

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 December 31, 2016 | December 31, 2015 |
|--|--|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents <i>[notes 3ii and 9]</i> | 940,071 | 144,835 |
| Reclamation security deposits <i>[note 7]</i> | 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 <i>[note 7]</i> | 143,260 | 211,260 |
| Capital assets, net <i>[note 8]</i> | 102,245 | 152,151 |
| Mining properties <i>[note 3]</i> | 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 <i>[note 7]</i> | 23,409 | 31,688 |
| Long-term debt <i>[note 10]</i> | 5,406,662 | 4,534,683 |
| Derivatives <i>[note 5ii[c]]</i> | 5,819,694 | 395,746 |
| Total liabilities | 11,429,515 | 5,332,831 |
| SHAREHOLDERS' EQUITY | | |
| Share capital <i>[note 5]</i> | 161,748,120 | 159,697,125 |
| Other reserves <i>[notes 5 and 6]</i> | 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 |
| | <u>(7,615,144)</u> | <u>(10,400,214)</u> |
| 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 | <u>(1,336,886)</u> | <u>(1,269,487)</u> |
| 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 | <u>(338,913)</u> | <u>728,921</u> |
| 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 | <u>2,471,010</u> | <u>631,668</u> |
| 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 | <u>144,835</u> | <u>6,219,000</u> |
| 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 <i>[note 18]</i> | — | — | — | — | — | — | — | (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 <i>[note 5i.]</i> | 43,821,427 | 2,410,000 | 6,415,000 | 297,000 | 2,707,000 | — | — | — | 2,707,000 |
| Flow-through share premium deferred gain <i>[note 5i.[d]]</i> | — | (41,250) | — | — | (41,250) | — | — | — | (41,250) |
| Share issuance costs, net of tax <i>[notes 5i. and 5ii.]</i> | — | (228,602) | — | (7,388) | (235,990) | — | — | — | (235,990) |
| Warrant expiration date amendment <i>[notes 5ii.[a] and [b]]</i> | — | (151,245) | — | (227,520) | (378,765) | 378,765 | — | — | — |
| Stock options granted <i>[note 6]</i> | — | — | — | — | — | 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

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

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 5i.[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,

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

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 |

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

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 | — |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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.

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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% |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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,

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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.

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[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

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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:

| | <u>December 31, 2016</u> | | <u>December 31, 2015</u> | |
|--|--------------------------|-------------|--------------------------|-----------|
| | Number | Weighted- | Number | Weighted- |
| | of shares | average | of shares | average |
| | # | exercise | # | exercise |
| | | price | | 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 |

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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.

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Reclamation security deposits consist of the following:

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

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:

| <u>Asset class</u> | <u>Rate of amortization</u> % |
|------------------------------|----------------------------------|
| 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 |

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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 |

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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 | Level 2 | Level 3 |
|---------------------------|---------|-----------|-----------|
| | \$ | \$ | \$ |
| 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 |
| | <u>\$8,889,521</u> | <u>\$ 139,521</u> | <u>\$8,750,000</u> |

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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>[i]</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.

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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.

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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.

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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 2iv., 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:

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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.

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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 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

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) |