

Interim Condensed Consolidated Financial Statements

**Fortune Minerals Limited**

March 31, 2020

# **Fortune Minerals Limited**

## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

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

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

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

**Fortune Minerals Limited**  
 Incorporated under the laws of Ontario

**CONSOLIDATED STATEMENTS OF  
 FINANCIAL POSITION**

(expressed in Canadian dollars)

Unaudited

See note 2 going concern uncertainty

As at	March 31, 2020	December 31, 2019
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents <i>[note 10]</i>	1,988,418	2,104,901
Reclamation security deposits <i>[note 7]</i>	25,000	25,000
Accounts receivable	48,126	490,650
Prepaid expenses	40,648	54,470
<b>Total current assets</b>	<b>2,102,192</b>	<b>2,675,021</b>
Reclamation security deposits <i>[note 7]</i>	195,152	194,326
Capital assets, net <i>[note 8]</i>	43,007	47,282
Mining properties <i>[note 3]</i>	74,096,880	73,897,037
	<b>76,437,231</b>	<b>76,813,666</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	181,946	179,809
Flow-through share premium deferred gain	346,214	362,004
<b>Total current liabilities</b>	<b>528,160</b>	<b>541,813</b>
Provision for environmental rehabilitation <i>[note 7]</i>	28,869	39,855
Long-term debts <i>[note 11]</i>	8,945,053	8,627,189
Derivatives <i>[note 5ii[a]]</i>	1,208,552	1,837,807
<b>Total liabilities</b>	<b>10,710,634</b>	<b>11,046,664</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital <i>[note 5]</i>	172,409,620	172,409,620
Other reserves <i>[notes 5 and 6]</i>	15,611,882	15,611,882
Deficit	(122,294,905)	(122,254,500)
<b>Total shareholders' equity</b>	<b>65,726,597</b>	<b>65,767,002</b>
	<b>76,437,231</b>	<b>76,813,666</b>

See accompanying notes

**Fortune Minerals Limited**

**CONSOLIDATED STATEMENTS OF LOSS AND  
COMPREHENSIVE LOSS**

(expressed in Canadian dollars)

Unaudited

For the three-months ended March 31,

	<b>2020</b>	2019
<b>REVENUE AND OTHER INCOME</b>		
Interest and other income <i>[note 13]</i>	<b>26,589</b>	12,604
	<b>26,589</b>	12,604
<b>EXPENSES</b>		
General and administrative	<b>328,168</b>	349,298
Interest	<b>317,864</b>	285,164
Corporate development	<b>46,744</b>	77,779
Amortization <i>[note 8]</i>	<b>3,473</b>	5,122
Change in fair value related to derivative liability <i>[note 5ii.[a]]</i>	<b>(629,255)</b>	2,282,445
	<b>66,994</b>	2,999,808
<b>Net loss and comprehensive loss for the period</b>	<b>(40,405)</b>	(2,987,204)
<b>Basic and diluted loss per share <i>[note 17]</i></b>	<b>—</b>	(0.01)

*See accompanying notes*

**Fortune Minerals Limited**

**CONSOLIDATED STATEMENTS OF  
CASH FLOWS**

(expressed in Canadian dollars)

Unaudited

For the three-months ended March 31,

	2020	2019
<b>OPERATING ACTIVITIES</b>		
Net loss for the period from continuing operations	(40,405)	(2,987,204)
Changes in non-cash working capital balances related to operations		
Accounts receivable	442,524	(11,883)
Prepaid expenses	13,822	36,841
Accounts payable and accrued liabilities	2,137	143,859
Accrued interest on debentures	135,370	128,608
	<u>553,448</u>	<u>(2,689,779)</u>
Add (deduct) items not involving cash		
Accretion	(10,986)	823
Amortization	3,473	5,122
Gain on flow-through share premium	(15,790)	—
Stock-based compensation	—	22,610
Non-cash portion of loan discount [note 11]	182,494	156,556
Gain on disposal of capital assets	(248)	—
Change in fair value related to derivative liability	(629,255)	2,282,445
<b>Cash provided (used) in operating activities</b>	<u>83,136</u>	<u>(222,223)</u>
<b>INVESTING ACTIVITIES</b>		
Increase in exploration and evaluation expenditures	(193,224)	(524,667)
Purchase of capital assets, including in mining properties	(6,619)	(355,344)
Posting of security for reclamation security deposits, net	(826)	(756)
Proceeds on disposal of capital assets	1,050	—
<b>Cash used in investing activities</b>	<u>(199,619)</u>	<u>(880,767)</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds on exercise of options	—	365,000
<b>Cash provided by financing activities</b>	<u>—</u>	<u>365,000</u>
<b>Decrease in cash and cash equivalents during the period, net</b>	<b>(116,483)</b>	<b>(737,990)</b>
Cash and cash equivalents, beginning of period	2,104,901	3,611,228
<b>Cash and cash equivalents, end of period [note 10]</b>	<u>1,988,418</u>	<u>2,873,238</u>

See accompanying notes

### CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(expressed in Canadian dollars)

Unaudited

	Common shares		Warrants		Subtotal	Other reserves	Deficit	Total shareholders' equity
	#	\$	#	\$				
<b>December 31, 2018</b>	<b>340,003,220</b>	<b>171,060,047</b>	<b>27,605,880</b>	<b>2,603,279</b>	<b>173,663,326</b>	<b>13,129,875</b>	<b>(119,560,506)</b>	<b>67,232,695</b>
Issued as a result of:								
Exercise of stock options	7,300,000	613,200	—	—	613,200	(248,200)	—	365,000
Stock options granted	—	—	—	—	—	31,230	—	31,230
Expiration of warrants	—	—	(12,900,000)	(1,832,498)	(1,832,498)	1,832,498	—	—
Net income for the period	—	—	—	—	—	—	(2,987,204)	(2,987,204)
<b>March 31, 2019</b>	<b>347,303,220</b>	<b>171,673,247</b>	<b>14,705,880</b>	<b>770,781</b>	<b>172,444,028</b>	<b>14,745,403</b>	<b>(122,547,710)</b>	<b>64,641,721</b>
<b>December 31, 2019</b>	<b>359,553,220</b>	<b>172,401,004</b>	<b>450,000</b>	<b>8,616</b>	<b>172,409,620</b>	<b>15,611,882</b>	<b>(122,254,500)</b>	<b>65,767,002</b>
Net loss for the period	—	—	—	—	—	—	(40,405)	(40,405)
<b>March 31, 2020</b>	<b>359,553,220</b>	<b>172,401,004</b>	<b>450,000</b>	<b>8,616</b>	<b>172,409,620</b>	<b>15,611,882</b>	<b>(122,294,905)</b>	<b>65,726,597</b>

See accompanying notes

## Fortune Minerals Limited

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2020

## 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 unaudited interim condensed consolidated financial statements of Fortune Minerals Limited ["the Company"] for the three months ended March 31, 2020 were authorized for issuance by the Board of Directors on May 11, 2020.

## 2. BASIS OF PRESENTATION

### *i. Statement of Compliance*

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

### *ii. Going Concern of Operations*

These unaudited interim condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of the Company's assets and discharge of its liabilities and commitments in the normal course of business. With the existing working capital of \$1,574,032 at March 31, 2020, the Company will require additional financing to conduct certain critical path activities in 2020. However, the NICO project requires further funding to advance the project through to production. This results in the existence of a material uncertainty that casts significant doubt about the Company's ability to continue as a going concern. Management is actively working to achieve positive cash flows beyond 2020 and is continually pursuing and considering various financing opportunities. The Company has historically been successful in financing its activities, however, there can be no assurances that the Company will be able to obtain continued support from existing lenders or obtain sufficient financing on terms acceptable to management to be able to meet its current liabilities as they come due, especially in light of the impact that COVID-19 could have on the global financial markets as a whole. These unaudited interim condensed 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 unaudited interim condensed consolidated financial statements are presented in Canadian dollars ["CDN"], which is also the Company's and its subsidiary's functional currency.

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

## Fortune Minerals Limited

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March 31, 2020

['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 periods presented in these unaudited interim condensed consolidated financial statements, unless otherwise indicated.

#### *iv. Judgment and Estimates*

The preparation of unaudited interim condensed 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 unaudited interim condensed consolidated financial statements.

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

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

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

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

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

The fair values of derivatives, warrants, stock options, retirement obligations and other instruments 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 unaudited interim condensed consolidated financial statements, the notes to the unaudited interim condensed 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 unaudited interim

## Fortune Minerals Limited

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2020

condensed consolidated financial statements. The determination of the relevance and materiality of disclosures involves significant judgment.

#### 3. MINING PROPERTIES

As at March 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:

March 31, 2020				
	Capital Assets \$	Property Costs \$	Exploration and Evaluation Expenditures \$	Total Mining Properties \$
NICO [i]	6,666,380	2,191,442	65,054,881	73,912,703
Sue-Dianne	—	9,164	163,724	172,888
Other properties	—	—	11,289	11,289
	<b>6,666,380</b>	<b>2,200,606</b>	<b>65,229,894</b>	<b>74,096,880</b>
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
	<b>6,665,876</b>	<b>2,200,606</b>	<b>65,030,555</b>	<b>73,897,037</b>

During the three months ended March 31, 2020, there was no change to Property Costs [March 31, 2019 – Nil] and Exploration and Evaluation Expenditures increased by \$199,339 [March 31, 2019 - \$538,817]. There were no disposals, write-offs or amortization.

**Fortune Minerals Limited**

**NOTES TO INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

March 31, 2020

Exploration and evaluation expenditures capitalized to mining properties during the three months ended March 31, 2020 and 2019 include the following:

	<b>March 31, 2020</b>	March 31, 2019
	\$	\$
Employee and contractor compensation and benefits	<b>130,347</b>	205,210
Amortization	<b>6,115</b>	6,460
Stock-based compensation	—	7,690

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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Capital assets in mining properties consist of the following:

	Surface facilities under construction \$	Surface facilities \$	Camp structures \$	Mobile equipment \$	Site furniture and equipment \$	Land and land acquisition costs \$	Asset retirement obligation [“ARO”] \$	Total \$
<b>Cost</b>								
As at December 31, 2019	6,537,046	1,179,717	593,724	595,034	50,655	25,000	6	8,981,182
Additions	6,619	—	—	—	—	—	—	6,619
<b>As at March 31, 2020</b>	<b>6,543,665</b>	<b>1,179,717</b>	<b>593,724</b>	<b>595,034</b>	<b>50,655</b>	<b>25,000</b>	<b>6</b>	<b>8,987,801</b>
<b>Accumulated amortization</b>								
As at December 31, 2019	—	1,112,788	589,723	586,250	26,545	—	—	2,315,306
Amortization for the period	—	3,348	300	659	1,808	—	—	6,115
<b>As at March 31, 2020</b>	<b>—</b>	<b>1,116,136</b>	<b>590,023</b>	<b>586,909</b>	<b>28,353</b>	<b>—</b>	<b>—</b>	<b>2,321,421</b>
<b>Net book value</b>								
As at December 31, 2019	6,537,046	66,929	4,001	8,784	24,110	25,000	6	6,665,876
<b>As at March 31, 2020</b>	<b>6,543,665</b>	<b>63,581</b>	<b>3,701</b>	<b>8,125</b>	<b>22,302</b>	<b>25,000</b>	<b>6</b>	<b>6,666,380</b>

Included in surface facilities under construction during the three months ended March 31, 2020 is \$6,333 [March 31, 2019 - \$15,678] of directly attributable employee and contractor compensation and benefits and \$Nil [March 31, 2019 - \$930] of stock-based compensation.

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# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2020

### *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.

### *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 three months ended March 31, 2020.

**NOTES TO INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

March 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 March 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 period, substantive expenditure on further exploration for and evaluation of mineral resources of the NICO project cannot be budgeted or planned and completed an impairment assessment of the NICO project. As a result of that analysis, management has determined that the carrying value of its projects is not impaired or does not require a reversal of a prior impairment charge.

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

Assumptions underlying the estimate of the recoverable amount included expected commodity prices based on forecasted averages of US\$1,500/oz for gold, US\$30/lb for cobalt and US\$5/lb for bismuth and an exchange rate of US\$0.76:C\$1.00. A discount rate of 8% was used in the cash flow analysis. These factors resulted in a recoverable amount in excess of book value of NICO. Accordingly, no impairment was recognized on the NICO project.

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

**5. SHARE CAPITAL AND RESERVES**

*i.* Common Shares

The Company is authorized to issue an unlimited number of common shares without par value. As at March 31, 2020, the weighted average number of common shares outstanding was 359,553,220 [December 31, 2019 - 347,076,782].

The following is a summary of changes in shares for the three months ended March 31,

## Fortune Minerals Limited

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2020

	<u>2020</u>	<u>2019</u>
Shares outstanding, beginning of period	359,553,220	340,003,220
Exercise of options	—	7,300,000
Shares outstanding, end of period	<u>359,553,220</u>	<u>347,303,220</u>

#### ii. Share Purchase Warrants

The following is a summary of changes in warrants for the three months ended March 31,

	<u>2020</u>		<u>2019</u>	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Warrants outstanding, beginning of period	450,000	\$ 0.09	27,605,880	\$ 0.30
Expiry of Warrants	—	—	(12,900,000)	0.35
Warrants outstanding, end of period	<u>450,000</u>	<u>\$ 0.09</u>	<u>14,705,880</u>	<u>\$ 0.25</u>

- [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 three months ended March 31,

	<u>2020</u>		<u>2019</u>	
	Class A	Class B	Class A	Class B
Derivatives outstanding, beginning of period	8,484,296	52,683,043	8,484,296	51,718,040
Derivatives outstanding, end of period	<u>8,484,296</u>	<u>52,683,043</u>	<u>8,484,296</u>	<u>51,718,040</u>

The exercise price for Class A and Class B warrants at March 31, 2020 were \$0.133 [March 31, 2019 - \$0.133] and \$0.204 [March 31, 2019 - \$0.208], respectively.

There were no Class A or Class B warrants exercised during the three months ended March 31, 2020.

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 three months ended March 31, 2020 and 2019 are as follows: dividend yield of 0% [2019 – 0%], expected volatility of between 111.4% and 147.63% [2019 – 101.93% and 162.89%], risk free interest rate of 0.46% [2019 – 1.56% and 1.59%] and expected life of between 0.37 and 2.37 years [2019 – 1.37 and 3.37 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

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### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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impact on the value of the warrants. A change in the warrant unit value of approximately 10%, or approximately \$0.001 [2019 - \$0.01], will result in the value of the derivative changing by approximately \$121,300 [2019 – \$556,000].

*iii.* Nature and Purpose of Equity and Reserves

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

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

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

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

#### 6. STOCK-BASED COMPENSATION

A summary of the status of the Company's stock option plan as at March 31, 2020 and December 31, 2019, and changes during the periods ended on those dates are presented below:

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

During the three months ended March 31, 2020, there were no stock options granted, exercised or expired.

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**NOTES TO INTERIM CONDENSED CONSOLIDATED  
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The following tables summarize information about the options outstanding as at March 31, 2020:

March 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	1.75

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

**7. PROVISION FOR ENVIRONMENTAL REHABILITATION AND SECURITY DEPOSITS**

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

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

	March 31, 2020	December 31, 2019
<b>NICO Project</b>		
Provision for environmental rehabilitation	<b>\$28,869</b>	\$39,855
Estimated remaining life [i]	<b>22 years</b>	22 years
Discount rate	<b>9%</b>	9%
<b>Total provision for environmental rehabilitation</b>	<b>\$28,869</b>	\$39,855

[i] During the period 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.

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:

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March 31, 2020

	<u>March 31, 2020</u>	<u>December 31, 2019</u>
	Deposit amount \$	Deposit amount \$
NICO Project	195,152	194,326
Arctos Anthracite Project	25,000	25,000
<b>Total Net Book Value</b>	<b>220,152</b>	<b>219,326</b>

The security for the reclamation of the Arctos Anthracite Project is held in the Arctos JV. As at March 31, 2020, the security deposit amount in the Arctos JV was \$25,000 [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 short-term fixed income deposits with original maturity dates shorter than three months in investment accounts with a large Canadian financial institution.

## 8. CAPITAL ASSETS

Capital assets consist of the following:

	Computer equipment \$	Furniture and fixtures \$	Software \$	Total \$
<b>Cost</b>				
As at December 31, 2019	200,792	117,216	328,690	646,698
Disposals	—	(5,228)	—	(5,228)
<b>As at March 31, 2020</b>	<b>200,792</b>	<b>111,988</b>	<b>328,690</b>	<b>641,470</b>
<b>Accumulated amortization</b>				
As at December 31, 2019	187,945	104,873	306,598	599,416
Amortization for the period	964	576	1,933	3,473
Disposals	—	(4,426)	—	(4,426)
<b>As at March 31, 2020</b>	<b>188,909</b>	<b>101,023</b>	<b>308,531</b>	<b>598,463</b>
<b>Net book value</b>				
As at December 31, 2019	12,847	12,343	22,092	47,282
<b>As at March 31, 2020</b>	<b>11,883</b>	<b>10,965</b>	<b>20,159</b>	<b>43,007</b>

Furniture with a net book value of \$802 was sold during the period for net proceeds of \$1,050, resulting in a gain of \$248.

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#### 9. EXPENSES BY NATURE

	March 31, 2020	March 31, 2019
Employee and contractor compensation and benefits (i)	218,650	239,163
Operating lease expense – property (ii)	22,976	22,904
Stock-based compensation (iii)	—	22,610
Amortization	3,473	5,122
Foreign exchange loss (gain)	868	(4)
Change in fair value related to derivative liability	(629,255)	2,282,445

- (i) \$166,320 [2019 - \$167,373] and \$52,330 [2019 - \$71,790] 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 - \$17,710] and \$Nil [2019 - \$4,900] 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 short-term fixed income deposits with remaining maturity dates at the date of acquisition shorter than three months.

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

#### 11. LONG-TERM DEBTS

The Company has \$8.75 million unsecured debentures outstanding as of March 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 three months ending March 31, 2020:

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	<b>March 31, 2020</b>	December 31, 2019
Debentures at maturity	\$ <b>8,750,000</b>	\$ 8,750,000
Loan discount	<b>(2,075,271)</b>	(2,257,765)
Accrued interest on debentures	<b>2,270,324</b>	2,134,954
	<b>\$ 8,945,053</b>	\$ 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 three months ended March 31, 2020, \$182,494 [March 31, 2019 - \$156,556] of loan discount was amortized using the effective interest rate method.

## 12. FINANCIAL INSTRUMENTS

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

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*i.* Financial instruments by category

Financial assets

	Financial assets at amortized cost	
	March 31, 2020	December 31, 2019
Cash and cash equivalents	\$ 1,988,418	\$ 2,104,901
Reclamation security deposits	220,152	219,326
Accounts receivable	48,126	490,650
Total financial assets	<u>\$ 2,256,696</u>	<u>\$ 2,814,877</u>

Financial liabilities

	Financial liabilities at fair value through profit or loss		Financial liabilities at amortized cost	
	March 31, 2020	December 31, 2019	March 31, 2020	December 31, 2019
Accounts payable and accrued liabilities	\$ —	\$ —	\$ 181,946	\$ 179,809
Provision for environmental rehabilitation	—	—	28,869	39,855
Long-term debts	—	—	8,945,053	8,627,189
Derivatives	1,208,552	1,837,807	—	—
Total financial liabilities	<u>\$ 1,208,552</u>	<u>\$ 1,837,807</u>	<u>\$ 9,155,868</u>	<u>\$ 8,846,853</u>

*ii.* Financial instruments at amortized cost

The fair value of the Company's cash and cash equivalents, reclamation security deposits, accounts receivable, and accounts payable and accrued liabilities approximate their carrying values due to their short-term nature. The fair value of the long-term debts measured at amortized cost has a fair value of approximately \$9,866,000 [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	
	March 31, 2020	December 31, 2019
Derivatives	<u>1,208,552</u>	<u>1,837,807</u>

There were no transfers between levels during the period. The change in fair value of level 3 financial instruments of \$629,255 [March 31, 2019 - \$2,282,445] is attributed to the change in fair

## Fortune Minerals Limited

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2020

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 March 31, 2020. Payments due by year are as follows:

	March 31, 2020			
	Total	2020	2022	Greater than 5 years
Accounts payable and accrued liabilities	\$ 181,946	\$ 181,946	\$ —	\$ —
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	—
	<u>\$12,733,464</u>	<u>\$ 181,946</u>	<u>\$12,363,518</u>	<u>\$ 188,000</u>

### 13. INTEREST AND OTHER INCOME

Interest and other income consist of the following for the three months ended March 31,

	2020	2019
Interest income	<b>11,419</b>	12,600
Foreign exchange gain (loss)	<b>(868)</b>	4
Gain on disposal of capital assets	<b>248</b>	—
Gain on flow-through share premiums	<b>15,790</b>	—
Total Interest and Other Income	<b>26,589</b>	12,604

### 14. INCOME TAXES

The Company has non-capital loss carryforwards totaling \$48,000,000, net capital loss carryforwards of \$18,550,000, un-deducted debt and share issuance costs of \$427,000 and unused investment tax credits on pre-production mining costs of \$1,975,000. The non-capital losses will begin to expire in 2026. The Company has completed feasibility studies for its principal project and undertaken related permitting and financing activities. The benefit of certain non-capital losses and undeducted share issuance costs has been recorded in the unaudited interim condensed consolidated financial statements only to the extent of existing taxable temporary differences.

## Fortune Minerals Limited

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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The potential benefits of these carry-forward non-capital losses, capital losses, and other deductible temporary differences have not been recognized in these unaudited interim condensed 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 \$15,864,000 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:

	March 31, 2020 \$	December 31, 2019 \$
<b>Deferred income tax assets</b>		
Net operating loss carryforwards	12,735,000	12,916,000
Undeducted debt and share issuance costs [i]	113,000	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	1,042,000	1,248,000
	<b>15,864,000</b>	16,267,000
Less valuation allowance related to operating losses, share issuance costs and unused investments tax credits	<b>(15,864,000)</b>	(16,267,000)
<b>Deferred income tax assets</b>	<b>—</b>	<b>—</b>

[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 period ended is as follows:

	March 31, 2020 \$	March 31, 2019 \$
<b>Combined federal and provincial/state income tax rate</b>	<b>26.50%</b>	26.50%
Corporate income tax recovery at statutory rate	(11,000)	(791,600)
Increase (decrease) in income taxes resulting from		
Non-deductible stock-based compensation and other expenses	48,000	47,600
Non-deductible change in fair value of derivative	167,000	605,000
Rate difference	(172,000)	(169,000)
Non-taxable flow-through share premium	(4,000)	—
Tax value of loss carryforwards not recognized	(28,000)	308,000
	<b>—</b>	<b>—</b>

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### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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#### 15. MANAGEMENT OF CAPITAL

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

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

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

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

#### 16. RELATED PARTY TRANSACTIONS

For the three months ended March 31, 2020, the Company paid key management personnel including officers, directors or their related entities for consulting services and/or management services.

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

	<b>March 31, 2020</b>	March 31, 2019
	\$	\$
Salaries and benefits	<b>7,684</b>	7,386
Consulting services	<b>148,533</b>	229,797
Legal services	<b>1,638</b>	7,400
	<b>157,855</b>	244,583

As at March 31, 2020, \$29,469 [2019 - \$36,537] was owing to key management personnel for services provided during the period.

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### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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#### 17. LOSS PER SHARE

Basic loss per share is calculated by dividing net loss for the period by the weighted average number of common shares outstanding in each respective period. 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 period, if dilutive.

<i>i.</i> Basic loss per share	<b>March 31, 2020</b>	March 31, 2019
Net loss	\$ (40,405)	\$ (2,987,204)
Weighted average number of common shares	<b>359,553,220</b>	342,220,998
Basic loss per share	<b>\$ —</b>	\$ (0.01)

#### *ii.* Diluted loss per share

The weighted average options, warrants and derivative warrants for the three month periods ending March 31, 2020 and 2019 were excluded from the fully diluted loss per share computation because inclusion would have been anti-dilutive.

#### 18. CONSOLIDATED STATEMENTS OF CASH FLOWS

Supplemental cash flow information for the three months ending March 31:

	<b>2020</b>	2019
	\$	\$
Interest and investment income received	<b>11,419</b>	12,583

#### 19. 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 unaudited interim condensed 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.

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**20. 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.

Subsequent to March 31, 2020, the Company has 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. The loan is interest-free and if the balance is repaid in full by December 31, 2022 25% of the loan will be forgiven.