Interim Condensed Consolidated Financial Statements

Fortune Minerals Limited

June 30, 2018

Fortune Minerals Limited

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

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

Incorporated under the laws of Ontario

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(expressed in Canadian dollars)

Unaudited

See note 2 going concern uncertainty

As at	**June 30, 2018**	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents *[note 10]*	**5,487,972**	8,524,567
Reclamation security deposits *[note 7]*	**25,000**	25,000
Accounts receivable	**193,441**	241,530
Prepaid expenses	**20,947**	35,969
Total current assets	**5,727,360**	8,827,066
Reclamation security deposits *[note 7]*	**189,972**	188,976
Capital assets, net *[note 8]*	**61,490**	71,318
Mining properties *[note 3]*	**73,026,849**	70,512,155
	79,005,671	79,599,515
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**341,504**	506,451
Total current liabilities	**341,504**	506,451
Provision for environmental rehabilitation *[note 7]*	**35,055**	33,545
Long-term debt *[note 11]*	**6,891,775**	6,373,830
Derivatives *[note 5ii[a]]*	**5,216,049**	14,931,779
Total liabilities	**12,484,383**	21,845,605
SHAREHOLDERS' EQUITY		
Share capital *[note 5]*	**173,562,726**	172,923,028
Other reserves *[notes 5 and 6]*	**12,885,265**	12,940,075
Deficit	**(119,926,703)**	(128,109,193)
Total shareholders' equity	**66,521,288**	57,753,910
	79,005,671	79,599,515

See accompanying notes

Fortune Minerals Limited

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

(expressed in Canadian dollars)

Unaudited

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
REVENUE AND OTHER INCOME				
Interest and other income *[note 13]*	**28,264**	51,325	**52,691**	51,631
	28,264	51,325	**52,691**	51,631
EXPENSES				
General and administrative	**392,642**	694,958	**799,825**	1,000,131
Interest	**260,461**	236,007	**517,945**	469,283
Corporate development	**150,277**	208,929	**257,499**	313,019
Amortization *[note 8]*	**5,362**	7,732	**10,662**	15,464
Change in fair value related to derivative liability *[note 5ii[a]]*	**(6,855,828)**	(87,131)	**(9,715,730)**	4,373,517
	(6,047,086)	1,060,495	**(8,129,799)**	6,171,414
Net gain (loss) and comprehensive gain (loss) for the period	**6,075,350**	(1,009,170)	**8,182,490**	(6,119,783)
Other comprehensive income				
Currency translation adjustment	**—**	1,998	**—**	1,998
Net comprehensive gain (loss)	**6,075,350**	(1,007,172)	**8,182,490**	(6,117,785)
Basic and diluted gain (loss) per share *[note 17]*	**0.02**	—	**0.02**	(0.02)

See accompanying notes

Fortune Minerals Limited

CONSOLIDATED STATEMENTS OF CASH FLOWS

(expressed in Canadian dollars)

Unaudited

For the six-month periods ended June 30,

	2018	2017
OPERATING ACTIVITIES		
Net loss for the period from continuing operations	**8,182,490**	(6,119,783)
Changes in non-cash working capital balances related to operations		
Accounts receivable	**48,089**	(42,837)
Prepaid expenses	**15,022**	21,162
Accounts payable and accrued liabilities	**(164,947)**	213,432
Accrued interest on debentures	**245,166**	233,250
	8,325,820	(5,694,776)
Add (deduct) items not involving cash		
Accretion	**1,510**	1,053
Amortization	**10,662**	15,464
Reclassification of other comprehensive income	**—**	1,998
Gain on flow-through share premium	**—**	(32,008)
Stock-based compensation	**20,490**	385,020
Non-cash portion of loan discount *[note 11]*	**272,779**	236,033
Change in fair value related to derivative liability	**(9,715,730)**	4,373,517
Cash used in operating activities	**(1,084,469)**	(713,699)
INVESTING ACTIVITIES		
Increase in exploration and evaluation expenditures	**(1,392,166)**	(750,096)
Purchase of capital assets, including in mining properties	**(1,123,362)**	(122,899)
Posting of security for reclamation security deposits, net	**(996)**	—
Cash used in investing activities	**(2,516,524)**	(872,995)
FINANCING ACTIVITIES		
Proceeds on issuance of shares, net *[note 5i.]*	**(35,269)**	5,855,067
Proceeds on exercise of derivatives *[note 5 ii.[a]]*	**493,417**	—
Proceeds on exercise of warrants	**—**	507,937
Proceeds on exercise of options *[note 6]*	**106,250**	—
Cash provided by financing activities	**564,398**	6,363,004
Increase (decrease) in cash and cash equivalents during the period, net	**(3,036,595)**	4,776,310
Cash and cash equivalents, beginning of period	**8,524,567**	940,071
Cash and cash equivalents, end of period *[note 10]*	**5,487,972**	5,716,381

See accompanying notes

Fortune Minerals Limited

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(expressed in Canadian dollars)

Unaudited

	Common shares		Warrants		Subtotal	Other reserves	Deficit	Accumulated other comprehensive income	Total shareholders' equity
	#	$	#	$	$	$	$	$	$
December 31, 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	25,800,000	4,429,225	12,900,000	2,020,775	6,450,000	—	—	—	6,450,000
Share issuance costs, net of tax	—	(406,656)	—	(188,277)	(594,933)	—	—	—	(594,933)
Exercise of warrants	3,386,250	593,819	(3,386,250)	(85,882)	507,937	—	—	—	507,937
Stock options granted	—	—	—	—	—	503,700	—	—	503,700
Expiration of warrants	—	—	(66,450)	(1,528)	(1,528)	1,528	—	—	—
Net loss for the period	—	—	—	—	—	—	(6,119,783)	—	(6,119,783)
Foreign currency translation	—	—	—	—	—	—	—	1,998	1,998
June 30, 2017	**300,085,257**	**165,923,651**	**22,148,333**	**2,185,945**	**168,109,596**	**12,421,242**	**(122,080,447)**	**—**	**58,450,391**
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]*	1,450,000	181,550	—	—	181,550	(75,300)	—	—	106,250
Stock options granted *[note 6]*	—	—	—	—	—	20,490	—	—	20,490
Net loss for the period	—	—	—	—	—	—	8,182,490	—	8,182,490
June 30, 2018	**338,603,220**	**170,942,447**	**27,770,880**	**2,620,279**	**173,562,726**	**12,885,265**	**(119,926,703)**	**—**	**66,521,288**

See accompanying notes

Fortune Minerals Limited

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

June 30, 2018

1. CORPORATE INFORMATION

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

The unaudited interim condensed consolidated financial statements of Fortune Minerals Limited ["the Company"] for the six months ended June 30, 2018 were authorized for issuance by the Board of Directors on August 10, 2018.

2. BASIS OF PRESENTATION

i. *Statement of Compliance*

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

ii. *Going Concern of Operations*

These unaudited interim condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of the Company's assets and discharge of its liabilities and commitments in the normal course of business. With the existing working capital of $5,385,856 at June 30, 2018, the Company has sufficient cash to conduct certain critical path activities in 2018. However, the NICO project requires further funding to advance the project through to production and the Company has engaged a consulting firm, to assist with securing this financing. This results in the existence of a material uncertainty that casts significant doubt about the Company's ability to continue as a going concern. Management is actively working to achieve positive cash flows beyond 2018 and is continually pursuing and considering various financing opportunities. The Company has historically been successful in financing its activities, however, there can be no assurances that the Company will be able to obtain continued support from existing lenders or obtain sufficient financing on terms acceptable to management to be able to meet its current liabilities as they come due. These financial statements do not include adjustments, which may be material, to the amounts and classification of assets and liabilities that would be necessary should the going concern principle not be appropriate.

iii. *Basis of Measurement*

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

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

[“Arctos JV’] is accounted for as a joint operation and FCL recognizes its 50% interest in the assets, liabilities, income, loss and expenses. All intercompany transactions and balances have been eliminated upon consolidation.

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

iv. *Judgment and Estimates*

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

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

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

[a] *Impairment of non-financial assets*

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

[b] *Fair values*

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

[c] *Exploration and evaluation expenditures*

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

[d] *Income taxes*

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

[e] *Amortization of capital assets*

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

In addition, in preparing the unaudited interim condensed consolidated financial statements, the notes to the unaudited interim consolidated financial statements were ordered such that the most relevant information was presented earlier in the notes and the disclosures that management deemed to be immaterial were excluded from the notes to the unaudited interim consolidated financial statements. The determination of the relevance and materiality of disclosures involves significant judgment.

3. MINING PROPERTIES

As at June 30, 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:

	June 30, 2018			
	Capital Assets $	**Property Costs $**	**Exploration and Evaluation Expenditures $**	**Total Mining Properties $**
NICO *[i]*	**8,460,315**	**2,191,442**	**62,198,377**	**72,850,134**
Sue-Dianne	—	**9,164**	**157,520**	**166,684**
Other properties	—	—	**10,031**	**10,031**
	8,460,315	**2,200,606**	**62,365,928**	**73,026,849**

	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 six months ended June 30, 2018, there was no change to Property Costs and Exploration and Evaluation Expenditures increased by $1,406,306. There were no disposals, write-offs or amortization.

Exploration and evaluation expenditures capitalized to mining properties during the six months ended June 30, 2018 and 2017 include the following:

	June 30, 2018 **$**	June 30, 2017 $
Employee and contractor compensation and benefits	**319,066**	244,245
Amortization	**14,140**	17,957
Stock-based compensation	—	104,190

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, 2017	6,324,226	1,179,717	593,724	592,034	18,060	900,356	6	9,608,123
Additions	1,117,641	—	—	3,000	1,887	—	—	1,122,528
As at June 30, 2018	**7,441,867**	**1,179,717**	**593,724**	**595,034**	**19,947**	**900,356**	**6**	**10,730,651**
Accumulated amortization								
As at December 31, 2017	—	1,075,114	585,559	577,644	17,879	—	—	2,256,196
Amortization for the period	—	10,466	1,225	2,233	216	—	—	14,140
As at June 30, 2018	**—**	**1,085,580**	**586,784**	**579,877**	**18,095**	**—**	**—**	**2,270,336**
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 June 30, 2018	**7,441,867**	**94,137**	**6,940**	**15,157**	**1,852**	**900,356**	**6**	**8,460,315**

Included in surface facilities under construction during the six months ended June 30, 2018 is $45,823 [June 30, 2017 - $19,585] of directly attributable employee and contractor compensation and benefits and $Nil [June 30, 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 SMPP. The net costs of design, development, construction and related costs incurred for the SMPP have been accumulated and capitalized as surface facilities under construction until such time as the physical assets are completed and available for use, at which time they will be classified as appropriate. No amortization has been charged against these assets as they are not yet available for use.

ii. Arctos Anthracite Project, British Columbia ["Arctos"]

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

The Company, FCL, POSCAN and POSCO Klappan also entered into an Amendment to Exploration, Development and Mine Operating Joint Venture Agreement ["Amended Agreement"] to restructure the Arctos JV and share the proceeds from the sale of the Arctos coal licenses on an equal basis after purchasing the royalty held by the previous owner of the property. Pursuant to the Amended Agreement, FCL transferred 30% of its interest in the Arctos JV to POSCO Klappan, thereby reducing its interest from 80% to 50%, in exchange for the elimination of the future capital contribution to be made by FCL. The Company was made solely responsible for reclamation of the Arctos property except for the access road for which the Province will be responsible. The Company was entitled to receive the cash provided as security for its reclamation obligations once the reclamation is complete.

Going forward, under the Arctos Sale Agreement, the Arctos JV partners maintain the exclusive right to purchase back the coal licenses at the same price for a 10-year option period. If both partners do not wish to exercise the repurchase option, each of them may do so individually. No value was attributed to the option at the time of the agreement or as at the six months ended June 30, 2018.

4. ASSET IMPAIRMENT

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

At June 30, 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. During the six months ended June 30, 2018, commodity prices, specifically cobalt, continued its upward trend through the first few months of the year before seeing a slight decrease by June 30, 2018. 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$1,250/oz for gold, US$35/lb for cobalt and US$6/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

i. Common Shares

The Company is authorized to issue an unlimited number of common shares without par value. As at June 30, 2018, the weighted average number of common shares outstanding for the three- and six-month periods was 338,535,088 and 338,051,626, respectively [December 31, 2017 - 297,385,408].

The Company did not enter into any agreements to issue shares during the six months ended June 30, 2018, however additional share issuance costs of $35,269 incurred in the six months ended June 30, 2018 related to a subscription agreement entered into December 2017.

The following is a summary of changes in shares for the six months ended June 30, 2018:

	June 30, 2018	December 31, 2017
Shares outstanding, beginning of period	**333,443,319**	270,899,007
Issuance of Shares	—	55,211,766
Exercise of warrants	—	5,386,250
Exercise of derivatives *[note 5ii.[a]]*	**3,709,901**	1,946,296
Exercise of options *[note 6]*	**1,450,000**	—
Shares outstanding, end of period	**338,603,220**	333,443,319

ii. Share Purchase Warrants

The following is a summary of changes in warrants for the six-month periods ended June 30,

	2018		**2017**	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Warrants outstanding, beginning of period	**27,770,880**	**$ 0.30**	12,701,033	$ 0.22
Issue of warrants	—	—	12,900,000	0.35
Exercise of warrants	—	—	(3,386,250)	0.15
Expiry of Warrants	—	—	(66,450)	0.15
Warrants outstanding, end of period	**27,770,880**	**$ 0.30**	22,148,333	$ 0.30

[a] 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 six months ended June 30,

	2018		2017	
	Class A	**Class B**	Class A	Class B
Derivatives outstanding, beginning of period	**12,194,197**	**51,718,040**	14,140,493	50,365,661
Exercise of derivatives	**(3,709,901)**	—	—	—
Shares outstanding, end of period	**8,484,296**	**51,718,040**	14,140,493	50,365,661

The exercise price for Class A and Class B warrants were $0.133 [2017 - $0.133] and $0.208 [2017 - $0.214], respectively, at June 30, 2018 and 2017.

In January 2018, 3,709,901 Class A warrants were exercised with an exercise price of $0.133 raising gross proceeds of $493,417.

The determination of the fair value of the resulting derivative requires the Company to make a number of assumptions and estimates regarding the inputs into the model used to determine the value of the warrants. These assumptions will change from time to time and the impact on the resulting change will be reflected in the Consolidated Statements of Loss and Comprehensive Loss. Small changes to the inputs into the model can have a substantial impact on the value of the warrants. A change in the warrant unit value of approximately 10%, or approximately $0.01, will result in the value of the derivative changing by approximately $521,000.

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 other reserves balance was increased by $20,490, representing the fair value of the options granted and options previously granted and vested during the six months ended June 30, 2018. The options granted during the six months ended June 30, 2018 have a maximum term of five years and 25,000 vested immediately and 25,000 vest on March 22, 2019. The value of the options was estimated using the Black-Scholes option pricing model with the following weighted average assumptions used for grants as follows: dividend yield of 0%, expected volatility of 223.61%, risk free interest rate of 2.04% and expected life of 4.28 years.

A summary of the status of the Company's stock option plan as at June 30, 2018 and December 31, 2017, and changes during the periods ended on those dates are presented below:

	June 30, 2018		December 31, 2017	
	Number of shares	**Weighted-average exercise price**	Number of shares	Weighted-average exercise price
	#	**$**	#	$
Options outstanding, beginning of period	**19,050,000**	**0.15**	15,340,000	0.14
Granted	**50,000**	**0.29**	3,800,000	0.19
Exercised	**(1,450,000)**	**0.08**	—	—
Expired or cancelled	**(1,320,000)**	**0.60**	(90,000)	0.84
Options outstanding, end of period	**16,330,000**	**0.12**	19,050,000	0.15
Options vested and outstanding, end of period	**16,255,000**	**0.12**	18,950,000	0.15

During the six months ended June 30, 2018, 1,450,000 stock options with a book value of $75,300 were exercised for aggregate gross proceeds of $106,250.

Subsequent to June 30, 2018, the Company granted 1,000,000 stock options having an exercise price of $0.15 and expiring on the date that is three years following the issue date.

The following table summarizes information about the options outstanding as at June 30, 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	16,330,000	16,255,000	0.12	1.93

[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 100,000 options have vested at June 30, 2018 and 50,000 options exercisable at $0.285, of which only 25,000 options have vested at June 30, 2018.

7. PROVISION FOR ENVIRONMENTAL REHABILITATION AND SECURITY DEPOSITS

Although the ultimate amount of the environmental rehabilitation provision is uncertain, the estimate of these obligations is based on information currently available including the most recently estimated mine life and applicable regulatory requirements. Significant closure activities include primarily land rehabilitation for impacts to date.

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

	June 30, 2018	December 31, 2017
NICO Project		
Provision for environmental rehabilitation	**$35,055**	$33,545
Estimated remaining life	**19 years**	20 years
Discount rate	**9%**	9%
Total provision for environmental rehabilitation	**$35,055**	$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 Government of British Columbia for NICO and Arctos, respectively.

Reclamation security deposits consist of the following:

	June 30, 2018	December 31, 2017
	Deposit amount $	Deposit amount $
NICO Project	**189,972**	188,976
Arctos Anthracite Project	**25,000**	25,000
Total Net Book Value	**214,972**	213,976

The security for the reclamation of the Arctos Anthracite Project is held in the Arctos JV. As at June 30, 2018, the security deposit amount in the Arctos JV was $25,000 [December 31, 2017 - $25,000]. The Company expects this amount to be released once the Province has completed its site inspection.

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

8. CAPITAL ASSETS

Capital assets consist of the following:

	Computer equipment $	Furniture and fixtures $	Software $	Total $
Cost				
As at December 31, 2017	194,138	117,216	316,646	628,000
Additions	834	—	—	834
As at June 31, 2018	**194,972**	**117,216**	**316,646**	**628,834**
Accumulated amortization				
As at December 31, 2017	176,739	97,930	282,013	556,682
Amortization for the period	2,672	1,929	6,061	10,662
As at June 31, 2018	**179,411**	**99,859**	**288,074**	**567,344**
Net book value				
As at December 31, 2017	17,399	19,286	34,633	71,318
As at June 31, 2018	**15,561**	**17,357**	**28,572**	**61,490**

9. EXPENSES BY NATURE

	June 30, 2018	June 30, 2017
Employee and contractor compensation and benefits (i)	**513,189**	425,031
Operating lease expense – property (ii)	**47,205**	47,331
Stock-based compensation (ii)	**20,490**	385,020
Amortization	**10,662**	15,464
Foreign exchange gain (loss)	**647**	(2,270)
Change in fair value related to derivative liability	**(9,715,730)**	4,373,517

(i) $355,305 [June 30, 2017 - $287,033] and $157,884 [June 30, 2017 - $137,998] 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 and stock-based compensation are included in general and administrative expenses on the consolidated statements of income (loss) and comprehensive income (loss)

10. CASH AND CASH EQUIVALENTS

The Company’s investment policy is to invest its cash in highly liquid, short-term, interest bearing investments in order to have funds available on a short-term basis. Where cash is not expected to be required in the short-term, the policy is to invest in investments with an intermediate to long-term horizon that still allows for conversion to cash, if required.

11. LONG-TERM DEBT

The Company has $8.75 million unsecured debentures outstanding as of June 30, 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 period ending June 30, 2018.

	June 30, 2018	December 31, 2017
Debentures at maturity	**$ 8,750,000**	$ 8,750,000
Loan discount	**(3,214,623)**	(3,487,402)
Accrued interest on debentures	**1,356,398**	1,111,232
Basic and fully diluted loss per share	**$ 6,891,775**	$ 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 net present value at an effective interest rate of 18%. For the period ended June 30, 2018, $272,779 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	
	June 30, 2018	December 31, 2017
Cash and cash equivalents	$ 5,487,972	$ 8,524,567
Reclamation security deposits	214,972	213,976
Accounts receivables	193,441	241,530
Total financial assets	$ 5,896,385	$ 8,980,073

Financial liabilities

	Financial liabilities at fair value through profit or loss		Financial liabilities at amortized cost	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Accounts payable and accrued liability	$ —	$ —	$ 341,504	$ 506,451
Provision for environmental rehabilitation	—	—	35,055	33,545
Long-term debt	—	—	6,891,775	6,373,830
Derivatives	5,216,049	14,931,779	—	—
Total financial liabilities	$ 5,216,049	$ 14,931,779	$ 7 ,268,334	$ 6,913,826

ii. Financial instruments not measured at fair value

Financial instruments not measured at fair value includes cash and cash equivalents, reclamation security deposits, accounts receivable, accounts payable and accrued liability, provision for environmental rehabilitation and long-term debt.

Due to their short-term nature, the carrying value of cash and cash equivalents, reclamation security deposits, accounts receivable and accounts payable and accrued liability approximates their fair value.

iii. Financial instruments measured at fair value

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

	Level 3	
	June 30, 2018	December 31, 2017
Derivatives	5,216,049	14,931,779

There were no transfers between levels during the period. The change in fair value of level 3 financial instruments of $9,715,730 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 table details the Company's contractual maturities for its financial liabilities as at June 30, 2018. Payments due by year are as follows:

	Total	2018	2022	Greater than 5 years
Accounts payable and accrued liabilities	$ 341,504	$ 341,504	$ —	**$** —
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	—
	$12,893,022	$ 341,504	$12,363,518	$ 188,000

13. INTEREST AND OTHER INCOME

Interest and other income consist of the following for the six months ended June 30,

	2018	2017
Interest income	**52,044**	21,893
Gain on flow-through share premium	**—**	32,008
Foreign exchange gain (loss)	**647**	(2,270)
Total Interest and Other Income	**52,691**	51,631

14. INCOME TAXES

The Company has non-capital loss carryforwards totaling $45,674,000, net capital loss carryforwards of $17,979,000, un-deducted debt and share issuance costs of $755,000 and unused investment tax credits on pre-production mining costs of $1,975,000. The non-capital losses will begin to expire in 2026. The Company has completed feasibility studies for its principal project and undertaken related permitting and financing activities. The benefit of certain non-capital losses and undeducted share issuance costs has been recorded in the consolidated financial statements only to the extent of existing taxable temporary differences. The potential benefits of these carry-forward non-capital losses, capital losses, and other deductible temporary differences have not been recognized in these 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 $15,651,000 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:

	June 30, 2018 $	December 31, 2017 $
Deferred income tax assets		
Net operating loss carryforwards	**12,184,000**	11,720,000
Undeducted debt and share issuance costs *[i]*	**202,000**	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	**1,290,500**	1,560,000
	15,651,000	15,480,000
Less valuation allowance related to operating losses, share issuance costs and unused investments tax credits	**(15,651,000)**	(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 six months ended is as follows:

	June 30, 2018 $	June 30, 2017 $
Combined federal and provincial/state income tax rate	**26.71%**	26.71%
Corporate income tax recovery at statutory rate	**2,185,500**	(1,643,000)
Increase (decrease) in income taxes resulting from		
Non-deductible stock-based compensation and other expenses	**80,000**	198,500
Non-deductible change in fair value of derivative	**(2,600,000)**	1,168,000
Renunciation of flow-through expenses	**—**	93,000
Rate difference	**24,000**	24,000
Non-taxable flow-through share premium	**—**	(8,500)
Tax value of loss carryforwards not recognized	**310,500**	168,000
	—	—

15. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are: [i] to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and provide returns for shareholders, and [ii] to maintain a flexible capital structure that optimizes the cost of capital at an acceptable risk. The Company includes the components of shareholders' equity, long-term 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 period ended June 30, 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 six months ended:

	June 30, 2018 $	June 30, 2017 $
Salaries and benefits	**11,009**	8,673
Consulting services	**521,650**	372,276
Legal services	**42,146**	131,032
Fair value of stock options granted	—	441,600
	574,805	953,581

As at June 30, 2018, $26,250 [June 30, 2017 - $25,225] was owing to key management personnel for services provided during the period.

17. GAIN (LOSS) PER SHARE

i. Basic gain (loss) per share

	June 30, 2018	June 30, 2017
Net gain (loss)	**$ 8,182,490**	$ (6,119,783)
Weighted average number of common shares	**338,051,626**	289,219,836
Basic gain (loss) per share	**$ 0.02**	$ (0.02)

ii. Diluted gain (loss) per share

For calculating diluted gain (loss) per share, for the three- and six-month periods ended June 30, 2018, there were 14,600,000 weighted average options outstanding, 165,000 warrants outstanding and 8,484,296 and 60,202,336 derivative warrants outstanding, respectively, with an exercise price less than the average market price for the period. For the three- and six- month periods ended June 30, 2017, there were 16,050,000 weighted average options outstanding, 5,915,000 warrants outstanding and 14,140,493 and 64,506,153 derivative warrants outstanding, respectively, with an exercise price less than the average market price for the period. These were excluded from the fully diluted loss per share computation for June 30, 2017 because inclusion would have been anti-dilutive.

		Three months ended June 30, 2018		Six months ended June 30, 2018
Net gain (loss)	$	6,075,350	$	8,182,490
Weighted average number of common shares (diluted)		349,414,943		362,825,243
Diluted gain (loss) per share	$	0.02	$	0.02

18. CONSOLIDATED STATEMENTS OF CASH FLOWS

Supplemental cash flow information for the period ending:

	June 30, 2018 $	December 31, 2017 $
Interest and investment income received	35,075	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 interim condensed 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. As it evolves out of that stage, the Company will have a closer look at how this standard will impact how it recognizes revenue.

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. However, as it moves into the production phase, which it expects to achieve by the implementation date, all leases will be reviewed to assess their impact.