

Interim Condensed Consolidated Financial Statements

Fortune Minerals Limited

March 31, 2017

Fortune Minerals Limited

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, Subsection 4.3(3)(a), if an auditor has not performed a review of the interim consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Fortune Minerals Limited

Incorporated under the laws of Ontario

**CONSOLIDATED STATEMENTS OF
FINANCIAL POSITION**

(expressed in Canadian dollars)

Unaudited

See note 2 going concern uncertainty

As at	March 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents <i>[notes 3ii and 9]</i>	6,834,586	940,071
Reclamation security deposits <i>[note 7]</i>	25,000	25,000
Accounts receivable	59,550	63,945
Prepaid expenses	18,671	40,066
Total current assets	6,937,807	1,069,082
Reclamation security deposits <i>[note 7]</i>	143,260	143,260
Capital assets, net <i>[note 8]</i>	94,513	102,245
Mining properties <i>[note 3]</i>	67,952,806	67,816,400
	75,128,386	69,130,987
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	180,051	139,521
Flow-through share premium deferred gain	39,793	40,229
Total current liabilities	219,844	179,750
Provision for environmental rehabilitation <i>[note 7]</i>	23,935	23,409
Long-term debt <i>[note 10]</i>	5,639,938	5,406,662
Derivatives <i>[note 5ii[b]]</i>	10,280,342	5,819,694
Total liabilities	16,164,059	11,429,515
SHAREHOLDERS' EQUITY		
Share capital <i>[note 5]</i>	168,121,588	161,748,120
Other reserves <i>[notes 5 and 6]</i>	11,916,014	11,916,014
Deficit	(121,071,277)	(115,960,664)
Accumulated other comprehensive income	(1,998)	(1,998)
Total shareholders' equity	58,964,327	57,701,472
	75,128,386	69,130,987

See accompanying notes

Fortune Minerals Limited

**CONSOLIDATED STATEMENTS OF LOSS AND
COMPREHENSIVE LOSS**

(expressed in Canadian dollars)

Unaudited

For the three-month periods ended March 31,

	2017	2016
EXPENSES		
Administrative	(225,660)	(238,342)
Investor relations and regulatory fees	(79,513)	(34,637)
Stock-based compensation <i>[note 6]</i>	—	(165,200)
Corporate development costs	(103,564)	(20,564)
Interest expense <i>[note 10]</i>	(233,276)	(206,806)
Accretion <i>[note 7]</i>	(526)	(713)
Amortization	(7,732)	(11,685)
Interest and other income	909	—
Loss on disposal of capital assets	—	4
Gain on flow-through share premium	436	—
Foreign exchange gain (loss)	(1,039)	27
Change in fair value related to derivative liability <i>[note 5ii[b]]</i>	(4,460,648)	(1,520,888)
Net loss for the period	(5,110,613)	(2,198,804)
Other comprehensive income		
Currency translation adjustment	—	25
Net comprehensive loss	(5,110,613)	(2,198,779)
Basic and diluted loss per share <i>[note 15]</i>	(0.02)	(0.01)

See accompanying notes

Fortune Minerals Limited

**CONSOLIDATED STATEMENTS OF
CASH FLOWS**

(expressed in Canadian dollars)

Unaudited

For the three-month periods ended March 31,

	2017	2016
OPERATING ACTIVITIES		
Net loss for the period from continuing operations	(5,110,613)	(2,198,804)
Changes in non-cash working capital balances related to operations		
Accounts receivable	4,395	(4,214)
Prepaid expenses	21,395	10,066
Accounts payable and accrued liabilities	40,530	(84,955)
Accrued interest on debentures	116,410	111,104
	<u>(4,927,883)</u>	<u>(2,166,803)</u>
Add (deduct) items not involving cash		
Accretion	526	713
Amortization	7,732	11,685
Gain on flow-through share premium	(436)	—
Stock-based compensation	—	165,200
Non-cash portion of loan discount [note 10]	116,866	95,682
Loss on disposal of capital assets	—	(4)
Change in fair value related to derivative liability	4,460,648	1,520,888
Cash used in operating activities	<u>(342,547)</u>	<u>(372,639)</u>
INVESTING ACTIVITIES		
Increase in exploration and evaluation expenditures	(129,341)	(89,809)
Purchase of capital assets, including in mining properties	(7,065)	(333)
Proceeds on disposal of capital assets in mining properties	—	150
Cash used in investing activities	<u>(136,406)</u>	<u>(89,992)</u>
FINANCING ACTIVITIES		
Proceeds on issuance of shares, net [note 5i.]	5,865,531	525,335
Proceeds on exercise of warrants [note 5ii.[a]]	507,937	—
Cash provided by financing activities	<u>6,373,468</u>	<u>525,335</u>
Effect of foreign exchange on cash	—	59
Increase (decrease) in cash and cash equivalents during the period, net	5,894,515	62,704
Cash and cash equivalents, beginning of period	940,071	144,835
Cash and cash equivalents, end of period [note 9]	<u>6,834,586</u>	<u>207,598</u>

See accompanying notes

Fortune Minerals Limited

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(expressed in Canadian dollars)

Unaudited

	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	14,285,714	560,000	—	—	560,000	—	—	—	560,000
Share issuance costs, net of tax	—	(34,665)	—	—	(34,665)	—	—	—	(34,665)
Stock options granted	—	—	—	—	—	218,100	—	—	218,100
Net loss for the period	—	—	—	—	—	—	(2,198,804)	—	(2,198,804)
Foreign currency translation	—	—	—	—	—	—	—	25	25
March 31, 2016	241,363,294	159,843,695	6,286,033	378,765	160,222,460	11,234,769	(110,284,822)	(1,998)	61,170,409
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.]	25,800,000	4,429,225	12,900,000	2,020,775	6,450,000	—	—	—	6,450,000
Share issuance costs, net of tax [notes 5i. and 5ii.]	—	(396,192)	—	(188,277)	(584,469)	—	—	—	(584,469)
Exercise of warrants [note 9[d]]	3,386,250	593,819	(3,386,250)	(85,882)	507,937	—	—	—	507,937
Net loss for the period	—	—	—	—	—	—	(5,110,613)	—	(5,110,613)
March 31, 2017	300,085,257	165,934,115	22,214,783	2,187,473	168,121,588	11,916,014	(121,071,277)	(1,998)	58,964,327

See accompanying notes

Fortune Minerals Limited

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

March 31, 2017

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 unaudited interim condensed consolidated financial statements of Fortune Minerals Limited ["the Company"] for the three months ended March 31, 2017 were authorized for issuance by the Board of Directors on May 11, 2017.

2. BASIS OF PRESENTATION

i. Statement of Compliance

These unaudited interim condensed consolidated financial statements of the Company have been prepared by management in accordance with International Financial Reporting Standards ["IFRS"] as issued by the International Accounting Standards Board ["IASB"] and in accordance with International Accounting Standard ["IAS"] 34, *Interim Financial Reporting*.

ii. Going Concern of Operations

These unaudited interim condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of the Company's assets and discharge of its liabilities and commitments in the normal course of business. With the existing working capital of \$6,717,963 at March 31, 2017, the Company has sufficient cash to conduct certain critical path activities in 2017. However, the NICO project requires further funding to advance the project through to production and the Company has engaged a consulting firm, to assist with securing this financing. This results in the existence of a material uncertainty that casts significant doubt about the Company's ability to continue as a going concern. Management is actively working to achieve positive cash flows beyond 2017 and is continually pursuing and considering various financing opportunities. The Company has historically been successful in financing its activities, however, there can be no assurances that the Company will be able to obtain continued support from existing lenders or obtain sufficient financing on terms acceptable to management to be able to meet its current liabilities as they come due. These financial statements do not include adjustments, which may be material, to the amounts and classification of assets and liabilities that would be necessary should the going concern principle not be appropriate.

iii. Basis of Measurement

These unaudited interim condensed consolidated financial statements are presented in Canadian dollars ["CDN"], which is also the Company's and wholly-owned subsidiary's functional currency.

These unaudited interim condensed consolidated financial statements reflect the financial position and results of operations of the Company and its wholly owned subsidiaries Fortune Minerals NWT Inc. ["FMNWT"], Fortune Minerals Saskatchewan Inc. ["FMSI"], Fortune Coal Limited

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["FCL"], and Fortune Minerals Mining Limited ["FMML"]. The Arctos Anthracite Joint Venture ["Arctos JV"] is accounted for as a joint operation and FCL recognizes its 50% interest in the assets, liabilities, income, loss and expenses. All intercompany transactions and balances have been eliminated upon consolidation.

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

iv. Judgment and Estimates

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

The estimates and underlying assumptions are reviewed on an ongoing basis.

Judgments and estimates made by management in the application of IFRS that have a significant risk of resulting in a material adjustment on the unaudited condensed consolidated financial statements in the current fiscal year are as follows:

[a] *Impairment of non-financial assets*

The Company undertakes an impairment assessment at the end of each reporting period to look for impairment indicators. Significant inputs into this model are commodity values, discount rates, useful life of a mine and future operating costs.

[b] *Fair values*

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

[c] *Income taxes*

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

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

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[d] Amortization of capital assets

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

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

3. MINING PROPERTIES

As at March 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:

	March 31, 2017			
	Capital Assets \$	Property Costs \$	Exploration and Evaluation Expenditures \$	Total Mining Properties \$
NICO [i]	6,648,894	2,191,442	58,938,558	67,778,894
Sue-Dianne	—	9,164	155,292	164,456
Other properties	—	—	9,456	9,456
	6,648,894	2,200,606	59,103,306	67,952,806

	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

Fortune Minerals Limited

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

[unaudited]

March 31, 2017

During the three months ended March 31, 2017, the change in mining properties is a result of additions only and there were no disposals, write-offs or amortization.

Exploration and evaluation expenditures capitalized to mining properties during the three months ended March 31, 2017 and 2016 include the following:

	March 31, 2017	March 31, 2016
	\$	\$
Employee and contractor compensation and benefits	75,538	83,940
Amortization	8,979	11,660
Stock-based compensation	—	40,950

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[unaudited]

March 31, 2017

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, 2016	5,587,193	1,179,717	593,724	592,034	18,060	900,356	6	8,871,090
Additions	7,065	—	—	—	—	—	—	7,065
As at March 31, 2017	5,594,258	1,179,717	593,724	592,034	18,060	900,356	6	8,878,155
Accumulated amortization								
As at December 31, 2016	—	1,048,943	582,060	571,478	17,801	—	—	2,220,282
Amortization for the period	—	6,543	875	1,542	19	—	—	8,979
As at March 31, 2017	—	1,055,486	582,935	573,020	17,820	—	—	2,229,261
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 March 31, 2017	5,594,258	124,231	10,789	19,014	240	900,356	6	6,648,894

Included in surface facilities under construction during the three months ended March 31, 2017 is \$4,095 [March 31, 2016 - \$Nil] of directly attributable employee and contractor compensation and benefits and \$Nil [March 31, 2016 - \$11,950] of stock-based compensation.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

March 31, 2017

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 three months ended March 31, 2017.

As at March 31, 2017, the only other asset in the Arctos JV was a cash balance of \$1,269, of which FCL recorded its 50% share.

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[unaudited]

March 31, 2017

4. ASSET IMPAIRMENT

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

At March 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 three months ended March 31, 2017, commodity prices, specifically cobalt, saw significant improvement and although the Company had seen an increase in its share price, the market capitalization gap continued to be significant. Management determined that the above changes in the period constituted an impairment indicator due to the effect the commodity prices have on the impairment model [as described below] and completed an impairment assessment of the NICO project. As a result of that analysis, management has determined that the carrying value of its projects is not impaired or does not require a reversal of a prior impairment charge.

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

Assumptions underlying the estimate of the recoverable amount included expected commodity prices based on forecasted averages of US\$1,200/oz for gold, US\$23.40/lb for cobalt and US\$7.14/lb for bismuth and an exchange rate of US\$0.74:C\$1.00. A discount rate of 8% was used in the cash flow analysis. These factors resulted in a recoverable amount in excess of book value of NICO. Accordingly, no impairment was recognized on the NICO project.

Asset impairment testing is subject to numerous assumptions, inherent risks and uncertainties, and the risk that these assumptions may not be realized. Management performed a sensitivity analysis as at March 31, 2017, to recognize the impact of volatility in the underlying assumptions, including the discount rate, the exchange rate, commodity prices and operating costs. The following table reflects the amount of change in these assumptions, when considered in isolation, where an impairment charge may be required.

Change in Model Key Input

Increase discount rate by 3.7%
Increase exchange rate by \$0.11
Decrease in gold, cobalt, bismuth and copper prices by 13.6%
Increase operating costs by 32.5%

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

March 31, 2017

5. SHARE CAPITAL AND RESERVES

i. Common Shares

The Company is authorized to issue an unlimited number of common shares without par value. As at March 31, 2017, the weighted average number of common shares outstanding was 278,233,688 [December 31, 2016 - 254,558,843].

The Company completed the following share issuance during the three months ended March 31, 2017:

- [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 \$584,469 were incurred to complete the financing

ii. Share Purchase Warrants

The following is a summary of changes in warrants for the three-month periods ended March 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 [note 5i.[a]]	12,900,000	0.35	—	—
Exercise of warrants [note 5ii.[a]]	(3,386,250)	0.15	—	—
Warrants outstanding, end of period	22,214,783	\$ 0.30	6,286,033	\$ 0.28

- [a] During the three months ended March 31, 2017, 3,386,250 warrants with an exercise price of \$0.15 were exercised raising gross proceeds of \$507,937. These warrants had a book value of \$85,882. Subsequent to the quarter end, on April 1, 2017, 66,450 warrants with an exercise price of \$0.15 expired unexercised.

- [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 and are revalued at each reporting period. The change in the warrants fair value is reported on the Consolidated Statements of Loss and Comprehensive Loss. As of March 31, 2017 the total of Class A and Class B

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[unaudited]

March 31, 2017

warrants outstanding are 14,140,493 and 50,365,661, respectively, and the exercise price for Class A and Class B warrants are \$0.133 and \$0.214, respectively.

The determination of the fair value of the resulting derivative requires the Company to make a number of assumptions and estimates regarding the inputs into the model used to determine the value of the warrants. These assumptions will change from time to time and the impact on the resulting change will be reflected in the Consolidated Statements of Loss and Comprehensive Loss. Small changes to the inputs into the model can have a substantial impact on the value of the warrants. A change in the warrant unit value of approximately 10%, or less than \$0.01, will result in the value of the derivative changing by approximately \$615,000.

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

A summary of the status of the Company's stock option plan as at March 31, 2017 and December 31, 2016, and changes during the periods ended on those dates are presented below:

	<u>March 31, 2017</u>		<u>December 31, 2016</u>	
	Number	Weighted-	Number	Weighted-
	of shares	average	of shares	average
	#	exercise	#	exercise
		price		price
		\$		\$
Options outstanding, beginning of period	15,340,000	0.14	3,970,000	0.61
Granted	—	—	12,400,000	0.06
Expired or cancelled	(50,000)	0.94	(1,030,000)	0.95
Options outstanding, end of period	15,290,000	0.14	15,340,000	0.14
Options vested and outstanding, end of period	15,290,000	0.14	15,340,000	0.14

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[unaudited]

March 31, 2017

The following table summarizes information about the options outstanding as at March 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	13,930,000	13,930,000	0.09	2.3
0.50 – 0.99	1,360,000	1,360,000	0.60	0.8
	15,290,000	15,290,000		

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

7. PROVISION FOR ENVIRONMENTAL REHABILITATION AND SECURITY DEPOSITS

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:

	March 31, 2017	December 31, 2016
NICO Project		
Provision for environmental rehabilitation	\$23,935	\$23,409
Estimated remaining life	21 years	21 years
Discount rate	9%	9%
Total provision for environmental rehabilitation	\$23,935	\$23,409

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

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[unaudited]

March 31, 2017

Reclamation security deposits consist of the following:

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
	Deposit amount \$	Deposit amount \$
NICO Project	143,260	143,260
Arctos Anthracite Project	25,000	25,000
Total Net Book Value	168,260	168,260

The security for the reclamation of the Arctos Anthracite Project is held in the Arctos JV. As at March 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.

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

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 March 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 period	1,865	1,205	4,662	7,732
As at March 31, 2017	171,147	94,314	268,026	533,487
Net book value				
As at December 31, 2016	24,856	24,107	53,282	102,245
As at March 31, 2017	22,991	22,902	48,620	94,513

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9. CASH AND CASH EQUIVALENTS

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 March 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 period ending March 31, 2017.

	March 31, 2017	December 31, 2016
Debentures at maturity	\$ 8,750,000	\$ 8,750,000
Loan discount	(3,862,637)	(3,979,503)
Accrued interest on debentures	752,575	636,165
Basic and fully diluted loss per share	\$ 5,639,938	\$ 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 period ended March 31, 2017, \$116,866 of loan discount was amortized using the effective interest rate method.

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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 March 31, 2017:

	Level 1 \$	Level 2 \$	Level 3 \$
Cash and cash equivalents	6,834,586	—	—
Long-term debt	—	5,639,938	—
Derivatives	—	—	10,280,342

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 March 31, 2017. Payments due by year are as follows:

	Total	2017	2022
Accounts payable and accrued liabilities	\$ 180,051	\$ 180,051	—
Long-term debt	8,750,000	—	8,750,000
	<u>\$8,930,051</u>	<u>\$ 180,051</u>	<u>\$8,750,000</u>

12. INCOME TAXES

The Company has non-capital loss carryforwards totaling \$36,640,000, net capital loss carryforwards of \$17,385,000, un-deducted debt and share issuance costs of \$894,000 and unused investment tax credits on pre-production mining costs of \$2,796,000. The non-capital losses will begin to expire in 2026. The Company has completed feasibility studies for its principal project and undertaken related permitting and financing activities. The benefit of certain non-capital losses and un-deducted share issuance costs has been recorded in the 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 \$15,682,000 has been recognized related to the uncertainty of realizing the benefit of deferred income tax assets in future years.

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Significant components of the Company's deferred income tax assets and liabilities are as follows:

	March 31, 2017 \$	December 31, 2016 \$
Deferred income tax assets		
Net operating loss carryforwards	9,774,000	9,554,000
Undeducted debt and share issuance costs [i]	239,000	105,000
Unused investment tax credits on pre-production costs	2,796,000	2,779,000
Tax value of exploration and evaluation expenditures and capital assets in excess of book value	2,873,000	2,934,000
	15,682,000	15,372,000
Less valuation allowance related to operating losses, share issuance costs and unused investments tax credits	(15,682,000)	(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 three months ended is as follows:

	March 31, 2017 \$	March 31, 2016 \$
Combined federal and provincial/state income tax rate	26.71%	26.68%
Corporate income tax recovery at statutory rate	(1,365,000)	(180,000)
Increase (decrease) in income taxes resulting from		
Non-deductible stock-based compensation and other expenses	32,000	44,500
Non-deductible change in fair value of derivative	1,191,000	—
Renunciation of flow-through expenses	4,100	53,000
Rate difference	23,000	(40,000)
Non-taxable flow-through share premium	(100)	—
Investment tax credits on pre-production mining costs, net of tax	(9,200)	1,200
Tax value of loss carryforwards not recognized	124,200	121,300
	—	—

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'

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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 period ended March 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 three months ended:

	March 31, 2017	March 31, 2016
	\$	\$
Salaries and benefits	2,964	2,088
Consulting services	101,110	83,000
Legal services	101,000	—
Fair value of stock options granted	—	221,000
	205,074	306,088

As at March 31, 2017, \$29,180 [March 31, 2016 - \$29,750] was owing to key management personnel for services provided during the year.

15. LOSS PER SHARE

For calculating diluted loss per share, for the three months ended March 31, 2017, there were 12,400,000, 5,981,450 and 64,506,153 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.

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	March 31, 2017	March 31, 2016
Net loss	\$ (5,110,613)	\$ (2,198,804)
Weighted average number of common shares	278,233,688	230,531,269
Basic and fully diluted loss per share	\$ (0.02)	\$ (0.01)

16. CONSOLIDATED STATEMENTS OF CASH FLOWS

Supplemental cash flow information for the period ending:

	March 31, 2017	December 31, 2016
	\$	\$
Interest and investment income received	908	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 instruments.
- IFRS 15 Revenue from Contracts with Customers – effective for the December 31, 2018 year end. The Company currently has no revenue stream as it is still in the development stage. As it evolves out of that stage, the Company will have a closer look at how this standard will impact how it recognizes revenue.
- IFRS 16 Leases – effective for the December 31, 2019 year end. The Company, in its current form, has minimal leases that would be impacted by this standard. However, as it moves into the production phase, which it expects to achieve by the implementation date, all leases will be reviewed to assess their impact.