2018 Annual Financial Report

Management's Discussion and Analysis and Consolidated Financial Statements

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

Year ended December 31, 2018

This Management's Discussion and Analysis of Financial Conditions and Results of Operations ("MD&A") of Fortune Minerals Limited ("Fortune" or the "Company") is dated March 28, 2019 and should be read in conjunction with the Company's Annual Audited Consolidated Financial Statements and the notes thereto for the year ended December 31, 2018, prepared in accordance with International Financial Reporting Standards ("IFRS"). This discussion contains certain forward-looking information and is expressly qualified by the cautionary statement at the end of this MD&A. All dollar amounts are presented in Canadian dollars unless indicated otherwise. Unless the context otherwise requires, the terms "Fortune" and "the Company" where used herein refer to Fortune Minerals Limited and its subsidiaries on a consolidated basis.

SELECTED ANNUAL INFORMATION

	2018	2017	2016
Net income (loss) from continuing operations	8,548,687	(12,148,529)	(7,874,646)
Basic and fully diluted income (loss) per common share	0.03	(0.04)	(0.03)
Total assets	78,326,060	79,599,515	69,130,987
Debt - non-current	7,442,171	6,373,830	5,406,662

SUMMARY OF QUARTERLY RESULTS

The following table provides selected consolidated financial information that is derived from the unaudited interim condensed consolidated financial statements and audited consolidated financial statements of the Company. The amounts represent the three-month periods ended:

	2018				2017			
	Dec-31	**Sep-30**	**Jun-30**	**Mar-31**	**Dec-31**	**Sep-30**	**Jun-30**	**Mar-31**
Revenue and Other Income	20,393	17,218	28,264	24,427	14,815	24,227	51,325	306
Net income (loss)	(172,101)	538,298	6,075,350	2,107,140	(4,523,814)	(1,504,932)	(1,009,170)	(5,110,613)
Basic and fully diluted income (loss) per common share[(1)]	—	—	0.02	0.01	(0.02)	(0.01)	—	(0.02)

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

OVERVIEW

Fortune's vision is to be recognized as a developer, miner, processer and refiner of specialty energy and eco-metals, together with gold and other by-products that contribute to the growing green economy. Supporting the vision is Fortune's mission to profitably produce specialty and precious metals to meet the needs of our customers and partners, and to attract and develop an exceptional team of people motivated to acquire, explore, develop, mine and reclaim resource properties in a safe and responsible manner.

The Company's most significant development asset is its wholly owned NICO cobalt-gold-bismuth-copper deposit and proposed mine ("NICO") in the Northwest Territories ("NWT") and a related refinery contemplated to be constructed in Saskatchewan (collectively, the "NICO Project"). Fortune is investigating a number of potential development scenarios for the NICO Project that will be assessed in an updated technical report to its 2014 Feasibility Study. These include producing metal concentrates and gold doré for direct sale to third party refiners from the Company's proposed mine and concentrator in the NWT; and two scenarios of processing the cobalt concentrate in Saskatchewan to cobalt carbonate and cobalt sulphate products and processing the bismuth concentrate to ingots and/or oxide. The scenarios would enable the Company to build the vertically integrated

project upon receipt of project financing and final permits or defer the capital costs associated with the Saskatchewan refinery if there is a suitable market for its concentrates, thereby also reducing commissioning, refining and metal marketing risks.

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

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

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

A feasibility study report (the "2014 Feasibility Study") was prepared in order to document a number of improvements to the NICO project since the preparation of the 2012 FEED Study. The 2014 Feasibility Study updated the economics for the project from the 2012 FEED Study and a technical report reflecting the updated feasibility study dated May 5, 2014, prepared by Micon International Limited ("Micon") and entitled "*Technical Report on the Feasibility Study for the NICO Gold-Cobalt-Bismuth-Copper Project, Northwest Territories, Canada*" (the "Technical Report") was also filed on SEDAR.

In support of permitting and financing initiatives for NICO, the Company undertook the following activities during the year ended December 31, 2018:

- Continued to negotiate with the Government of the Northwest Territories ("GNWT") to conclude a Socio-Economic Agreement ("SEA"). Helped support the GNWT and Tlicho Government in completing the permitting and funding for the all-weather access road to the community of Whati which is critical to determining construction schedule certainty for the NICO Project. On March 29, 2018, the Mackenzie Valley Environmental Impact Review Board ("the Impact Review Board") recommended that the Tlicho All-Season Road ("Tlicho Road") be approved subject to measures designed to mitigate potential environmental, social and cultural impacts. On October 26, 2018, the GNWT announced that the responsible ministers of the Government of Canada and the GNWT have accepted the environmental assessment approval for the Tlicho Road incorporating the modified measures developed together with the Tlicho Government through the consult to modify process with the Board. The Tlicho Government also approved the Board's recommendation with modifications. On November 13, 2018, the GNWT announced that North Star Infrastructure has been selected as the preferred proponent to fund, construct, operate and maintain the Tlicho Road under a Private Public Partnership ("P3") structure for the GNWT 75% cost of the road with the government of Canada funding 25% of the construction cost. On February 14, 2019, the GNWT announced that it had executed the contract with North Star Infrastructure to design, construct, operate and maintain the Tlicho Road for a total project cost $411.8 million over a 28-year period.

Construction is anticipated to commence in Q3, 2019 and be completed in 2022, which aligns with the construction schedule for NICO, which is expected to be constructed using a winter ice road but requires an all-season road for operations.

- Continued discussions with various parties to determine all available options for financing the NICO project. Fortune previously entered into an engagement with PricewaterhouseCoopers Corporate Finance Inc. ("PwCCF") to assist with securing financing for construction of the NICO project. On April 18, 2018, Fortune provided notice that it would be terminating this engagement effective May 18, 2018 as the Company believes that the most efficient way forward is for management to drive the financial process as the Company's financing strategy relies primarily on management's detailed knowledge of the processes, commodities and marketing.
- Continued discussions with companies interested in acquiring off-take for the metals and chemicals Fortune plans to produce from the NICO project.
- Continued to work with Hatch Ltd. ("Hatch"), P&E Mining Consultants Inc. ("P&E") and Micon to update the Technical Report for the 2014 Feasibility Study using updated costs, currency exchange rates, and commodity prices as well as design changes, including an approximate 30% increase in the mill throughput rate to 6,000 metric tonnes of ore per day. The Company had expected to issue the completed feasibility study update in 2018; however, during the quarter ended June 30, 2018, the Company was contacted by several companies interested in purchasing metal concentrates directly from the NICO mine for treatment in their existing process facilities. As a result of this interest, the Company is now presented with several new development scenario opportunities that the Company feels could be attractive and are worth investigating. In order to allow the flexibility of selling metal concentrates directly from the mine, the Company has instructed Hatch to adjust engineering design in order to allow for the flexibility of proceeding or deferring the downstream process plant in Saskatchewan, which has resulted in a delay in the issuance of the completed feasibility study update.
- Engaged SGS to conduct test work validating cobalt recoveries from recirculating certain process streams during cobalt sulphate crystallization.
- Engaged TetraTech to design the spur road to the NICO site and an airstrip to be used during construction and for emergency purposes during mine operations.
- Engaged Dundee Sustainable Technologies Inc. to conduct a metallurgical test work program to assess the application of its Pyrolysis Roast and Arsenic Stabilization processes on metal concentrates produced from the NICO project. The objective of this work was to demonstrate that the Company can remove the arsenic and create metal concentrates that are more attractive to the market and can be processed in existing metal recovery circuits operating around the world. The test work was initiated because of the interest received from refining companies in purchasing metal concentrates directly from the mine. Results of the test work verified that an upgraded and essentially arsenic-free cobalt concentrate can be produced at NICO. Gold can also be recovered from metal concentrates at the mine site, which would allow the Company to control the gold revenue stream, while producing separate cobalt and bismuth concentrates for sale to third party processors with substantially all of the arsenic removed, and which is typically penalized.
- Re-initiated the negotiations for the participation and access agreements negotiations with the Tlicho Government, including completion of a Capacity Funding Agreement among Fortune, the Tlicho Government, GNWT and federal government.
- Submitted the Aquatic Baseline Summary Report to the Wek'èezhìi Land and Water Board ("WLWB") on June 19, 2018. This report will be an integral part of the Aquatic Effects Monitoring Plan for operations and requires approval from the WLWB prior to mine construction. The Company is also modeling the quality of the seepage water expected to be generated from the Co-Disposal Facility ("CDF") that the Company intends to build at the NICO project mine site to permanently store waste rock and tailings generated from the mine. The results of the source term modeling will be used in the design of the CDF Management Plan, the CDF Final Design Report and the Constructed Wetland Treatment System pilot studies that are also required to be completed prior to construction. The CDF modeling work is still ongoing as of the date of this report. During year ended December 31, 2018, the Company engaged Tetra Tech Inc. to conduct additional geotechnical work for the NICO project access road from the community of Whati to the mine site and for the proposed airstrip.

- Updated materials to support the rezoning application for the Company's lands in Saskatchewan to allow for the development of the SMPP. The Company has submitted its Comprehensive Development Report to the Rural Municipality of Corman Park ("Corman Park") on April 23, 2018.
- Engaged SGS Lakefield Ltd. to verify gold recoveries from NICO bulk, cobalt and bismuth concentrates to enable the sale of concentrate development option.
- Co-sponsored, together with the GNWT and other industry, community and education partners, the delivery of the Prospectors and Developers Association of Canada Mining Matters program, Mining Rocks Earth Science Education, to Grade 4 students at elementary schools in the Northwest Territories, including a school in Behchoko.
- Announced the establishment of two educational awards to help support Tlicho students already enrolled or entering post-secondary education programs in the fields of Geology, Earth Sciences, Engineering, Environmental Studies, Business and Accounting, and Health Care. The funds contributed will help cover educational expenses such as tuition, books and accommodation.
- Conducted a number of Requests for Qualification and Request for Proposals with identified contractors for contract mining, construction of the NICO spur road, power supply and camp and accommodation services.

On January 30, 2019, the Company entered into a SEA with the GNWT. The SEA formalizes GNWT and Fortune objectives to optimize Northern and Indigenous employment, training, business opportunities and education to benefit residents of the Northwest Territories. The SEA also establishes measures to identify and mitigate socio-economic impacts arising from development of the mine and related facilities in Tlicho territory.

On March 25, 2019, Corman Park rejected the Company's application to change the zoning of its lands from Agriculture to M2 Rural Industrial. Fortune is considering its options with respect to the 478 acres of land owned in Corman Park. Over the past several months, the Company has been working on alternate plans in the event of a negative zoning change decision. These include identification of alternative sites in Saskatchewan and other jurisdictions to build the facility in a supportive municipality that wants to attract economic opportunities and participate in the production of energy metals and their potential spinoff businesses. The Company is also evaluating a lower cost start-up option of selling metal concentrates and gold doré directly from the proposed mine as discussed above.

On May 1, 2015 the Company's wholly-owned subsidiary, Fortune Coal Limited ("FCL") and POSCO Klappan Coal Ltd., FCL's joint venture partner in the Arctos Anthracite Joint Venture ("AAJV"), sold their interests in the coal licenses comprising the Arctos anthracite coal project in northwest British Columbia to British Columbia Railway Company for $18,308,000. The AAJV partners maintain the exclusive right to purchase back the coal licenses at the same price for a 10-year option period, which expires on May 1, 2025. On March 31, 2017, the Government of British Columbia imposed a 20-year moratorium on major industrial development within parts of the Klappan area. During the 10-year option period currently in effect, the coal licenses are excluded from this moratorium on industrial development within the Klappan area.

RESULTS OF OPERATIONS

Summary

The Company's net income for the year ended December 31, 2018 was $8,548,687 or $0.03 per common share compared to a net loss of $12,148,529 or $0.04 per common share for the prior year.

Revenue and Other Income

Revenue and other income decreased in 2018 to $90,302 for the year ended December 31, 2018 compared to $90,673 for the prior year. The Company earned greater interest on investments in 2018 but this was offset by a gain on flow-through share premium which was recognized in 2017.

Expenses

Expenses decreased in 2018 to ($8,458,385) for year ended December 31, 2018 compared to $12,239,202 for the prior year.

The decrease year over year is primarily attributable to: (i) a gain realized on the change in fair value of derivatives compared to a loss in the prior year; and (ii) a decrease in general and administrative expenses resulting from a decline in stock-based compensation expenses. This year over year decrease was partially offset by: (i) an increase in expenses related to an increase in staff, related benefits, travel and investor relations activity; and (ii) an increase in interest expenses related to interest accrued on the Company's long-term debt, which is compounded semi-annually.

Deferred Taxes

The Company has not recognized a net deferred income tax recovery or provision for the years ended December 31, 2018 and 2017. During the year ended December 31, 2018, recognition of $3,109,000 for non-deductible change in fair value of derivative resulted in an income tax recovery which was offset by: (i) a tax provision of $2,283,000 from the estimated tax loss; (ii) $577,000 for a loss carryforward not recognized; (iii) $223,000 for non-deductible stock-based compensation and other expenses; and (iv) $26,000 for tax rate difference.

During the same period in 2017, a recognition of $3,251,000 from the estimated tax loss and $10,750 for non-taxable flow-through share premium resulted in an income tax recovery which was offset by: (i) a tax provision of $2,434,000 for non-deductible change in fair value of derivative; (ii) $418,250 for a loss carryforward not recognized; (iii) $268,000 for non-deductible stock-based compensation and other expenses; (iv) $116,000 for renunciation of flow-through expenses; and (v) $25,500 for tax rate difference.

A valuation allowance of $15,630,000 has been recognized related to the uncertainty of realizing the benefit of deferred income tax assets in future years.

Cash Flow

Cash used in operating activities during the year ended December 31, 2018 was $1,803,314 compared to $1,480,482 for the same period in 2017. The use of cash in operating activities has increased year over year which is attributed to an increase in general corporate activity as well as increased marketing efforts by the Company.

Cash used in investing activities was $3,744,423 compared to $2,622,791 when comparing the year ended December 31, 2018 and 2017, respectively. This increase related primarily to an increase in capital assets included in mining properties as well as an increase in exploration and evaluation expenditures in 2018 due to an increase in activity related to the NICO project.

The NICO project, and the Company's other exploration projects, are classified as exploration and evaluation stage projects for accounting purposes. Exploration and evaluation cash expenditures incurred by Fortune on its properties during the three and twelve months ended December 31, 2018 were $535,958 and $2,463,277 respectively, and were spent on the projects as follows:

	Three months ended December 31, 2018	**Year ended December 31, 2018**
NICO	$ 535,850	$ 2,460,366
All Other Projects	108	2,911
Total cash exploration and evaluation expenditures	**$535,958**	**$ 2,463,277**

For comparison, exploration and evaluation expenditures incurred by Fortune on its properties during the three and twelve months ended December 31, 2017 were $488,744 and $1,854,532, respectively, and were spent on the projects as follows:

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

Exploration and evaluation expenditures for the three and twelve months ended December 31, 2018 were higher compared to the same periods in 2017, as a result of an increase in activity at NICO related to some site work being completed as well as continued work on updating the feasibility study.
Cash provided by financing activities decreased to $634,398 and $11,687,769 for the year ended December 31, 2018 and 2017, respectively. Cash provided in 2018 was a result of the exercise of derivative warrants and options while 2017 cash provided was a result of a short form prospectus offering as well as a private placement. More details are provided below in the "Liquidity and Capital Resources" section.

Below is a summary of Common Shares issued and net cash proceeds from financing activities for the years ended December 31, 2018 and 2017:

	2018		**2017**	
	Shares/Warrants Issued	**Cash Proceeds and Costs, Net**	**Shares/Warrants Issued**	**Cash Proceeds and Costs, Net**
	#	**$**	**#**	**$**
Common shares issued during the year				
Private offerings	—	—	55,211,766	8,350,950
Exercise of Warrants	—	—	5,386,250	807,937
Exercise of Options	2,850,000	176,250	—	—
Exercise of Derivatives[(1)]	3,709,901	493,417	1,946,296	258,857
Share issuance costs	—	(35,269)	—	(593,254)
Total	**6,559,901**	**634,398**	**62,544,312**	**8,824,490**
Average proceeds per share issued		**0.10**		**0.14**
Warrants issued during the year				
Private offerings	—	—	27,605,880	3,099,050
Issuance costs	—	—	—	(235,771)
Total	**—**	**—**	**27,605,880**	**2,863,279**
Average proceeds per warrant		**—**		**0.10**
Cash Proceeds from Financing Activities Net		**634,398**		**11,687,769**

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

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2018, Fortune had cash and cash equivalents of $3,611,228 and working capital of $3,472,283 when compared to $8,524,567 and $8,320,615, respectively, for the same period in the prior year.

In January 2018, 3,709,901 warrants with an exercise price of $0.133 were exercised raising gross proceeds of $493,417. During the year ended December 31, 2018, 2,850,000 options with an exercise price between $0.05 and $0.185 were exercised raising gross proceeds of $176,250.

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

Contractual Obligations	***Payments Due by Period***			
	Total	***Less than 1 year***	***1 – 3 years***	***After 5 years***
Accounts payable and accrued liabilities	**$ 321,906**	$ 321,906	$ —	$ —
Long-term debt	**8,750,000**	—	8,750,000	—
Interest on Long-term debt	**3,613,518**	—	3,613,518	—
Provision for Environmental Rehabilitation	**188,000**	—	—	188,000
Total Contractual Obligations	**$ 12,873,424**	**$ 321,906**	**$12,363,518**	**$188,000**

The long-term debt represents unsecured debentures in the principal amount of $8.75 million held by previous secured creditors. The debentures have a term of seven years maturing on August 12, 2022, bear interest at 5% per annum, compounding semi-annually, and both principal and interest are payable at maturity. The loan balances have been recorded in the consolidated financial statements at their net present value using an effective interest rate of 18%.

In addition to contractual obligations noted, non-discretionary budget commitments required to keep current mining leases for NICO in good standing consist of annual payments of $12,700 plus an additional $2,350 for water licenses.

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

The Company regularly reviews its planned activities relative to available funding and prioritizes activities based on what is required to complete critical path activities and budgets accordingly. The Company invests its surplus cash in low risk, liquid investments, which typically have low yields but hold their value during times of market uncertainty. With the existing working capital of $3,472,283 at December 31, 2018, the Company has sufficient cash to conduct certain critical path activities in 2019. However, the NICO Project requires further funding to advance the project through to production. Management is continuously pursuing and considering various financing opportunities. The Company has historically been successful in financing its activities, however, there are no assurances that it will be successful in raising future funds required.

OUTLOOK

The Company's principal objective is to achieve successful development and financing of the NICO Project. The Company's activities in pursuit of its objectives are subject to many risks as discussed under the heading "Risks and Uncertainties" section below. The most significant risks to meeting its objectives for the NICO Project continue to

be project financing, rezoning the SMPP lands to provide the Company with the flexibility to construct its own processing facility, and construction schedule uncertainty for the Tlicho Road to Whati. These risks arise primarily from external parties such as government regulators, First Nations and investors who have significant influence over the outcome of the Company's efforts and external factors such as commodity prices, economic conditions and the financial markets. Accordingly, management has sought and continues to seek ways to address risks in its business model and has developed appropriate strategies to move forward by focusing expenditures on critical path activities in a socially and environmentally responsible manner.

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

- updating the technical report for the 2014 Feasibility Study based on updated costs, commodity prices and different development opportunities to support project financing;
- working with governments and North Star Infrastructure to achieve certainty on the construction schedule for the Tlicho Road;
- complete the already commenced process to secure new land for the SMPP, in a jurisdiction more supportive of industrial development, and continue reviewing the options to sell concentrates into the market to defer the capital expenditures of the SMPP;
- continuing studies and programs required to meet water license pre-construction requirements for the NICO project site;
- submission and regulatory compliance for the NICO Project Access Road water license and Land Use Permits;
- completing the negotiations with the Tlicho Government for the NICO access road agreement and a participation agreement;
- identifying and engaging strategic partners to support the development of the NICO Project site, including the SMPP;
- helping to arrange or provide some or all of the project financing, evaluating potential transactions and ultimately entering into a strategic arrangement suitable to the Company;
- completing NICO road construction agreements and site preparation plans, including construction of laydown areas to receive equipment and material required for early work construction; and
- continuing detailed engineering and procurement activities once financing is secured.

In the year ended December 31, 2018, the Company focused on continued dialogue with key parties including the Tlicho Government for developing mutually beneficial agreements, and worked to identify and advance opportunities to develop additional strategic partnerships. The Company has made significant progress towards achieving its milestones through its previous financings, the Federal and Tlicho Government approvals for the NICO mine and mill, receipt and renewal of the land use permit and Type A water licence for the NICO site, ministerial approval of the SMPP and the signing of the SEA.

Activities undertaken during 2018 towards achieving the next major milestones for the NICO project will remain the Company's focus through 2019. As it pursues this objective, the Company will strive to prudently manage capital resources and mitigate risks.

TRANSACTIONS WITH RELATED PARTIES

During the year ended December 31, 2018, the Company paid key management personnel, including officers, directors, or their related entities, an aggregate of $1,111,813 for consulting and/or management services and legal services when compared to $1,000,635 for the prior year. In addition, stock options with a fair value of $332,850, using the Black-Scholes option pricing model, were granted in the year ended December 31, 2018 when compared to $441,600 for the same period in 2017. At December 31, 2018, $16,175 was owing to these related parties for services received during the year when compared to $77,250 at December 31, 2017.

The following table summarizes the amounts paid and payable to related parties and the nature of the payments as at December 31, 2018:

Related Party [1]	Relationship	Business Purpose of Transaction							Total	
		Benefits [8]		Consulting Services		Legal Services		Stock Options		
		Paid	Payable	Paid	Payable	Paid	Payable	Granted [9]	Paid/Awarded	Payable
Clouter, Carl [2]	Director	$ -	$ -	$ 12,400	$ -	$ -	$ -	11,600	$ 24,000	$ -
Goad, Robin [3] [5]	President & CEO, Director	7,572	-	331,250	7,500	-	-	46,400	385,222	7,500
Knight, David [6]	Corporate Secretary	-	-	-	-	89,639	1,500	5,800	95,439	1,500
Koropchuk, Glen	Technical Director & COO, Director	-	-	306,000	-	-	-	23,200	329,200	-
Massola, David	VP Finance & CFO	7,572	-	135,500	2,500	-	-	23,200	166,272	2,500
McVey, John	Director	-	-	-	-	-	-	154,500	154,500	-
Naik, Mahendra	Director	1,585	-	-	-	-	-	21,750	23,335	-
Ramsay, David	Director	-	-	-	-	-	-	13,050	13,050	-
Schryer, Richard [7]	VP Environmental & Regulatory Affairs	6,945	-	213,350	4,675	-	-	17,400	237,695	4,675
Yurkowski, Edward	Director	-	-	-	-	-	-	15,950	15,950	-
Total		$ 23,674	$ -	$ 998,500	$ 14,675	$ 89,639	$ 1,500	$ 332,850	$ 1,444,663	$ 16,175

[1] Shouwu Chen ceased to be a director effective June 19, 2018. On this same day, John McVey became a director. No amounts were paid or payable for the year ended December 31, 2018 for directors Shouwu Chen, John McVey, David Ramsay and Edward Yurkowski.

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

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

David Knight is a partner with the law firm WeirFoulds LLP (formerly with Norton Rose Fulbright Canada LLP), which provides legal services to the Company. Mr. Knight is also the Company's Corporate Secretary.

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

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

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

Benefits are basic in nature, require participants to contribute to the premium costs and includes certain co-pay requirements.

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

CRITICAL ACCOUNTING ESTIMATES

Mining Properties Valuation

The Company continues to consider, on a regular basis, whether indicators exist that suggest that the carrying value of its projects is impaired for accounting purposes. While the market capitalization relative to the carrying value of the Company's projects is reviewed, it is not considered a sole indication of impairment. Given the Company's stage of development and the volatility of the market, using the share price as a sole indication of impairment is not practical, although the Company does monitor the magnitude of the gap between its market capitalization and the project carrying values. At December 31, 2018, the Company considered whether there had been any significant changes to indicators and whether any new indicators were present. Management determined that as a result of not obtaining financing during the year, substantive expenditure on further exploration for and evaluation of mineral resources of the NICO Project cannot be budgeted or planned and completed an impairment assessment of the NICO Project. As a result of that analysis, management has determined that the carrying value of its projects is not impaired or does not require a reversal of a prior impairment charge.

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

- the Company has obtained environmental assessment approval for the NICO and SMPP sites and is focused on obtaining all necessary permits for the NICO project to proceed, and has plans in place and resources assigned to help achieve this;
- the Company has obtained a final land use permit for the NICO mine;
- substantive expenditures on the Company's main project, NICO, are planned and budgeted over the next few years;
- the feasibility study completed to date on the NICO Project demonstrates a net present value in excess of the carrying values of the project;
- the Company engaged the services of cobalt and bismuth experts to analyze the market as it relates to cobalt and bismuth products, results showed great opportunity for the NICO Project returns relative to spot prices, particularly as a consequence of the growing interest in cobalt usage in high performance

rechargeable batteries contributing to an average cumulative annual growth rate in the market of approximately 6% as well as constrained and geographical concentration of supply; and

- the Tlicho Road has received commitments from the GOC to provide 25% of the construction costs and the GNWT has executed the contracts with North Star Infrastructure to design, construct, operate and maintain the road over a 28-year period.

Interests in Mining Properties and Exploration and Development Expenditures

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

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

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

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

Going Concern Assumption

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

Currently, the Company does not have a source of revenue other than investment income and it has relied, primarily, on equity financings and strategic partners to fund its activities. The Company may have limited access to capital at an acceptable cost to existing shareholders depending on economic conditions from time to time. The Company had a working capital balance of $3,472,283 and positive cash balances at December 31, 2018 and the Company endeavours to manage the cash position prudently though ongoing monitoring of current and future cash and working capital balances relative to planned activities. With the existing working capital and the funds raised through the short form prospectus offering described above, the Company has sufficient cash to conduct certain critical path activities in 2019, however additional financing is required to advance the NICO project to production.

Deferred Income Taxes

The Company follows the deferred tax liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Assessing the recoverability of deferred tax assets requires management to make significant estimates related to expectations of future taxable income and substantively enacted tax rates. Prior to 2018, the Company completed feasibility studies and updates thereto for its principal project and is undertaking related permitting and financing activities. The benefit of certain non-capital losses, investment tax credits, undeducted share issuance costs and tax value of exploration and evaluation expenditures and capital assets in excess of book value of $15,630,000, has been offset by a valuation allowance of the same amount due to the uncertainty of realizing the benefit of deferred income tax assets in future years.

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

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

FUTURE ACCOUNTING STANDARDS

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

ENVIRONMENT

Fortune is committed to a program of environmental protection at its exploration sites. Fortune was in compliance with government regulations in 2018. Secured letters of credit have been provided to be held against future environmental obligations with respect to Arctos and NICO sites in the amounts of $25,000, representing 100% of the remaining Arctos JV letter of credit, and $188,000, respectively.

RISK AND UNCERTAINTIES

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

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

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

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

Limited Financial Resources

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

Completion of Tlicho Road

While the Company currently anticipates that the Tlicho Road will be completed, the timing related thereto is outside of the control of the Company. There is no assurance that the Tlicho Road will be completed prior to the construction of the NICO mine.

Re-zoning of SMPP Lands

On February 11, 2014, the Saskatchewan Minister of Environment accepted the recommendation of the Saskatchewan Environmental Assessment Branch and approved the Company's proposed SMPP, subject to certain conditions. The lands on which the Company intended to construct the SMPP currently have an agriculture zoning designation and must be changed to M2 Rural Industrial to construct and operate the SMPP. The recent decision of Corman Park to reject the application was unfavourable to the Company and outside of Fortune's control. The Company is now considering its options with respect to the land it owns in Corman Park as well as alternative sites to build the SMPP facility.

Dependence on Key Personnel and Limited Management Team

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

Fluctuating Prices
Factors beyond the control of the Company may affect the marketability of cobalt, bismuth, gold, copper or any other minerals discovered. The range in market prices, over the last five years are as follows: annual average gold prices have ranged from a low of US$1,160/oz (2015) to a high of US$1,270/oz (2018); annual average cobalt prices have ranged from a low of US$12.00/lb (2016) to a high of US$37.01/lb (2018); annual average copper prices have ranged from a low of US$2.21/lb (2016) to a high of US$3.10/lb (2014); annual average bismuth prices have ranged from a low of US$4.50lb (2016) to a high of US$10.92/lb (2014). The commodity prices have fluctuated widely and are affected by numerous factors beyond the Company's control such as economic downturns, commodity supply shortages, weather events, political instability, and changes in exchange and interest rates. The effect of these factors cannot accurately be predicted. Further, there is opportunity for the product mix of cobalt and bismuth from the NICO project to be adjusted to produce products with varying prices depending on the market.

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

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

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

Indigenous Title and Rights Claims
Indigenous title and rights may be claimed with respect to Crown properties or other types of tenure with respect to which mining rights have been conferred. The Company is not aware of any indigenous land claims having been formally asserted or any legal actions relating to indigenous issues having been instituted with respect to the NICO

mine or the SMPP properties other than certain treaty rights established by the Tlicho for NICO. The lands that surround NICO are owned by the Tlicho Government pursuant to an agreement between the federal government, the GNWT and the Tlicho Government ("Tlicho Agreement"). The Company is aware of certain First Nations that claim certain title and rights with respect to Crown properties related to the Company's projects that may or may not be formally asserted with the Crown in order to seek comprehensive land claim settlements.

While the Company has a right of access to the NICO mine site under the Tlicho Agreement with the Crown and Tlicho Agreement, an access agreement will be required between the Tlicho and the Company for the use of the access roads to be built through Tlicho territory to the site. During 2018, various discussions with the GNWT took place in relation to completion of the SEA and funding for the Tlicho Road as well as determining the construction schedule for the project. The Company is aware of the mutual benefits afforded by co-operative relationships with indigenous communities in conducting exploration and development activity and is supportive of measures established to achieve such cooperation including preferential hiring practices, local business development activities, involvement in environmental stewardship and other forms of accommodation. The Company has previously entered into a Co-operative Relationship Agreement and Environmental Assessment Funding Agreement with the Tlicho Government. The Company is committed to open and constructive dialogue with indigenous communities and stakeholders and will continue to make every effort to increase indigenous employment and business through its human resources and supply chain policies. However, certain challenges with respect to timely decision making may be encountered when working with First Nation governments as a result of the limited number of key individuals in leadership positions, turnover of leadership personnel and delays while elections are held. It will also be necessary for the Company to negotiate and enter into appropriate participation agreements with relevant First Nations in order to bring its projects into production and there is no assurance that the Company will be able to negotiate such agreements on favourable terms or at all. In addition, other parties may dispute the Company's title to the properties and the properties may be subject to prior unregistered agreements or transfers or land claims by indigenous peoples, and title may be affected by undetected encumbrances or defects or government actions.

Estimates of Mineral Reserves and Resources May Not be Realized

The mineral reserve and resource estimates published from time to time by the Company with respect to its properties are estimates only and no assurance can be given that any particular level of recovery of minerals will in fact be realized or that an identified resource will ever qualify as a commercially mineable (or viable) deposit which can be legally and economically exploited. Material changes in resources, grades, stripping ratios or recovery rates may affect the economic viability of projects. However, through extensive investment in exploration drilling, test mining, bulk sampling, engineering planning and pilot plant testing, the Company has substantially mitigated and reduced these risks. There is a risk that minerals recovered in small-scale laboratory and large scale pilot plant tests will be materially different under on-site conditions or in production scale operations. Short-term factors, such as the need for orderly development of deposits or the processing of new or different grades, may have an adverse effect on mining operations or the results of operations.

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

Health and Safety Matters

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

FINANCIAL INSTRUMENTS

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

During the year ended December 31, 2018 and 2017, profit and losses associated with each financial instrument are as follows:

	Impact on Profit (Loss)	
	2018	2017
Reclamation security deposits	(3,019)	(10,136)
Long-term debt	(1,068,341)	(967,168)
Derivative liability	11,639,055	(9,112,085)

ADDITIONAL INFORMATION

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

SHARE DATA

As at the date hereof, the Company has:

1. 347,303,220 common shares issued and outstanding;
2. 74,908,216 warrants outstanding which entitle the holders to purchase one common share at various prices between $0.13 and $0.25 and expiring at various dates between December 8, 2019 and August 12, 2022; and
3. stock options outstanding to purchase an aggregate of 10,700,000 common shares expiring at various dates until March 22, 2023 and exercisable at various prices between $0.10 and $0.30 per common share.

All stock options have vested as at the date hereof, except for 2,075,000 options exercisable at $0.10 which vest on December 7, 2019.

INTERNAL CONTROLS OVER EXTERNAL FINANCIAL REPORTING

Disclosure Controls and Procedures

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), together with management, evaluated the design and operating effectiveness of the Company's disclosure controls and procedures as at the financial year ended December 31, 2018. Based on that evaluation, the CEO and the CFO concluded that the design and operation of these disclosure controls and procedures were effective as at December 31, 2018 to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, would be made known to them by others within those entities and that information required to be disclosed by the Company in its annual and interim filings and other reports submitted under securities legislation was recorded, processed, summarized and reported within the periods specified in securities legislation.

Internal Controls over Financial Reporting

The CEO and CFO, together with management, evaluated the design and operating effectiveness of the Company's internal controls over financial reporting as at the financial year ended December 31, 2018. Based on that evaluation, the CEO and the CFO concluded that the design and operation of internal controls over financial reporting were effective as at December 31, 2018 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. Any system of internal control over financial reporting, no matter how well-designed, has inherent limitations. Therefore, even well-designed systems of internal control can provide only reasonable assurance with respect to financial statement preparation and presentation.

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

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

Changes in Internal Controls over Financial Reporting

There have been no changes made to the Company's internal controls over financial reporting during the year ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

This document contains certain forward-looking information. This forward-looking information includes statements with respect to, among other things, includes, among others, statements regarding the anticipated development of the NICO Project and the expected results of the technical report updating to the 2014 Feasibility Study. With respect to forward-looking information contained in this document, the Company has made assumptions, including assumptions regarding, among other things, the Company's ability to obtain the necessary financing to develop and operate the NICO Project. Some of the risks that could affect the Company's future results and could cause results to differ materially from those expressed in the Company's forward-looking information include: the inherent risks involved in the exploration and development of mineral properties and in the mining industry in general; the risk that the Company may not be able to arrange the necessary financing to fund the capital and operating improvements necessary to carry on operating or to develop, construct and operate the NICO Project; the risk that the Tlicho Road may not be constructed in a timely fashion or at all; uncertainties with respect to the receipt or timing of required permits and agreements for the development of the NICO Project; the risk that the update to the 2014 Feasibility Study may not be completed within the time frame anticipated and may not generate improved economics for the NICO Project to the extent anticipated; the risk that the operating and/or capital costs for any of the Company's projects may be materially higher than anticipated; the risk of decreases in the market prices of the metals to be produced by the Company's projects; loss of key personnel; discrepancies between actual and estimated mineral resources or between actual and estimated metallurgical recoveries; uncertainties associated with estimating mineral resources and even if such resources prove accurate the risk that such resources may not be converted into mineral reserves, once economic conditions are applied; labour shortages; workplace accidents; the cost and timing of expansion activities; changes in applicable laws or regulations; competition for, among other things, capital and skilled personnel; unforeseen geological, technical, drilling and processing problems; compliance with and liabilities under environmental laws and regulations; changes to the Company's current business strategies and objectives; and other factors, many of which are beyond the Company's control. Readers are cautioned to not place undue reliance on forward-looking information because it is possible that predictions, forecasts, projections and other forms of forward-looking information will not be achieved by the Company. These forward-looking statements are made as of the date hereof and the Company assumes no responsibility to update them or revise them to reflect new events or circumstances, except as required by law.

Consolidated Financial Statements

Fortune Minerals Limited

December 31, 2018 and 2017

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

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, 2018 and 2017 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, 2018 and 2017, 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, other than the financial statements and our auditors' report thereon, included in the Management's Discussion and Analysis of Results of Operations, and
- The information included in the Annual Information Form.

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 and Annual Information Form 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 Consdolidated 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 discl osures, and whether the con solidated 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 ch arged with governance regarding, among other matters, the planned scope and timing of the audit and si gnificant audit findings, including any s ignificant 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 reason ably 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 28, 2019

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, 2018**	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents *[note 10]*	**3,611,228**	8,524,567
Reclamation security deposits *[note 7]*	**25,000**	25,000
Accounts receivable	**99,187**	241,530
Prepaid expenses	**58,774**	35,969
Total current assets	**3,794,189**	8,827,066
Reclamation security deposits *[note 7]*	**191,245**	188,976
Capital assets, net *[note 8]*	**67,770**	71,318
Mining properties *[note 3]*	**74,272,856**	70,512,155
	78,326,060	79,599,515
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**321,906**	506,451
Total current liabilities	**321,906**	506,451
Provision for environmental rehabilitation *[note 7]*	**36,564**	33,545
Long-term debt *[note 11]*	**7,442,171**	6,373,830
Derivatives *[note 5ii[c]]*	**3,292,724**	14,931,779
Total liabilities	**11,093,365**	21,845,605
SHAREHOLDERS' EQUITY		
Share capital *[note 5]*	**173,663,326**	172,923,028
Other reserves *[notes 5 and 6]*	**13,129,875**	12,940,075
Deficit	**(119,560,506)**	(128,109,193)
Total shareholders' equity	**67,232,695**	57,753,910
	78,326,060	79,599,515

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,

	2018	2017
REVENUE AND OTHER INCOME		
Interest and other income *[note 13]*	**90,302**	90,673
	90,302	90,673
EXPENSES		
General and administrative	**1,652,445**	1,633,491
Interest	**1,068,342**	967,239
Corporate development	**437,637**	495,460
Amortization *[note 8]*	**22,246**	30,927
Change in fair value related to derivative liability *[note 5ii[c]]*	**(11,639,055)**	9,112,085
	(8,458,385)	12,239,202
Net income (loss) and comprehensive income (loss) for the year	**8,548,687**	(12,148,529)
Other comprehensive income		
Currency translation adjustment	**—**	1,998
Net comprehensive income (loss)	**8,548,687**	(12,146,531)
Basic income (loss) per share *[note 17]*	**0.03**	(0.04)
Diluted income (loss) per share *[note 17]*	**0.02**	(0.04)

See accompanying notes

Fortune Minerals Limited

CONSOLIDATED STATEMENTS OF CASH FLOWS

(expressed in Canadian dollars)

For the year ended December 31,	**2018**	2017
OPERATING ACTIVITIES		
Net income (loss) for the period from continuing operations	**8,548,687**	(12,148,529)
Changes in non-cash working capital balances related to operations		
Accounts receivable	**142,343**	(177,585)
Prepaid expenses	**(22,805)**	4,097
Accounts payable and accrued liabilities	**(184,545)**	366,930
Accrued interest on debentures	**499,224**	475,067
	8,982,904	(11,480,020)
Add (deduct) items not involving cash		
Accretion	**3,019**	10,136
Amortization	**22,246**	30,927
Reclassification of other comprehensive income	**—**	1,998
Gain on flow-through share premium	**—**	(40,229)
Stock-based compensation	**258,455**	392,520
Non-cash portion of loan discount *[note 11]*	**569,117**	492,101
Change in fair value related to derivative liability	**(11,639,055)**	9,112,085
Cash used in operating activities	**(1,803,314)**	(1,480,482)
INVESTING ACTIVITIES		
Increase in exploration and evaluation expenditures	**(2,463,277)**	(1,854,532)
Purchase of capital assets, including in mining properties	**(1,278,877)**	(722,543)
Posting of security for reclamation security deposits, net	**(2,269)**	(45,716)
Cash used in investing activities	**(3,744,423)**	(2,622,791)
FINANCING ACTIVITIES		
Proceeds on issuance of shares, net *[note 5i.]*	**(35,269)**	10,620,975
Proceeds on exercise of derivatives *[note 5 ii.[a]]*	**493,417**	258,857
Proceeds on exercise of warrants	**—**	807,937
Proceeds on exercise of options *[note 6]*	**176,250**	—
Cash provided by financing activities	**634,398**	11,687,769
Increase (decrease) in cash and cash equivalents during the year, net	**(4,913,339)**	7,584,496
Cash and cash equivalents, beginning of year	**8,524,567**	940,071
Cash and cash equivalents, end of year *[note 10]*	**3,611,228**	8,524,567

See accompanying notes

Fortune Minerals Limited

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(expressed in Canadian dollars)

	Common shares		Warrants		Subtotal	Other reserves	Deficit	Accumulated other comprehensive income	Total shareholders' equity
	#	$	#	$	$	$	$	$	$
December 31, 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	55,211,766	8,350,950	27,605,880	3,099,050	11,450,000	—	—	—	11,450,000
Share issuance costs, net of tax	—	(593,254)	—	(235,771)	(829,025)	—	—	—	(829,025)
Exercise of warrants	5,386,250	978,933	(5,386,250)	(170,996)	807,937	—	—	—	807,937
Exercise of derivatives	1,946,296	258,857	—	—	258,857	—	—		258,857
Stock options granted			—	—	-	511,200	—	—	511,200
Expiration of warrants	—	—	(7,149,783)	(512,861)	(512,861)	512,861	—	—	—
Net loss for the period	—	—	—	—	—	—	(12,148,529)	—	(12,148,529)
Foreign currency translation	—	—	—	—	—	—	—	1,998	1,998
December 31, 2017	**333,443,319**	**170,302,749**	**27,770,880**	**2,620,279**	**172,923,028**	**12,940,075**	**(128,109,193)**	**—**	**57,753,910**
Issued as a result of:									
Share issuance costs, net of tax *[note 5i]*	—	(35,269)	—	—	(35,269)	—	—	—	(35,269)
Exercise of derivatives *[note 5 ii[a]]*	3,709,901	493,417	—	—	493,417	—	—	—	493,417
Exercise of stock options *[note 6]*	2,850,000	299,150	—	—	299,150	(122,900)	—	—	176,250
Stock options granted *[note 6]*	—	—	—	—	—	295,700	—	—	295,700
Expiration of warrants *[note 5ii.[a]]*	—	—	(165,000)	(17,000)	(17,000)	17,000	—	—	—
Net income for the year	—	—	—	—	—	—	8,548,687	—	8,548,687
December 31, 2018	**340,003,220**	**171,060,047**	**27,605,880**	**2,603,279**	**173,663,326**	**13,129,875**	**(119,560,506)**	**—**	**67,232,695**

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 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 consolidated financial statements of Fortune Minerals Limited ["the Company"] for the year ended December 31, 2018 were authorized for issuance by the Board of Directors on March 27, 2019.

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 $3,472,283 at December 31, 2018, the Company has sufficient cash to conduct certain critical path activities in 2019. 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 2019 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 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, 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 year are as follows:

[a] *Impairment of non-financial assets*

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

[b] *Fair values*

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

[c] *Exploration and evaluation expenditures*

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

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.

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, 2018, 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, 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**

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

During the year ended December 31, 2018, there was no change to Property Costs [2017 – Nil] and Exploration and Evaluation Expenditures increased by $2,525,251 [2017 - $1,994,636]. There were no disposals, write-offs or amortization.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

Exploration and evaluation expenditures capitalized to mining properties during the year ended December 31, 2018 and 2017 include the following:

	December 31, 2018	December 31, 2017
	$	$
Employee and contractor compensation and benefits	**651,521**	570,180
Amortization	**28,749**	35,914
Stock-based compensation	**33,225**	104,190

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018

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	737,033	—	—	—	—	—	—	737,033
As at December 31, 2017	**6,324,226**	**1,179,717**	**593,724**	**592,034**	**18,060**	**900,356**	**6**	**9,608,123**
Accumulated amortization								
As at December 31, 2016	—	1,048,943	582,060	571,478	17,801	—	—	2,220,282
Amortization for the year	—	26,171	3,499	6,166	78	—	—	35,914
As at December 31, 2017	**—**	**1,075,114**	**585,559**	**577,644**	**17,879**	**—**	**—**	**2,256,196**
Net book value								
As at December 31, 2016	5,587,193	130,774	11,664	20,556	259	900,356	6	6,650,808
As at December 31, 2017	**6,324,226**	**104,603**	**8,165**	**14,390**	**181**	**900,356**	**6**	**7,351,927**
Cost								
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
As at December 31, 2018	**7,583,538**	**1,179,717**	**593,724**	**595,034**	**19,947**	**900,356**	**6**	**10,872,322**
Accumulated amortization								
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
As at December 31, 2018	**—**	**1,096,046**	**588,008**	**582,486**	**18,405**	**—**	**—**	**2,284,945**
Net book value								
As at December 31, 2017	6,324,226	104,603	8,165	14,390	181	900,356	6	7,351,927
As at December 31, 2018	**7,583,538**	**83,671**	**5,716**	**12,548**	**1,542**	**900,356**	**6**	**8,587,377**

Included in surface facilities under construction during the year ended December 31, 2018 is $66,684 [2017 - $42,036] of directly attributable employee and contractor compensation and benefits and $4,020 [2017 - $14,490] of stock-based compensation.

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

The NICO project and the related claims in the Marian River Area, Northwest Territories are wholly owned by the Company. The Company plans to locate the hydrometallurgical processing plant for NICO at a site in Saskatchewan, Canada. In December 2012, the Company purchased lands near Saskatoon, Saskatchewan on which it proposes to construct the Saskatchewan Metals Processing Plant [“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.

Subsequent to year end, 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 is required to construct and operate a hydrometallurgical facility to process metal concentrates from the Company's planned NICO mine in the Northwest Territories. The Company has been working on alternative plans in the event of a negative zoning change decision and is considering its options with respect to its land in Corman Park.

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 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, 2018.

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, 2018, the Company considered whether there had been any significant changes to impairment indicators from its previous impairment assessment completed at December 31, 2017 and whether any new indicators were present. Management determined that as a result of not obtaining financing during the period, 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$1,300/oz for gold, US$35/lb for cobalt and US$6/lb for bismuth and an exchange rate of US$0.75:C$1.00 [2017 - US$1,250/oz for gold, US$23/lb for cobalt and US$7/lb for bismuth and an exchange rate of US$0.80:C$1.00]. A discount rate of 8% was used in the cash flow analysis. These factors resulted in a recoverable amount in excess of book value of NICO. Accordingly, no impairment was recognized on the NICO project.

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

5. SHARE CAPITAL AND RESERVES

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018

i. Common Shares

The Company is authorized to issue an unlimited number of common shares without par value. As at December 31, 2018, the weighted average number of common shares outstanding was 338,392,567 [2017 - 297,385,408].

The Company did not enter into any agreements to issue shares during the year ended December 31, 2018, however additional share issuance costs of $35,269 incurred in the year ended December 31, 2018 related to a subscription agreement entered into in December 2017.

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

	2018	2017
Shares outstanding, beginning of year	**333,443,319**	270,899,007
Issuance of Shares *[note 5i.[b]]*	**—**	55,211,766
Exercise of warrants *[note 5ii.[b]]*	**—**	5,386,250
Exercise of derivatives *[note 5ii.[c]]*	**3,709,901**	1,946,296
Exercise of options *[note 6]*	**2,850,000**	—
Shares outstanding, end of year	**340,003,220**	333,443,319

[a] As at December 31, 2018, 900,000 [2017 – 900,000] issued common shares are being held in escrow, subject to certain production thresholds for the NICO property.

[b] During 2017, the Company issued 55,211,766 shares through a short form prospectus offering and a subscription agreement. The short form prospectus was entered into on March 8, 2017 for 25,800,000 units at $0.25 raising gross proceeds of $6,450,000 and the subscription agreement was entered into on December 8, 2017 and December 14, 2017 for 26,381,999 and 3,029,767 units, respectively, at $0.17 raising gross proceeds of $5,000,000. All units issued consisted of one common share and one half of a common share purchase warrant. One warrant entitles the holder to purchase one common share of the Company for $0.25 for a period of two years following the closing date. The value of the warrants was estimated using the Black-Scholes option pricing model with the following weighted average assumptions as follows: dividend yield of 0%, expected volatility of between 101% and 153.50%, risk free interest rate between 0.79% and 1.57% and expected life of 2 years.

ii. Share Purchase Warrants

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

	2018			**2017**		
	Warrants		Weighted Average Exercise Price	Warrants		Weighted Average Exercise Price
Warrants outstanding, beginning of year	**27,770,880**	**$**	**0.30**	12,701,033	$	0.22
Issue of warrants *[note 5i.[b]]*	**—**		**—**	27,605,880		0.30
Exercise of warrants *[note 5ii.[b]]*	**—**		**—**	(5,386,250)		0.15
Expiry of Warrants *[note 5ii.[a]]*	**(165,000)**		**0.15**	(7,149,783)		0.25
Warrants outstanding, end of year	**27,605,880**	**$**	**0.30**	27,770,880	$	0.30

[a] During the year ended December 31, 2018, 165,000 [2017 – 7,149,783] warrants with an exercise price of $0.15 [2017 - $0.15-$0.40] expired unexercised. These warrants had a book value of $17,000 [2017 - $512,861]. Subsequent to year end, 12,900,000 warrants with an exercise price of $0.35 expired unexercised.

[b] During 2017, 5,386,250 warrants with an exercise price of $0.15 were exercised raising gross proceeds of $807,937. These warrants had a book value of $170,996.

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

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

	2018		2017	
	Class A	**Class B**	Class A	Class B
Derivatives outstanding, beginning of year	**12,194,197**	**51,718,040**	14,140,493	50,365,661
Adjustment as a result of General Offering	**—**	**—**	—	1,352,379
Exercise of derivatives	**(3,709,901)**	**—**	(1,946,296)	—
Shares outstanding, end of year	**8,484,296**	**51,718,040**	12,194,197	51,718,040

The exercise price for Class A and Class B warrants were $0.133 [2017 - $0.133] and $0.208 [2017 - $0.208], respectively, at December 31, 2018 and 2017.

During the year ended December 31, 2018, 3,709,901 [2017 – 1,946,296] Class A warrants were exercised with an exercise price of $0.133 [2017 - $0.133] raising gross proceeds of $493,417 [2017 - $258,857].

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 are as follows: dividend yield of 0% [2017 – 0%], expected volatility of between 100.83% and 158.01% [2017 – 110.20% and 110.48%], risk free interest rate of between 1.85% and 1.88% [2017 – 1.66% and 1.81%] and expected life of between 1.62 and 3.62 years [2017 – 1.83 and 4.62 years]. These assumptions will change from time to time and the impact 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 approximately $0.01 [2017 - $0.02], will result in the value of the derivative changing by approximately $331,519 [2017 – 1,490,000].

iii. Nature and Purpose of Equity and Reserves

The reserves recorded in equity on the Company's Consolidated Statements of Financial Position include 'Other Reserves', 'Accumulated Deficit' and 'Accumulated Other Comprehensive Income'.

'Other Reserves' is used to recognize the value of stock option grants and amendments and expiration of share purchase warrants.

'Accumulated Deficit' is used to record the Company's change in deficit from earnings from year to year.

'Accumulated Other Comprehensive Income' is used to record foreign currency translation.

6. STOCK-BASED COMPENSATION

The Company has a fixed stock-based compensation plan, approved by the shareholders at the Company's annual meeting held on June 22, 2005. The plan was most recently confirmed and approved at the Company's annual meeting held on June 21, 2017. Under the plan, the Company may grant options to eligible individuals for up to 10% of the issued and outstanding common shares, subject to certain conditions. As at December 31, 2018, the Company has 11,400,322 [2017 – 14,294,332] 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 estimated fair value of 3,200,000 and 3,700,000 options granted and vested during the year ended December 31, 2018 and 2017, respectively, has been allocated to general and administrative expense, corporate development costs, exploration and evaluation expenditures and capital assets in the amounts of $237,290 [2017 – $330,420], $21,165 [2017 – $62,100], $33,225 [2017 - $104,190] and $4,020 [2017 – $14,490], respectively. The other reserves balance was increased by $295,700 [2017 - $511,200], representing the fair value of the options granted and vested during the year ended December 31, 2018 as well as options granted in the prior year and vested during the year ended December 31, 2018. The options granted during the year ended December 31, 2018 have a maximum term of between three and five years and 3,100,000 vested immediately and 2,100,000 vest at various dates between March 22, 2019 and December 7, 2019. The value of the options were 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 between 94.79% and 223.61%, risk free interest rate of between 2.01% and 2.10% and expected life of between 2.51 and 4.28 years.

A summary of the status of the Company's stock option plan as at December 31, 2018 and December 31, 2017, and changes during the year ended on those dates are presented below:

	December 31, 2018		December 31, 2017	
	Number of shares #	**Weighted-average exercise price $**	Number of shares #	Weighted-average exercise price $
Options outstanding, beginning of year	**19,050,000**	**0.15**	15,340,000	0.14
Granted	**5,200,000**	**0.11**	3,800,000	0.19
Exercised	**(2,850,000)**	**0.06**	—	—
Expired or cancelled	**(1,650,000)**	**0.55**	(90,000)	0.84
Options outstanding, end of year	**19,750,000**	**0.12**	19,050,000	0.15
Options vested and outstanding, end of year	**17,650,000**	**0.12**	18,950,000	0.15

During the year ended December 31, 2018, 2,850,000 stock options with a book value of $122,900 were exercised for aggregate gross proceeds of $176,250. Subsequent to year end 7,300,000 options were exercised raising gross proceeds of $365,000 and 1,750,000 options expired unexercised.

The following tables summarize information about the options outstanding as at December 31, 2018 and 2017:

December 31, 2018

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.

December 31, 2017

Range of exercise prices	Number outstanding	Number vested and outstanding	Weighted average exercise price – all [i]	Weighted average remaining contract life – all [i]
$	#	#	$	years
Nil – 0.49	17,730,000	17,630,000	0.11	2.13
0.50 – 0.99	1,320,000	1,320,000	0.60	0.09
	19,050,000	18,950,000		

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

7. PROVISION FOR ENVIRONMENTAL REHABILITATION AND SECURITY DEPOSITS

Provision is made for asset retirement, restoration and for environmental rehabilitation costs [which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas] in the financial period when the related environmental disturbance occurs, resulting in a legal or constructive obligation to the Company. Although the ultimate amount of the environmental rehabilitation provision is uncertain, the estimate of these obligations is based on information currently available including the most recently estimated mine life and applicable regulatory requirements. Significant closure activities include primarily land rehabilitation for impacts to date.

The provision for environmental rehabilitation and key assumptions are as follows:

	December 31, 2018	December 31, 2017
NICO Project		
Provision for environmental rehabilitation	**$36,564**	$33,545
Estimated remaining life	**19 years**	20 years
Discount rate	**9%**	9%
Total provision for environmental rehabilitation	**$36,564**	$33,545

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:

	December 31, 2018	December 31, 2017
	Deposit amount $	Deposit amount $
NICO Project	**191,245**	188,976
Arctos Anthracite Project	**25,000**	25,000
Total Net Book Value	**216,245**	213,976

The security for the reclamation of the Arctos Anthracite Project is held in the Arctos JV. As at December 31, 2018, the security deposit amount in the Arctos JV was $25,000 [2017 - $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.

8. CAPITAL ASSETS

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

The assets are amortized at the following rates:

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

Capital assets consist of the following:

	Computer equipment $	Furniture and fixtures $	Software $	Total $
Cost				
As at December 31, 2017	194,138	117,216	316,646	628,000
Additions	6,654	—	12,044	18,698
As at December 31, 2018	**200,792**	**117,216**	**328,690**	**646,698**
Accumulated amortization				
As at December 31, 2017	176,739	97,930	282,013	556,682
Amortization for the year	5,699	3,857	12,690	22,246
As at December 31, 2018	**182,438**	**101,787**	**294,703**	**578,928**
Net book value				
As at December 31, 2017	17,399	19,286	34,633	71,318
As at December 31, 2018	**18,354**	**15,429**	**33,987**	**67,770**

9. EXPENSES BY NATURE

	December 31, 2018	December 31, 2017
Employee and contractor compensation and benefits (i)	**988,009**	850,992
Operating lease expense – property (ii)	**92,470**	92,985
Stock-based compensation (iii)	**258,455**	392,520
Amortization	**22,246**	30,927
Change in fair value related to derivative liability	**(11,639,055)**	9,112,1085

(i) $681,563 [2017 - $608,524] and $306,446 [2017 - $242,468] 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) $237,290 [2017 - $330,420] and $21,165 [2017 - $62,100] 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 DEBT

The Company has $8.75 million unsecured debentures outstanding as of December 31, 2018. The debentures have a term of seven years maturing on August 12, 2022, bear interest at 5% per annum, compounding semi-annually and both principal and interest are payable at maturity.

The long-term debt is summarized as follows for the years ending December 31:

	2018	2017
Debentures at maturity	**$ 8,750,000**	$ 8,750,000
Loan discount	**(2,918,285)**	(3,487,402)
Accrued interest on debentures	**1,610,456**	1,111,232
	$ 7,442,171	$ 6,373,830

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, 2018, $569,117 [2017 - $492,101] 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. 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 debt and derivatives.

i. Financial instruments by category

Financial assets

	Financial assets at amortized cost December 31, 2018	Loans and receivables December 31, 2017
Cash and cash equivalents	$ 3,611,228	$ 8,524,567
Reclamation security deposits	216,245	213,976
Accounts receivables	99,187	241,530
Total financial assets	$ 3,926,660	$ 8,980,073

Financial liabilities

	Financial liabilities at fair value through profit or loss		Financial liabilities at amortized cost	Other financial liabilities
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Accounts payable and accrued liabilities	$ —	$ —	$ 321,906	$ 506,451
Provision for environmental rehabilitation	—	—	36,564	33,545
Long-term debt	—	—	7,442,171	6,373,830
Derivatives	3,292,724	14,931,779	—	—
Total financial liabilities	$ 3,292,724	$ 14,931,779	$ 7 ,800,641	$ 6,913,826

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 debt measured at amortized cost has a fair value of $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, 2018	December 31, 2017
Derivatives	3,292,724	14,931,779

There were no transfers between levels during the year. The change in fair value of level 3 financial instruments of $11,639,055 income [2017 - $9,112,085 loss] is attributed to the change in fair value 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, 2018 and 2017. Payments due by year are as follows:

	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 debt	**8,750,000**	**—**	**8,750,000**	**—**
Accrued interest on debentures	**3,613,518**	**—**	**3,613,518**	**—**
	$12,873,424	**$ 321,906**	**$12,363,518**	**$ 188,000**

	December 31, 2017			
	Total	2019	2022	Greater than 5 years
Accounts payable and accrued liabilities	$ 506,451	$ 506,451	$ —	**$ —**
Provision for environmental rehabilitation	188,000	—	—	188,000
Long-term debt	8,750,000	**—**	8,750,000	**—**
Accrued interest on debentures	3,613,518	**—**	3,613,518	**—**
	$13,057,969	$ 506,451	$12,363,518	$ 188,000

13. INTEREST AND OTHER INCOME

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

	2018	2017
Interest income	**90,431**	52,368
Gain on flow-through share premium	**—**	40,229
Foreign exchange loss	**(129)**	(1,924)
Total Interest and Other Income	**90,302**	90,673

14. INCOME TAXES

The Company has non-capital loss carryforwards totaling $47,100,000 [2017 - $44,000,000], net capital loss carryforwards of $18,127,000 [2017 - $17,843,000], un-deducted debt and share issuance costs of $632,000 [2017 - $843,000] and unused investment tax credits on pre-

production mining costs of $1,975,000 [2017 - $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 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 $15,630,000 [2017 - $15,480,000] 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, 2018 $	December 31, 2017 $
Deferred income tax assets		
Net operating loss carryforwards	**12,564,000**	11,720,000
Undeducted debt and share issuance costs *[i]*	**169,000**	225,000
Unused investment tax credits on pre-production costs	**1,974,500**	1,975,000
Tax value of exploration and evaluation expenditures and capital assets in excess of book value	**922,500**	1,560,000
	15,630,000	15,480,000
Less valuation allowance related to operating losses, share issuance costs and unused investments tax credits	**(15,630,000)**	(15,480,000)
Deferred income tax assets	**—**	—

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

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

	December 31, 2018 $	December 31, 2017 $
Combined federal and provincial/state income tax rate	**26.50%**	26.71%
Corporate income tax recovery at statutory rate	**2,283,000**	(3,251,000)
Increase (decrease) in income taxes resulting from		
Non-deductible stock-based compensation and other expenses	**223,000**	268,000
Non-deductible change in fair value of derivative	**(3,109,000)**	2,434,000
Renunciation of flow-through expenses	**—**	116,000
Rate difference	**26,000**	25,500
Non-taxable flow-through share premium	**—**	(10,750)
Tax value of loss carryforwards not recognized	**577,000**	418,250
	—	—

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 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.

16. RELATED PARTY TRANSACTIONS

For the year ended December 31, 2018, the Company paid key management personnel including officers, directors or their related entities for consulting services and/or management services.

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

	December 31, 2018	December 31, 2017
	$	$
Salaries and benefits	**23,674**	21,227
Consulting services	**998,500**	815,776
Legal services	**89,639**	163,632
Fair value of stock options granted	**332,850**	441,600
	1,444,663	1,442,235

As at December 31, 2018, $16,175 [2017 - $77,250] was owing to key management personnel for services provided during the year.

17. INCOME (LOSS) PER SHARE

Basic loss per share is calculated by dividing net loss for the year by the weighted average number of common shares outstanding in each respective year. Diluted loss per share reflects the

potential dilution of securities by adding other common stock equivalents in the weighted average number of common shares outstanding during the year, if dilutive.

i. Basic income (loss) per share

	December 31, 2018	December 31, 2017
Net income (loss)	**$ 8,548,687**	$ (12,148,529)
Weighted average number of common shares	**338,392,567**	297,385,408
Basic income (loss) per share	**$ 0.03**	$ (0.04)

ii. Diluted income (loss) per share

For calculating diluted income (loss) per share, for the year ended December 31, 2018 and 2017, the following weighted average options, warrants and derivative warrants had an exercise price less than the average market price for the year:

	2018	2017
Options	**16,417,123**	16,050,000
Warrants	**—**	165,000
Derivative Warrants	**60,202,336**	63,912,237
	76,619,459	80,127,237

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

The weighted average options, warrants and derivative warrants for the year ended December 31, 2017 were excluded from the fully diluted loss per share computation for December 31, 2017 because inclusion would have been anti-dilutive.

18. CONSOLIDATED STATEMENTS OF CASH FLOWS

Supplemental cash flow information for the year ending December 31:

	2018 $	2017 $
Interest and investment income received	**77,661**	38,529

19. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET IN EFFECT

i. New accounting standards

- IFRS 9 Financial Instruments – effective for the December 31, 2018 year end. This standard has been adopted by the Company and there was no significant impact on the Company's consolidated financial statements. Additional disclosure has been provided in Note 12 – 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 exploration and evaluation stage.

ii. Future accounting standards

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

- 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.