2017 Annual Financial Report

Management's Discussion and Analysis and Consolidated Financial Statements

FORTUNE
MINERALS LIMITED

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

Year ended December 31, 2017

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 22, 2018 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, 2017, 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

	2017	2016	2015
Net loss from continuing operations	(12,148,529)	(7,874,646)	(10,747,545)
Basic and fully diluted loss per common share	(0.04)	(0.03)	(0.19)
Total assets	79,599,515	69,130,987	67,958,584
Debt - non-current	6,373,830	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.

	2017				2016			
	Dec-31	**Sep-30**	**Jun-30**	**Mar-31**	**Dec-31**	**Sep-30**	**Jun-30**	**Mar-31**
Net gain (loss)	(4,523,814)	(1,504,932)	(1,009,170)	(5,110,613)	226,280	(2,913,239)	(2,988,883)	(2,198,804)
Basic and fully diluted loss per common share(1)	(0.02)	(0.01)	—	(0.02)	—	(0.01)	(0.01)	(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 recognized as a developer, miner, processer and refiner of specialty energy and eco-metals, together with gold and other by-products that contribute to the growing green economy. Supporting the vision is Fortune's mission to profitably produce specialty and precious metals to meet the needs of our customers and partners, and to attract and develop 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 cobalt-gold-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 this project. The NICO project comprises a proposed mine, mill and concentrator in the Northwest Territories and a related hydrometallurgical process refinery 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.

When NICO is developed, Fortune will be an important new producer of battery grade cobalt sulphate to the rapidly expanding lithium-ion rechargeable battery industry, which supplies these batteries for use in portable electronic devices, electric vehicles, and stationary storage cells for the electrical grid. Fortune will also produce environmentally friendly bismuth metals and oxide used in the automotive and pharmaceutical industries and as a non-toxic replacement for lead in a growing green economy. NICO will also be a significant producer of gold and will produce minor amounts of by-product copper. As a Canadian vertically integrated producer, Fortune will be able to demonstrate supply chain transparency and custody control of metals from ores through to the production of value added products and mitigate risks from current sources of cobalt and bismuth supply in the Congo and China.

A feasibility study report (the "2014 Feasibility Study") was prepared in order to document a number of improvements to the NICO project since the preparation of 2012 FEED Study, and to produce a document to support a contemplated transaction to develop the asset, which was not completed. The report updated 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 Limited ("Micon") 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, 2017:

- 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 to determining construction schedule certainty for the 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 Tlicho All-Season Road ("TASR") will consist of approximately 97 km of a new 2-lane road from Highway 3 to the community of Whati, and includes four new bridges and one large arched culvert. The routing for the TASR follows an existing brownfield land-based winter road route to minimize environmental disturbance and lower construction costs. In September, the GNWT announced that it had completed the Request for Qualification process and short-listed three consortiums of Canadian and international construction companies to advance to the Request for Proposal phase for the finance, design, construction, operation and maintenance of the remaining 75% cost of this road under a Public Private Partnership (P3). The project is currently in the late stages of environmental assessment led by the Mackenzie Valley Environmental Impact Review Board which is expected to be completed in the second quarter of 2018. Confirmation that funding is now available will inform the environmental assessment process in terms of timing for construction;

- Continued discussions with various parties to determine all available options for financing the NICO project. 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;
- Continued discussions with companies interested in acquiring off-take for the metals and chemicals Fortune plans to produce from the NICO project;
- Completed a short form prospectus offering in March 2017 (the "Prospectus Offering") of units (the "Prospectus Units") of the Corporation with Cormark Securities Inc., acting as underwriter, on a bought deal basis. In connection with the Prospectus Offering, the Company issued 25,800,000 Prospectus Units at a price of $0.25 per Prospectus Unit for total gross proceeds of $6,450,000 (including 3,000,000 Prospectus Units issued as a result of the underwriter exercising its overallotment option in full). Each Prospectus Unit consisted of one common share in the capital of the Company (a "Common Share") and one-half of one Common Share purchase warrant (a "Prospectus Warrant"), with each Prospectus Warrant entitling the holder thereof to purchase one Common Share at a price of $0.35 for a period of two years following the closing date. Proceeds are expected to be used to support Company activities toward advancing the NICO project;
- Engaged Hatch Ltd. ("Hatch"), P&E Mining Consultants Inc. ("P&E") and Micon to update the 2014 Feasibility Study for the NICO project. In addition to updating economics for NICO using current costs, and updated exchange rates and commodity prices, Hatch, P&E and Micon have also been retained to conduct additional engineering work. This will include design improvements including to the cobalt sulphate circuit, with the expected effect of increasing annual production by approximately 20-30% in order to better align cobalt production with market demands, improve economies of scale and return on investment, and increase production flexibility by incorporating a stockpiling strategy to better manage the production of bismuth and cobalt relative to their respective markets. The updated feasibility study is expected to be issued by the end of the second quarter of 2018;
- Conducted ongoing environmental work to support the Company's NICO project permits;
- Constructed roads at the NICO site to support current environmental monitoring programs;
- Completed a small metallurgical testing program to assist with downstream cobalt sulphate heptahydrate production engineering;
- Updated materials to support the rezoning application for the Company's lands in Saskatchewan to allow for the development of the SMPP; and
- Completed a non-brokered private placement in December 2017 (the "Private Placement Offering") of units of securities of the Company ("Private Placement Units") for total gross proceeds of $5,000,000. Up to 29,411,766 Private Placement Units were issued at a subscription price of $0.17 per Private Placement Unit. Each Private Placement Unit consisted of one Common Share and one-half of one Common Share purchase warrant with each whole warrant entitling the holder to purchase one Common Share at a price of $0.25 for a period of two years following the closing date.

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, which expires on May 1, 2025. On March 31, 2017, the Government of British Columbia imposed a 20-year moratorium on major industrial development within parts of the Klappan area. During the 10-year option period currently in effect, the coal licenses are excluded from this moratorium on industrial development within the Klappan area.

RESULTS OF OPERATIONS

Summary

The Company's net loss for the year ended December 31, 2017 was $12,148,529 or $0.04 per share compared to $7,874,646 and $0.03 per share for the prior year.

Expenses

Expenses increased in 2017 to $12,148,529 compared to $7,874,646 for the year ended December 31, 2016.

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

- Increase in revaluation of derivatives;
- Increase in corporate development expenditures as more time is being spent on securing financing for the NICO project, including the engagement of PwCCF;
- Increase in investor relations and regulatory fees as a result of financing activity and increased marketing of the Company;
- Increase in administrative expenditures related to increase in staff and officers, related benefits and increase in travel; and
- Increase in interest expense related to interest accrued on the Company's long-term debt, which is compounded semi-annually.

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

- Increase in interest and other income related to cash and investments held;
- Increase in gain on flow-through share premium related to the flow-through shares issued in October 2016; and
- Decrease in stock-based compensation expense as a result of 3,800,000 stock options being granted in 2017 with an exercise prices between $0.185 and $0.30 compared to 12,400,000 granted in 2016 with exercise prices between $0.05 and $0.12. The value of the options granted in 2017 were calculated using a risk free rate between 0.95% and 1.62%, volatility between 101% and 105% with a 2-5 year term compared to between 0.54%-0.75%, 101%-122% and 3-5 year terms, respectively, for those options granted in the same period in 2016.

Deferred Taxes

The Company has not recognized a net deferred income tax recovery or provision for the years ended December 31, 2017 and 2016. During the year ended December 31, 2017, recognition of $3,251,000 from the estimated tax loss and $10,750 for non-taxable flow-through share premium resulted in an income tax recovery which was offset by a tax provision of $2,434,000 for non-deductible change in fair value of derivative, $418,250 for a loss carryforward not recognized, $268,000 for non-deductible stock-based compensation and other expenses, $116,000 for renunciation of flow-through expenses and $25,500 for tax rate difference. During the same period in 2016, a 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, $53,000 for renunciation of flow-through expenses, $217,000 for non-deductible stock-based compensation and other expenses and $40,000 for tax rate difference.

A valuation allowance of $15,480,000 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, 2017 was $1,480,482 compared to $1,336,886 for the same period in 2016. The use of cash in operating activities has slightly increased year over year which is attributed to items discussed above in the "Expenses" section.

Cash used in investing activities was $2,622,791 compared to $338,913 when comparing the years ended December 31, 2017 and 2016, respectively. This increase related primarily to an increase in exploration and evaluation expenditures from $401,156 in 2016 to $1,854,532 in 2017 due to an increase in activity related to the NICO project.

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, 2017 were $488,744 and $1,854,532 respectively, and were spent on the projects as follows:

	Three months ended December 31, 2017	**Year ended December 31, 2017**
NICO	$ 488,744	$ 1,851,729
All Other Projects	—	2,803
Total cash exploration and evaluation expenditures	**$488,744**	**$ 1,854,532**

For comparison, exploration and evaluation 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

Exploration and evaluation expenditures for the three and twelve months ended December 31, 2017 were higher compared to the same period in 2016, as a result of an increase in activity at NICO. With respect to NICO, the Company, in prior years, had reduced spending pending further financing and the construction of an all-weather road.

Cash provided by financing activities increased to $11,687,769 from $2,471,010 for the years ended December 31, 2017 and 2016, respectively. Cash provided in 2017 was a result of gross proceeds of $6,450,000 raised pursuant to the Prospectus Offering, the exercise of warrants and gross proceeds of $5,000,000 raised pursuant to the Private Placement Offering, 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, 2017 and 2016:

	2017		**2016**	
	Shares/Warrants Issued	**Cash Proceeds and Costs, Net**	**Shares/Warrants Issued**	**Cash Proceeds and Costs, Net**
	#	**$**	**#**	**$**
Common shares issued during the year				
Private offerings	55,211,766	8,350,950	43,821,427	2,410,000
Exercise of Warrants	5,386,250	807,937	—	
Exercise of Derivatives[(1)]	1,946,296	258,857		
Share issuance costs		(593,254)		(228,602)
Total	**62,544,312**	**8,824,490**	**43,821,427**	**2,181,398**
Average proceeds per share issued		**0.14**		**0.05**
Warrants issued during the year				
Private offerings	27,605,880	3,099,050	6,415,000	297,000
Issuance costs		(235,771)		(7,388)
Total	**27,605,880**	**2,863,279**	**6,415,000**	**289,612**
Average proceeds per warrant		**0.10**		**0.05**
Cash Proceeds from Financing Activities Net		**11,687,769**		**2,471,010**

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2017, Fortune had cash and cash equivalents of $8,524,567 and working capital of $8,320,615.

On March 8, 2017, the Company issued 25,800,000 Prospectus Units at a price of $0.25 per Prospectus Unit, pursuant to the Prospectus Offering, raising total gross proceeds of $6,450,000. Each Prospectus Unit consisted of one Common Share and one half of a Common Share purchase warrant with each warrant entitling the holder to purchase one Common Share for $0.35 on or before March 8, 2019. Between February 14, 2017 and August 15, 2017, 5,386,250 Common Share purchase warrants with an exercise price of $0.15 were exercised, raising gross proceeds of $807,937. Between December 6, 2017 and December 18, 2017, 1,946,296 warrants were exercised raising gross proceeds of $258,857. On December 8, 2017 and December 14, 2017, the Company issued a total of 29,411,766 units at a price of $0.17 per Private Placement Unit, pursuant to the Private Placement Offering, raising total gross proceeds of $5,000,000. Each Private Placement Unit consisted of one Common Share and one half of a Common Share purchase warrant eith each warrant entitling the holder to purchase one Common Share for $0.25 for a period of two years following the date of issuance, being on or before December 8, 2019 or December 14, 2019 as applicable.

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***
Accounts payable and accrued liabilities	**506,451**	**506,451**	—	—	—
Long-term debt	**8,750,000**	—	—	8,750,000	—
Interest on Long-term debt	**3,613,518**	—	—	3,613,518	—
Provision for Environmental Rehabilitation	**33,545**	—	—	—	33,545
Total Contractual Obligations	**12,903,514**	**506,451**	—	**12,363,518**	**33,545**

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 $2,350 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. 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 $8,320,615 at December 31, 2017, the Company has sufficient cash to conduct certain critical path activities in 2018. However, the NICO project requires further funding to advance the project through to production. Management is continuously 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 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:

- new Feasibility Study based on current costs and commodity prices to support project financing;
- working with governments to achieve certainty on the construction schedule for the TASR which will determine the mine construction schedule;
- completing 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;
- 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
- continuing detailed engineering and procurement activities once financing is secured.

In the year ending December 31, 2017, 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 2017 towards achieving the next major milestones for the NICO project will remain the Company's focus through 2018. 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, 2017, the Company paid key management personnel, including officers, directors, or their related entities, an aggregate of $1,000,635 for consulting and/or management services and legal services. In addition, stock options with a fair value of $441,600, using the Black-Scholes option pricing model, were granted to these individuals during the year ended December 31, 2017. At December 31, 2017, $77,250 was owing to these related parties for services received during the year.

The following table summarizes the amounts paid and payable to related parties and the nature of the payments as at December 31, 2017:

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	$ -	$ -	$ -	$ -	$ -	$ -	$ 34,500	$ 34,500	$ -
Clouter, Carl [1]	Director	-	-	27,025	-	-	-	34,500	61,525	-
Goad, Robin [2]	President & CEO, Director	6,376	-	319,250	6,250	-	-	69,000	394,626	6,250
Knight, David [3]	Corporate Secretary	-	-	-	-	163,632	70,000	-	163,632	70,000
Koropchuk, Glen [4]	Technical Director & COO, Director	2,409	-	192,000	-	-	-	69,000	263,409	-
Massola, David [5]	VP Finance & CFO	6,376	-	94,440	1,000	-	-	69,000	169,816	1,000
Naik, Mahendra	Director	-	-	-	-	-	-	55,200	55,200	-
Ramsay, David	Director	-	-	-	-	-	-	41,400	41,400	-
Schryer, Richard [6]	VP Environmental & Regulatory Affairs	6,066	-	183,061	-	-	-	27,600	216,727	-
Yurkowski, Edward	Director	-	-	-	-	-	-	41,400	41,400	-
Total		$ 21,227	$ -	$ 815,776	$ 7,250	$ 163,632	$ 70,000	$ 441,600	$ 1,442,235	$ 77,250

[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 Fulbright Canada LLP, which provides legal services to the Company. Mr. Knight is also the Company's Corporate Secretary.

[4] Glen Koropchuk is engaged to provide services of Technical Director and Chief Operating Officer of the Company pursuant to an independent consultant agreement effective May 1, 2017 and does not receive additional compensation for his services as a director.

[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] Richard Schryer is engaged to provide services of VP Environmental & Regulatory Affairs of the Company pursuant to an independent consultant agreement effective May 8, 2017.

[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, 2017, the Company considered whether there had been any significant changes to indicators and whether any new indicators were present. During the year ended December 31, 2017, commodity prices, specifically for cobalt, saw significant improvement and the Company had seen an increase in its share price, significantly reducing the market capitalization gap. Management determined that as a result of not obtaining financing during the year, substantive expenditure on further exploration for and evaluation of mineral resources of the NICO project cannot be budgeted or planned and completed an impairment assessment of the NICO project. As a result of that analysis, management has determined that the carrying value of its projects is not impaired or does not require a reversal of a prior impairment charge.

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 conditional 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 $8,320,615 and positive cash balances at December 31, 2017 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 2018, 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 2017, 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 $15,480,000, 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 it is not expected to have much impact on its consolidated financial statements as the Company currently has very simple financial assets.

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. The Company currently has no revenue stream as it is still in the development stage. As it evolves out of this stage, the Company will have a closer look at how this standard will impact how it recognizes revenue

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 2017. 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 $188,000, 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 inherent 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, Chief Operating 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$1,411/oz in 2013; annual average cobalt prices have ranged from a low of US$12.00/lb (2016) to a high of US$26.6/lb (2017); annual average copper prices have ranged from a low of US$2.21/lb (2016) to a high of US$3.33/lb (2013); 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 GOC, the GNWT 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 2017, 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.

During the year ended December 31, 2017, profit and losses associated with each financial instrument is as follows:

	Impact on Profit (Loss)
Reclamation security deposits	(10,136)
Long-term debt	(967,168)
Derivative liability	(9,112,085)

ADDITIONAL INFORMATION

Additional information relating to the Company, including its annual information form, is available on SEDAR at www.sedar.com.

SHARE DATA

As at the date hereof, the Company has 338,403,220 common shares issued and outstanding, 87,973,216 warrants which entitle the holder to purchase one common share at various prices between $0.13 and $0.35 and expiring at various dates between October 28, 2018 and August 12, 2022, and stock options to purchase an aggregate of 16,530,000 common shares expiring at various dates between September 18, 2018 and March 22, 2023 and exercisable at various prices between $0.05 and $0.37 per share. All stock options have vested as at the date hereof, except for 100,000 options exercisable at $0.30, of which 50,000 vest on June 14, 2018 and 50,000 vest on December 14, 2018 and 25,000 options exercisable at $0.285 which vest on March 22, 2019.

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, 2017. 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, 2017 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, 2017. 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, 2017 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, 2017 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 and the expected results of the update to the 2014 Feasibility Study. 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; the risk that the TASR may not be constructed in a timely fashion or at all; uncertainties with respect to the receipt or timing of required permits and agreements for the development of the NICO project or the SMPP; the risk that the update to the 2014 Feasibility Study may not generate improved economics for the NICO project to the extent anticipated; 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, 2017 and 2016

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
633 Colborne Street, Suite 300
London, ON
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 and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of loss and other comprehensive loss, changes in shareholders' equity, and cash flows for the years ended December 31, 2017 and December 31, 2016, 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 and its subsidiaries as at December 31, 2017 and December 31, 2016 and its financial performance and its cash flows for the years ended December 31, 2017 and December 31, 2016 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Fortune Minerals Limited and its subsidiaries' ability to continue as a going concern.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

London, Ontario
March 22, 2018

Fortune Minerals Limited
Incorporated under the laws of Ontario

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(expressed in Canadian dollars)

See note 2 going concern uncertainty

As at	**December 31, 2017**	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents *[note 9]*	**8,524,567**	940,071
Reclamation security deposits *[note 7]*	**25,000**	25,000
Accounts receivable	**241,530**	63,945
Prepaid expenses	**35,969**	40,066
Total current assets	**8,827,066**	1,069,082
Reclamation security deposits *[note 7]*	**188,976**	143,260
Capital assets, net *[note 8]*	**71,318**	102,245
Mining properties *[note 3]*	**70,512,155**	67,816,400
	79,599,515	69,130,987
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**506,451**	139,521
Flow-through share premium deferred gain	**—**	40,229
Total current liabilities	**506,451**	179,750
Provision for environmental rehabilitation *[note 7]*	**33,545**	23,409
Long-term debt *[note 10]*	**6,373,830**	5,406,662
Derivatives *[note 5ii[b]]*	**14,931,779**	5,819,694
Total liabilities	**21,845,605**	11,429,515
SHAREHOLDERS' EQUITY		
Share capital *[note 5]*	**172,923,028**	161,748,120
Other reserves *[notes 5 and 6]*	**12,940,075**	11,916,014
Deficit	**(128,109,193)**	(115,960,664)
Accumulated other comprehensive income	**—**	(1,998)
Total shareholders' equity	**57,753,910**	57,701,472
	79,599,515	69,130,987

See accompanying notes

[Signed]

Robin Goad
Director

[Signed]

Mahendra Naik
Director

Fortune Minerals Limited

CONSOLIDATED STATEMENTS OF LOSS AND OTHER COMPREHENSIVE LOSS

(expressed in Canadian dollars)

For the year ended December 31,	**2017**	2016
EXPENSES		
Administrative	**(1,006,234)**	(836,738)
Investor relations and regulatory fees	**(304,337)**	(178,801)
Stock-based compensation *[note 6]*	**(322,920)**	(394,250)
Corporate development costs	**(485,324)**	(141,127)
Interest expense *[note 10]*	**(967,239)**	(872,039)
Accretion *[note 7]*	**(10,136)**	8,279
Amortization	**(30,927)**	(45,869)
Interest and other income	**52,368**	14,118
Loss on disposal of capital assets	**—**	(3,887)
Gain on flow-through share premium	**40,229**	1,021
Foreign exchange gain (loss)	**(1,924)**	(1,405)
Change in fair value related to derivative liability *[note 5ii[b]]*	**(9,112,085)**	(5,423,948)
Net loss for the year	**(12,148,529)**	(7,874,646)
Other comprehensive income		
Currency translation adjustment	**1,998**	25
Net comprehensive loss	**(12,146,531)**	(7,874,621)
Basic and diluted loss per share *[note 15]*	**(0.04)**	(0.03)

See accompanying notes

Fortune Minerals Limited

CONSOLIDATED STATEMENTS OF CASH FLOWS

(expressed in Canadian dollars)

For the year ended December 31,	**2017**	2016
OPERATING ACTIVITIES		
Net loss for the year from continuing operations	**(12,148,529)**	(7,874,646)
Changes in non-cash working capital balances related to operations		
Accounts receivable	**(177,585)**	58,870
Prepaid expenses	**4,097**	(20,550)
Accounts payable and accrued liabilities	**366,930**	(231,193)
Accrued interest on debentures *[note 10]*	**475,067**	452,375
	(11,480,020)	(7,615,144)
Add (deduct) items not involving cash		
Accretion	**10,136**	(8,279)
Amortization	**30,927**	45,869
Reclassification of other comprehensive income *[note 2iii]*	**1,998**	—
Gain on flow-through share premium	**(40,229)**	(1,021)
Stock-based compensation *[note 6]*	**392,520**	394,250
Non-cash portion of loan discount *[note 10]*	**492,101**	419,604
Loss on disposal of capital assets	**—**	3,887
Change in fair value related to derivative liability	**9,112,085**	5,423,948
Cash used in operating activities	**(1,480,482)**	(1,336,886)
INVESTING ACTIVITIES		
Increase in exploration and evaluation expenditures	**(1,854,532)**	(401,156)
Purchase of capital assets, including in mining properties	**(722,543)**	(5,907)
Posting of security for reclamation security deposits, net	**(45,716)**	—
Receipt of reclamation security deposit	**—**	68,000
Proceeds on disposal of capital assets in mining properties	**—**	150
Cash used in investing activities	**(2,622,791)**	(338,913)
FINANCING ACTIVITIES		
Proceeds on issuance of shares, net *[noted 5i.[a] and [b]]*	**10,620,975**	2,471,010
Proceeds on exercise of derivatives *[note 5ii.[b]]*	**258,857**	—
Proceeds on exercise of warrants *[note 5ii.[a]]*	**807,937**	—
Cash provided by financing activities	**11,687,769**	2,471,010
Effect of foreign exchange on cash	**—**	25
Increase in cash and cash equivalents during the year, net	**7,584,496**	795,211
Cash and cash equivalents, beginning of year	**940,071**	144,835
Cash and cash equivalents, end of year *[note 9]*	**8,524,567**	940,071

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, 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	43,821,427	2,410,000	6,415,000	297,000	2,707,000	—	—	—	2,707,000
Flow-through share premium deferred gain	—	(41,250)	—	—	(41,250)	—	—	—	(41,250)
Share issuance costs, net of tax	—	(228,602)	—	(7,388)	(235,990)	—	—	—	(235,990)
Warrant expiration date amendment	—	(151,245)	—	(227,520)	(378,765)	378,765	—	—	—
Stock options granted	—	—	—	—	—	520,580	—	—	520,580
Net loss for the year	—	—	—	—	—	—	(7,874,646)	—	(7,874,646)
Foreign currency translation	—	—	—	—	—	—	—	25	25
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**
Issued as a result of:									
Private offerings *[note 5i.]*	55,211,766	8,350,950	27,605,880	3,099,050	11,450,000	—	—	—	11,450,000
Share issuance costs, net of tax *[notes 5i. and 5ii.]*	—	(593,254)	—	(235,771)	(829,025)	—	—	—	(829,025)
Exercise of warrants *[note 5ii.]*	5,386,250	978,933	(5,386,250)	(170,996)	807,937	—	—	—	807,937
Exercise of derivatives *[note 5 ii[b]]*	1,946,296	258,857	—	—	258,857	—	—	—	258,857
Stock options granted *[note 6]*	—	—	—	—	—	511,200	—	—	511,200
Expiration of warrants	—	—	(7,149,783)	(512,861)	(512,861)	512,861	—	—	—
Net loss for the year	—	—	—	—	—	—	(12,148,529)	—	(12,148,529)
Foreign currency translation	—	—	—	—	—	—	—	1,998	1,998
December 31, 2017	**333,443,319**	**170,302,749**	**27,770,880**	**2,620,279**	**172,923,028**	**12,940,075**	**(128,109,193)**	**—**	**57,753,910**

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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, 2017 were authorized for issuance by the Board of Directors on March 22, 2018.

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 $8,320,615 at December 31, 2017, the Company has sufficient cash to conduct certain critical path activities in 2018. However, the NICO project requires further funding to advance the project through to production and the Company has engaged a consulting firm, 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 2018 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 its subsidiarys' 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.

Fortune Minerals Marketing Limited, a company incorporated under the Companies Act of Barbados and domiciled in Barbados was dissolved on April 5, 2017. As a result of the dissolution, the Company has recognized $1,998 of other comprehensive income related to foreign currency translation in the statement of loss and other comprehensive loss.

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 and uses its judgment when identifying impairment indicators. Significant inputs into this model included estimates of commodity values, discount rates, useful life of a mine and future operating costs.

[b] *Fair values*

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

[c] *Exploration and evaluation expenditures*

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

[d] *Income taxes*

Income taxes requires 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.

[e] *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 of economically recoverable reserves, and active operations are continuing or planned for the future

As at December 31, 2017, 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:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

	December 31, 2017			
	Capital Assets $	**Property Costs $**	**Exploration and Evaluation Expenditures $**	**Total Mining Properties $**
NICO *[i]*	**7,351,927**	**2,191,442**	**60,792,071**	**70,335,440**
Sue-Dianne	**—**	**9,164**	**157,520**	**166,684**
Other properties	**—**	**—**	**10,031**	**10,031**
	7,351,927	**2,200,606**	**60,959,622**	**70,512,155**

	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

During the year ended December 31, 2017 there was no change to Property Costs [2016 – Nil] and Exploration and Evaluation Expenditures increased by $1,994,636 [2016 - $553,737]. There were no disposals, write-offs or amortization.

Exploration and evaluation expenditures capitalized to mining properties during the year ended December 31, 2017 and 2016 include the following:

	December 31, 2017 $	December 31, 2016 $
Employee and contractor compensation and benefits	**570,180**	321,971
Amortization	**35,914**	46,641
Stock-based compensation	**104,190**	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**
Cost								
As at December 31, 2016	5,587,193	1,179,717	593,724	592,034	18,060	900,356	6	8,871,090
Additions	737,033	—	—	—	—	—	—	737,033
As at December 31, 2017	**6,324,226**	**1,179,717**	**593,724**	**592,034**	**18,060**	**900,356**	**6**	**9,608,123**
Accumulated amortization								
As at December 31, 2016	—	1,048,943	582,060	571,478	17,801	—	—	2,220,282
Amortization for the year	—	26,171	3,499	6,166	78	—	—	35,914
As at December 31, 2017	**—**	**1,075,114**	**585,559**	**577,644**	**17,879**	**—**	**—**	**2,256,196**
Net book value								
As at December 31, 2016	5,587,193	130,774	11,664	20,556	259	900,356	6	6,650,808
As at December 31, 2017	**6,324,226**	**104,603**	**8,165**	**14,390**	**181**	**900,356**	**6**	**7,351,927**

Included in surface facilities under construction during the year ended December 31, 2017 is $42,036 [December 31, 2016 - $4,329] of directly attributable employee and contractor compensation and benefits and $14,490 [December 31, 2016 - $20,390] 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, 2017.

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, 2017, the Company considered whether there had been any significant changes to impairment indicators from its previous impairment assessment completed at December 31, 2016 and whether any new indicators were present. During the year ended December 31, 2017, commodity prices, specifically cobalt and gold, saw significant improvement and the Company has seen an increase in its share price, reducing the market capitalization gap. Management determined that as a result of not obtaining financing during the year, substantive expenditure on further exploration for and evaluation of mineral resources of the NICO project cannot be budgeted or planned and completed an impairment assessment of the NICO project. As a result of that analysis, management has determined that the carrying value of its projects is not impaired or does not require a reversal of a prior impairment charge.

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

Assumptions underlying the estimate of the recoverable amount included expected commodity prices based on forecasted averages of US$1,250/oz for gold, US$23.40/lb for cobalt and US$7.14/lb for bismuth and an exchange rate of US$0.80: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.

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*[b] 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, 2017, the weighted average number of common shares outstanding was 297,385,408 [December 31, 2016 - 254,558,843].

The Company completed the following share issuances during the year ended December 31, 2017 and 2016:

	2017	2016
Shares outstanding, beginning of year	**270,899,007**	227,077,580
Issuance of Shares	**55,211,766**	43,821,427
Exercise of warrants *[note 5ii.[a]]*	**5,386,250**	—
Exercise of derivatives *[note 5ii.[b]]*	**1,946,296**	—
Shares outstanding, end of year	**333,443,319**	270,899,007

[a] On March 8, 2017, 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 fair value of the shares and warrants issued was $4,429,225 and $2,020,775, 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 153.50%, risk free interest rate of 0.79% and expected life of 2 year. Share issuance costs of $594,933 were incurred to complete the financing.

[b] On December 8, 2017 and December 14, 2017, the Company entered into a subscription agreement to sell 26,381,999 and 3,029,767 units, respectively, at a price of $0.17 per unit, raising gross proceeds of $5,000,000. 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 $0.25 on or before December 8, 2019 and December 14, 2019, respectively. The fair value of the shares and warrants issued was $3,921,725 and $1,078,275, 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 101%, risk free interest rate between 1.50% and 1.57% and expected life of 2 years. Share issuance costs of $234,092 were incurred to complete the financing

[c] As at December 31, 2017, 900,000 [2016 – 900,000] issued common shares are being held in escrow, subject to certain production thresholds for the NICO property.

[d] During 2016, the Company issued 43,821,427 shares through subscription agreements and one flow-through agreement. The subscription agreements were entered into on March 9, April 8, August 5 and August 15 for 14,285,714 ($0.035 per share), 14,285,713 ($0.035 per share), 10,000,000 ($0.10 per unit) and 2,500,000 ($0.10 per unit), respectively, raising gross proceeds of $500,000, $500,000, $1,000,000 and $250,000, respectively. The units issued on August 5 and August 15 consisted of one common share and one half of a common share purchase warrant. One warrant entitled the holder to purchase one common share of the Company for $0.15 for a period of one year following the closing date. These units have all been exercised or expired during 2017. The Company entered into a flow-through agreement on October 28 to issue 2,750,000 shares at a price of $0.16 per share raising gross proceeds of $440,000.

ii. Share Purchase Warrants

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

	2017			2016		
	Warrants		Weighted Average Exercise Price	Warrants		Weighted Average Exercise Price
Warrants outstanding, beginning of year	**12,701,033**	**$**	**0.22**	6,286,033	$	0.28
Issue of warrants *[notes 5i.[a] and [b]]*	**27,605,880**		**0.30**	6,415,000		0.15
Exercise of warrants *[note 5ii.[a]]*	**(5,386,250)**		**0.15**	—		—
Expiry of Warrants *[note 5ii.[a]]*	**(7,149,783)**		**0.25**	—		—
Warrants outstanding, end of year	**27,770,880**	**$**	**0.30**	12,701,033	$	0.22

[a] During the year ended December 31, 2017, 5,386,250 warrants with an exercise price of $0.15 were exercised raising gross proceeds of $807,937. These warrants had a book value of $170,996. During the year ended December 31, 2017, 7,149,783 warrants with an exercise price between $0.15 and $0.40 expired unexercised. These warrants had a book value of $512,861.

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

The following is a summary of changes in derivatives for the year ended December 31,

	2017		2016	
	Class A	**Class B**	Class A	Class B
Derivatives outstanding, beginning of year	**14,140,493**	**50,365,661**	12,705,153	43,830,066
Exercise of derivatives	**(1,946,296)**	**—**	—	—
Adjustment as a result of General Offering	**—**	**1,352,379**	1,435,340	6,535,595
Shares outstanding, end of year	**12,194,197**	**51,718,040**	14,140,493	50,365,661

The exercise price for Class A and Class B warrants were $0.133 [2016 - $0.133] and $0.208 [2016 - $0.214], respectively, at December 31, 2017 and 2016.

On December 6, 2017 and December 18, 2017, 689,781 and 1,256,515 Class A warrants, respectively, were exercised with an exercise price of $0.133 raising gross proceeds of $258,857. Subsequent to year end 3,709,901 Class A warrants were exercised with an exercise price of $0.133 raising gross proceeds of $493,417.

The determination of the fair value of the resulting derivative requires the Company to make a number of assumptions and estimates regarding the inputs into the model used to determine the value of the warrants. 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 $0.02 [2016 - $0.01], will result in the value of the derivative changing by approximately $1,490,000 [2016 - $615,000].

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 21, 2017. 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, 2017, the Company has 14,294,332 [2016 – 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 3,700,000 and 12,400,000 options granted and vested during the year ended December 31, 2017 and 2016, respectively, has been allocated to investor relations and regulatory fees, stock-based compensation expense, corporate development costs, exploration and evaluation expenditures and capital assets in the amounts of $7,500 [2016 – Nil], $322,920 [2016 - $394,250], $62,100 [2016 – Nil], $104,190 [2016 - $105,940] and $14,490 [2016 – $20,390], respectively. The other reserves balance was increased by $511,200 [2016 – $520,580], representing the fair value of the options issued. The options granted during the year ended December 31, 2017 have a maximum term of between two and five years and all vested immediately, except for 50,000 options which vest on June 14, 2018 and 50,000 options which vest on December 14, 2018. 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 101.40% and 105.43%, risk free interest rate between 0.95% and 1.62% and expected life between 1.83 and 4.58 years. 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, 2017 and December 31, 2016, and changes during the years ended on those dates are presented below:

	December 31, 2017		December 31, 2016	
	Number of shares #	**Weighted-average exercise price $**	Number of shares #	Weighted-average exercise price $
Options outstanding, beginning of period	**15,340,000**	**0.14**	3,970,000	0.61
Granted	**3,800,000**	**0.19**	12,400,000	0.06
Expired or cancelled	**(90,000)**	**0.84**	(1,030,000)	0.95
Options outstanding, end of year	**19,050,000**	**0.15**	15,340,000	0.14
Options vested and outstanding, end of year	**18,950,000**	**0.15**	15,340,000	0.14

The following tables summarize information about the options outstanding as at December 31, 2017 and 2016:

December 31, 2017

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	17,730,000	17,630,000	0.11	2.13
0.50 – 0.99	1,320,000	1,320,000	0.60	0.09
	19,050,000	18,950,000		

[i] The weighted average exercise price and weighted average remaining contract life are the same for options outstanding and options vested and outstanding with the exception of 150,000 options exercisable at $0.30, of which only 50,000 options have vested at December 31, 2017.

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.

Subsequent to year end, 1,000,000 options with an exercise price of $0.05 and 250,000 options with an exercise price of $0.185 were exercised raising gross proceeds of $96,250. On February 1, 2018, 1,320,000 options with an exercise price of $0.60 expired unexercised.

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, 2017	December 31, 2016
NICO Project		
Provision for environmental rehabilitation *[i]*	**$33,545**	$23,409
Estimated remaining life	**20 years**	21 years
Discount rate	**9%**	9%
Total provision for environmental rehabilitation	**$33,545**	$23,409

[i] During the year ended December 31, 2017 the reclamation security deposit for the NICO project was increased by $45,000 [2016 – decreased by $68,000]. As a result, the provision for environmental rehabilitation has been adjusted to reflect this increase.

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, 2017	December 31, 2016
	Deposit amount $	Deposit amount $
NICO Project	**188,976**	143,260
Arctos Anthracite Project	**25,000**	25,000
Total Net Book Value	**213,976**	168,260

The security for the reclamation of the Arctos Anthracite Project is held in the Arctos JV. As at December 31, 2017, the security deposit amount in the Arctos JV was $25,000 [December 31, 2016 - $25,000]. The Company expects this amount to be released once the Province has completed its site inspection.

In July 2017, the security for the reclamation of the NICO project was increased by $45,000 as a result of additional work completed under an existing Land Use Permit.

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, 2016	194,138	117,216	316,646	628,000
As at December 31, 2017	**194,138**	**117,216**	**316,646**	**628,000**
Accumulated amortization				
As at December 31, 2016	169,282	93,109	263,364	525,755
Amortization for the year	7,457	4,821	18,649	30,927
As at December 31, 2017	**176,739**	**97,930**	**282,013**	**556,682**
Net book value				
As at December 31, 2016	24,856	24,107	53,282	102,245
As at December 31, 2017	**17,399**	**19,286**	**34,633**	**71,318**

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, 2017. 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:

		2017		2016
Debentures at maturity	**$**	**8,750,000**	$	8,750,000
Loan discount		**(3,487,402)**		(3,979,503)
Accrued interest on debentures		**1,111,232**		636,165
	$	**6,373,830**	$	5,406,662

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, 2017, $492,101 [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, 2017 and 2016:

		December 31, 2017	
	Level 1 $	Level 2 $	Level 3 $
Cash and cash equivalents	8,524,567	—	—
Long-term debt	—	—	6,373,830
Derivatives	—	—	14,931,779

	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, 2017 and 2016. Payments due by year are as follows:

	December 31, 2017		
	Total	2018	2022
Accounts payable and accrued liabilities	$ 506,451	$ 506,451	$ —
Long-term debt	8,750,000	—	8,750,000
Accrued interest on debentures	3,613,518	—	3,613,518
	$ 12,869,969	$ 506,451	$ 12,363,518

	December 31, 2016		
	Total	2017	2022
Accounts payable and accrued liabilities	$ 139,521	$ 139,521	$ —
Long-term debt	8,750,000	—	8,750,000
Accrued interest on debentures	3,613,518	—	3,613,518
	$ 12,503,039	$ 139,521	$ 12,363,518

12. INCOME TAXES

The Company has non-capital loss carryforwards totaling $44,000,000 [2016 - $35,850,000], net capital loss carryforwards of $17,843,000 [2016 – $17,385,000], un-deducted debt and share issuance costs of $843,000 [2016 - $392,000] and unused investment tax credits on pre-production mining costs of $1,975,000 [2016 - $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 $15,480,000 [2016 - $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, 2017 $	December 31, 2016 $
Deferred income tax assets		
Net operating loss carryforwards	**11,720,000**	9,554,000
Undeducted debt and share issuance costs *[i]*	**225,000**	105,000
Unused investment tax credits on pre-production costs	**1,975,000**	2,779,000
Tax value of exploration and evaluation expenditures and capital assets in excess of book value	**1,560,000**	2,934,000
	15,480,000	15,372,000
Less valuation allowance related to operating losses, share issuance costs and unused investments tax credits	**(15,480,000)**	(15,372,000)
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, 2017 $	December 31, 2016 $
Combined federal and provincial income tax rate	**26.71%**	26.68%
Corporate income tax recovery at statutory rate	**(3,251,000)**	(2,101,000)
Increase (decrease) in income taxes resulting from		
Non-deductible stock-based compensation and other expenses	**268,000**	217,000
Non-deductible change in fair value of derivative	**2,434,000**	1,448,000
Renunciation of flow-through expenses	**116,000**	53,000
Rate difference	**25,500**	40,000
Non-taxable flow-through share premium	**(10,750)**	—
Investment tax credits on pre-production mining costs, net of tax	**—**	(13,000)
Tax value of loss carryforwards not recognized	**418,250**	356,000
	—	—

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, 2017, 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, 2017 $	December 31, 2016 $
Salaries and benefits	**21,227**	6,722
Consulting services	**815,776**	389,200
Legal services	**163,632**	141,000
Fair value of stock options granted	**441,600**	439,000
	1,442,235	975,922

As at December 31, 2017, $77,250 [December 31, 2016 - $17,270] 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, 2017, there were 16,050,000 [2016 – 10,400,000], 165,000 [2016 – Nil] and 63,912,237 [2016 – Nil] weighted average options, warrants and derivative warrants outstanding, respectively, with an exercise price less than the average market price but these were excluded from the fully diluted loss per share computation because inclusion would have been anti-dilutive.

	December 31, 2017	December 31, 2016
Net loss	**$ (12,148,529)**	$ (7,874,646)
Weighted average number of common shares	**297,385,408**	254,558,843
Basic and fully diluted loss per share	**$ (0.04)**	$ (0.03)

16. CONSOLIDATED STATEMENTS OF CASH FLOWS

Supplemental cash flow information for the year ending:

	December 31, 2017 $	December 31, 2016 $
Interest and investment income received	38,529	2,566

17. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET IN EFFECT

i. 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 assets.

- 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 exploration and evaluation 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.