

Consolidated Financial Statements

**Fortune Minerals Limited**

December 31, 2019 and 2018

## **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 consolidated 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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## Independent Auditor's Report

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### To the Shareholders of Fortune Minerals Limited

#### Opinion

We have audited the consolidated financial statements of Fortune Minerals Limited and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018 and the consolidated statements of income (loss) and other comprehensive income (loss), cash flows and changes in shareholders' equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

#### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Group requires further funding to advance its mining projects through to production. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

#### Other Information

Management is responsible for the other information. The other information comprises:

- The information included in the Management's Discussion and Analysis of Financial Conditions and Results of Operations for the year ended December 31, 2019.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.



We obtained the Management's Discussion and Analysis of Financial Conditions and Results of Operations for the year ended December 31, 2019 prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Jeanny Gu.

*BDO Canada LLP*

Chartered Professional Accountants, Licensed Public Accountants

London, Ontario  
March 30, 2020

**Fortune Minerals Limited**

Incorporated under the laws of Ontario

**CONSOLIDATED STATEMENTS OF  
FINANCIAL POSITION**

(expressed in Canadian dollars)

As at	See note 2 going concern uncertainty	
	December 31, 2019	December 31, 2018
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents <i>[note 10]</i>	2,104,901	3,611,228
Reclamation security deposits <i>[note 7]</i>	25,000	25,000
Accounts receivable	490,650	99,187
Prepaid expenses	54,470	58,774
<b>Total current assets</b>	<b>2,675,021</b>	<b>3,794,189</b>
Reclamation security deposits <i>[note 7]</i>	194,326	191,245
Capital assets, net <i>[note 8]</i>	47,282	67,770
Mining properties <i>[note 3]</i>	73,897,037	74,272,856
	<b>76,813,666</b>	<b>78,326,060</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	179,809	321,906
Flow-through share premium deferred gain	362,004	—
<b>Total current liabilities</b>	<b>541,813</b>	<b>321,906</b>
Provision for environmental rehabilitation <i>[note 7]</i>	39,855	36,564
Long-term debts <i>[note 11]</i>	8,627,189	7,442,171
Derivatives <i>[note 5ii[b]]</i>	1,837,807	3,292,724
<b>Total liabilities</b>	<b>11,046,664</b>	<b>11,093,365</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital <i>[note 5]</i>	172,409,620	173,663,326
Other reserves <i>[notes 5 and 6]</i>	15,611,882	13,129,875
Deficit	(122,254,500)	(119,560,506)
<b>Total shareholders' equity</b>	<b>65,767,002</b>	<b>67,232,695</b>
	<b>76,813,666</b>	<b>78,326,060</b>

*See accompanying notes**[Signed]*Robin Goad  
Director*[Signed]*Mahendra Naik  
Director

**Fortune Minerals Limited**

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

(expressed in Canadian dollars)

For the year ended December 31,

	2019	2018
<b>REVENUE AND OTHER INCOME</b>		
Interest and other income <i>[note 13]</i>	42,153	90,302
	<b>42,153</b>	90,302
<b>EXPENSES</b>		
General and administrative	1,199,478	1,652,445
Interest	1,185,018	1,068,342
Corporate development	315,144	437,637
Amortization <i>[note 8]</i>	20,488	22,246
Change in fair value related to derivative liability <i>[note 5ii.[b]]</i>	(1,454,917)	(11,639,055)
Impairment charge <i>[note 3i.]</i>	1,470,936	—
	<b>2,736,147</b>	(8,458,385)
<b>Net income (loss) and comprehensive income (loss) for the year</b>	<b>(2,693,994)</b>	8,548,687
<b>Basic income (loss) per share <i>[note 17]</i></b>	<b>(0.01)</b>	0.03
<b>Diluted income (loss) per share <i>[note 17]</i></b>	<b>(0.01)</b>	0.02

*See accompanying notes*

**Fortune Minerals Limited**

**CONSOLIDATED STATEMENTS OF  
CASH FLOWS**

(expressed in Canadian dollars)

For the year ended December 31,

	2019	2018
<b>OPERATING ACTIVITIES</b>		
Net income (loss) for the year from continuing operations	(2,693,994)	8,548,687
Changes in non-cash working capital balances related to operations		
Accounts receivable	(391,463)	142,343
Prepaid expenses	4,304	(22,805)
Accounts payable and accrued liabilities	(142,097)	(184,545)
Accrued interest on debentures	524,498	499,224
	(2,698,752)	8,982,904
Add (deduct) items not involving cash		
Accretion	3,291	3,019
Amortization	20,488	22,246
Gain on flow-through share premium	(5,496)	—
Stock-based compensation	81,340	258,455
Non-cash portion of loan discount [note 11]	660,520	569,117
Change in fair value related to derivative liability	(1,454,917)	(11,639,055)
Impairment charge [note 3i.]	1,470,936	—
<b>Cash used in operating activities</b>	(1,922,590)	(1,803,314)
<b>INVESTING ACTIVITIES</b>		
Increase in exploration and evaluation expenditures	(1,486,191)	(2,463,277)
Purchase of capital assets, including in mining properties	(656,276)	(1,278,877)
Posting of security for reclamation security deposits, net	(3,081)	(2,269)
Proceeds on sale of mining properties	1,080,000	—
<b>Cash used in investing activities</b>	(1,065,548)	(3,744,423)
<b>FINANCING ACTIVITIES</b>		
Proceeds on issuance of shares, net	1,116,811	(35,269)
Proceeds on exercise of derivatives	—	493,417
Proceeds on exercise of options [note 6]	365,000	176,250
<b>Cash provided by financing activities</b>	1,481,811	634,398
<b>Decrease in cash and cash equivalents during the year net</b>	(1,506,327)	(4,913,339)
Cash and cash equivalents, beginning of year	3,611,228	8,524,567
<b>Cash and cash equivalents, end of year [note 10]</b>	2,104,901	3,611,228

See accompanying notes



## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(expressed in Canadian dollars)

	Common shares		Warrants		Subtotal	Other reserves	Deficit	Total shareholders' equity
	#	\$	#	\$	\$	\$	\$	\$
<b>December 31, 2017</b>	<b>333,443,319</b>	<b>170,302,749</b>	<b>27,770,880</b>	<b>2,620,279</b>	<b>172,923,028</b>	<b>12,940,075</b>	<b>(128,109,193)</b>	<b>57,753,910</b>
Issued as a result of:								
Share issuance costs, net of tax	—	(35,269)	—	—	(35,269)	—	—	(35,269)
Exercise of derivatives	3,709,901	493,417	—	—	493,417	—	—	493,417
Exercise of stock options	2,850,000	299,150	—	—	299,150	(122,900)	—	176,250
Stock options granted	—	—	—	—	—	295,700	—	295,700
Expiration of warrants	—	—	(165,000)	(17,000)	(17,000)	17,000	—	—
Net income for the year	—	—	—	—	—	—	8,548,687	8,548,687
<b>December 31, 2018</b>	<b>340,003,220</b>	<b>171,060,047</b>	<b>27,605,880</b>	<b>2,603,279</b>	<b>173,663,326</b>	<b>13,129,875</b>	<b>(119,560,506)</b>	<b>67,232,695</b>
Issued as a result of:								
Private offerings	12,250,000	1,202,135	450,000	22,865	1,225,000	—	—	1,225,000
Flow-through share premium deferred gain [note 5i.[a]]	—	(367,500)	—	—	(367,500)	—	—	(367,500)
Share issuance costs, net of tax [note 5i.[a]]	—	(106,878)	—	(1,311)	(108,189)	—	—	(108,189)
Exercise of stock options [note 6]	7,300,000	613,200	—	—	613,200	(248,200)	—	365,000
Stock options granted [note 6]	—	—	—	—	—	113,990	—	113,990
Expiration of warrants [note 5ii.[a]]	—	—	(27,605,880)	(2,616,217)	(2,616,217)	2,616,217	—	—
Net loss for the year	—	—	—	—	—	—	(2,693,994)	(2,693,994)
<b>December 31, 2019</b>	<b>359,553,220</b>	<b>172,401,004</b>	<b>450,000</b>	<b>8,616</b>	<b>172,409,620</b>	<b>15,611,882</b>	<b>(122,254,500)</b>	<b>65,767,002</b>

See accompanying notes

## **Fortune Minerals Limited**

# **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2019

## **1. CORPORATE INFORMATION**

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

The consolidated financial statements of Fortune Minerals Limited ["the Company"] for the year ended December 31, 2019 were authorized for issuance by the Board of Directors on March 26, 2020.

## **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 \$2,133,208 at December 31, 2019, the Company will require additional financing to conduct certain critical path activities in 2020. However, the NICO project requires further funding to advance the project through to production. This results in the existence of a material uncertainty that casts significant doubt about the Company's ability to continue as a going concern. Management is actively working to achieve positive cash flows beyond 2020 and is continually pursuing and considering various financing opportunities. The Company has historically been successful in financing its activities, however, there can be no assurances that the Company will be able to obtain continued support from existing lenders or obtain sufficient financing on terms acceptable to management to be able to meet its current liabilities as they come due, especially in light of the impact that COVID-19 could have on the global financial markets as a whole. These consolidated financial statements do not include adjustments, which may be material, to the amounts and classification of assets and liabilities that would be necessary should the going concern principle not be appropriate.

### *iii. Basis of Measurement*

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

These consolidated financial statements reflect the financial position and results of operations of the Company and its wholly owned subsidiaries Fortune Minerals NWT Inc. ["FMNWT"], Fortune Minerals Saskatchewan Inc. ["FMSI"], Fortune Coal Limited ["FCL"], and Fortune Minerals Mining Limited ["FMML"]. The Arctos Anthracite Joint Venture ["Arctos JV"] is accounted for as a joint operation and FCL recognizes its 50% interest in the assets, liabilities,

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

income, loss and expenses. All intercompany transactions and balances have been eliminated upon consolidation.

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

#### *iv. Judgment and Estimates*

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

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

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

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

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

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

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

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

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

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

Interests in mining properties consist of the following:

December 31, 2019				
	Capital Assets \$	Property Costs \$	Exploration and Evaluation Expenditures \$	Total Mining Properties \$
NICO [i]	6,665,876	2,191,442	64,857,290	73,714,608
Sue-Dianne	—	9,164	161,976	171,140
Other properties	—	—	11,289	11,289
	6,665,876	2,200,606	65,030,555	73,897,037

  

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

During the year ended December 31, 2019, there was no change to Property Costs [December 31, 2018 – Nil] and Exploration and Evaluation Expenditures increased by \$1,545,682 [December 31, 2018 - \$2,525,251]. There were no disposals, write-offs or amortization, with the exception of the disposal of capital assets discussed in note 3i. below.

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

Exploration and evaluation expenditures capitalized to mining properties during the year ended December 31, 2019 and 2018 include the following:

	<b>December 31, 2019</b>	December 31, 2018
	\$	\$
Employee and contractor compensation and benefits	<b>741,577</b>	651,521
Amortization	<b>30,361</b>	28,749
Stock-based compensation	<b>29,130</b>	33,225

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

Capital assets in mining properties consist of the following:

	Surface facilities under construction \$	Surface facilities \$	Camp structures \$	Mobile equipment \$	Site furniture and equipment \$	Land and land acquisition costs \$	Asset retirement obligation ["ARO"] \$	Total \$
<b>Cost</b>								
As at December 31, 2017	6,324,226	1,179,717	593,724	592,034	18,060	900,356	6	9,608,123
Additions	1,259,312	—	—	3,000	1,887	—	—	1,264,199
<b>As at December 31, 2018</b>	<b>7,583,538</b>	<b>1,179,717</b>	<b>593,724</b>	<b>595,034</b>	<b>19,947</b>	<b>900,356</b>	<b>6</b>	<b>10,872,322</b>
<b>Accumulated amortization</b>								
As at December 31, 2017	—	1,075,114	585,559	577,644	17,879	—	—	2,256,196
Amortization for the year	—	20,932	2,449	4,842	526	—	—	28,749
<b>As at December 31, 2018</b>	<b>—</b>	<b>1,096,046</b>	<b>588,008</b>	<b>582,486</b>	<b>18,405</b>	<b>—</b>	<b>—</b>	<b>2,284,945</b>
<b>Net book value</b>								
As at December 31, 2017	6,324,226	104,603	8,165	14,390	181	900,356	6	7,351,927
<b>As at December 31, 2018</b>	<b>7,583,538</b>	<b>83,671</b>	<b>5,716</b>	<b>12,548</b>	<b>1,542</b>	<b>900,356</b>	<b>6</b>	<b>8,587,377</b>
<b>Cost</b>								
As at December 31, 2018	7,583,538	1,179,717	593,724	595,034	19,947	900,356	6	10,872,322
Additions	595,211	—	—	—	30,708	33,877	—	659,796
Disposals/Impairment Charge	(1,641,703)	—	—	—	—	(909,233)	—	(2,550,936)
<b>As at December 31, 2019</b>	<b>6,537,046</b>	<b>1,179,717</b>	<b>593,724</b>	<b>595,034</b>	<b>50,655</b>	<b>25,000</b>	<b>6</b>	<b>8,981,182</b>
<b>Accumulated amortization</b>								
As at December 31, 2018	—	1,096,046	588,008	582,486	18,405	—	—	2,284,945
Amortization for the year	—	16,742	1,715	3,764	8,140	—	—	30,361
<b>As at December 31, 2019</b>	<b>—</b>	<b>1,112,788</b>	<b>589,723</b>	<b>586,250</b>	<b>26,545</b>	<b>—</b>	<b>—</b>	<b>2,315,306</b>
<b>Net book value</b>								
As at December 31, 2018	7,583,538	83,671	5,716	12,548	1,542	900,356	6	8,587,377
<b>As at December 31, 2019</b>	<b>6,537,046</b>	<b>66,929</b>	<b>4,001</b>	<b>8,784</b>	<b>24,110</b>	<b>25,000</b>	<b>6</b>	<b>6,665,876</b>

Included in surface facilities under construction during the year ended December 31, 2019 is \$55,434 [December 31, 2018 - \$66,684] of directly attributable employee and contractor compensation and benefits and \$3,520 [December 31, 2018 - \$4,020] of stock-based compensation.

## **Fortune Minerals Limited**

# **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2019

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

The NICO project and the related claims in the Marian River Area, Northwest Territories are wholly owned by the Company. The Company plans to locate a related hydrometallurgical processing plant for NICO at a site in Saskatchewan, Canada or other suitable locations it has identified in southern Canada. In December 2012, the Company purchased lands near Saskatoon, Saskatchewan on which it had proposed to construct the Saskatchewan Metals Processing Plant [“SMPP”]. On March 25, 2019, Fortune received a decision from the Rural Municipality of Corman Park [“Corman Park”] rejecting the Company’s application to change the zoning of its lands in Saskatchewan from Agriculture to M2 Rural Industrial. The rezoning was required to construct and operate a hydrometallurgical facility to process metal concentrates from the Company’s planned NICO mine in the Northwest Territories. As a result of the rezoning decision the Company made a decision to sell its land in Saskatchewan on June 15, 2019 for proceeds of \$1,080,000.

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

In April 2019, the Company entered into an option to purchase an alternative site in Saskatchewan which has already been planned for industrial use and meets the Company’s infrastructure and services requirements. The Company is also investigating other alternative sites for the hydrometallurgical refinery, including several brownfield locations with existing facilities to mitigate capital cost escalation.

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

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

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

## **Fortune Minerals Limited**

# **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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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, 2019.

## **4. ASSET IMPAIRMENT**

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

At December 31, 2019, the Company considered whether there had been any significant changes to impairment indicators from its previous impairment assessment completed at December 31, 2018 and whether any new indicators were present. Management determined that as a result of obtaining limited 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\$1,500/oz for gold, US\$30/lb for cobalt and US\$5/lb for bismuth and an exchange rate of US\$0.76:C\$1.00. A discount rate of 8% was used in the cash flow analysis. These factors resulted in a recoverable amount in excess of book value of NICO. Accordingly, no impairment was recognized on the NICO project.

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



## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 5. SHARE CAPITAL AND RESERVES

The Company's common 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, 2019, the weighted average number of common shares outstanding was 347,076,782 [December 31, 2018 - 338,392,567].

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

	2019	2018
Shares outstanding, beginning of year	340,003,220	333,443,319
Issuance of Shares [note 5i.[a]]	12,250,000	—
Exercise of derivatives [note 5ii.[b]]	—	3,709,901
Exercise of options [note 6]	7,300,000	2,850,000
Shares outstanding, end of year	359,553,220	340,003,220

[a] On November 18, 2019 and December 20, 2019, the Company entered into a flow-through agreement to issue 7,500,000 and 4,750,000 shares, respectively, at a price of \$0.10 per share for aggregate gross proceeds of \$1,225,000. The total flow-through share premium deferred gain recognized was \$367,500, calculated as the difference between the market price of the Company's shares on the day the flow-through financings closed and the price that the investor paid for the shares. In addition, 450,000 broker warrants were issued with an exercise price of \$0.085. Each warrant entitles the holder to purchase one common share of the Company for \$0.085 on or before November 18, 2021. The fair value of the warrants was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: dividend yield of 0%, expected volatility of 104.97%, risk free interest rate of 1.54% and expected life of 2 years. Share issuance costs of \$108,189 were incurred to complete the financing.

[b] As at December 31, 2019, 900,000 [December 31, 2018 – 900,000] issued common shares are being held in escrow, subject to certain production thresholds for the NICO property.

## Fortune Minerals Limited

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#### ii. Share Purchase Warrants

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

	2019		2018	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Warrants outstanding, beginning of year	27,605,880	\$ 0.30	27,770,880	\$ 0.30
Issue of warrants [note 5i.[a]]	450,000	0.09	—	—
Expiry of Warrants [note 5ii.[a]]	(27,605,880)	0.30	(165,000)	0.15
Warrants outstanding, end of year	450,000	\$ 0.09	27,605,880	\$ 0.30

[a] During the year ended December 31, 2019, 27,605,880 [December 31, 2018 – 165,000] warrants with an exercise price between \$0.25 and \$0.35 expired unexercised. These warrants had a book value of \$2,616,217.

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

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

	2019		2018	
	Class A	Class B	Class A	Class B
Derivatives outstanding, beginning of year	8,484,296	51,718,040	12,194,197	51,718,040
Adjustment as a result of General Offering	—	965,003	—	—
Exercise of derivatives	—	—	(3,709,901)	—
Shares outstanding, end of year	8,484,296	52,683,043	8,484,296	51,718,040

The exercise price for Class A and Class B warrants at December 31, 2019 were \$0.133 [December 31, 2018 - \$0.133] and \$0.204 [December 31, 2018 - \$0.208], respectively.

There were no Class A or Class B warrants exercised during the year ended December 31, 2019. During the year ended December 31, 2018, 3,709,901 Class A warrants were exercised with an exercise price of \$0.133 raising gross proceeds of \$493,417.

The determination of the fair value of the resulting derivative requires the Company to make a number of assumptions and estimates regarding the inputs into the model used to determine the value of the warrants. The assumptions used for the year ended December 31, 2019 and 2018 are as follows: dividend yield of 0% [2018 – 0%], expected volatility of between 105.99% and 110.89% [2018 – 100.83% and 158.01%], risk free interest rate of 1.71% [2018 – 1.85% and 1.88%] and expected life of between 0.62 and 2.62 years [2018 – 1.62 and 3.62 years]. These assumptions will change from time to time and the impact will be reflected in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). Small changes to the inputs into the model can have a

## **Fortune Minerals Limited**

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substantial impact on the value of the warrants. A change in the warrant unit value of approximately 10%, or approximately \$0.003 [2018 - \$0.01], will result in the value of the derivative changing by approximately \$185,400 [2018 – \$331,519].

*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, 2019, the Company has 25,155,322 [2018 – 11,400,322] 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 other reserves balance was increased by \$113,990, representing the fair value of 2,100,000 options granted in the prior year and vested during the year ended December 31, 2019, and has been allocated to general and administrative expenses, corporate development costs, exploration and evaluation expenditures and capital assets in the amounts of \$62,800, \$18,540, \$29,130 and \$3,520, respectively. No options have been granted during the year ended December 31, 2019.

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

# Fortune Minerals Limited

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
	Number of shares #	Weighted- average exercise price \$	Number of shares #	Weighted- average exercise price \$
<b>Options outstanding, beginning of year</b>	<b>19,750,000</b>	<b>0.12</b>	19,050,000	0.15
Granted	—	—	5,200,000	0.11
Exercised	(7,300,000)	0.05	(2,850,000)	0.06
Expired or cancelled	(1,900,000)	0.28	(1,650,000)	0.55
<b>Options outstanding, end of year</b>	<b>10,550,000</b>	<b>0.14</b>	19,750,000	0.12
<b>Options vested and outstanding, end of year</b>	<b>10,550,000</b>	<b>0.14</b>	17,650,000	0.12

During the year ended December 31, 2019, 7,300,000 stock options with a book value of \$248,200 were exercised for aggregate gross proceeds of \$365,000 and 1,900,000 stock options expired unexercised.

The following tables summarize information about the options outstanding as at December 31, 2019 and 2018:

<u>December 31, 2019</u>				
Range of exercise prices	Number outstanding	Number vested and outstanding	Weighted average exercise price – all [i]	Weighted average remaining contract life – all [i]
\$	#	#	\$	years
Nil – 0.49	10,550,000	10,550,000	0.14	1.99

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

<u>December 31, 2018</u>				
Range of exercise prices	Number outstanding	Number vested and outstanding	Weighted average exercise price – all [i]	Weighted average remaining contract life – all [i]
\$	#	#	\$	years
Nil – 0.49	19,750,000	17,650,000	0.12	1.69

[i] The weighted average exercise price and weighted average remaining contract life are the same for options outstanding and options vested and outstanding with the exception of 4,150,000 options exercisable at \$0.10 and 50,000 options exercisable at \$0.285, of which only 2,075,000 and 25,000 options, respectively, have vested at December 31, 2018.

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 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:

	<b>December 31, 2019</b>	December 31, 2018
<b>NICO Project</b>		
Provision for environmental rehabilitation	<b>\$39,855</b>	\$36,564
Estimated remaining life	<b>22 years</b>	22 years
Discount rate	<b>9%</b>	9%
<b>Total provision for environmental rehabilitation</b>	<b>\$39,855</b>	\$36,564

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

Reclamation security deposits consist of the following:

	<b><u>December 31, 2019</u></b>	<u>December 31, 2018</u>
	<b>Deposit amount</b>	Deposit amount
	<b>\$</b>	\$
NICO Project	<b>194,326</b>	191,245
Arctos Anthracite Project	<b>25,000</b>	25,000
<b>Total Net Book Value</b>	<b>219,326</b>	216,245

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

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

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 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:

<b>Asset class</b>	<b>Rate of amortization %</b>
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:

	<b>Computer equipment \$</b>	<b>Furniture and fixtures \$</b>	<b>Software \$</b>	<b>Total \$</b>
<b>Cost</b>				
As at December 31, 2018	200,792	117,216	328,690	646,698
<b>As at December 31, 2019</b>	<b>200,792</b>	<b>117,216</b>	<b>328,690</b>	<b>646,698</b>
<b>Accumulated amortization</b>				
As at December 31, 2018	182,438	101,787	294,703	578,928
Amortization for the year	5,507	3,086	11,895	20,488
<b>As at December 31, 2019</b>	<b>187,945</b>	<b>104,873</b>	<b>306,598</b>	<b>599,416</b>
<b>Net book value</b>				
As at December 31, 2018	18,354	15,429	33,987	67,770
<b>As at December 31, 2019</b>	<b>12,847</b>	<b>12,343</b>	<b>22,092</b>	<b>47,282</b>

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#### 9. EXPENSES BY NATURE

	December 31, 2019	December 31, 2018
Employee and contractor compensation and benefits (i)	907,284	988,009
Operating lease expense – property (ii)	92,224	92,470
Stock-based compensation (iii)	81,340	258,455
Amortization	20,488	22,246
Foreign exchange loss (gain)	(85)	129
Change in fair value related to derivative liability	(1,454,917)	(11,639,055)
Impairment charge	1,470,936	—

(i) \$642,902 [2018 - \$681,563] and \$264,382 [2018 - \$306,446] of employee and contractor compensation benefits are included in general and administrative and corporate development expenses, respectively, on the consolidated statements of income (loss) and comprehensive income (loss)

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

(iii) \$62,800 [2018 - \$237,290] and \$18,540 [2018 - \$21,165] of stock-based compensation are included in general and administrative expenses and corporate development expense, respectively, on the consolidated statements of income (loss) and comprehensive income (loss)

#### 10. 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.

#### 11. LONG-TERM DEBTS

The Company has \$8.75 million unsecured debentures outstanding as of December 31, 2019. The debentures have a term of seven years maturing on August 12, 2022, bear interest at 5% per annum, compounding semi-annually and both principal and interest are payable at maturity.

The long-term debts is summarized as follows for the year ending December 31:

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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	2019	2018
Debentures at maturity	\$ 8,750,000	\$ 8,750,000
Loan discount	(2,257,765)	(2,918,285)
Accrued interest on debentures	2,134,954	1,610,456
	<u>\$ 8,627,189</u>	<u>\$ 7,442,171</u>

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

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

The loan balances have been recorded at their amortized cost at an effective interest rate of 18%. For the year ended December 31, 2019, \$660,520 [December 31, 2018 - \$569,117] of loan discount was amortized using the effective interest rate method.

## 12. FINANCIAL INSTRUMENTS

The Company is exposed to risks through its operations that arise from its use of financial instruments, which include credit risk, interest rate risk, market price risk, liquidity risk and foreign exchange risk. Under normal course of operations, the Company's management believes that these risks are minimal due to the nature of the financial instruments. The principal financial instruments used by the Company, from which financial instrument risk arises, are cash and cash equivalents, reclamation security deposits, accounts receivables, accounts payable and accrued liabilities, provision for environmental rehabilitation, long-term debts and derivatives. Refer to Note 20 for potential implications of COVID-19 risks that the Company is exposed to.



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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### i. Financial instruments by category

##### Financial assets

	Financial assets at amortized cost December 31, 2019	December 31, 2018
Cash and cash equivalents	\$ 2,104,901	\$ 3,611,228
Reclamation security deposits	219,326	216,245
Accounts receivable	490,650	99,187
Total financial assets	<u>\$ 2,814,877</u>	<u>\$ 3,926,660</u>

##### Financial liabilities

	Financial liabilities at fair value through profit or loss		Financial liabilities at amortized cost	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Accounts payable and accrued liabilities	\$ —	\$ —	\$ 179,809	\$ 321,906
Provision for environmental rehabilitation	—	—	39,855	36,564
Long-term debts	—	—	8,627,189	7,442,171
Derivatives	1,837,807	3,292,724	—	—
Total financial liabilities	<u>\$ 1,837,807</u>	<u>\$ 3,292,724</u>	<u>\$ 8,846,853</u>	<u>\$ 7,800,641</u>

#### ii. Financial instruments at amortized cost

The fair value of the Company's cash and cash equivalents, reclamation security deposits, accounts receivable, and accounts payable and accrued liabilities approximate their carrying values due to their short-term nature. The fair value of the long-term debts measured at amortized cost has a fair value of approximately \$9,635,000 [2018 - \$8,758,868] estimated using a 10% discount rate.

#### iii. Financial instruments measured at fair value

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

	Level 3	
	December 31, 2019	December 31, 2018
Derivatives	<u>1,837,807</u>	<u>3,292,724</u>

There were no transfers between levels during the year. The change in fair value of level 3 financial instruments of \$1,454,917 [2018 - \$11,639,055] is attributed to the change in fair value

## Fortune Minerals Limited

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calculated on the derivative at the reporting date and has been recognized in the consolidated statements of income (loss) and comprehensive income (loss).

*iv.* Contractual maturities of financial liabilities

The following tables detail the Company's contractual maturities for its financial liabilities as at December 31, 2019 and 2018. Payments due by year are as follows:

	December 31, 2019			
	Total	2020	2022	Greater than 5 years
Accounts payable and accrued liabilities	\$ 179,809	\$ 179,809	\$ —	\$ —
Provision for environmental rehabilitation	188,000	—	—	188,000
Long-term debts	8,750,000	—	8,750,000	—
Accrued interest on debentures	3,613,518	—	3,613,518	—
	<b>\$12,731,327</b>	<b>\$ 179,809</b>	<b>\$12,363,518</b>	<b>\$ 188,000</b>

  

	December 31, 2018			
	Total	2019	2022	Greater than 5 years
Accounts payable and accrued liabilities	\$ 321,906	\$ 321,906	\$ —	\$ —
Provision for environmental rehabilitation	188,000	—	—	188,000
Long-term debts	8,750,000	—	8,750,000	—
Accrued interest on debentures	3,613,518	—	3,613,518	—
	<b>\$12,873,424</b>	<b>\$ 321,906</b>	<b>\$12,363,518</b>	<b>\$ 188,000</b>

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 13. INTEREST AND OTHER INCOME

Interest and other income consist of the following for the year ended December 31,

	2019	2018
Interest income	36,457	90,431
Foreign exchange gain (loss)	85	(129)
Gain on disposal of capital assets	115	—
Gain on flow-through share premiums	5,496	—
Total Interest and Other Income	42,153	90,302

#### 14. INCOME TAXES

The Company has non-capital loss carryforwards totaling \$48,682,000, net capital loss carryforwards of \$18,458,000, un-deducted debt and share issuance costs of \$488,000 and unused investment tax credits on pre-production mining costs of \$1,975,000. The non-capital losses will begin to expire in 2026. The Company has completed feasibility studies for its principal project and undertaken related permitting and financing activities. The benefit of certain non-capital losses and 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 consolidated financial statements as it is not considered probable that sufficient future taxable profit will allow the deferred tax asset to be recovered. A valuation allowance of \$16,267,000 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, 2019 \$	December 31, 2018 \$
<b>Deferred income tax assets</b>		
Net operating loss carryforwards	12,916,000	12,564,000
Undeducted debt and share issuance costs [i]	129,000	169,000
Unused investment tax credits on pre-production costs	1,974,000	1,974,500
Tax value of exploration and evaluation expenditures and capital assets in excess of book value	1,248,000	922,500
	16,267,000	15,630,000
Less valuation allowance related to operating losses, share issuance costs and unused investments tax credits	(16,267,000)	(15,630,000)
<b>Deferred income tax assets</b>	—	—

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

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

	December 31, 2019 \$	December 31, 2018 \$
<b>Combined federal and provincial/state income tax rate</b>	<b>26.50%</b>	26.50%
Corporate income tax provision (recovery) at statutory rate	(714,000)	2,283,000
Increase (decrease) in income taxes resulting from		
Non-deductible stock-based compensation and other expenses	197,000	223,000
Non-deductible change in fair value of derivative	(385,500)	(3,109,000)
Rate difference	(171,000)	26,000
Tax value of loss carryforwards not recognized	1,073,500	577,000
	—	—

#### 15. MANAGEMENT OF CAPITAL

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

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

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

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

#### 16. RELATED PARTY TRANSACTIONS

For the year ended December 31, 2019, the Company paid key management personnel including officers, directors or their related entities for consulting services and/or management services.

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

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

	December 31, 2019 \$	December 31, 2018 \$
Salaries and benefits	29,542	23,674
Consulting services	947,658	998,500
Legal services	58,950	89,639
Fair value of stock options granted	—	332,850
	<b>1,036,150</b>	<b>1,444,663</b>

As at December 31, 2019, \$27,681 [2018 - \$16,175] was owing to key management personnel for services provided during the year.

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

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

<i>i.</i> Basic income (loss) per share	December 31, 2019	December 31, 2018
Net income (loss)	\$ (2,693,994)	\$ 8,548,687
Weighted average number of common shares	347,076,782	338,392,567
Basic income (loss) per share	\$ (0.01)	\$ 0.03

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

For calculating diluted income (loss) per share, for the year ended December 31, 2019 and 2018, the following weighted average options, warrants and derivative warrants had an exercise price less than the average market price for the year:

	2019	2018
Options	4,150,000	16,417,123
Warrants	450,000	—
Derivative Warrants	—	60,202,336
	<b>4,600,000</b>	<b>76,619,459</b>

The diluted loss per share computation for the year ending December 31, 2019 is equal to the basic loss per share as inclusion of the above would have been anti-dilutive. The diluted income per share computation for the year ended December 31, 2018 is as follows:

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December 31, 2019

	<b>December 31, 2018</b>
Net income	\$ 8,548,687
Weighted average number of common shares (diluted)	352,749,448
Diluted income per share	\$ 0.02

### 18. CONSOLIDATED STATEMENTS OF CASH FLOWS

Supplemental cash flow information for the year ending December 31:

	<b>2019</b>	2018
	\$	\$
Interest and investment income received	<b>39,966</b>	77,661

### 19. STANDARDS, AMENDMENTS AND INTERPRETATIONS

*i.* New accounting standards

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

### 20. SUBSEQUENT EVENTS

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