FORTUNE
MINERALS LIMITED

2020 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, 2020

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 29, 2021 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, 2020, 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

	2020	2019	2018
Net income (loss) from continuing operations	(1,715,659)	(2,693,994)	8,548,687
Basic income (loss) per common share	—	(0.01)	0.03
Fully diluted income (loss) per common share	—	(0.01)	0.02
Total assets	76,340,541	76,813,666	78,326,060
Debt - non-current	10,008,154	8,627,189	7,442,171

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:

	2020				2019			
	Dec-31	**Sep-30**	**Jun-30**	**Mar-31**	**Dec-31**	**Sep-30**	**Jun-30**	**Mar-31**
Revenue and Other Income	5,461	49,104	22,207	26,589	12,600	8,533	8,416	12,604
Net income (loss)	(436,621)	(181,619)	(1,057,014)	(40,405)	1,196,754	164,075	(1,067,619)	(2,987,204)
Basic and fully diluted income (loss) per common share[(1)]	—	—	—	—	—	—	—	(0.01)

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 a recognized developer, miner, processer and refiner of specialty energy and eco-metals, together with gold and other by-products that contribute to new technologies and 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 asset is its wholly owned NICO cobalt-gold-bismuth-copper deposit and proposed mine ("NICO") in the Northwest Territories ("NWT") and a related hydrometallurgical refinery ("Refinery") proposed to be constructed in southern Canada among several greenfield and brownfield site options currently being investigated by the Company (collectively, the "NICO Project").

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 planned development. The NICO Project comprises a proposed open pit and underground mine and a mill and concentrator in the NWT, with a related hydrometallurgical process refinery to be located in southern Canada. This refinery was previously planned to be constructed at a site in the Rural Municipality of Corman Park in Saskatchewan, ("Saskatchewan Metals Processing Plant" or "SMPP"), but alternative locations are now being evaluated, including brownfield sites with existing facilities to materially reduce capital costs for the planned development. The NICO Project was engineered in the Front-End Engineering and Design study and 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") is filed on SEDAR at www.sedar.com by the Company pursuant to National Instrument 43-101.

In 2014, a feasibility study (the "2014 Feasibility Study") was prepared for the NICO Project based primarily on the 2012 FEED study as well as some improvements to the project since its completion, and produce a report to support project financing based on the proposed transaction. The 2014 Feasibility Study was summarized in a Technical Report reflecting the planned development, 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 2018, Fortune engaged Hatch Ltd. ("Hatch"), Micon and P&E Engineering Consultants Inc. ("P&E") to produce an updated study of the economics for the NICO Project to support its discussions with potential strategic partners. The study contemplated an approximately 30% expanded mill throughput rate of 6,000 tonnes of ore per day ("tpd"), up from the 4,650 tpd rate used in the earlier study. There were also process improvements that had been identified by Hatch that needed to be included. This updated study was also assessing a potential start-up option of producing metal concentrates and gold doré for direct sale to third party refiners from the Company's proposed mine and concentrator in the NWT. This would eliminate or defer the need to construct a vertically integrated Refinery. The base case for both the earlier 2014 study and the 30% expanded project contemplated a mine and concentrator in the NWT and a related Refinery in southern Canada producing cobalt sulphate used in lithium-ion rechargeable batteries, gold doré, bismuth ingot and copper cement. After assessing the indicative economics of the expanded 6,000 tpd mill throughput rate, the Company concluded that the additional capital required to construct a larger project would not deliver a commensurate increase in cash flows to justify the expansion at prevailing cobalt and bismuth prices. Consequently, work on the expanded, 6,000 tpd mill throughput rate study was terminated.

Fortune has prepared a number of high level financial and operating models assessing the NICO Project indicative economics using different pit sizes and various production rate sensitivities. The engineering and revised cost quotes from the 6,000 tpd case contemplated in 2019 were used as the basis for the factored capital and operating costs used in these different production rate scenarios. The Company concluded from these financial model sensitivities that the 4,650 tpd rate used in the 2014 Feasibility Study was likely optimal to produce the best balance between economies of scale and capital costs, while focusing on a smaller open pit with higher cobalt and gold grades. The analyses also determined that a combined open pit and underground approach to the mine plan in the early years of the mine life, which was contemplated in the 2014 study, would also produce a more attractive indicative rate of return for the development by enabling earlier access to deeper gold-rich ores in the deposit.

Before completing an updated Technical Report for the NICO Project Fortune is assessing a number of other optimizations it has recognized that include:

- A new Mineral Resource block model has been prepared with a more constrained approach to the interpolation boundary wireframes to reduce internal and external dilution and differentiate higher grade resource blocks for early processing;
- The block model also identified some high grades that had been missed in previous estimates as well as mineralized material at the volcanic sedimentary rock interface that was not used in previous estimates;
- The grade interpolation wireframe boundaries were also extended to surface where the deposit is known to outcrop and to depth where the gold zone had been too abruptly terminated;
- A new mine plan and schedule has been completed based on the new Mineral Resource model with a re-optimized open pit shell and selective underground mining of gold-rich ores located close to the existing decline ramp during early years of the mine life; and
- The open pit mine fleet was optimized with smaller equipment to reduce dilution with waste rock and match the lower mining rate.

In addition to the above optimizations, the Company has also undertaken the following activities during the year ended December 31, 2020 in support of permitting and financing initiatives:

- The Company continues to have dialogue with third party processors interested in purchasing cobalt and bismuth concentrates directly from the mine site to defer the capital associated with building a Refinery in southern Canada;
- The Company is also assessing a number of brownfield sites to build the Refinery in southern Canada, with existing facilities that could materially reduce capital costs for the development.

The Tlicho all-season road (the "Tlicho Road") construction is ahead of schedule and will enable the Company to align the construction schedule for the mine with the availability of the all-season road and eliminate construction from winter ice roads in order to reduce capital costs and construction risks.

Fortune applied to the Government of the Northwest Territories ("GNWT") Mining Incentive Program ("MIP") and received a matching grant of $144,000 to support geophysical surveys to better delineate some known anomalies east of the known deposit. As at December 31, 2020, The Company had received 85% of the grant and the remainder is expected to be received once the Company has filed its final report, which is due in April 2021. In August and September 2020, the Company completed the geophysical exploration program and commissioned a more comprehensive interpretive report to determine the best targets for follow-up work and drill-testing of potential underlying iron oxide copper gold ("IOCG") style deposits.

In light of the foregoing, the Company believes that the development schedule for the NICO Project can be aligned with the deficit in cobalt supply expected to start in 2022-2023 when demand for batteries in electric vehicles is anticipated to outstrip production from existing mines and development projects. In addition, the Canadian and United States ("U.S.") governments have signed a Joint Action Plan on Critical Mineral Collaboration to enable more North American production of certain minerals identified by the U.S. Government as critical to economic and national security. Minerals considered critical for this purpose have essential use in important industrial and defense applications, cannot be easily substituted by other minerals, and their supply chain is threatened by geographic concentration of production and/or geopolitical risks. Cobalt and bismuth are both identified as Critical Minerals on the U.S. and European Union Critical Minerals Lists. Fortune has been in discussions with the Canadian and U.S. governments about potential financial support for the NICO Project development, including submission of a White Paper proposal to the U.S. Department of Defense. On March 12, 2021, Natural Resources Canada released the Canadian Critical Minerals List which includes cobalt, bismuth and copper.

Fortune also continues to work with a number of private sector companies and potential strategic partners interested in the Critical Minerals and/or the gold contained in the NICO Project. If and when the NICO Project is developed, Fortune will be an important new producer of battery grade cobalt products to the rapidly expanding lithium-ion rechargeable battery industry, and support their demand in portable electronic devices, electric vehicles, and stationary storage cells to make electricity use more efficient and allow greater use of renewable energy such as solar and wind. Fortune will also produce environmentally friendly bismuth metals and oxide used in the

automotive and pharmaceutical industries and the growing demand as a non-toxic and environmentally safe replacement for lead. The NICO Project will also be a significant producer of gold and copper as a minor by-product. 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 geographic concentration of supply from the Democratic Republic of the Congo and China.

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

RESULTS OF OPERATIONS

Summary

The Company's net loss for the year ended December 31, 2020 was $1,715,659 or $Nil per common share compared to a net loss of $2,693,994 or $0.01 per common share for the prior year. The significant change year over year is primarily due to the change in fair value related to derivative liability and impairment charge recognized in the prior year as discussed in "Expenses" below.

Revenue and Other Income

Revenue and other income increased in 2020 to $103,361 for the year ended December 31, 2020 compared to $42,153 for the prior year. The increase is primarily the result of recognition of flow-through share premium income during the year.

Expenses

Expenses, excluding change in fair value related to derivative liability and impairment charge, decreased in 2020 to $2,350,286 for the year ended December 31, 2020 compared to $2,720,128 for the prior year.

The decrease year over year is primarily attributable to: (i) a decrease in general and administrative expenditures, primarily as a result of a decrease in stock based compensation expense and receipt of government grants obtained relating to supporting payroll through the COVID-19 pandemic; and (ii) a decrease in corporate development expenditures. This year over year decrease was partially offset by an increase in interest expenses related to interest accrued on the Company's long-term debts, which is compounded semi-annually.

The change in fair value related to derivative liability recognized a gain of $531,266 for the year ended December 31, 2020 compared to a gain of $1,454,917 for 2019.

In the prior year, the Company recorded an impairment charge of $1,470,936 against surface facilities under construction in mining properties as a result of the Company's decision to sell its land after a negative rezoning decision. The Company completed an impairment assessment of the SMPP capitalized costs and determined that assets with a net book value of $2,550,936 were directly attributable to the site sold and recorded them at their recoverable amount of $1,080,000, which was equal to the proceeds received on the sale of the land.

Deferred Taxes

The Company has not recognized a net deferred income tax recovery or provision for the years ended December 31, 2020 and 2019. During the year ended December 31, 2020, recognition of (i) $455,000 from the estimated tax loss; (ii) $174,000 for tax rate difference; (iii) $141,000 for non-deductible change in fair value of derivative; and (iv) $23,000 for non-taxable flow-through share premium resulted in a tax recovery which was offset by: (i) a tax provision of $589,000 for a loss carryforward not recognized; and (ii) $204,000 for non-deductible stock-based compensation and other expenses.

During the same period in 2019, recognition of (i) $714,000 from the estimated tax loss; (ii) $385,500 for non-deductible change in fair value of derivative; and (iii) $171,000 for tax rate difference resulted in a tax recovery which was offset by: (i) a tax provision of $1,073,500 for a loss carryforward not recognized; and (ii) $197,000 for non-deductible stock-based compensation and other expenses.

A valuation allowance of $17,312,000 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, 2020 was $568,219 compared to $1,922,590 for 2019. The decrease in use of cash in operating activities year over year is mainly attributed to a decrease in accounts receivable, general and administrative expenditures and corporate development.

Cash used in investing activities was $646,799 compared to $1,065,548 for the year ended December 31, 2020 and 2019, respectively. This decrease is related primarily to a decrease in expenditures of capital assets included in mining properties and exploration and evaluation expenditures due to a decrease in activity on the NICO Project and is offset by proceeds received on the sale of capital assets held in mining properties in the prior year.

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 months and year ended December 31, 2020 were $95,831 and $600,484 respectively, and were spent on the projects as follows:

	Three months ended December 31, 2020	**Year ended December 31, 2020**
NICO	$ 95,062	$ 595,164
All Other Projects	769	5,320
Total cash exploration and evaluation expenditures	**$ 95,831**	**$ 600,484**

As of December 31, 2020, $122,400 of the MIP grant had been received and was used to support geophysical surveys conducted at the NICO Project site in August and September 2020. The Company has elected to present this government grant as a reduction to exploration expenditures and is included in the line "mining properties" on the consolidated statements of financial position.

For comparison, exploration and evaluation expenditures incurred by Fortune on its properties during the three months and year ended December 31, 2019 were $205,426 and $1,486,191, respectively, and were spent on the projects as follows:

	Three months ended December 31, 2019	Year ended December 31, 2019
NICO	$ 205,426	$ 1,483,388
All Other Projects	—	2,803
Total cash exploration and evaluation expenditures	$ 205,426	$ 1,486,191

Exploration and evaluation expenditures for the three and year ended December 31, 2020 were lower compared to the same period in 2019, as a result of a decrease in activity at NICO.

Cash provided by financing activities decreased to $189,001 compared to $1,481,811 for the year ended December 31, 2020 and 2019, respectively. Cash provided in 2020 was a result of the receipt of a government loan and issuance of shares through a private placement, offset by share issuance cost. Cash provided in 2019 was a result of the exercise of options and issuance of shares through a flow-through private placement.

Below is a summary of Common Shares issued and net cash proceeds from financing activities for the years ended December 31, 2020 and 2019:

	2020		**2019**	
	Shares/Warrants Issued	**Shares/Warrants Issued**	**Shares/Warrants Issued**	**Cash Proceeds and Costs, Net**
	#	**$**	**#**	**$**
Common shares issued during the year				
Private offerings	2,163,666	135,755	12,250,000	1,202,135
Exercise of Warrants	—	—	—	—
Exercise of Options	—	—	7,300,000	365,000
Exercise of Derivatives[(1)]	—	—	—	—
Share issuance costs	—	(28,012)	—	(106,878)
Total	**2,163,666**	**107,743**	**19,550,000**	**1,460,257**
Average proceeds per share issued		**0.05**		**0.07**
Warrants issued during the year				
Private offerings	1,081,833	26,520	450,000	22,865
Share issuance costs	—	(5,262)	—	(1,311)
Total	**1,081,833**	**21,258**	**450,000**	**21,554**
Average proceeds per warrant		**0.02**		**0.05**
Cash Proceeds from Financing Activities Net		**129,001**		**1,481,811**

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. During the year, 8,484,296 Class A warrants expired unexercised and there are currently 52,683,043 Class B warrants outstanding.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2020, Fortune had cash and cash equivalents of $1,078,884 and working capital of $728,514 compared to $2,104,901 and $2,133,208, respectively, for the prior year.

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 its existing working capital, the Company will require additional financing to conduct certain critical path activities in 2021. The NICO Project will also require further funding to advance the project through to

production. 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, especially in light of the impact that COVID-19 could have on the global financial markets as a whole. Management is continuously pursuing and considering various financing opportunities, including all Government of Canada emergency relief programs announced to assist with the financial impacts of COVID-19.

The Company has received a $60,000 loan through the Canada Emergency Business Account program ("CEBA"). The CEBA was launched by the Government of Canada in response to the global COVID-19 health crisis, and has been implemented by financial institutions in cooperation with Export Development Canada. The loan is interest-free and if the balance is repaid in full by December 31, 2022 one third, or $20,000, of the loan will be forgiven. If the loan is not repaid by December 31, 2022, it will be converted into a 3-year term loan bearing interest at 5%, with monthly interest-only payments and the outstanding balance due to be repaid in full by December 31, 2025.

The Company has applied for and received $205,994 in government grants relating to supporting the payroll of the Company's employees. The Company has elected to present this government grant as a reduction to payroll expenses and this amount is included in the line "general and administrative" expenses on the consolidated statements of loss and comprehensive loss. As at December 31, 2020, $154,006 had been received. Fortune has also been awarded a matching grant of $144,000 from the GNWT's MIP of which $122,400 has been received and the Company has elected to present this grant as a reduction to expenditures incurred related to the geophysical program conducted at NICO this summer, which is reported in "mining properties" on the consolidated statements of financial position.

In October, 2020, the Company issued an aggregate of 2,163,666 units by way of private placement at a price of $0.075 per unit, raising gross proceeds of $162,275. Each unit consists of one common share and one half of a common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company for $0.10 for a period of one year after the closing date.

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

Contractual Obligations	***Payments Due by Year***				
	Total	***Less than 1 year***	***1 – 3 years***	***4-5 years***	***After 5 years***
Accounts payable and accrued liabilities	**$ 186,482**	$ 186,482	$ —	$ —	$ —
Lease liability	**439,748**	60,600	126,709	134,425	118,014
Long-term debts	**8,810,000**	—	8,750,000	60,000	—
Interest on Long-term debts	**3,613,518**	—	3,613,518		—
Provision for Environmental Rehabilitation	**188,000**	—	—		188,000
Total Contractual Obligations	**$ 13,237,748**	**$ 247,082**	**$12,490,227**	**$ 194,425**	**$ 306,014**

The long-term debts represent unsecured debentures in the principal amount of $8.75 million held by previous secured creditors and the $60,000 CEBA loan. 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 and debentures balances have been recorded in the consolidated financial statements at their net present value using an effective interest rate of 12% and 18%, respectively.

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 and 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.

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 risk to meeting its objectives for the NICO Project continues to be the ability to finance the construction cost of the project. Additional risks include purchasing lands and acquiring all necessary permits to provide the Company with the flexibility to construct its own Refinery. A significant risk to the NICO Project has now been removed with the near-term pending completion of the Tlicho Road, a two-lane public highway of approximately 97 km from Highway 3 to the community of Wha Ti that is expected to open to the public later this year. In addition, the Company has completed an Access Agreement with the Tlicho Government that sets out the terms and conditions for the construction of a spur road to the mine. Other risks are 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 Project include:

- assessing identified optimizations to improve NICO Project economics;
- updating the Technical Report for the 2014 Feasibility Study based on current estimates of costs, commodity prices and different development opportunities to support project financing;
- completing the process the Company has commenced to secure new land for the Refinery;
- continuing review of the options to sell concentrates into the market to defer the capital expenditures associated with construction of the Refinery;
- continuing studies and programs required to meet water license pre-construction requirements for the NICO site;
- submitting applications for required permits for the NICO Project access road and regulatory compliance for water license and land use permits;
- submitting request for land-use permit extensions and/or new permits. New regulations are currently being developed for these activities;
- completing the negotiations with the Tlicho Government for a Participation Agreement;
- identifying and engaging strategic partners to support the development of the NICO Project and Refinery sites;
- 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 Access Road construction agreements and site preparation plans, including construction of laydown areas to receive equipment and material required for early work construction; and
- continuing engineering and procurement activities once financing is secured.

In the year ended December 31, 2020, 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/or Type A water licence for the NICO site.

Activities undertaken during 2020 towards achieving the next major milestones for the NICO Project will remain the Company's focus through 2021. 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, 2020, the Company paid key management personnel, including officers, directors, or their related entities, an aggregate of $713,875 for salaries and benefits, consulting and/or management services and legal services when compared to $1,036,150 for the prior year. At December 31, 2020, $20,163 was owing to these related parties for services received during the year when compared to $27,681 at December 31, 2019.

Earlier this year, the Company implemented cost saving measures by reducing expenditures to outside consultants. As a result of the ongoing Covid-19 pandemic, Glen Koropchuk stepped down from his position as Technical Director and Chief Operating Officer effective May 20, 2020 but continues to serve on the Company's Board of Directors. Also effective June 1, 2020, David Massola transitioned from his previous part-time position of Vice-President, Finance and Chief Financial Officer to an advisory role, assisting Fortune with its project finance activities. Also effective June 1, 2020, Patricia Penney, previously the Company's Controller, was appointed as the Company's Interim Chief Financial Officer. At the same time, Robin Goad, the Company's President and Chief Executive Officer, took a voluntary $100,000 reduction in his cash compensation and Richard Schryer, Vice-President, Environmental and Regulatory Affairs, transitioned to working half time to save costs.

The following table summarizes the amounts paid and payable to related parties and the nature of the payments as at December 31, 2020:

Related Party [1]	Relationship	Business Purpose of Transaction						Total	
		Salaries and Benefits [8]		Consulting Services		Legal Services			
		Paid	Payable	Paid	Payable	Paid	Payable	Paid/Awarded	Payable
Goad, Robin [2]	President & CEO, Director	$ 8,162	$ -	$ 287,500	$ 8,654	$ -	$ -	$ 295,662	$ 8,654
Knight, David [3]	Corporate Secretary	-	-	-	-	48,805	3,350	48,805	3,350
Koropchuk, Glen [4]	Technical Director & COO, Director	-	-	61,370	-	-	-	61,370	-
Massola, David [5]	VP Finance & CFO	4,081	-	29,375	-	-	-	33,456	-
Naik, Mahendra	Director	6,851	-	-	-	-	-	6,851	-
Penney, Patricia [6]	Interim CFO	140,020	7,269	-	-	-	-	140,020	7,269
Schryer, Richard [7]	VP Environmental & Regulatory Affairs	7,561	-	120,150	890	-	-	127,711	890
Total		$ 166,675	$ 7,269	$ 498,395	$ 9,544	$ 48,805	$ 3,350	$ 713,875	$ 20,163

[1] No amounts were paid or payable for the year ended December 31, 2020 for directors Carl Clouter, John McVey, David Ramsay and Edward Yurkowski.

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

[3] David Knight is a partner with the law firm WeirFoulds LLP, which provides legal services to the Company. Mr. Knight is also the Company's Corporate Secretary.

[4] Glen Koropchuk was engaged to provide services of Technical Director and Chief Operating Officer of the Company pursuant to an independent consultant agreement which terminated on May 20, 2020 and has not received additional compensation for his services as a director.

[5] David Massola was engaged to provide services of VP Finance and Chief Financial Officer of the Company pursuant to an independent consultant agreement which terminated June 1, 2020.

[6] Patricia Penney, formerly the Company's Controller, appointed Interim Chief Financial Officer effective June 1, 2020.

[7] Richard Schryer is engaged to provide services of VP Environmental & Regulatory Affairs of the Company pursuant to an independent consultant agreement.

[8] Salaries and benefits include a base salary plus benefits that are basic in nature, require participants to contribute to the premium costs and includes certain co-pay requirements.

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. On December 31, 2020, 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 obtaining limited financing during the year, substantive expenditure on further exploration for and evaluation of mineral resources of the NICO Project cannot be budgeted or planned and completed an impairment assessment of the NICO Project. As a result of that analysis, management has determined that the carrying value of its projects is not impaired or does not require a reversal of a prior impairment charge.

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

- the Company has obtained environmental assessment approval for the NICO Project mine and concentrator site in the NWT. The Company 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 Land Use permits for the NICO mine and exploration activities;
- the Company has obtained a water license for the NICO mine;
- the feasibility study completed in 2014 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 and the results of such analyses showed great opportunity for the NICO Project returns relative to spot prices, particularly as a consequence of the growing interest in cobalt usage in high performance rechargeable batteries contributing to an average cumulative annual growth rate in the market of approximately 6% as well as constrained and geographical concentration of supply;
- the Tlicho Road is nearing completion and expected to open to the public later this year; and
- the Company is assessing a number of potential refinery sites in Alberta and Saskatchewan, including several brownfield locations with existing facilities that could materially reduce the capital costs for the planned development.

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 $725,514 and positive cash balances at December 31, 2020 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 will require additional financing to conduct certain critical path activities in 2021 and 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 2020, 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 $17,312,000, 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.

ENVIRONMENT

Fortune is committed to a program of environmental protection at its exploration sites. Fortune was in compliance with government regulations in 2020. 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. Subsequent to December 31, 2020, the Company has allowed one of its land use permits to lapse as some of the activities are covered under another existing land use permit. A security amount of $45,000 is expected to be returned to the Company.

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 Refinery. 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.

Location of Refinery
The Company does not currently own any lands on which to build the Refinery, as the lands previously held for this purpose were sold as a result of a negative rezoning decision by the local Rural Municipality of Corman Park in Saskatchewan. The Company is assessing alternative sites in Saskatchewan and Alberta to build the Refinery and one site in Saskatchewan is currently held under an option arrangement. Additional greenfield and brownfield sites have been identified and are currently being assessed. Once the Company has selected the appropriate site for the Refinery, it will need to work towards obtaining the necessary approvals and permits as applicable to those sites.

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, 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 prices of such commodities 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 expiration, change in regulations and other 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 Refinery 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 contamination. 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 baseline 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 processes. 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 lands that surround the NICO leases are owned by the Tlicho Government pursuant to the terms of an agreement negotiated between the federal government, the GNWT and the Tlicho Government ("Tlicho Agreement"). 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 other than certain treaty rights established by the 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 was also signed in the prior year between the Tlicho Government and the Company for the purposes of constructing an access road through Tlicho territory to the mine site. During 2020, negotiations took place with the GNWT to make minor amendments to the SEA that was signed the prior year. The Company has executed an updated agreement and is awaiting execution by various GNWT Ministers. 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 Indigenous 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 Indigenous Governments 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 Mineral 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 Reserve and Mineral Resource 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.

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

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 financial assets at amortized cost, measured initially at fair value and subsequently on the basis of amortized cost using the effective interest rate method; accounts payable and accrued liabilities, lease liability, provision for environmental rehabilitation and long-term debts, which are financial liabilities designated as financial liabilities at amortized cost, measured initially at fair value and subsequently on the basis of amortized cost using the effective interest rate method; and derivative liability designated as financial liabilities at fair value through profit or loss, 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, 2020 and 2019, profit and losses associated with each financial instrument are as follows:

	Impact on Profit (Loss)	
	2020	2019
Reclamation security deposits	1,531	3,081
Provision for environmental rehabilitation	9,080	(3,291)
Long-term debts	(1,320,965)	(1,185,018)
Derivative liability	531,266	1,454,917

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. 362,166,886 common shares issued and outstanding;

2. 54,114,876 warrants outstanding which entitle the holders to purchase one common share at various prices between $0.085 and $0.204 and expiring at various dates between October 26, 2021 and August 12, 2022; and
3. stock options outstanding to purchase an aggregate of 16,700,000 common shares expiring at various dates until January 11, 2024 and exercisable at various prices between $0.095 and $0.29 per common share.

All stock options have vested as at the date hereof.

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, 2020. 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, 2020 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, 2020. 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, 2020 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.

No material weaknesses in the Company's internal controls over financial reporting were identified during the year ended December 31, 2020 and there have been no changes made to such internal controls that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

The disclosure of scientific and technical information contained in this MD&A has been approved by Robin Goad, M.Sc., P.Geo., President and Chief Executive Officer of Fortune, who is a "Qualified Person" under National Instrument 43-101.

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, including the building or acquisition of a hydrometallurgical refinery in Saskatchewan or elsewhere and the construction of the Tlicho Road 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 acquire an existing hydrometallurgical refinery for the NICO Project or acquire land suitable for the construction of such a refinery, the Company's ability to obtain the necessary financing to develop and operate the NICO Project and the related hydrometallurgical refinery, the construction of the Tlicho Road and the timing of its completion, the ability of the Company to obtain all necessary regulatory approvals for the construction and operation of the NICO Project and the related hydrometallurgical refinery and the timing thereof and the timing of the update of the 2014 Feasibility Study and the results thereof. 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 risk that the Company may not be able to arrange the necessary financing to carry on operating or to develop, construct and operate the NICO Project, including the related hydrometallurgical refinery; the risk that the Company may not be able to acquire an existing hydrometallurgical refinery or otherwise acquire land suitable for the for the construction of such a refinery; the risk that the Tlicho Road may not be constructed in a timely fashion; uncertainties with respect to the receipt or timing of required permits and agreements for the development of the NICO Project, including the related hydrometallurgical refinery; 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; the inherent risks involved in the exploration and development of mineral properties and in the mining industry in general; 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, 2020 and 2019

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]
Patricia Penney
Interim 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, 2020 and 2019 and the consolidated statements of loss and comprehensive 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, 2020 and 2019, 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern we have determined the matters described below to be the key audit matters to be communicated in our report.

Impairment of capitalized exploration and evaluation expenditures

Description of the key audit matter

Exploration and evaluation assets are the most significant item on the Group's financial statements. The assessment of whether there are indicators of impairment is subject to professional judgment. The identification of impairment events is judgmental and the determination of an impairment charge is subject to estimation. The assessment is also sensitive to changes in assumptions, in particular with respect to estimate of cost of capital expenditures, operating costs, future commodity prices, future foreign exchange rates and discount rates.

How our audit addressed the key audit matter

Our audit approach specifically focused on the valuation of the NICO mining property. Our procedures included, among others, using internal valuation experts assisting us in evaluating the model and assumptions used, in particular the expected capital expenditures, operating costs, future commodity prices, future exchange rates and discount rates, which are key to the outcome of the impairment test.

We further focused on the adequacy of the Company's disclosures on the accounting policy for impairment in Note 2 and disclosures on key assumptions of the asset impairment in Note 4 of the financial statements.

Other Information

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

- The information included in the Management's Discussion and Analysis of Financial Conditions and Results of Operations for the year ended December 31, 2020.

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

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

We obtained the Management's Discussion and Analysis of Financial Conditions and Results of Operations for the year ended December 31, 2020 prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 29, 2021

Fortune Minerals Limited
Incorporated under the laws of Ontario

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(expressed in Canadian dollars)

As at	**December 31, 2020**	December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents *[note 10]*	**1,078,884**	2,104,901
Reclamation security deposits *[note 7]*	**25,186**	25,000
Accounts receivable	**68,537**	490,650
Prepaid expenses	**55,719**	54,470
Total current assets	**1,228,326**	2,675,021
Reclamation security deposits *[note 7]*	**195,671**	194,326
Capital assets, net *[note 8]*	**375,153**	47,282
Mining properties *[note 3]*	**74,541,391**	73,897,037
	76,340,541	76,813,666
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**186,482**	179,809
Lease Liability *[note 12]*	**39,495**	—
Flow-through share premium	**273,835**	362,004
Total current liabilities	**499,812**	541,813
Provision for environmental rehabilitation *[note 7]*	**30,775**	39,855
Lease Liability *[note 12]*	**314,915**	—
Long-term debts *[note 11]*	**10,008,154**	8,627,189
Derivatives *[note 5ii[a]]*	**1,306,541**	1,837,807
Total liabilities	**12,160,197**	11,046,664
SHAREHOLDERS' EQUITY		
Share capital *[note 5]*	**172,538,621**	172,409,620
Other reserves *[notes 5 and 6]*	**15,611,882**	15,611,882
Deficit	**(123,970,159)**	(122,254,500)
Total shareholders' equity	**64,180,344**	65,767,002
	76,340,541	76,813,666

See accompanying notes to the consolidated financial statements
See note 2 going concern uncertainty

[Signed]

Robin Goad
Director

[Signed]

Mahendra Naik
Director

Fortune Minerals Limited

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(expressed in Canadian dollars)

For the year ended December 31,	**2020**	2019
REVENUE AND OTHER INCOME		
Interest and other income *[note 14]*	**103,361**	42,153
	103,361	42,153
EXPENSES		
General and administrative	**850,918**	1,199,478
Interest	**1,342,009**	1,185,018
Corporate development	**130,936**	315,144
Amortization *[note 8]*	**26,423**	20,488
Change in fair value related to derivative liability *[note 5ii.[a]]*	**(531,266)**	(1,454,917)
Impairment charge	**—**	1,470,936
	1,819,020	2,736,147
Net loss and comprehensive loss for the year	**(1,715,659)**	(2,693,994)
Basic and diluted loss per share *[note 18]*	**0.00**	(0.01)

See accompanying notes to the consolidated financial statements

Fortune Minerals Limited

CONSOLIDATED STATEMENTS OF CASH FLOWS

(expressed in Canadian dollars)

For the year ended December 31,	**2020**	2019
OPERATING ACTIVITIES		
Net loss for the period from continuing operations	**(1,715,659)**	(2,693,994)
Add (deduct) items not involving cash		
Accretion	**(9,080)**	3,291
Amortization	**26,423**	20,488
Flow-through share premium	**(88,169)**	(5,496)
Stock-based compensation	**—**	81,340
Non-cash portion of loan discount *[note 11]*	**769,789**	660,520
Non-cash portion of lease expense	**1,043**	—
Gain on disposal of capital assets	**(13)**	—
Change in fair value related to derivative liability	**(531,266)**	(1,454,917)
Impairment charge	**—**	1,470,936
Changes in non-cash working capital balances related to operations		
Accounts receivable	**422,113**	(391,463)
Prepaid expenses	**6,673**	4,304
Accounts payable and accrued liabilities	**(1,249)**	(142,097)
Accrued interest on debentures	**551,176**	524,498
Cash used in operating activities	**(568,219)**	(1,922,590)
INVESTING ACTIVITIES		
Increase in exploration and evaluation expenditures, net	**(600,484)**	(1,486,191)
Purchase of capital assets, including in mining properties	**(46,339)**	(656,276)
Posting of security for reclamation security deposits, net	**(1,531)**	(3,081)
Proceeds on disposal of capital assets	**1,555**	—
Proceeds on sale of mining properties	**—**	1,080,000
Cash used in investing activities	**(646,799)**	(1,065,548)
FINANCING ACTIVITIES		
Proceeds on issuance of units, net	**129,001**	1,116,811
Proceeds of government loan	**60,000**	—
Proceeds on exercise of options	**—**	365,000
Cash provided by financing activities	**189,001**	1,481,811
Decrease in cash and cash equivalents during the year, net	**(1,026,017)**	(1,506,327)
Cash and cash equivalents, beginning of year	**2,104,901**	3,611,228
Cash and cash equivalents, end of year *[note 10]*	**1,078,884**	2,104,901

See accompanying notes to the consolidated financial statements

Fortune Minerals Limited

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(expressed in Canadian dollars)

	Common shares		Warrants		Subtotal	Other reserves	Deficit	Total shareholders' equity
	#	$	#	$	$	$	$	$
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**
Issued as a result of:								
Private offerings	12,250,000	1,202,135	450,000	22,865	1,225,000	—	—	1,225,000
Flow-through share premium *[note 5i.[d]]*	—	(367,500)	—	—	(367,500)	—	—	(367,500)
Share issuance costs	—	(106,878)	—	(1,311)	(108,189)	—	—	(108,189)
Exercise of stock options	7,300,000	613,200	—	—	613,200	(248,200)	—	365,000
Stock options granted	—	—	—	—	—	113,990	—	113,990
Expiration of warrants	—	—	(27,605,880)	(2,616,217)	(2,616,217)	2,616,217	—	—
Net loss for the year	—	—	—	—	—	—	(2,693,994)	(2,693,994)
December 31, 2019	**359,553,220**	**172,401,004**	**450,000**	**8,616**	**172,409,620**	**15,611,882**	**(122,254,500)**	**65,767,002**
Issued as a result of:								
Private offerings	2,163,666	135,755	1,081,833	26,520	162,275	—	—	162,275
Share issuance costs *[note 5i.[a]]*	—	(28,012)	—	(5,262)	(33,274)	—	—	(33,274)
Net loss for the year	—	—	—	—	—	—	(1,715,659)	(1,715,659)
December 31, 2020	**361,716,886**	**172,508,747**	**1,531,833**	**29,874**	**172,538,621**	**15,611,882**	**(123,970,159)**	**64,180,344**

See accompanying notes to the consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

1. CORPORATE INFORMATION

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

The consolidated financial statements of Fortune Minerals Limited ["the Company"] for the year ended December 31, 2020 were authorized for issuance by the Board of Directors on March 26, 2021.

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 $728,514 at December 31, 2020, the Company will require additional financing to conduct certain critical path activities in 2021 and satisfying eligible expenditures obligations as noted in Note 5. 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 2021 and is continually pursuing and considering various financing opportunities. The Company has historically been successful in financing its activities, however, there can be no assurances that the Company will be able to obtain continued support from existing lenders or obtain sufficient financing on terms acceptable to management to be able to meet its current liabilities as they come due, especially in light of the impact that COVID-19 could have on the global financial markets as a whole. These consolidated financial statements do not include adjustments, which may be material, to the amounts and classification of assets and liabilities that would be necessary should the going concern principle not be appropriate.

iii. *Basis of Measurement*

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

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

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

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

iv. *Judgment and Estimates*

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

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

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

[a] *Impairment of non-financial assets*

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

[b] *Fair values*

The fair values of derivatives, warrants, stock options, retirement obligations and other instruments require 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

3. MINING PROPERTIES

The Company capitalizes exploration and evaluation expenditures, including directly attributable salary and overhead costs relating to mineral properties until the costs are expected to be recouped through the successful development of the area of interest [or alternatively by its sale], or where activities in the area have not yet reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves, and active operations are continuing or planned for the future.

As at December 31, 2020, 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, 2020			
	Capital Assets $	**Property Costs $**	**Exploration and Evaluation Expenditures $**	**Total Mining Properties $**
NICO *[i]*	**6,685,286**	**2,191,442**	**65,476,913**	**74,353,641**
Sue-Dianne	**—**	**9,164**	**166,722**	**175,886**
Other properties	**—**	**—**	**11,864**	**11,864**
	6,685,286	**2,200,606**	**65,655,499**	**74,541,391**

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

During the year ended December 31, 2020, there was no change to Property Costs [December 31, 2019 – Nil], Exploration and Evaluation Expenditures increased by $624,944 [December 31, 2019 - $1,545,682] and Capital Assets increased by $19,410 [December 31, 2019 – decrease of $1,921,501]. There were no disposals, write-offs or amortization during the year ended December 31, 2020.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

Exploration and evaluation expenditures capitalized to mining properties during the year ended December 31, 2020 and 2019 include the following:

	December 31, 2020	December 31, 2019
Employee and contractor compensation and benefits	**$ 469,863**	$ 741,577
Amortization	**24,460**	30,361
Stock-based compensation	**—**	29,130

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

Capital assets in mining properties consist of the following:

	Surface facilities under construction $	Surface facilities $	Camp structures $	Mobile equipment $	Site furniture and equipment $	Land and land acquisition costs $	Asset retirement obligation [“ARO”] $	Total $
Cost								
As at December 31, 2018	7,583,538	1,179,717	593,724	595,034	19,947	900,356	6	10,872,322
Additions	595,211	—	—	—	30,708	33,877	—	659,796
Disposals/Impairment Charge	(1,641,703)	—	—	—	—	(909,233)	—	(2,550,936)
As at December 31, 2019	**6,537,046**	**1,179,717**	**593,724**	**595,034**	**50,655**	**25,000**	**6**	**8,981,182**
Accumulated amortization								
As at December 31, 2018	—	1,096,046	588,008	582,486	18,405	—	—	2,284,945
Amortization for the year	—	16,742	1,715	3,764	8,140	—	—	30,361
As at December 31, 2019	**—**	**1,112,788**	**589,723**	**586,250**	**26,545**	**—**	**—**	**2,315,306**
Net book value								
As at December 31, 2018	7,583,538	83,671	5,716	12,548	1,542	900,356	6	8,587,377
As at December 31, 2019	**6,537,046**	**66,929**	**4,001**	**8,784**	**24,110**	**25,000**	**6**	**6,665,876**
Cost								
As at December 31, 2019	6,537,046	1,179,717	593,724	595,034	50,655	25,000	6	8,981,182
Additions	43,870	—	—	—	—	—	—	43,870
As at December 31, 2020	**6,580,916**	**1,179,717**	**593,724**	**595,034**	**50,655**	**25,000**	**6**	**9,025,052**
Accumulated amortization								
As at December 31, 2019	—	1,112,788	589,723	586,250	26,545	—	—	2,315,306
Amortization for the year	—	13,392	1,200	2,635	7,233	—	—	24,460
As at December 31, 2020	**—**	**1,126,180**	**590,923**	**588,885**	**33,778**	**—**	**—**	**2,339,766**
Net book value								
As at December 31, 2019	6,537,046	66,929	4,001	8,784	24,110	25,000	6	6,665,876
As at December 31, 2020	**6,580,916**	**53,537**	**2,801**	**6,149**	**16,877**	**25,000**	**6**	**6,685,286**

Included in surface facilities under construction during the year ended December 31, 2020 is $43,488 [December 31, 2019 - $55,434] of directly attributable employee and contractor compensation and benefits and $Nil [December 31, 2019 - $3,520] 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 a related hydrometallurgical processing plant for NICO at a site in Saskatchewan, Canada or other suitable locations it has identified in southern Canada. In December 2012, the Company purchased lands near Saskatoon, Saskatchewan on which it had proposed to construct the Saskatchewan Metals Processing Plant. On March 25, 2019, Fortune received a decision from the Rural Municipality of Corman Park rejecting the Company’s application to change the zoning of its lands in Saskatchewan from Agriculture to M2 Rural Industrial. The rezoning was required to construct and operate a hydrometallurgical facility to process metal concentrates from the Company's planned NICO mine in the Northwest Territories. As a result of the rezoning decision the Company made a decision to sell its land in Saskatchewan on June 15, 2019 for proceeds of $1,080,000.

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

In June 2020, the Company was awarded a matching grant of $144,000 from the Government of the Northwest Territories through the Mining Incentive Program. As of December 31, 2020, $122,400 of the grant had been received and was used to support geophysical surveys conducted at the NICO Project site in August and September 2020. The Company has elected to present this Government grant as a reduction to exploration expenditures and is included in the line mining properties on the consolidated statements of financial position. The Company must meet its spending requirements and file a final report by April 2021 in order to receive the remainder of the grant.

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, 2020.

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, 2020, the Company considered whether there had been any significant changes to impairment indicators from its previous impairment assessment completed at December 31, 2019 and whether any new indicators were present. Management determined that as a result of obtaining limited financing during the year, substantive expenditure on further exploration for and evaluation of mineral resources of the NICO project cannot be budgeted or planned and completed an impairment assessment of the NICO project. As a result of that analysis, management has determined that the carrying value of its projects is not impaired or does not require a reversal of a prior impairment charge.

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

Assumptions underlying the estimate of the recoverable amount included expected commodity prices based on forecasted averages of US$1,800/oz for gold, US$25/lb for cobalt and US$5/lb for bismuth and an exchange rate of US$0.75: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. Expected future cash flows used to determine the value in use are inherently uncertain and could materially change over time. Any significant change in these assumptions could result in a fair value that is less than the carrying value.

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 common shares, share warrants and flow-through shares are classified as equity instruments, except for the warrants described in ii[a] 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 liability, which is recognized as income on flow-through share premium when the eligible expenditures have been renounced. As of December 31, 2020, the Company is required to spend $912,785 on eligible exploration and evaluation activities by the end of 2021.

i. Common Shares

The Company is authorized to issue an unlimited number of common shares without par value. As at December 31, 2020, the weighted average number of common shares outstanding was 359,943,389 [December 31, 2019 - 347,076,782].

[a] On October 26, 2020, the Company issued an aggregate of 2,163,666 units by way of private placement at a price of $0.075 per unit, raising gross proceeds of $162,275. Each unit consists of one common share and one half of a common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company for $0.10 for a period of one year after the closing date. The fair value of the warrants was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: dividend yield of 0%, expected volatility of 124.55%, risk free interest rate of 0.21% and expected life of 1 year. As at December 31, 2020, $33,274 of share issuance costs had been incurred related to the financing.

[b] As at December 31, 2020 900,000 [December 31, 2019 – 900,000] issued common shares are being held in escrow, subject to certain production thresholds for the NICO property.

ii. Share Purchase Warrants

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

	2020		**2019**	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Warrants outstanding, beginning of year	**450,000**	**$ 0.09**	27,605,880	$ 0.30
Issue of warrants *[note 5i.[a]]*	**1,081,833**	**0.10**	450,000	0.09
Expiry of Warrants	**—**	**—**	(27,605,880)	0.30
Warrants outstanding, end of year	**1,531,833**	**$ 0.10**	450,000	$ 0.09

[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 year ended December 31,

	2020		2019	
	Class A	**Class B**	Class A	Class B
Derivatives outstanding, beginning of year	**8,484,296**	**52,683,043**	8,484,296	51,718,040
Adjustment as a result of General Offering	**—**	**—**	—	965,003
Expiration of derivatives	**(8,484,296)**	**—**	—	—
Derivatives outstanding, end of year	**—**	**52,683,043**	8,484,296	52,683,043

There were no Class A or Class B warrants exercised during the year ended December 31, 2020. The Class A warrants expired unexercised on August 12, 2020.

The exercise price for Class B warrants at December 31, 2020 was $0.204 [December 31, 2019 - $0.204].

The determination of the fair value of the resulting derivative requires the Company to make a number of assumptions and estimates regarding the inputs into the model used to determine the value of the warrants. The assumptions used for the year ended December 31, 2020 and 2019 are as follows: dividend yield of 0% [2019 – 0%], expected volatility of 120.11% [2019 – 105.99-110.89%], risk free interest rate of 0.20% [2019 –1.71%] and expected life of 1.61 years [2019 – 0.62-2.62 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 $0.002 [2019 - $0.003], will result in the value of the derivative changing by approximately $129,000 [2019 – $185,400].

[b] Subsequent to December 31, 2020, 100,000 warrants were exercised raising gross proceeds of $10,000.

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 23, 2020. 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, 2020, the Company has 25,621,689 [2019 – 25,155,322] options available for grant in addition to any options issued and outstanding. The exercise price of each option is equal to or higher than the market price of the Company's stock on the date of grant. The plan does not provide for a maximum term. Options are granted and their terms determined at the discretion of the Board of Directors.

The Company recognizes an expense for option awards using the fair value method of accounting based on the Black-Scholes model. The expense is capitalized to a similar extent as the optionee's salary, wages or fees are capitalized.

No options have been granted during the year ended December 31, 2020. A summary of the status of the Company's stock option plan as at December 31, 2020 and December 31, 2019, and changes during the years ended on those dates are presented below:

	December 31, 2020		December 31, 2019	
	Number of shares #	**Weighted-average exercise price $**	Number of shares #	Weighted-average exercise price $
Options outstanding, beginning of year	**10,550,000**	**0.14**	19,750,000	0.12
Exercised	—	—	(7,300,000)	0.05
Expired or cancelled	—	—	(1,900,000)	0.28
Options outstanding, end of year	**10,550,000**	**0.14**	10,550,000	0.14
Options vested and outstanding, end of year	**10,550,000**	**0.14**	10,550,000	0.14

During the year ended December 31, 2020, there were no stock options granted, exercised or expired. Subsequent to December 31, 2020, 6,500,000 stock options were issued pursuant to the Company's stock option plan and 350,000 options were exercised raising gross proceeds of $34,500.

The following tables summarize information about the options outstanding as at December 31, 2020 and 2019:

December 31, 2020

Range of exercise prices	**Number outstanding**	**Number vested and outstanding**	**Weighted average exercise price – all [i]**	**Weighted average remaining contract life – all [i]**
$	#	#	$	years
Nil – 0.49	10,550,000	10,550,000	0.14	0.99

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

December 31, 2019

Range of exercise prices	Number outstanding	Number vested and outstanding	Weighted average exercise price – all [i]	Weighted average remaining contract life – all [i]
$	#	#	$	years
Nil – 0.49	10,550,000	10,550,000	0.14	1.99

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

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, 2020	December 31, 2019
NICO Project		
Provision for environmental rehabilitation	**$ 30,755**	$ 39,855
Estimated remaining life *[i]*	**21 years**	22 years
Discount rate	**9%**	9%
Total provision for environmental rehabilitation	**$ 30,755**	$ 39,855

[i] At December 31, 2019 the estimated remaining life of the provision for environmental rehabilitation for the NICO project was adjusted to reflect an increase in estimated remaining life by four years. This increase resulted in a reduction in the value of the provision for environmental rehabilitation of $11,621, which was recorded in 2020. Offsetting this increase is accretion expenses of $2,541 which has been recorded in the year ended December 31, 2020.

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, 2020	December 31, 2019
	Deposit amount $	Deposit amount $
NICO Project	**195,671**	194,326
Arctos Anthracite Project	**25,186**	25,000
Total Net Book Value	**220,857**	219,326

The security for the reclamation of the Arctos Anthracite Project is held in the Arctos JV. As at December 31, 2020, the security deposit amount in the Arctos JV was $25,186 [December 31, 2019 - $25,000]. The Company expects this amount to be released once the Province has completed its reclamation work plan review.

The security held for the NICO and Arctos reclamation security deposits consists of cash balances and highly liquid money market funds in investment accounts with a large Canadian financial institution. Subsequent to December 31, 2020, the Company has allowed one of its land use permits to lapse as some of the activities are covered under another existing land use permit. A security amount of $45,000 is expected to be returned to the Company.

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 $	Right-to-use Assets $	Total $
Cost					
As at December 31, 2019	200,792	117,216	328,690	—	646,698
Additions	2,469	—	—	353,367	355,836
Disposals	(22,564)	(9,853)	—	—	(32,417)
As at December 31, 2020	**180,697**	**107,363**	**328,690**	**353,367**	**970,117**
Accumulated amortization					
As at December 31, 2019	187,945	104,873	306,598	—	599,416
Amortization for the year	3,763	2,308	7,732	12,620	26,423
Disposals	(21,831)	(9,044)	—	—	(30,875)
As at December 31, 2020	**169,877**	**98,137**	**314,330**	**12,620**	**594,964**
Net book value					
As at December 31, 2019	12,847	12,343	22,092	—	47,282
As at December 31, 2020	**10,820**	**9,226**	**14,360**	**340,747**	**375,153**

Furniture and fixtures with a net book value of $810 was sold during the year for net proceeds of $1,555, resulting in a gain of $745. Computer equipment with a net book value of $732 was disposed of during the year. A net gain of $13 has been realized and is included in interest and other income on the consolidated statements of loss and comprehensive loss.

During the year, the Company entered into a lease for office space and recognized a right-to-use asset of $353,367 which is amortized on a straight line basis to rent expense over the term of the lease and recorded in general and administrative expenses on the consolidated statements of loss and comprehensive loss.

9. EXPENSES BY NATURE

	December 31, 2020	December 31, 2019
Employee and contractor compensation and benefits (i)	**538,443**	907,284
Operating lease expense – property (ii)	**82,679**	92,224
Stock-based compensation (iii)	**—**	81,340
Amortization	**26,423**	20,488
Foreign exchange loss (gain)	**787**	(85)
Change in fair value related to derivative liability	**(531,266)**	(1,454,917)
Impairment charge	**—**	1,470,936

(i) $424,171 [2019 - $642,902] and $114,272 [2019 - $264,382] of employee and contractor compensation benefits are included in general and administrative and corporate development expenses, respectively, on the consolidated statements of loss and comprehensive loss

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

(iii) $Nil [2019 - $62,800] and $Nil [2019 - $18,540] of stock-based compensation are included in general and administrative expenses and corporate development expense, respectively, on the consolidated statements of loss and comprehensive loss

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand, balances with banks and highly liquid money market funds.

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

11. LONG-TERM DEBTS

	December 31, 2020	December 31, 2019
Debentures *[a]*	**$ 9,948,154**	$ 8,627,189
CEBA *[b]*	**60,000**	—
Total Long-term debts	**$ 10,008,154**	$ 8,627,189

[a] The Company has $8.75 million unsecured debentures outstanding as of December 31, 2020. The debentures have a term of seven years maturing on August 12, 2022, bear interest at 5% per annum, compounding semi-annually and both principal and interest are payable at maturity.

The long-term debts are summarized as follows for the year ending December 31, 2020:

	December 30, 2020	December 31, 2019
Debentures at maturity	**$ 8,750,000**	$ 8,750,000
Loan discount	**(1,487,976)**	(2,257,765)
Accrued interest on debentures	**2,686,130**	2,134,954
	$ 9,948,154	$ 8,627,189

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, 2020, $769,789 [December 31, 2019 - $660,520] of loan discount was amortized using the effective interest rate method.

[b] In April 2020, the Company received a $40,000 loan through the Canada Emergency Business Account program (“CEBA”). The CEBA was launched by the Government of Canada in response to the global COVID-19 health crisis, and has been implemented by financial institutions in cooperation with Export Development Canada. In December 2020, the Government of Canada increased the CEBA loan for eligible businesses from $40,000 to $60,000 and Fortune applied and received the additional $20,000 loan expansion. The increase in the loan has been accounted for as an extinguishment of the original loan payable and the recognition of a new loan payable.

The loan is summarized as follows for the year ending December 31, 2020:

	December 31, 2020	December 31, 2019
Loan payable	**$ 40,835**	$ —
Deferred government grant income	**19,165**	—
	$ 60,000	$ —

The loan balance has been recorded at its amortized cost at an effective interest rate of 12%. For the year ended December 31, 2020, $105 [December 30, 2019 - $Nil] of deferred government grant income was amortized using the effective interest rate method.

If the loan is repaid in full by December 31, 2022, one third, or $20,000, of the loan will be forgiven. If the loan is not repaid by December 31, 2022, it will be converted into a 3-year term loan bearing interest at 5%, with monthly interest-only payments and the outstanding balance due to be repaid in full by December 31, 2025.

12. LEASES

All leases are accounted for by recognizing a right-of-use asset and a lease liability except for leases of low value assets and leases with a duration of twelve months or less.

Lease liabilities are initially measured at present value of the contractual payments due to the lessor over the lease term and also include, if applicable, amounts expected to be payable under any residual value guarantee, the exercise price of any purchase option granted in favour of the Company if it is reasonably certain to assess that option and any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised. Subsequent measurement of the lease liability is increased as a result of interest charged based on an effective interest rate and reduced by lease payments made.

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received and increased for lease payments made at or before commencement of the lease, initial direct costs incurred and the amount of any provision recognized where the Company is contractually required to dismantle, remove or restore the leased asset. Right-of-use assets are amortized on a straight-line basis over the term of the lease. The right-of-use asset is disclosed in Note 8. Capital Assets above.

The Company entered into a lease agreement effective September 25, 2020 to lease office space for a term of two years with 5 subsequent renewal periods of one year each. Monthly lease payments are $5,000 and will increase at an annual rate of 3%. At December 31, 2020 the Company recognized a right-of-use asset equal to the lease liability of $353,367.

The lease liability is summarized as follows for the year ending December 31,

	2020	2019
Additions	**$ 353,367**	$ —
Interest Expense	**21,043**	—
Lease Payments	**(20,000)**	—
	$ 354,410	$ —

13. FINANCIAL INSTRUMENTS

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

i. Financial instruments by category

Financial assets

	Financial assets at amortized cost	
	December 31, 2020	December 31, 2019
Cash and cash equivalents	$ 1,078,884	$ 2,104,901
Reclamation security deposits	220,857	219,326
Accounts receivable	68,537	490,650
Total financial assets	$ 1,368,278	$ 2,814,877

Financial liabilities

	Financial liabilities at fair value through profit or loss		Financial liabilities at amortized cost	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Accounts payable and accrued liabilities	$ —	$ —	$ 186,482	$ 179,809
Lease liability	—	—	354,410	—
Provision for environmental rehabilitation	—	—	30,775	39,855
Long-term debts	—	—	10,008,154	8,627,189
Derivatives	1,306,541	1,837,807	—	—
Total financial liabilities	$ 1,306,541	$ 1,837,807	$ 10,579,821	$ 8,846,853

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 lease liability measured at amortized cost has a fair value of approximately $340,450 [December 31, 2019 - $Nil] estimated using an

8% discount rate. The fair value of the long-term debts measured at amortized cost has a fair value of approximately $10,601,000 [December 31, 2019 - $9,635,000] 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, 2020	December 31, 2019
Derivatives	$ 1,306,541	$ 1,837,807

There were no transfers between levels during the year. The change in fair value of level 3 financial instruments of $531,266 [December 31, 2019 - $1,454,917] 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 loss and comprehensive loss.

iv. Contractual maturities of financial liabilities

The following table details the Company's contractual maturities for its financial liabilities as at December 31, 2020 and 2019. Payments due by year are as follows:

		December 31, 2020			
	Total	**2021**	**2022**	**2023**	**Greater than 4 years**
Accounts payable and accrued liabilities	**$ 186,482**	**$ 186,482**	**$ —**	**$ —**	**$ —**
Lease liability	**439,748**	**60,600**	**62,418**	**64,291**	**252,439**
Provision for environmental rehabilitation	**188,000**	**—**		**—**	**188,000**
Long-term debts	**8,810,000**	**—**	**8,750,000**	**—**	**60,000**
Accrued interest on debentures	**3,613,518**	**—**	**3,613,518**	**—**	**—**
	$13,237,748	**$ 247,082**	**$12,425,936**	**$ 64,291**	**$ 500,439**

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

14. INTEREST AND OTHER INCOME

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

	2020	2019
Interest income	**$ 15,966**	$ 36,457
Foreign exchange gain (loss)	**(787)**	85
Gain on disposal of capital assets	**13**	115
Flow-through share premium income	**88,169**	5,496
Total Interest and Other Income	**$ 103,361**	$ 42,153

15. INCOME TAXES

The Company has non-capital loss carryforwards totaling $52,578,000, net capital loss carryforwards of $18,845,000, un-deducted debt and share issuance costs of $271,000 and unused investment tax credits on pre-production mining costs of $1,974,000. The non-capital losses will begin to expire in 2026. The Company has completed feasibility studies for its principal project and undertaken related permitting and financing activities. The benefit of certain non-capital losses and undeducted share issuance costs has been recorded in the consolidated financial statements only to the extent of existing taxable temporary differences. The potential benefits of these carry-forward non-capital losses, capital losses, and other deductible temporary differences have not been recognized in these consolidated financial statements as it is not considered probable that sufficient future taxable profit will allow the deferred tax asset to be recovered. A valuation allowance of $17,312,000 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, 2020 $	December 31, 2019 $
Deferred income tax assets		
Net operating loss carryforwards	**13,952,000**	12,916,000
Undeducted debt and share issuance costs *[i]*	**72,000**	129,000
Unused investment tax credits on pre-production costs	**1,974,000**	1,974,000
Tax value of exploration and evaluation expenditures and capital assets in excess of book value	**1,314,000**	1,248,000
	17,312,000	16,267,000
Less valuation allowance related to operating losses, share issuance costs and unused investments tax credits	**(17,312,000)**	(16,267,000)
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, 2020 $	December 31, 2019 $
Combined federal and provincial/state income tax rate	**26.50%**	26.50%
Corporate income tax recovery at statutory rate	**(455,000)**	(714,000)
Increase (decrease) in income taxes resulting from		
Non-deductible stock-based compensation and other expenses	**204,000**	197,000
Non-deductible change in fair value of derivative	**(141,000)**	(385,500)
Rate difference	**(174,000)**	(171,000)
Non-taxable flow-through share premium	**(23,000)**	—
Tax value of loss carryforwards not recognized	**589,000**	1,073,500
	—	—

16. MANAGEMENT OF CAPITAL

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

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

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

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

17. RELATED PARTY TRANSACTIONS

For the year ended December 31, 2020, the Company paid key management personnel including officers, directors or their related entities for salaries and benefits, consulting services and/or management services and legal services.

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

	December 31, 2020	December 31, 2019
Salaries and benefits	**$ 166,675**	$ 29,542
Consulting services	**498,395**	947,658
Legal services	**48,805**	58,950
	$ 713,875	$ 1,036,150

As at December 31, 2020, $20,163 [2019 - $27,681] was owing to key management personnel for services provided during the year.

18. 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 loss per share	**December 31, 2020**	December 31, 2019
Net loss	**$ (1,715,659)**	$ (2,693,994)
Weighted average number of common shares	**359,943,389**	347,076,782
Basic loss per share	**$ 0.00**	$ (0.01)

ii. Diluted loss per share

For calculating diluted loss per share, for the year ended December 31, 2020 and 2019, the following weighted average options, warrants and derivative warrants had an exercise price less than the average market price for the year:

	2020	2019
Options	**—**	4,150,000
Warrants	**—**	450,000
Derivative Warrants	**—**	—
	—	4,600,000

The diluted loss per share computation for the year ending December 31, 2020 and December 31, 2019 is equal to the basic loss per share as inclusion of the above would have been anti-dilutive.

19. CONSOLIDATED STATEMENTS OF CASH FLOWS

Supplemental cash flow information for the year ending December 31:

	2020	2019
Interest and investment income received	**$ 15,966**	$ 39,966

20. STANDARDS, AMENDMENTS AND INTERPRETATIONS

i. Future accounting standards

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

- IAS 1 amendments on classification – effective for the December 31, 2022 year end. On January 23, 2020, the IASB issued 'Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)' providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date.

21. COVID-19

The COVID-19 global pandemic has disrupted economic activities and supply chains. Although the disruption from the virus is expected to be temporary, given the dynamic nature of these circumstances, the duration of business disruption and the related financial impact cannot be reasonably estimated at this time. The Company's ability to continue to service debt and meet

obligations as they come due is dependent on the continued ability to obtain financing and maintain cash flows.

The Company applied for government support programs introduced in response to the global pandemic. Included in net loss and comprehensive loss for the year is $205,994 of Government grants obtained relating to supporting the payroll of the Company's employees. The Company has elected to present this Government grant as a reduction to payroll expenses and is included in the line general and administrative expenses on the consolidated statements of loss and comprehensive loss.