projects of the company are classified as exploration and evaluation stage projects for accounting purposes. Exploration and evaluation cash expenditures incurred by Fortune on its properties during the three and twelve months ended December 31, 2016 were $119,994 and $401,156 respectively, and were spent on the projects as follows:

| | **Three months ended December 31, 2016** | **Year ended December 31, 2016** |
|---|---|---|
| **NICO** | **$ 119,994** | **$ 398,353** |
| **All Other Projects** | **—** | **2,803** |
| **Total cash exploration and evaluation expenditures** | **$119,994** | **$ 401,156** |

For comparison, exploration and evaluation expenditures incurred by Fortune on its properties during the three and twelve months ended December 31, 2015 were $101,222 and $562,664, respectively, and were spent on the projects as follows:

| | Three months ended December 31, 2015 | Year ended December 31, 2015 |
|---|---|---|
| NICO | $ 101,222 | $ 442,164 |
| Arctos | — | 117,697 |
| All Other Projects | — | 2,803 |
| Total cash exploration and evaluation expenditures | $ 101,222 | $ 562,664 |

Exploration and evaluation expenditures for the year ended December 31, 2016 were lower compared to the same period in 2015, as a result of the sale of the Arctos licenses in 2015 and decreased expenditures at NICO. With respect to NICO, the Company has reduced spending pending further financing and the construction of an all-weather road.

Cash provided by financing activities decreased to $2,471,010 from $9,585,207 for the years ended December 31, 2016 and 2015, respectively. Cash provided in 2016 was a result of $2,690,000 received from private placements completed in March, April, August and October, offset by financing costs. More details are provided below in the "Liquidity and Capital Resources" section.

Below is a summary of common shares issued and net cash proceeds from financing activities for the years ended December 31, 2016 and 2015:

| | **2016** | | **2015** | |
|---|---|---|---|---|
| | **Shares/Warrants Issued** | **Cash Proceeds and Costs, Net** | **Shares/Warrants Issued** | **Cash Proceeds and Costs, Net** |
| | **#** | **$** | **#** | **$** |
| **Common shares issued during the year** | | | | |
| **Private offerings** | 43,821,427 | 2,410,000 | 10,905,400 | 636,999 |
| **Shares as consideration** | — | | 1,350,000 | |
| **Share issuance costs** | — | (235,990) | — | (40,763) |
| **Total** | **43,821,427** | **2,174,010** | **12,255,400** | **596,236** |
| **Average proceeds per share issued** | | **0.05** | | **0.05** |
| | | | | |
| **Warrants issued during the year** | | | | |
| **Private offerings** | 6,415,000 | 297,000 | 58,472,091 [(1)] | 35,432 |
| **Total** | **6,415,000** | **297,000** | **58,472,091** | **35,432** |
| **Average proceeds per warrant** | | **0.05** | | **—** |
| | | | | |
| **Cash Proceeds from Financing Activities Net** | | **2,471,010** | | **631,668** |

Notes:
(1) The 55,519,391 warrants issued on August 12, 2015 have been set up as a financial liability on the Consolidated Statements of Financial Position due to an anti-dilution clause which requires the exercise price and number of shares purchasable upon exercise to be adjusted from time to time in the event of Share Reorganizations, Rights Offerings, Special Distributions, General Offerings and Capital Reorganizations.

## LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2016, Fortune had cash and cash equivalents of $940,071 and working capital of $889,332. Of the total consolidated cash, $637 represents Fortune's 50% share of cash from the AAJV.

Subsequent to year end, the Company issued 25,800,000 units at a price of $0.25 per unit, through a short form prospectus offering, raising gross proceeds of $6,450,000. 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 $0.35 on or before March 8, 2019.

The following is a summary of contractual obligations for the next five years and thereafter:

| ***Contractual Obligations*** | ***Payments Due by Period*** | | | | |
|---|---|---|---|---|---|
| | ***Total*** | ***Less than 1 year*** | ***1 - 3 years*** | ***4 - 5 years*** | ***After 5 years*** |
| *Long-term debt* | **8,750,000** | — | — | — | 8,750,000 |
| *Interest on Long-term debt* | **636,165** | — | — | — | 636,165 |
| *Provision for Environmental Rehabilitation* | **23,409** | — | — | — | 23,409 |
| *Total Contractual Obligations* | **9,409,574** | — | — | — | **9,409,574** |

The long-term debt represents unsecured debentures in the principal amount of $8.75 million held by previous secured creditors. 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 loan balances have been recorded in the consolidated financial statements at their net present value using an effective interest rate of 18%.

In addition to contractual obligations noted, non-discretionary budget commitments required to keep current mining leases for NICO in good standing consist of annual payments of $12,700 plus an additional $2,715 for water licenses.

The Company's current environmental reclamation obligations as defined by government regulators are fully secured by cash held in accounts with a large Canadian financial institution for NICO and Arctos. As indicated above, additional financing is required to construct mine infrastructure and processing facilities, to acquire additional equipment for the NICO project. Potential sources for future funding include but are not limited to equity financing, project financing, off-take and royalty agreements, additional strategic partnerships, mergers and acquisitions. The Company continues to evaluate its alternatives with a view to executing a financing plan suitable to fund its transformation into a producer and minimize potential dilution to shareholders.

The Company regularly reviews its planned activities relative to available funding and prioritizes activities based on what is required to complete critical path activities and budgets accordingly. The Company invests its surplus cash in low risk, liquid investments, which typically have low yields but hold their value during times of market uncertainty. With the existing working capital of $889,332 at December 31, 2016 and the funds raised through the short form prospectus offering described above, the Company has sufficient cash to conduct certain critical path activities in 2017. However, the NICO project requires further funding to advance the project through to production. Management is continually pursuing and considering various financing opportunities and has engaged PwCCF, as described above, to assist in this matter. The Company has historically been successful in financing its activities, however, there are no assurances that it will be successful in raising future funds required.

## OUTLOOK

The Company's principal objective is to achieve successful development and financing of the NICO project. The Company's activities in pursuit of its objectives are subject to many risks as discussed under the heading "Risks and Uncertainties" section below. The most significant risks to meeting its objectives for NICO continue to be project financing, rezoning the SMPP lands and schedule uncertainty for the TASR to Whati. These risks arise primarily from external parties such as government regulators, First Nations and investors who have significant influence over the outcome of the Company's efforts and external factors such as commodity prices, economic conditions and the financial markets. Accordingly, management has sought and continues to seek proactive ways to address risks in its business model and has developed appropriate strategies to move forward by focusing expenditures on critical path activities in a socially and environmentally responsible manner.

Major milestones to achieve on the path forward for the development of the NICO mine site and SMPP include:

- work with governments to achieve certainty on the road construction schedule which will determine the mine construction schedule;
- complete re-zoning followed by the receipt of all necessary environmental licenses and permits for the SMPP site in Saskatchewan;
- completing an agreement with the Tlicho Government for the NICO access road and an Impacts and Benefits Agreement;
- identifying and engaging strategic partners to support the development of the NICO project site and the SMPP, by helping to arrange or provide some or all of the project financing, evaluating potential transactions and ultimately entering into a strategic arrangement suitable to the Company;
- completing road construction agreements and site preparation plans, including construction of laydown areas to receive equipment and material required for early work construction; and
- continue detailed engineering and procurement activities once financing is secured.

In the year ending December 31, 2016, the Company focused on continued dialogue with key parties including the Tlicho for developing mutually beneficial agreements, and worked to identify and advance opportunities to develop additional strategic partnerships. The Company has made significant progress towards achieving its milestones through its previous financings, the Federal and Tlicho government approvals for the NICO mine and mill, receipt and renewal of the land use permit and Type A water licence for the NICO site, and the ministerial approval of the SMPP.

Activities undertaken during 2016 towards achieving the next major milestones for the NICO project will remain the Company's focus through 2017. As it pursues this objective, the Company will strive to prudently manage capital resources and mitigate risks.

**TRANSACTIONS WITH RELATED PARTIES**

During the year ended December 31, 2016, the Company paid key management personnel, including officers, directors, or their related entities, an aggregate of $536,922 for consulting and/or management services and legal services. In addition, stock options with a fair value of $439,000, using the Black-Scholes option pricing model, were granted to these individuals during the period. At December 31, 2016, $17,270 was owing to these related parties for services received during the period.

The following table summarizes the amounts paid and payable to related parties and the nature of the payments as at December 31, 2016:

| Related Party | Relationship | Business Purpose of Transaction | | | | | | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Salaries and Benefits [7] | | Consulting Services | | Legal Services | | Stock Options Granted [8] | | |
| | | Paid | Payable | Paid | Payable | Paid | Payable | | Paid/Awarded | Payable |
| Chen, Shouwu | Director | $ - | $ - | $ - | $ - | $ - | $ - | $ 34,000 | $ 34,000 | $ - |
| Clouter, Carl [1] | Director | - | - | 44,000 | 4,000 | - | - | 34,000 | 78,000 | 4,000 |
| Goad, Robin [2] | President & CEO, Director | 5,240 | - | 320,000 | 6,250 | - | - | 68,000 | 393,240 | 6,250 |
| Knight, David [3] | Corporate Secretary | - | - | - | - | 141,000 | 4,500 | 17,000 | 158,000 | 4,500 |
| Koropchuk, Glen [4] | Director | - | - | - | - | - | - | 87,000 | 87,000 | - |
| Massola, David [5] | VP Finance & CFO | 1,482 | - | 25,200 | 2,520 | - | - | 80,000 | 106,682 | 2,520 |
| Naik, Mahendra | Director | - | - | - | - | - | - | 51,000 | 51,000 | - |
| Ramsay, David [6] | Director | - | - | - | - | - | - | 34,000 | 34,000 | - |
| Yurkowski, Edward | Director | - | - | - | - | - | - | 34,000 | 34,000 | - |
| Total | | $ 6,722 | $ - | $ 389,200 | $ 12,770 | $ 141,000 | $ 4,500 | $ 439,000 | $ 975,922 | $ 17,270 |

[1] Carl Clouter is President of Clouter Enterprises Limited which provides professional services to the Company.

[2] Robin Goad is engaged to provide services of President and Chief Executive Officer of the Company pursuant to an independent consultant agreement and does not receive additional compensation for his services as a director.

[3] David Knight is a partner with the law firm Norton Rose Fullbright Canada LLP, which provides legal services to the Company. Mr. Knight is also the Company's Corporate Secretary.

[4] Glen Koropchuk was appointed to the Board of Directors on September 12, 2016.

[5] David Massola is engaged to provide services of VP Finance and Chief Financial Officer of the Company pursuant to an independent consultant agreement effective September 6, 2016.

[6] David Ramsay was appointed to the Board of Directors on April 18, 2016. Mr. Ramsay is also a Director of Northern Gateway Consulting ("NGC") which, from time to time, provides professional services to the Company. $78,250 was paid to NGC during the year ending December 31, 2016.

[7] Salaries and benefits include a base salary plus benefits that are basic in nature, require participants to contribute to the premium costs and includes certain co-pay requirements.

[8] The value of options granted are calculated using the Black-Scholes option pricing model.

## CRITICAL ACCOUNTING ESTIMATES

### *Mining Properties Valuation*

The Company continues to consider, on a regular basis, whether indicators exist that suggest that the carrying value of its projects is impaired for accounting purposes. While the market capitalization relative to the carrying value of the Company's projects is reviewed, it is not considered a sole indication of impairment. Given the Company's stage of development and the volatility of the market, using the share price as a sole indication of impairment is not practical, although the Company does monitor the magnitude of the gap between its market capitalization and the project carrying values. At December 31, 2016, the Company considered whether there had been any significant changes to indicators and whether any new indicators were present. During the year, the market price of gold had improved, the value of the $C had strengthened and although the Company had seen an increase in its share price, the market capitalization gap continued to be significant. Management determined that the above changes in the period constituted an impairment indicator due to the effect the price of gold and the exchange rate have on the impairment model 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.

Below are certain factors which management believes further support the carrying values of its projects and are not fully reflected in the Company's market capitalization:

- the Company has obtained environmental assessment approval for the NICO project and is focused on obtaining all necessary permits for the NICO project to proceed, and has plans in place and resources assigned to help achieve this;

- the Company has obtained a final land use permit for the NICO mine;
- substantive expenditures on the Company's main project, NICO, are planned and budgeted over the next few years;
- the feasibility study completed to date on NICO demonstrates a net present value in excess of the carrying values of the project;
- the Company engaged the services of cobalt and bismuth experts to analyze the market as it relates to cobalt and bismuth products, results showed great opportunity for the NICO project returns relative to spot prices, particularly as a consequence of the growing interest in cobalt usage in high performance rechargeable batteries contributing to an average cumulative annual growth rate in the market of approximately 6% as well as constrained and geographical concentration of supply;
- the recovering price of gold and other metals; and
- the TASR has received commitment from the GOC to provide 25% of the construction costs.

***Interests in Mining Properties and Exploration and Development Expenditures***
In accordance with the Company's accounting policies, acquisition costs and exploration expenditures relating to mineral properties are capitalized until the properties are brought into commercial production or disposed. Amortization will commence when a property is put into commercial production. As the Company does not currently have any properties in commercial production, no amortization has been recorded.

Mineral reserve and mineral resource estimates are not precise and also depend on statistical inferences drawn from drilling and other data, which may prove to be unreliable. Future production could differ from mineral resource estimates for the following reasons:

- mineralization or formation could be different from those predicted by drilling, sampling and similar tests;
- the grade of mineral resources may vary from time to time and there can be no assurance that any particular level of recovery can be achieved from the mineral resources; and
- declines in the market prices of contained minerals may render the mining of some or all of the Company's mineral resources uneconomic.

Any of these factors may result in impairment of the carrying amount of interests in mining properties or exploration and development expenditures.

***Going Concern Assumption***
The recoverability of amounts shown for mineral properties and related exploration and development expenditures is dependent upon the economic viability of recoverable reserves, the ability of the Company to obtain the necessary permits and financing to complete the development, and future profitable production or proceeds from the disposition thereof.

Currently, the Company does not have a source of revenue other than investment income and it has relied, primarily, on equity financings and strategic partners to fund its activities. The Company may have limited access to capital at an acceptable cost to existing shareholders depending on economic conditions from time to time. The Company had a working capital balance of $889,332 and positive cash balances at December 31, 2016 and the Company endeavours to manage the cash position prudently though ongoing monitoring of current and future cash and working capital balances relative to planned activities. With the existing working capital and the funds raised through the short form prospectus offering described above, the Company has sufficient cash to conduct certain critical path activities in 2017, however additional financing is required to advance the NICO project to production.

***Deferred Income Taxes***
The Company follows the deferred tax liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Assessing the recoverability of deferred tax assets requires management to make significant estimates related to expectations of future taxable income and substantively enacted tax rates. Prior to 2016, the Company completed feasibility studies and updates thereto for its principal project and is undertaking related permitting and financing activities. The benefit of certain non-capital losses, investment tax credits, undeducted share issuance costs and tax value of exploration and evaluation expenditures and capital assets in excess of book value of $15,372,000, has been offset by a valuation allowance of the same amount due to the uncertainty of realizing the benefit of deferred income tax assets in future years.

***Stock Based Compensation, Warrants and Compensation Options***
The Company recognizes an expense for option awards using the fair value method of accounting. The Company also records the fair value of warrants granted through private offerings or in lieu of fees and compensation options granted using a fair-value estimate. Management estimates the fair value of stock options, warrants granted through private offerings or in lieu of fees, and compensation options using the Black-Scholes model. The Black-Scholes model, used by the Company to calculate fair values, as well as other accepted option valuation models, was developed to estimate fair value of freely tradable, fully transferable options and warrants, which may significantly differ from the Company's stock option awards or warrant grants. These models also require four highly subjective assumptions, including future stock price volatility and expected time until exercise, which greatly affect the calculated values. Accordingly, management believes that these models do not necessarily provide a reliable single measure of the fair value of the Company's stock option awards. The valuation models are used to provide a reasonable estimate of fair value given the variables used.

***Asset Retirement Obligations***
Legal or constructive obligations associated with site restoration on the retirement of assets are recognized when they are incurred and when a reasonable estimate of the value of the obligation can be made. While the Company has not commenced commercial operations on its mining properties, certain site development and exploration activities have occurred that have given rise to a constructive obligation related to the reclamation of the site at the NICO project. As a result, the Company has recognized an environmental rehabilitation provision for the project. Due to the uncertainty around the settlement date and measurement of potential asset retirement obligations for the Company's project, management considers the assumptions used to calculate the present value of such liabilities at each reporting period and updates the value recognized as required.

## FUTURE ACCOUNTING STANDARDS

IFRS 9, *Financial instruments* ("IFRS 9") was issued by the IASB in November 2009 and will replace IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. This standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The Company plans to adopt IFRS 9 on the effective date, January 1, 2018, and is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") was issued by the IASB in May 2014. IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. The Company plans to adopt IFRS 15 on the effective date, January 1, 2018, and is currently evaluating the impact of this standard on its consolidated financial statements.

The IASB has replaced IAS 18, *Revenue* in its entirety with IFRS which is intended to establish a new control-based revenue recognition model and change the basis for deciding whether revenue is to be recognized over time or at a point in time. IFRS 15 is effective for annual periods commencing on or after January 1, 2018. The Company is currently evaluating the impact the standard is expected to have on its consolidated financial statements.

IFRS 16, *Leases* ("IFRS 16") was issued by the IASB in January 2016. IFRS 16 is similar in scope to IAS 17 Leases, however the changes will result in most leases being recognized on the balance sheet with narrow exemptions for the lease. The Company plans to adopt IFRS 16 on the effective date, January 1, 2019, and is currently evaluating the impact the standard is expected to have on its consolidated financial statements.

## ENVIRONMENT

Fortune is committed to a program of environmental protection at its exploration sites. Fortune was in compliance with government regulations in 2016. Secured letters of credit have been provided to be held against future environmental obligations with respect to Arctos and NICO in the amounts of $25,000, representing 100% of the remaining Arctos JV letter of credit, and $143,000, respectively.

## RISK AND UNCERTAINTIES

The operations of the Company are speculative due to the high-risk nature of its business, which are the acquisition, financing, exploration and development of mining properties. The risks below are not the only ones facing the Company. Additional risks may also impair the Company's operations. If any of the following risks actually occur, the Company's business, financial condition and operating results could be adversely affected.

### Nature of Mineral Exploration and Mining

At the present time, the Company does not hold any interest in a mining property in commercial production. The Company's viability and potential success is based on its ability to develop, exploit and generate revenue from mineral deposits. The exploration and development of mineral deposits involves significant financial risk over a significant period of time, which even a combination of careful evaluation, experience and knowledge may not eliminate. In order to continue developing the projects towards operation and commercial production, the Company will be required to make substantial additional capital investments. It is impossible to ensure that the past or proposed exploration and development programs on the properties in which the Company has an interest will result in a profitable commercial mining operation.

The operations of the Company are subject to all of the hazards and risks normally incident to mining, exploration and development of mineral properties, any of which could result in damage to life and property, the environment and possible legal liability. The activities of the Company may be subject to prolonged disruptions due to weather conditions as a result of the Company's properties in northern Canada. At NICO, the Company is subject to increased risks relating to the dependence on ice roads to supply and equip its work programs. While the Company has obtained insurance against certain risks in such amounts as it considers adequate, the nature of these risks are such that liabilities could exceed policy limits or could be excluded from coverage. There are also risks against which the Company cannot insure or against which it may elect not to insure. For example, the Company has not obtained environmental insurance at its project sites to date and has limited its insured values of its assets to stated amounts approximating the estimated cash invested in its capital assets to date. The potential costs which could be associated with any liabilities not covered by insurance or in excess of insurance coverage or associated with compliance with applicable laws and regulations may cause substantial delays and require significant capital outlays, adversely affecting the future earnings and competitive position of the Company.

Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are the particular attributes of the deposit, such as size and grade, proximity to infrastructure, financing costs and governmental regulations, including regulations relating to prices, taxes, royalties, infrastructure, land use, importing and exporting and environmental protection. The Company has undertaken activities to reduce certain risks related to its major projects through: completion of extensive exploration and drilling programs; completion of numerous environmental baseline studies; pilot plant test work and process optimization and verification; and, investing in significant engineering studies for the mine planning, mine site buildings and equipment, infrastructure and processing facility.

**Limited Financial Resources**
The existing financial resources of the Company are not sufficient to bring any of its properties into commercial production. The Company will need to obtain additional financing from external sources and/or find suitable joint venture partners in order to fund the development of NICO, including the SMPP. There is no assurance that the Company will be able to obtain such financing or joint venture partners on favourable terms or at all. Failure to obtain financing or joint venture partners could result in delay or indefinite postponement of further exploration and development of the Company's properties.

**Completion of TASR**
While the Company currently anticipates that the TASR will be completed, the decisions to fund, build and complete the TASR, and the timing related thereto, are outside of the control of the Company. There is no assurance that the TASR will be completed and, if not completed or significantly delayed, the NICO project will not be able to be developed as currently contemplated.

**Re-zoning of SMPP Lands**
On February 11, 2014, the Saskatchewan Minister of Environment accepted the recommendation of the Saskatchewan Environmental Assessment Branch and approved the Company's proposed SMPP, subject to certain conditions. The lands on which the Company intends to construct the SMPP currently have an agriculture zoning designation and must be changed to M1 Rural Industrial to construct the SMPP. This is a decision of the Rural Municipality of Corman Park and outside of the control of the Company. There can be no assurance that the Company will be able to obtain a favorable decision from the Rural Municipality of Corman Park and if the change to the zoning designation is not completed, the NICO project will not be able to be developed as currently contemplated.

**Dependence on Key Personnel and Limited Management Team**
Fortune is dependent on the services of its senior executives including the President and Chief Executive Officer, Chief Financial Officer, and other skilled and experienced employees and consultants. The loss of such individuals could have a material adverse effect on Fortune's operations. Fortune will need to supplement its existing management team in order to bring any of its projects into production.

**Fluctuating Prices**
Factors beyond the control of the Company may affect the marketability of cobalt, bismuth, gold, copper or any

other minerals discovered. The range in market prices, over the last five years are as follows: annual average gold prices have ranged from a low of US$1,160/oz in 2015 to a high of US$1,669/oz in 2012; annual average cobalt prices have ranged from a low of US$12.00/lb (2016) to a high of US$14.43/lb (2014); annual average copper prices have ranged from a low of US$2.21/lb (2016) to a high of US$3.61/lb (2012); annual average bismuth prices have ranged from a low of US$4.50lb (2016) to a high of US$10.92/lb (2014). The commodity prices have fluctuated widely and are affected by numerous factors beyond the Company's control such as economic downturns, commodity supply shortages, weather events, political instability, and changes in exchange and interest rates. The effect of these factors cannot accurately be predicted. Further, there is opportunity for the product mix of cobalt and bismuth from the NICO project to be adjusted to produce products with varying prices depending on the market.

**Permits and Licenses**
The operations of the Company require licenses and permits from various governmental authorities. The Company believes that it presently holds all necessary licenses and permits required to carry out the activities it is currently conducting under applicable laws and regulations and the Company believes it is presently complying in all material respects with the terms of such licenses and permits. However, such licenses and permits are subject to change in regulations and in various operating circumstances. There can be no assurance that the Company will be able to obtain all licenses and permits required to carry out future exploration, development and mining operations at its projects.

**Competition**
The mining and mineral exploration business is competitive in all of its phases. The Company competes with numerous other companies and individuals, including other resource companies with greater financial, technical and other resources than the Company, in the search for and acquisition of attractive mineral properties, acquisition of mining equipment and related supplies, and the attraction and retention of qualified personnel. The Company will be constrained in its ability to manage the cost of salaries at NICO and the SMPP during construction and operations as Fortune may be competing for labour with the much larger diamond mining companies operating in the Northwest Territories, oil sands projects in Alberta and potash companies operating in Saskatchewan. There is no assurance that the Company will continue to be able to compete successfully in the acquisition of building materials, sourcing equipment or hiring people.

**Environmental and Climate Change Regulation**
The operations of the Company are subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner which means standards, enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and their directors, officers and employees. The Company has carried out and completed significant environmental base line studies and environmental monitoring to position the Company to successfully complete required environmental assessments; however, despite this, the Company has not been able to obtain certain environmental certificates in a timely manner due to the complexities of the regulatory requirements and process. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of future operations. The impacts of international or domestic climate agreements, carbon taxes and other potential climate change legislation are difficult to predict and are not yet fully understood, including impacts on capital and operating costs.

**Aboriginal Title and Rights Claims**
Aboriginal title and rights may be claimed with respect to Crown properties or other types of tenure with respect to which mining rights have been conferred. The Company is not aware of any aboriginal land claims having been formally asserted or any legal actions relating to aboriginal issues having been instituted with respect to NICO or the SMPP properties other than certain treaty rights established by the Tlicho for NICO. The lands that surround NICO are owned by the Tlicho Government pursuant to an agreement between the Government of Canada, the Northwest Territories and the Tlicho Government. The Company is aware of certain First Nations that claim certain title and rights with respect to Crown properties related to the Company's projects that may or may not be formally asserted with the Crown in order to seek comprehensive land claim settlements.

While the Company has a right of access to the NICO mine site under the Tlicho agreement with the Crown, an access agreement will be required between the Tlicho and the Company for the use of the access roads to be built through Tlicho territory to the site. During 2016, various discussions with the GNWT have taken place in relation to the socio-economic agreement and funding for the all-weather road which is critical in determining the construction schedule for the project. The Company is aware of the mutual benefits afforded by co-operative relationships with aboriginal communities in conducting exploration and development activity and is supportive of measures established to achieve such cooperation including preferential hiring practices, local business development activities, involvement in environmental stewardship and other forms of accommodation. The Company has previously entered into a Co-operative Relationship Agreement and Environmental Assessment Funding Agreement with the Tlicho Government. The Company has also received a Bronze Level award for work in Progressive Aboriginal Relations ("PAR") from the Canadian Council for Aboriginal Business. The PAR program is the first and only corporate responsibility assurance program in the world with an emphasis on aboriginal relations. The Company is committed to open and constructive dialogue with aboriginal communities and stakeholders and will continue to make every effort to increase aboriginal employment and business through its human resources and supply chain policies. However, certain challenges with respect to timely decision making may be encountered when working with First Nation governments as a result of the limited number of key individuals in leadership positions, turnover of leadership personnel and delays while elections are held. It will also be necessary for the Company to negotiate and enter into appropriate participation agreements with relevant First Nations in order to bring its projects into production and there is no assurance that the Company will be able to negotiate such agreements on favourable terms or at all. In addition, other parties may dispute the Company's title to the properties and the properties may be subject to prior unregistered agreements or transfers or land claims by aboriginal peoples, and title may be affected by undetected encumbrances or defects or government actions.

**Estimates of Mineral Reserves and Resources May Not be Realized**
The mineral reserve and resource estimates published from time to time by the Company with respect to its properties are estimates only and no assurance can be given that any particular level of recovery of minerals will in fact be realized or that an identified resource will ever qualify as a commercially mineable (or viable) deposit which can be legally and economically exploited. Material changes in resources, grades, stripping ratios or recovery rates may affect the economic viability of projects. However, through extensive investment in exploration drilling, test mining, bulk sampling, engineering planning and pilot plant testing, the Company has substantially mitigated and reduced these risks. There is a risk that minerals recovered in small-scale laboratory and large scale pilot plant tests will be materially different under on-site conditions or in production scale operations. Short-term factors, such as the need for orderly development of deposits or the processing of new or different grades, may have an adverse effect on mining operations or the results of operations.

The Company has engaged expert independent technical consultants to advise it with respect to mineral reserves and resources and project engineering, among other things. The Company believes that those experts are competent and that they have carried out their work in accordance with all internationally recognized industry standards. However, if the work conducted by those experts is ultimately found to be incorrect or inadequate in any material respect, the Company may experience delays and increased costs in developing its properties.

**Health and Safety Matters**
The Company's exploration projects are affected by various laws and regulations, including those which cover health and safety matters. Existing legislation and regulations are subject to change, the impacts of which are difficult to measure. It is the policy of the Company to maintain safe working conditions at all its work sites, comply with health and safety legislation, maintain equipment and premises in safe condition and ensure that all employees are trained and comply with safety procedures. The Company has successfully implemented policies and procedures relating to health and safety matters at its project sites and has a good safety record to date.

## FINANCIAL INSTRUMENTS

As at the date hereof, the Company's financial instruments consist of: cash and cash equivalents and reclamation security deposits, designated as financial assets measured at fair value through profit and loss; accounts receivable which is a financial asset designated as a receivable, measured initially at fair value and subsequently on the basis of amortized cost using the effective interest rate method; accounts payable and accrued liabilities, and long-term debt, which are financial liabilities designated as other liabilities measured initially at fair value and subsequently on the basis of amortized cost using the effective interest rate method; and derivative liability measured at fair value and revalued at each reporting period. It is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments.

## ADDITIONAL INFORMATION

Additional information relating to the Company, including its annual information form for the year ended December 31, 2016, is available on SEDAR at www.sedar.com.

## SHARE DATA

As at the date hereof, the Company has 300,022,757 common shares issued and outstanding, 86,783,436 warrants which entitle the holder to purchase one common share between \$0.13 and \$0.40 and expiring between April 1, 2017 and August 12, 2022, and stock options to purchase an aggregate of 15,290,000 common shares expiring at various dates between May 14, 2017 and September 12, 2021 and exercisable at various prices between \$0.05 and \$0.71 per option. All stock options have vested as at the date hereof.

## INTERNAL CONTROLS OVER EXTERNAL FINANCIAL REPORTING

**Disclosure Controls and Procedures**
The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), together with management, evaluated the design and operating effectiveness of the Company's disclosure controls and procedures as at the financial year ended December 31, 2016. Based on that evaluation, the CEO and the CFO concluded that the design and operation of these disclosure controls and procedures were effective as at December 31, 2016 to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, would be made known to them by others within those entities and that information required to be disclosed by the Company in its annual and interim filings and other reports submitted under securities legislation was recorded, processed, summarized and reported within the periods specified in securities legislation.

**Internal Controls over Financial Reporting**
The CEO and CFO, together with management, evaluated the design and operating effectiveness of the Company's internal controls over financial reporting as at the financial year ended December 31, 2016. Based on that evaluation, the CEO and the CFO concluded that the design and operation of internal controls over financial reporting were effective as at December 31, 2016 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. Any system of internal control over financial reporting, no matter how well-designed, has inherent limitations. Therefore, even well-designed systems of internal control can provide only reasonable assurance with respect to financial statement preparation and presentation.

The control framework used to design and assess the effectiveness of the Company's internal controls over financial reporting is the *Internal Control - Integrated Framework* (COSO Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The Company assesses internal controls over financial reporting on an ongoing basis and, where determined appropriate, proactively implements enhancements to the design of controls required to support anticipated changes to and growth of the business. Due to operational, financial and administrative changes planned to occur as the Company transforms from an exploration company to a producer, changes will be required to the Company's internal controls over financial reporting in order to maintain reasonable assurance regarding the reliability of the Company's financial reporting and preparation of financial statements.

**Changes in Internal Controls over Financial Reporting**
There have been no changes made to the Company's internal controls over financial reporting during the year ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

*This document contains certain forward-looking information. This forward-looking information includes statements with respect to, among other things, includes, among others, statements regarding the anticipated development of the NICO project and the SMPP. With respect to forward-looking information contained in this document, the Company has made assumptions, including assumptions regarding, among other things, the Company's ability to obtain the necessary financing to develop and operate the NICO project and the SMPP. Some of the risks that could affect the Company's future results and could cause results to differ materially from those expressed in the Company's forward-looking information include: the inherent risks involved in the exploration and development of mineral properties and in the mining industry in general; the risk that the Company may not be able to arrange the necessary financing to fund the capital and operating improvements necessary to carry on operating or to develop, construct and operate the NICO project and the SMPP; uncertainties with respect to the receipt or timing of required permits for the development of the NICO project or the SMPP; the risk that the operating and/or capital costs for any of the Company's projects may be materially higher than anticipated; the risk of decreases in the market prices of the metals to be produced by the Company's projects; loss of key personnel; discrepancies between actual and estimated mineral resources or between actual and estimated metallurgical recoveries; uncertainties associated with estimating mineral resources and even if such resources prove accurate the risk that such resources may not be converted into mineral reserves, once economic conditions are applied; labour shortages; workplace accidents; the cost and timing of expansion activities; changes in applicable laws or regulations; competition for, among other things, capital and skilled personnel; unforeseen geological, technical, drilling and processing problems; compliance with and liabilities under environmental laws and regulations; changes to the Company's current business strategies and objectives; and other factors, many of which are beyond the Company's control.*

*Readers are cautioned to not place undue reliance on forward-looking information because it is possible that predictions, forecasts, projections and other forms of forward-looking information will not be achieved by the Company. These forward-looking statements are made as of the date hereof and the Company assumes no responsibility to update them or revise them to reflect new events or circumstances, except as required by law.*

Consolidated Financial Statements

# Fortune Minerals Limited

December 31, 2016 and 2015

# MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements and the Management Discussion and Analysis are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise as they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis given currently available information in order to ensure that the financial statements are presented fairly, in all material respects.

The Company maintains systems of internal accounting and administrative controls in order to provide, on a reasonable basis, assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board, and its members are outside directors. The Committee meets with management as well as the external auditors to discuss auditing matters and financial reporting issues and to review the consolidated financial statements, the Management's Discussion and Analysis and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or reappointment of the external auditors.

The consolidated financial statements have been audited by BDO Canada LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of shareholders. The external auditors have free access to the Audit Committee.

*[Signed]*
Robin Goad
*President and*
*Chief Executive Officer*

*[Signed]*
David Massola
*VP Finance and*
*Chief Financial Officer*

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BDO Canada LLP
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London Ontario N6B 2V3 Canada

# Independent Auditor's Report

**To the Shareholders of Fortune Minerals Limited**

We have audited the accompanying consolidated financial statements of Fortune Minerals Limited, which comprise the consolidated balance sheets as at December 31, 2016 and December 31, 2015 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years ended December 31, 2016 and December 31, 2015, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Fortune Minerals Limited as at December 31, 2016 and December 31, 2015 and its financial performance and its cash flows for the years ended December 31, 2016 and December 31, 2015 in accordance with International Financial Reporting Standards.

Emphasis of Matter

We wish to bring to the attention of the readers of the financial statements the issue of the Company's ability to continue as a going concern which is discussed more fully in note 2 to the financial statements.

*BDO Canada LLP*

Chartered Accountants, Licensed Public Accountants

London, Ontario
March 30, 2017

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

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(expressed in Canadian dollars)

| As at | See note 2 going concern uncertainty<br>**December 31, 2016** | December 31, 2015 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents *[notes 3ii and 9]* | **940,071** | 144,835 |
| Reclamation security deposits *[note 7]* | **25,000** | 25,000 |
| Accounts receivable | **63,945** | 122,815 |
| Prepaid expenses | **40,066** | 19,516 |
| **Total current assets** | **1,069,082** | 312,166 |
| Reclamation security deposits *[note 7]* | **143,260** | 211,260 |
| Capital assets, net *[note 8]* | **102,245** | 152,151 |
| Mining properties *[note 3]* | **67,816,400** | 67,283,007 |
| | **69,130,987** | 67,958,584 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | **139,521** | 370,714 |
| Flow-through share premium deferred gain | **40,229** | — |
| **Total current liabilities** | **179,750** | 370,714 |
| Provision for environmental rehabilitation *[note 7]* | **23,409** | 31,688 |
| Long-term debt *[note 10]* | **5,406,662** | 4,534,683 |
| Derivatives *[note 5ii[c]]* | **5,819,694** | 395,746 |
| **Total liabilities** | **11,429,515** | 5,332,831 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital *[note 5]* | **161,748,120** | 159,697,125 |
| Other reserves *[notes 5 and 6]* | **11,916,014** | 11,016,669 |
| Deficit | **(115,960,664)** | (108,086,018) |
| Accumulated other comprehensive income | **(1,998)** | (2,023) |
| **Total shareholders' equity** | **57,701,472** | 62,625,753 |
| | **69,130,987** | 67,958,584 |

*See accompanying notes*

*[Signed]*

Robin Goad
Director

*[Signed]*

Mahendra Naik
Director

**Fortune Minerals Limited**

# CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(expressed in Canadian dollars)

| For the year ended December 31, | **2016** | 2015 |
|---|---|---|
| **EXPENSES** | | |
| Administrative | **(836,738)** | (1,469,813) |
| Investor relations and regulatory fees | **(178,801)** | (114,240) |
| Stock-based compensation *[note 6]* | **(394,250)** | — |
| Corporate development costs | **(141,127)** | (264,073) |
| Interest expense *[note 10]* | **(872,039)** | (320,778) |
| Accretion *[note 7]* | **8,279** | (423,860) |
| Amortization | **(45,869)** | (68,535) |
| Interest and other income | **14,118** | 12,213 |
| Loss on disposal of mining properties | **—** | (9,867,475) |
| Loss on disposal of capital assets | **(3,887)** | (1,379) |
| Gain on flow-through share premium | **1,021** | 71,091 |
| Foreign exchange gain (loss) | **(1,405)** | 382,895 |
| Change in fair value related to derivative liability *[note 5ii[c]]* | **(5,423,948)** | 60,909 |
| **Loss before income taxes** | **(7,874,646)** | (12,003,045) |
| Recovery of (provision for) income taxes *[note 12]* | | |
| Deferred income taxes | **—** | 1,255,500 |
| **Net loss for the year from continuing operations** | **(7,874,646)** | (10,747,545) |
| **Discontinued Operations** | | |
| Loss from discontinued operation *[note 18]* | **—** | (30,361,773) |
| **Net loss for the year** | **(7,874,646)** | (41,109,318) |
| Other comprehensive income | | |
| Currency translation adjustment | **25** | (1,359,115) |
| **Net comprehensive loss** | **(7,874,621)** | (42,468,433) |
| **Basic and diluted loss per share** *[note 15]* | **(0.03)** | (0.19) |

*See accompanying notes*

**Fortune Minerals Limited**

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(expressed in Canadian dollars)

| For the year ended December 31, | 2016 | 2015 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net loss for the year from continuing operations | **(7,874,646)** | (10,747,545) |
| Changes in non-cash working capital balances related to operations | | |
| Accounts receivable | **58,870** | 820,892 |
| Prepaid expenses | **(20,550)** | 30,829 |
| Accounts payable and accrued liabilities | **(231,193)** | (534,430) |
| Accrued interest on debentures | **452,375** | 30,040 |
| | **(7,615,144)** | (10,400,214) |
| Add (deduct) items not involving cash | | |
| Accretion | **(8,279)** | 423,860 |
| Amortization | **45,869** | 68,535 |
| Deferred income taxes | **—** | (1,255,500) |
| Gain on flow-through share premium | **(1,021)** | (71,091) |
| Stock-based compensation | **394,250** | — |
| Non-cash portion of loan discount *[note 10]* | **419,604** | 156,978 |
| Loss on disposal of mining properties | **—** | 9,867,475 |
| Loss on disposal of capital assets | **3,887** | 1,379 |
| Change in fair value related to derivative liability | **5,423,948** | (60,909) |
| Cash used in operating activities | **(1,336,886)** | (1,269,487) |
| Cash used in operating activities - discontinued operations | **—** | (5,682,647) |
| **Cash used in operating activities** | **(1,336,886)** | (6,952,134) |
| **INVESTING ACTIVITIES** | | |
| Net investment in discontinued operations | **—** | (8,349,278) |
| Increase in exploration and evaluation expenditures | **(401,156)** | (562,664) |
| Purchase of capital assets, including in mining properties | **(5,907)** | (84,336) |
| Repayment of capital contribution liability | **—** | (83,000) |
| Posting of security for reclamation security deposits, net | **—** | (145) |
| Receipt of reclamation security deposit | **68,000** | 329,193 |
| Proceeds on disposal of capital assets in mining properties | **150** | 479,151 |
| Proceeds on sale of mining properties | **—** | 9,000,000 |
| Cash provided (used) in investing activities | **(338,913)** | 728,921 |
| Cash used in investing activities - discontinued operations | **—** | (9,436,844) |
| **Cash used in investing activities** | **(338,913)** | (8,707,923) |
| **FINANCING ACTIVITIES** | | |
| Proceeds on issuance of shares, net *[note 5i.]* | **2,471,010** | 631,668 |
| Cash provided in financing activities | **2,471,010** | 631,668 |
| Cash provided in financing activities - discontinued operations | **—** | 8,953,539 |
| **Cash provided by financing activities** | **2,471,010** | 9,585,207 |
| Effect of foreign exchange on cash on continued operations | **25** | 685 |
| **Increase (decrease) in cash and cash equivalents during the year, net** | **795,211** | (6,074,850) |
| Cash and cash equivalents, beginning of year | **144,835** | 6,219,000 |
| **Cash and cash equivalents, end of year *[note 9]*** | **940,071** | **144,835** |

*See accompanying notes*

**Fortune Minerals Limited**

# CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(expressed in Canadian dollars)

| | Common shares | | Warrants | | Subtotal | Other reserves | Deficit | Accumulated other comprehensive income | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|
| | # | $ | # | $ | $ | $ | $ | $ | $ |
| **December 31, 2014** | **214,822,180** | **158,592,124** | **3,333,333** | **343,333** | **158,935,457** | **11,016,669** | **-66,976,700** | **1,357,092** | **104,332,518** |
| Issued as a result of: | | | | | | | | | |
| Private offerings | 12,255,400 | 758,499 | 2,952,700 | 35,432 | 793,931 | — | — | — | 793,931 |
| Share issuance costs, net of tax | | (32,263) | — | — | (32,263) | — | — | — | (32,263) |
| Net loss for the year | — | — | — | — | — | — | (41,109,318) | — | (41,109,318) |
| Foreign currency translation | — | — | — | — | — | — | — | 1,694,140 | 1,694,140 |
| Adjustment due to discontinued operations of foreign subsidiary *[note 18]* | — | — | — | — | — | — | — | (3,053,255) | (3,053,255) |
| **December 31, 2015** | **227,077,580** | **159,318,360** | **6,286,033** | **378,765** | **159,697,125** | **11,016,669** | **(108,086,018)** | **(2,023)** | **62,625,753** |
| Issued as a result of: | | | | | | | | | |
| Private offerings *[note 5i.]* | 43,821,427 | 2,410,000 | 6,415,000 | 297,000 | 2,707,000 | — | — | — | 2,707,000 |
| Flow-through share premium deferred gain *[note 5i.[d]]* | — | (41,250) | — | — | (41,250) | — | — | | (41,250) |
| Share issuance costs, net of tax *[notes 5i. and 5ii.]* | — | (228,602) | — | (7,388) | (235,990) | — | — | — | (235,990) |
| Warrant expiration date amendment *[notes 5ii.[a] and [b]]* | — | (151,245) | — | (227,520) | (378,765) | 378,765 | — | — | — |
| Stock options granted *[note 6]* | — | — | — | — | — | 520,580 | — | — | 520,580 |
| Foreign currency translation | — | — | — | — | — | — | — | 25 | 25 |
| Net loss for the year | — | — | — | — | — | — | (7,874,646) | — | (7,874,646) |
| **December 31, 2016** | **270,899,007** | **161,307,263** | **12,701,033** | **440,857** | **161,748,120** | **11,916,014** | **(115,960,664)** | **(1,998)** | **57,701,472** |

*See accompanying notes*

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



## 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 and domiciled in London, Ontario, Canada, whose shares are publicly traded on the Toronto Stock Exchange and the OTCQX in the United States.

The consolidated financial statements of Fortune Minerals Limited ["the Company"] for the year ended December 31, 2016 were authorized for issuance by the Board of Directors on March 30, 2017.

## 2. BASIS OF PRESENTATION

***i.*** *Statement of Compliance*

These 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"].

***ii.*** *Going Concern of Operations*

These 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 $889,332 at December 31, 2016 and the funds raised through the short form prospectus offering subsequent to year end [see note 5*i.*[f]], the Company has sufficient cash to conduct certain critical path activities in 2017. However, the NICO project requires further funding to advance the project through to production and the Company has engaged a consulting firm, subsequent to year end, to assist with securing this financing. 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 2017 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 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 consolidated financial statements are presented in Canadian dollars ["CDN"], which is also the Company's and wholly-owned subsidiary's functional currency.

These 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 consolidated financial statements, unless otherwise indicated.

***iv.*** *Judgment and Estimates*

The preparation of 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 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 consolidated financial statements in the current fiscal year are as follows:

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

The Company undertakes an impairment assessment at the end of each reporting period to look for impairment indicators. Significant inputs into this model are 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 judgment and 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]** *Income taxes*

Income taxes requires estimates and judgments of future activities of the Company and income tax authorities. Changes in future operating results or changes in income tax legislation can have significant impacts on the amount of tax assets or liabilities that are reported by the Company.

**[d]** *Amortization of capital assets*

The amortization rates used by the Company to amortize its assets are based on estimates made by management of the expected life of the asset. These estimates are reviewed periodically based on expected usage and adjusted as needed on a prospective basis.

In addition, in preparing the consolidated financial statements, the notes to the 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 the consolidated financial statements. The determination of the relevance and materiality of disclosures involves significant judgment.

## 3. MINING PROPERTIES

The Company capitalizes exploration and evaluation expenditures, including directly attributable salary and overhead costs relating to mineral properties until the costs are expected to be recouped through the successful development of the area of interest [or alternatively by its sale], or where activities in the area have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active operations are continuing or planned for the future.

As at December 31, 2016, 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:

| | **December 31, 2016** | | | |
|---|---|---|---|---|
| | **Capital Assets $** | **Property Costs $** | **Exploration and Evaluation Expenditures $** | **Total Mining Properties $** |
| **NICO *[i]*** | **6,650,808** | **2,191,442** | **58,800,238** | **67,642,488** |
| **Sue-Dianne** | **—** | **9,164** | **155,292** | **164,456** |
| **Other properties** | **—** | **—** | **9,456** | **9,456** |
| | **6,650,808** | **2,200,606** | **58,964,986** | **67,816,400** |

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | Capital Assets $ | Property Costs $ | Exploration and Evaluation Expenditures $ | Total Mining Properties $ |
| NICO *[i]* | 6,671,152 | 2,191,442 | 58,249,304 | 67,111,898 |
| Sue-Dianne | — | 9,164 | 153,064 | 162,228 |
| Other properties | — | — | 8,881 | 8,881 |
| | 6,671,152 | 2,200,606 | 58,411,249 | 67,283,007 |

During the year ended December 31, 2016, the change in mining properties is a result of additions only and there were no disposals, write-offs or amortization.

Exploration and evaluation expenditures capitalized to mining properties during the year ended December 31, 2016 and 2015 include the following:

| | **December 31, 2016** | December 31, 2015 |
|---|---|---|
| | **$** | $ |
| Employee and contractor compensation and benefits | **321,971** | 312,750 |
| Amortization | **46,641** | 61,060 |
| Stock-based compensation | **105,940** | — |

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, 2015** | 5,560,896 | 1,179,717 | 593,724 | 592,034 | 18,060 | 900,356 | 6 | 8,844,793 |
| Additions | 26,297 | — | — | — | — | — | — | 26,297 |
| **As at December 31, 2016** | **5,587,193** | **1,179,717** | **593,724** | **592,034** | **18,060** | **900,356** | **6** | **8,871,090** |
| **Accumulated amortization** | | | | | | | | |
| **As at December 31, 2015** | — | 1,016,221 | 577,061 | 562,669 | 17,690 | — | — | 2,173,641 |
| Amortization for the year | — | 32,722 | 4,999 | 8,809 | 111 | — | — | 46,641 |
| **As at December 31, 2016** | **—** | **1,048,943** | **582,060** | **571,478** | **17,801** | **—** | **—** | **2,220,282** |
| **Net book value** | | | | | | | | |
| As at December 31, 2015 | 5,560,896 | 163,496 | 16,663 | 29,365 | 370 | 900,356 | 6 | 6,671,152 |
| **As at December 31, 2016** | **5,587,193** | **130,774** | **11,664** | **20,556** | **259** | **900,356** | **6** | **6,650,808** |

Included in surface facilities under construction during the year ended December 31, 2016 is $4,329 [December 31, 2015 - $19,360] of directly attributable employee and contractor compensation and benefits and $20,390 [December 31, 2015 - $Nil] of stock-based compensation.

### *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. In December 2012, the Company purchased lands near Saskatoon, Saskatchewan on which it proposes to construct the SMPP. 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.

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

On May 1, 2015 the Company, FCL, POSCAN and 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 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 year ended December 31, 2016.

As at December 31, 2016, the only other asset in the Arctos JV was a cash balance of $1,274, of which FCL recorded its 50% share.

## 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 December 31, 2016, the Company considered whether there had been any significant changes to impairment indicators at the year end and whether any new indicators were present. During the year ended December 31, 2016, commodity prices saw some improvement, the value of the $CDN had strengthened and although the Company had seen an increase in its share price, the market capitalization gap continued to be significant. Management determined that the above changes in the period constituted an impairment indicator due to the effect the commodity prices and the exchange rate have on the impairment model [as described below] 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$1,200/oz for gold, US$18.00/lb for cobalt and US$7.14/lb for bismuth and an exchange rate of US$0.74: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. Management performed a sensitivity analysis as at December 31, 2016, to recognize the impact of volatility in the underlying assumptions, including the discount rate, the exchange rate, commodity prices and operating costs. The following table reflects the amount of change in these assumptions, when considered in isolation, where an impairment charge may be required.

| **Change in Model Key Input** |
| --- |
| Increase discount rate by 0.2% |
| Increase exchange rate by $0.005 |
| Decrease in gold, cobalt, bismuth and copper prices by 0.6% |
| Increase operating costs by 1.5% |

## 5. SHARE CAPITAL AND RESERVES

The Company's commons shares, share warrants and flow-through shares are classified as equity instruments, except for the warrants described in *ii*[c] below, which are classified as a derivative liability.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of taxes, from the proceeds.

Any premium between the amount recognized in common shares and the amount that investors pay for flow-through shares is recognized as a deferred gain, which is recognized in earnings as gain on flow-through share premium when the eligible expenditures have been renounced.

***i.*** Common Shares

The Company is authorized to issue an unlimited number of common shares without par value. As at December 31, 2016, the weighted average number of common shares outstanding was 254,558,843 [December 31, 2015 - 221,634,727].

The Company completed the following private placements during the year:

[a] On March 9, 2016, the Company entered into a subscription agreement to sell 14,285,714 shares at a price of $0.035 per share, raising gross proceeds of $500,000. Share issuance costs of $37,433 were incurred to complete the financing.

[b] On April 8, 2016, the Company entered into a subscription agreement to sell 14,285,713 shares at a price of $0.035 per share, raising gross proceeds of $500,000. Share issuance costs of $26,771 were incurred to complete the financing.

[c] On August 5, 2016 and August 15, 2016, the Company entered into a subscription agreement to sell 10,000,000 and 2,500,000 units, respectively, at a price of $0.10 per unit, raising gross proceeds of $1,250,000. 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 $0.15 on or before August 5, 2017 for 5,000,000 warrants and August 15, 2017 for 1,250,000 warrants. The fair value of the shares and warrants issued was $970,000 and $280,000, 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 148.07%, risk free interest rate of 0.52% and expected life of 1 year. Share issuance costs of $96,298 were incurred to complete the financing.

[d] On October 28, 2016, the Company entered into a flow-through agreement to issue 2,750,000 shares at a price of $0.16 per share for aggregate gross proceeds of $440,000. The total flow-through share premium deferred gain recognized was $41,250, calculated as the difference between the market price of the Company's shares on the day the flow-through financings closed and the price that the investor paid for the shares. In addition,

165,000 broker warrants were issued with an exercise price of $0.146. Each warrant entitles the holder to purchase one common share of the Company for $0.146 on or before October 28, 2018. The fair value of the warrants issued was $17,000 and has been included in the share issuance costs below. The value of the warrants was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: dividend yield of 0%, expected volatility of 148.43%, risk free interest rate of 0.57% and expected life of 2 years. Share issuance costs of $68,100 were incurred to complete the financing.

[e] As at December 31, 2016, 900,000 [2015 – 900,000] issued common shares are being held in escrow, subject to certain production thresholds for the NICO property.

[f] Subsequent to year end, the Company entered into an agreement to issue 25,800,000 units at a price of $0.25 per unit, raising gross proceeds of $6,450,000. 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 $0.35 on or before March 8, 2019.

***ii.*** Share Purchase Warrants

The following is a summary of changes in warrants for the years ended December 31,

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Warrants | Weighted Average Exercise Price | Warrants | Weighted Average Exercise Price |
| Warrants outstanding, beginning of year | **6,286,033** | **$ 0.28** | 3,333,333 | $ 0.40 |
| Issue of warrants *[note 5i.[c]]* | **6,250,000** | **0.15** | 2,952,700 | 0.15 |
| Issue of warrants *[note 5i.[d]]* | **165,000** | **0.15** | — | — |
| Warrants outstanding, end of year | **12,701,033** | **$ 0.22** | 6,286,033 | $ 0.28 |

[a] On March 16, 2016 the Board approved amendments to the terms of the outstanding warrants that were issued on April 1, 2015 to extend the expiry date of the 2,952,700 warrants with an exercise price of $0.15 from April 1, 2016 to April 1, 2017, subject to shareholder approval of the 2,108,950 warrants held by insiders. Shareholder approval was obtained on June 21, 2016 at the Annual General Meeting. The warrant's incremental benefit as a result of the amendment was $32,480 and was measured using the Black-Scholes Model with the following assumptions: dividend yield of 0%, expected volatility of 191.06%, risk free interest rate of 0.57% and expected life of 1 year. Costs of $2,902 were incurred to extend the warrants.

[b] On July 19, 2016 the Board approved amendments to the terms of the outstanding warrants that were issued on August 18, 2014 to extend the expiry date of the 3,333,333 warrants with an exercise price of $0.40 from August 18, 2016 to August 18, 2017. The warrant's incremental cost as a result of the amendment was $260,000 and was measured using the Black-Scholes Model with the following assumptions: dividend yield of 0%, expected volatility of 151.71%, risk free interest rate of 0.52% and expected life of 1 year. Costs of $4,486 were incurred to extend the warrants.

[c] 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 and are revalued at each reporting period. The change in the warrants fair value is reported on the Consolidated Statements of Loss and Comprehensive Loss. As a result of the issuances above, the warrants outstanding have been adjusted by 7,970,934 during the year. As of December 31, 2016 the total of Class A and Class B warrants outstanding are 14,140,493 and 50,365,661, respectively, and the exercise price for Class A and Class B warrants are $0.133 and $0.214, respectively.

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. These assumptions will change from time to time and the impact on the resulting change will be reflected in the Consolidated Statements of Loss and Comprehensive 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 less than $0.01, will result in the value of the derivative changing by approximately $615,000.

[d] Subsequent to year end, 3,323,750 warrants with an exercise price of $0.15 were exercised raising gross proceeds of $498,562.

***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 Company has a fixed stock-based compensation plan, approved by the shareholders at the Company’s annual meeting held on June 22, 2005. The plan was most recently confirmed and approved at the Company’s annual meeting held on June 24, 2014. Under the plan, the Company may grant options to eligible individuals for up to 10% of the issued and outstanding common shares, subject to certain conditions. As at December 31, 2016, the Company has 11,749,901 options available for grant in addition to any options issued and outstanding. The exercise price of each option is equal to or higher than the market price of the Company's stock on the date of grant. The plan does not provide for a maximum term. Options are granted and their terms determined at the discretion of the Board of Directors.

The Company recognizes an expense for option awards using the fair value method of accounting based on the Black-Scholes model. The expense is capitalized to a similar extent as the optionee's salary, wages or fees are capitalized. The Black-Scholes model used by the Company to calculate option and warrant values as well as other accepted option valuation models, was developed to estimate fair value of freely tradable, fully transferable options and warrants, which significantly differ from the Company's stock option awards. These models also require four highly subjective assumptions, including future stock price volatility and expected time until exercise, which greatly affect the calculated values. Due to the number of estimates involved, it is likely that the actual fair value of the options will differ from what has been recorded in the financial statements.

The estimated fair value of 12,400,000 options granted and vested during the year ended December 31, 2016 has been allocated to stock-based compensation expense, exploration and evaluation expenditures and capital assets in the amounts of $394,250, $105,940 and $20,390, respectively. The other reserves balance was increased by $520,580, representing the fair value of the options issued. The options granted during the year ended December 31, 2016 have a maximum term of between three and five years and all vested immediately except for 3,750,000 options which vested on September 16, 2016. The value of the options 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 between 100.98% and 121.83%, risk free interest rate between 0.54% and 0.75% and expected life between 3 and 5 years.

A summary of the status of the Company's stock option plan as at December 31, 2016 and December 31, 2015, and changes during the year ended on those dates are presented below:

| | **December 31, 2016** | | December 31, 2015 | |
|---|---|---|---|---|
| | **Number of shares #** | **Weighted-average exercise price $** | Number of shares # | Weighted-average exercise price $ |
| **Options outstanding, beginning of year** | **3,970,000** | **0.61** | 7,780,000 | 0.60 |
| Granted | **12,400,000** | **0.06** | — | — |
| Expired or cancelled | **(1,030,000)** | **0.95** | (3,810,000) | 0.59 |
| **Options outstanding, end of year** | **15,340,000** | **0.14** | 3,970,000 | 0.61 |
| **Options vested and outstanding, end of year** | **15,340,000** | **0.14** | 3,970,000 | 0.61 |

The following table summarizes information about the options outstanding as at December 31, 2016:

| 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 | 13,930,000 | 13,930,000 | 0.09 | 2.5 |
| 0.50 – 0.99 | 1,410,000 | 1,410,000 | 0.62 | 1.0 |
| | 15,340,000 | 15,340,000 | | |

*[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

Provision is made for asset retirement, restoration and for environmental rehabilitation costs [which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas] in the financial period when the related environmental disturbance occurs, resulting in a legal or constructive obligation to the Company. 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:

| | **December 31, 2016** | December 31, 2015 |
|---|---|---|
| **NICO Project** | | |
| Provision for environmental rehabilitation | **$23,409** | $31,688 |
| Estimated remaining life | **21 years** | 22 years |
| Discount rate | **9%** | 9% |
| **Total provision for environmental rehabilitation** | **$23,409** | $31,688 |

On August 3, 2016, the security for the reclamation of the NICO project was reduced by $68,000 as a result of a new Land Use Permit which was approved on March 24, 2016. As a result, the provision for environmental rehabilitation has been adjusted to reflect this decrease.

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 Government of British Columbia for NICO and Arctos, respectively.

Reclamation security deposits consist of the following:

| | **December 31, 2016** | December 31, 2015 |
|---|---|---|
| | **Deposit amount $** | Deposit amount $ |
| NICO Project | **143,260** | 211,260 |
| Arctos Anthracite Project | **25,000** | 25,000 |
| Total Net Book Value | **168,260** | 236,260 |

The security for the reclamation of the Arctos Anthracite Project is held in the Arctos JV. As at December 31, 2016, the security deposit amount in the Arctos JV was $25,000 [December 31, 2015 - $25,000]. The Company expects this amount to be released once the Province has completed its site inspection.

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.

## 8. CAPITAL ASSETS

Expenditures incurred to replace a component of an item of capital assets that is accounted for separately are capitalized. Amortization of corporate capital assets and capital assets used in the exploration and evaluation phase is recorded using the declining balance method, with management reviewing the useful lives of capital assets at each consolidated statement of financial position reporting date to verify the asset is being amortized over a period equivalent to the useful life of the asset.

The assets are amortized at the following rates:

| **Asset class** | **Rate of amortization %** |
|---|---|
| Surface facilities | 20 |
| Furniture and fixtures | 20 to 30 |
| Camp structures | 30 |
| Mobile equipment | 30 |
| Computer equipment | 30 |
| Site furniture and equipment | 30 |
| Software | 35 |
| Leasehold improvements | 50 |

Capital assets consist of the following:

| | Computer equipment $ | Furniture and fixtures $ | Software $ | Total $ |
|---|---|---|---|---|
| **Cost** | | | | |
| **As at December 31, 2015** | 215,122 | 117,216 | 318,582 | 650,920 |
| Disposals | (20,984) | — | (1,936) | (22,920) |
| **As at December 31, 2016** | **194,138** | **117,216** | **316,646** | **628,000** |
| **Accumulated amortization** | | | | |
| **As at December 31, 2015** | 175,510 | 87,083 | 236,176 | 498,769 |
| Amortization for the year | 11,072 | 6,026 | 28,771 | 45,869 |
| Disposals | (17,300) | — | (1,583) | (18,883) |
| **As at December 31, 2016** | **169,282** | **93,109** | **263,364** | **525,755** |
| **Net book value** | | | | |
| As at December 31, 2015 | 39,612 | 30,133 | 82,406 | 152,151 |
| **As at December 31, 2016** | **24,856** | **24,107** | **53,282** | **102,245** |

## 9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand, balances with banks and short-term fixed income deposits with remaining maturity dates at the date of acquisition shorter than three months.

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.

## 10. LONG-TERM DEBT

The Company has $8.75 million unsecured debentures outstanding as of December 31, 2016. 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 years ending December 31,

| | **2016** | 2015 |
|---|---|---|
| Debentures at maturity | **$ 8,750,000** | $ 8,750,000 |
| Loan discount | **(3,979,503)** | (4,399,107) |
| Accrued interest on debentures | **636,165** | 183,790 |
| Basic and fully diluted loss per share | **$ 5,406,662** | $ 4,534,683 |

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 net present value at an effective interest rate of 18%. For the year ended December 31, 2016, $419,604 of loan discount was amortized using the effective interest rate method.

## 11. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table illustrates the classification of the Company's financial instruments within the fair value hierarchy as at December 31, 2016:

| | Level 1<br>$ | Level 2<br>$ | Level 3<br>$ |
|---|---|---|---|
| Cash and cash equivalents | 940,071 | — | — |
| Long-term debt | — | 5,406,662 | — |
| Derivatives | — | — | 5,819,694 |

The carrying amount of accounts receivable and accounts payable and accrued liabilities approximates the fair value.

The following table details the Company's contractual maturities for its financial liabilities as at December 31, 2016. Payments due by year are as follows:

| | Total | 2017 | 2022 |
|---|---|---|---|
| Accounts payable and accrued liabilities | $ 139,521 | $ 139,521 | — |
| Long-term debt | 8,750,000 | — | 8,750,000 |
| | $8,889,521 | $ 139,521 | $8,750,000 |

## 12. INCOME TAXES

The Company has non-capital loss carryforwards totaling $35,850,000, net capital loss carryforwards of $17,385,000, un-deducted debt and share issuance costs of $392,000 and unused investment tax credits on pre-production mining costs of $2,779,000. 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 undeducted share issuance costs has been recorded in the 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 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 $15,372,000 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:

| | **December 31, 2016 $** | December 31, 2015 $ |
|---|---|---|
| **Deferred income tax assets** | | |
| Net operating loss carryforwards | **9,554,000** | 17,927,000 |
| Undeducted debt and share issuance costs *[i]* | **105,000** | 103,000 |
| Unused investment tax credits on pre-production costs | **2,779,000** | 2,755,000 |
| Tax value of exploration and evaluation expenditures and capital assets in excess of book value | **2,934,000** | 3,339,000 |
| | **15,372,000** | 24,124,000 |
| Less valuation allowance related to operating losses, share issuance costs and unused investments tax credits | **(15,372,000)** | (24,124,000) |
| **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 year ended is as follows:

| | **December 31, 2016** $ | December 31, 2015 $ |
|---|---|---|
| **Combined federal and provincial/state income tax rate** | **26.68%** | 26.65% |
| Corporate income tax recovery at statutory rate | **(2,101,000)** | (10,610,000) |
| Increase (decrease) in income taxes resulting from | | |
| Non-deductible stock-based compensation and other expenses | **217,000** | 2,000 |
| Non-deductible change in fair value of derivative | **1,448,000** | |
| Renunciation of flow-through expenses | **53,000** | 132,400 |
| Rate difference | **40,000** | (20,000) |
| Non-taxable flow-through share premium | — | (19,000) |
| Investment tax credits on pre-production mining costs, net of tax | **(13,000)** | (10,000) |
| Tax value of loss carryforwards not recognized | **356,000** | 9,269,100 |
| | — | (1,255,500) |

## 13. 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.

## 14. RELATED PARTY TRANSACTIONS

For the year ended December 31, 2016, 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 year ended:

| | **December 31, 2016** $ | December 31, 2015 $ |
|---|---|---|
| Salaries and benefits | **6,722** | 267,769 |
| Consulting services | **389,200** | 369,000 |
| Legal services | **141,000** | 375,500 |
| Fair value of stock options granted | **439,000** | — |
| | **975,922** | 1,012,269 |

As at December 31, 2016, $17,270 [December 31, 2015 - $97,964] was owing to key management personnel for services provided during the year.

## 15. 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.

For calculating diluted loss per share, for the year ended December 31, 2016, there were 10,400,000, respectively, weighted average options outstanding with an exercise price less than the average market price for the year but these were excluded from the fully diluted loss per share computation because inclusion would have been anti-dilutive.

| | | **2016** | | 2015 |
|---|---|---|---|---|
| Net loss | **$** | **(7,874,646)** | $ | (41,109,318) |
| Weighted average number of common shares | | **254,558,843** | | 221,634,727 |
| Basic and fully diluted loss per share | **$** | **(0.03)** | $ | (0.19) |

## 16. CONSOLIDATED STATEMENTS OF CASH FLOWS

Supplemental cash flow information for the period ending:

| | **December 31, 2016** $ | December 31, 2015 $ |
|---|---|---|
| Interest and investment income received | **2,566** | 658 |
| Interest paid *[i]* | — | 975,095 |

*[i]* The amount paid in 2015 relates to interest paid on the outstanding debt of the discontinued operation.

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

***i.*** New accounting standards

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2016 or later years. As disclosed in note 2*iv.*, the Company applied judgments related to the order and exclusion of immaterial disclosures, consistent with the amendment to IAS 1, Presentation of Financial Statements.

***ii.*** Future accounting standards

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

- IFRS 9 Financial Instruments – effective for the December 31, 2018 year end. This standard is not expected to have much impact on the Company as it currently has very simple financial instruments.

- IFRS 15 Revenue from Contracts with Customers – effective for the December 31, 2018 year end. The Company currently has no revenue stream as it is still in the development stage. As it evolves out of that stage, the Company will have a closer look at how this standard will impact how it recognizes revenue.

- IFRS 16 Leases – effective for the December 31, 2019 year end. The Company, in its current form, has minimal leases that would be impacted by this standard. However, as it moves into the production phase, which it expects to achieve by the implementation date, all leases will be reviewed to assess their impact.

## 18. DISCONTINUED OPERATIONS

On July 1, 2015, the Company received notice from LRC-FRSM LLC [“LRC”] that events of default had occurred under the amended Metal Prepay Facility, dated as of March 25, 2015 among FRSMI, the Company and LRC. The notice from LRC declared all amounts and deliveries owing under the Metal Prepay Facility to be immediately due and payable. FRSMI's obligations under the Metal Prepay Facility are secured by all of its assets and guaranteed by the Company and certain of its other subsidiaries, including FMNWT and FMSI, which have also granted LRC security over their respective assets. Each of the Company, FMNWT and FMSI have also received notice from LRC pursuant to the Bankruptcy and Insolvency Act [Canada] of LRC’s intention to enforce its security. LRC had the right to enforce such security at any time after July 10, 2015.

On July 17, 2015 the Company entered into a restructuring agreement with LRC and its other secured creditors to settle its secured debt obligations. The restructuring was completed in two stages as summarized below:

Stage 1 – Completed on July 17, 2015

- The Company contributed to the capital of FRSMI all intercompany indebtedness owing by FRSMI to the Company and transferred all of the shares of FRSMI to LRC; FRSMI was subsequently renamed Ouray Silver Mines, Inc. ["Ouray"]
- All obligations of the Company and its Canadian subsidiaries under the LRC short term facility have been released
- Ouray paid US$200,000 to the Company as compensation for costs incurred prior to July 1, 2015
- The Company agreed to provide certain purchasing, logistics and operations transition services subsequent to July 1, 2015 to Ouray and LRC to assist in the operation of the RSM

Stage 2 – Completed on August 12, 2015

- The Company issued to LRC and the other secured creditors:
    - Unsecured debentures in the principal amount of C$5 million to Lascaux and C$3.75 million to the other secured creditors. The debentures have a term of seven years, bear interest at 5% per annum accruing semi-annually and are repayable at maturity
    - 7.5 million Class A warrants and 29,019,391 Class B warrants to Lascaux and
    - 5 million Class A warrants and 14 million Class B warrants to the other secured creditors
- Each Class A warrant will entitle the holder to purchase one common share of the Company at C$0.15 and will expire on the fifth anniversary of the date of issuance
- Each Class B warrant will entitle the holder to purchase one common share of the Company at C$0.25 and will expire on the seventh anniversary of the date of issuance. 42,259,476 of the Class B warrants can only be exercised for the purposes of setting off or financing the repayment of an equivalent amount owing under the debenture held by the warrant holder
- The debentures will be repayable in the event that NICO is sold, directly or indirectly
- Ouray paid $US320,000 to the Company for additional costs paid prior to July 1, 2015
- All remaining security in the Company's and its subsidiaries assets held by LRC under the Metal Prepay Facility and by the other secured creditors were released and discharged.

The comparative consolidated statements of loss and comprehensive loss has been restated to show the discontinued operation separately from continuing operations and is presented below.

The loss on discontinued operations consists of the following:

| | Year ended December 31, | |
|---|---|---|
| | **2016** | 2015 |
| Results of discontinued operations (*i.*) | — | (1,492,593) |
| Loss on disposal of RSM (*ii.*) | — | (28,869,180) |
| Loss on discontinued operations | — | (30,361,773) |
| | | |
| Basic and diluted loss per share | — | (0.14) |

***i.*** Results of discontinued operations:

| | Year ended December 31, | |
|---|---|---|
| | **2016** | 2015 |
| **EXPENSES** | | |
| Administrative | — | (1,185,958) |
| Corporate development costs | — | (384,149) |
| Interest expense | — | (74,869) |
| Accretion | — | (8,583) |
| Interest and other income | — | — |
| Foreign exchange gain | — | 160,966 |
| Gain on extinguishment of debt or other | — | — |
| **Net loss for the year** | — | (1,492,593) |
| | | |
| Other comprehensive income | | |
| Currency translation adjustment | — | 1,695,711 |
| **Net comprehensive income** | — | 203,118 |

***ii.*** Loss on the disposal of RSM:

| Effect of disposal on the financial position of the Company: | Year ended December 31, **2016** | 2015 |
|---|---|---|
| Mining properties | — | 106,396,434 |
| Accounts receivables | — | 2,182 |
| Cash and cash equivalents | — | 2,072,539 |
| Prepaid expenses | — | 456,625 |
| Reclamation security deposits | — | 382,854 |
| Accounts payable and accrued liabilities | — | (3,517,358) |
| Royalty payable | — | (1,316,230) |
| Current debt | — | (61,903,462) |
| Finance lease obligations | — | (861,127) |
| Provision for environmental rehabilitation | — | (196,495) |
| Accrued interest | — | (9,424,722) |
| **Net assets directly associated with FRSMI** | — | 32,091,240 |
| Loan and accrued interest included in settlement | — | (5,538,385) |
| Debentures issued on settlement | — | 4,214,512 |
| Derivatives issued on settlement | — | 456,512 |
| Cash received | — | (658,988) |
| Reclassification of foreign exchange differences from other comprehensive income | — | (1,695,711) |
| **Loss on disposal of RSM** | — | 28,869,180 |

***iii.*** Cash flows from (used in) discontinued operations:

| | Year ended December 31, **2016** | 2015 |
|---|---|---|
| Net cash used in operating activities | — | (5,682,647) |
| Net cash used in investing activities | — | (9,436,844) |
| Net cash from financing activities | — | 8,953,539 |
| **Net cash flow** | — | (6,165,952) |