

Interim Condensed Consolidated Financial Statements

Fortune Minerals Limited

March 31, 2016

Fortune Minerals Limited

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

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

Fortune Minerals Limited

Incorporated under the laws of Ontario

**CONSOLIDATED STATEMENTS OF
FINANCIAL POSITION**

(expressed in Canadian dollars)

Unaudited

See note 2 going concern uncertainty

As at	March 31, 2016	December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents <i>[note 7ii]</i>	207,598	144,835
Reclamation security deposits <i>[note 7iii]</i>	25,000	25,000
Accounts receivable	127,029	122,815
Prepaid expenses	9,450	19,516
Total current assets	369,077	312,166
Reclamation security deposits <i>[note 7iii]</i>	211,260	211,260
Capital assets, net <i>[note 6]</i>	140,320	152,151
Mining properties <i>[note 7]</i>	67,426,049	67,283,007
	68,146,706	67,958,584
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	285,793	370,714
Total current liabilities	285,793	370,714
Interest payable <i>[note 10]</i>	294,894	183,790
Provision for environmental rehabilitation <i>[note 8]</i>	32,401	31,688
Long-term debt <i>[note 10]</i>	4,446,575	4,350,893
Total liabilities	5,059,663	4,937,085
Commitments and contingencies <i>[notes 7ii and 15]</i>		
SHAREHOLDERS' EQUITY		
Share capital <i>[note 9]</i>	160,679,115	160,153,780
Other reserves	11,234,769	11,016,669
Deficit	(108,824,843)	(108,146,927)
Accumulated other comprehensive income	(1,998)	(2,023)
Total shareholders' equity	63,087,043	63,021,499
	68,146,706	67,958,584

See accompanying notes

Fortune Minerals Limited

**CONSOLIDATED STATEMENTS OF GAIN (LOSS) AND
COMPREHENSIVE GAIN (LOSS)**

(expressed in Canadian dollars)

Unaudited

For the three-month periods ended March 31,

	2016	2015
EXPENSES		
Administrative	(238,342)	(281,909)
Investor relations and regulatory fees	(34,637)	(45,858)
Stock-based compensation	(165,200)	—
Corporate development costs	(20,564)	(84,279)
Interest expense <i>[note 10]</i>	(206,806)	(125,637)
Accretion <i>[note 8]</i>	(713)	(330,224)
Amortization	(11,685)	(17,106)
Interest and other income	—	398,514
Gain on disposal of mining properties	—	8,000
Loss on disposal of capital assets	4	(343)
Gain on flow-through share premium	—	18,616
Foreign exchange gain <i>[note 4[b]ii]</i>	27	140,564
Loss before income taxes	(677,916)	(319,662)
Recovery of (provision for) income taxes <i>[note 11]</i>		
Deferred income taxes	—	173,000
Net loss for the period from continuing operations	(677,916)	(146,662)
Discontinued Operations		
Gain from discontinued operation <i>[note 14]</i>	—	2,960,440
Net gain (loss) for the period	(677,916)	2,813,778
Other comprehensive income		
Currency translation adjustment	25	2,019,456
Net comprehensive gain (loss)	(677,891)	4,833,234
Basic and diluted gain (loss) per share <i>[note 9]</i>	—	0.01

See accompanying notes

Fortune Minerals Limited

**CONSOLIDATED STATEMENTS OF
CASH FLOWS**

(expressed in Canadian dollars)

Unaudited

For the three-month periods ended March 31,

	2016	2015
OPERATING ACTIVITIES		
Net loss for the period from continuing operations	(677,916)	(146,662)
Changes in non-cash working capital balances related to operations		
Accounts receivable	(4,214)	65,783
Prepaid expenses	10,066	22,554
Accounts payable and accrued liabilities	(84,955)	99,180
Interest payable	111,104	115,313
	<u>(645,915)</u>	156,168
Add (deduct) items not involving cash		
Accretion	713	330,224
Amortization	11,685	17,106
Deferred income taxes	—	(173,000)
Gain on flow-through share premium	—	(18,616)
Stock-based compensation	165,200	—
Non-cash portion of interest expense	95,682	10,299
Loss (gain) on disposal of capital assets	(4)	343
Cash used in operating activities	(372,639)	322,524
Cash used in operating activities - discontinued operations	—	(3,054,919)
Cash used in operating activities	<u>(372,639)</u>	<u>(2,732,395)</u>
INVESTING ACTIVITIES		
Net investment in discontinued operations	—	(782,565)
Increase in exploration and evaluation expenditures	(89,809)	(316,803)
Purchase of capital assets, including in mining properties	(333)	(52,603)
Repayment of capital contribution liability	—	(33,200)
Proceeds on disposal of capital assets in mining properties	150	8,000
Cash provided (used) in investing activities	(89,992)	(1,177,171)
Cash provided (used) in investing activities - discontinued operations	—	(8,484,386)
Cash used in investing activities	<u>(89,992)</u>	<u>(9,661,557)</u>
FINANCING ACTIVITIES		
Proceeds on issuance of shares, net [note 9 [c] and [e]]	525,335	79,800
Cash provided (used) in financing activities	525,335	79,800
Cash provided (used) in financing activities - discontinued operations	—	9,284,788
Cash provided by financing activities	<u>525,335</u>	<u>9,364,588</u>
Effect of foreign exchange on cash on continued operations	59	(81,544)
Decrease in cash and cash equivalents during the period, net	62,704	(3,029,364)
Cash and cash equivalents, beginning of period	144,835	6,219,000
Cash and cash equivalents, end of period	207,598	3,108,092
Cash held by discontinued operations	—	2,814,119
Cash and cash equivalents held by continuing operations	<u>207,598</u>	<u>293,973</u>

See accompanying notes

Fortune Minerals Limited

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(expressed in Canadian dollars)

Unaudited

	Common shares		Warrants		Subtotal	Other reserves	Deficit	Accumulated other comprehensive income	Total shareholders' equity
	#	\$	#	\$					
December 31, 2014	214,822,180	158,592,124	3,333,333	343,333	158,935,457	11,016,669	(66,976,700)	1,357,092	104,332,518
Issued as a result of:									
Private offerings	1,350,000	201,300	—	—	201,300	—	—	—	201,300
Flow-through share premium deferred gain	—	(13,953)	—	—	(13,953)	—	—	—	(13,953)
Net loss for the period	—	—	—	—	—	—	2,813,778	—	2,813,778
Foreign currency translation	—	—	—	—	—	—	—	2,019,456	2,019,456
March 31, 2015	216,172,180	158,779,471	3,333,333	343,333	159,122,804	11,016,669	(64,162,922)	3,376,548	109,353,099
December 31, 2015	227,077,580	159,318,360	61,805,424	835,420	160,153,780	11,016,669	(108,146,927)	(2,023)	63,021,499
Issued as a result of:									
Private offerings [note 9[c] and [e]]	14,285,714	560,000	—	—	560,000	—	—	—	560,000
Share issuance costs, net of tax [note 9[c]]	—	(34,665)	—	—	(34,665)	—	—	—	(34,665)
Stock options granted [note 9[b]]	—	—	—	—	—	218,100	—	—	218,100
Foreign currency translation	—	—	—	—	—	—	—	25	25
Net loss for the period	—	—	—	—	—	—	(677,916)	—	(677,916)
March 31, 2016	241,363,294	159,843,695	61,805,424	835,420	160,679,115	11,234,769	(108,824,843)	(1,998)	63,087,043

See accompanying notes

Fortune Minerals Limited

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

March 31, 2016

1. CORPORATE INFORMATION

The unaudited interim condensed consolidated financial statements of Fortune Minerals Limited [“the Company”] for the quarter ended March 31, 2016 were authorized for issuance by the Board of Directors on May 16, 2016. Fortune Minerals Limited is incorporated under the laws of Ontario and domiciled in London, Ontario, Canada, whose shares are publicly traded on the OTCQX and the Toronto Stock Exchange.

2. BASIS OF PRESENTATION AND GOING CONCERN UNCERTAINTY

The Company is a natural resource company with mineral deposits in Canada and is focused on the assembly, exploration, and development of natural resource projects. The recoverability of amounts shown for mineral properties and related exploration and evaluation 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. The Company’s projects are all within Canada, and the Company operates in one industry segment, mining.

These unaudited interim condensed consolidated financial statements, including comparatives, have been prepared using accounting policies consistent with International Financial Reporting Standards [“IFRS”] and in accordance with International Accounting Standard [“IAS”] 34, *Interim Financial Reporting*.

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. Based on the Company’s current cash flow forecasts, the Company does not have sufficient cash or working capital to fund all of its planned activities without obtaining additional financing. This results in the existence of a material uncertainty that casts significant doubt about the Company’s ability to continue as a going concern. Management is actively working to achieve positive cash flows and is continually pursuing and considering various financing opportunities. The Company has historically been successful in financing its activities, however, there can be no assurances that the Company will be able to obtain continued support from existing lenders or obtain sufficient financing on terms acceptable to management to be able to meet its current liabilities as they come due. These financial statements do not include adjustments, which may be material, to the amounts and classification of assets and liabilities that would be necessary should the going concern principle not be appropriate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The same accounting policies and methods of computation were followed in the preparation of these interim condensed consolidated financial statements that were followed for the audited annual consolidated financial statements for the year ended December 31, 2015 and updates to the accounting policies for March 31, 2016, to supplement the December 31, 2015 audited annual consolidated financial statements, are described below. Since the interim condensed consolidated financial statements for the three-month period ended March 31, 2016 do not include all

Fortune Minerals Limited

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

March 31, 2016

disclosures required by the IFRS for annual financial statements, they should be read together with the audited annual consolidated financial statements for the year ended December 31, 2015.

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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

Impairment of non-financial assets

The Company undertakes an impairment assessment at the end of each reporting period to look for impairment indicators. If such indicators exist an impairment test is completed based on the value in use which is based on a discounted cash flow model to the expected end date of the mine or other asset. Significant inputs into this model are commodity values, discount rates, useful life of a mine and future operating costs.

Fair values

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

Income taxes

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

Amortization of capital assets

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

Fortune Minerals Limited

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

March 31, 2016

[a] New accounting standards

The IASB published Disclosure Initiative (Amendments to IAS 1) on December 18, 2014. The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgement in presenting their financial reports. The amendments are effective for annual periods beginning on or after January 1, 2016, with earlier adoption being permitted. There was no impact on these interim condensed consolidated financial statements as a result of adopting these amendments.

[b] Future accounting standards

IFRS 9, *Financial instruments* ["IFRS 9"] was issued by the IASB in November 2009 and will replace IAS 39, *Financial Instruments: Recognition and Measurement* ["IAS 39"]. IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. This standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The Company plans to adopt IFRS 15 on the effective date, January 1, 2018, and is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 15, *Revenue from Contracts with Customers* ["IFRS 15"] was issued by the IASB in May 2014. IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. The Company plans to adopt IFRS 15 on the effective date, January 1, 2018, and is currently evaluating the impact of this standard on its consolidated financial statements.

The IASB has replaced IAS 18, *Revenue* in its entirety with IFRS 15 which is intended to establish a new control-based revenue recognition model and change the basis for deciding whether revenue is to be recognized over time or at a point in time. IFRS 15 is effective for annual periods commencing on or after January 1, 2018. The Company is currently evaluating the impact the standard is expected to have on its consolidated financial statements.

4. FINANCIAL INSTRUMENTS

The Company has designated short-term investments within cash and cash equivalents and reclamation security deposits as financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss are revalued on the reporting date based on relevant market information about the financial instrument. Accounts receivable are financial assets designated as receivables measured initially at fair value and subsequently on the basis of amortized cost using the effective interest rate method. Accounts payable and accrued liabilities, interest payable and long-term debt are financial liabilities designated as other liabilities measured initially at fair value and subsequently on the basis of amortized cost using the effective interest

Fortune Minerals Limited

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

March 31, 2016

rate method. These valuations are estimates and changes in assumptions could significantly affect the estimates.

[a] Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Cash and cash equivalents and reclamation security deposits are composed of financial instruments issued by large Canadian financial institutions with high investment-grade ratings maturing over various dates. Further, the Company limits its credit risk to any individual counterparty. The Company's recurring receivables consist primarily of Goods and Services Tax and Harmonized Sales Tax due from the Federal Government of Canada and \$95,000 related to the sale of assets previously purchased from the Golden Giant Mine – refer to note 7i[a] for further details.

[b] Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market prices and comprises three types of risk: interest rate risk, currency risk and other price risk.

i. Interest rate risk arises because of changes in market interest rates. The Company's cash and cash equivalents, short-term investments and security held for the reclamation bonds are subject to minimal risk of changes in value, have an original maturity of 90 days or less from the date of purchase and are readily convertible into cash. The interest rate on the Company's long-term debt is fixed and is not subject to interest rate risk.

ii. Currency risk arises because of changes in foreign exchange rates. Nearly all of the Company's current activities are priced in Canadian dollars ["\$CDN"]. However, the Company expects certain of its future capital and operating costs as well as its future revenue streams related to its Canadian operations will be priced in United State dollars ["\$US"]. The Company has operating accounts in \$US to pay United States vendors and to receive \$US payments as well as to manage the timing of conversion of \$CDN to \$US or vice versa. As at March 31, 2016, the \$US balance in cash and cash equivalents was \$US103 [\$134].

iii. Other price risk arises because of changes in market prices other than those due to interest rates and currency changes. The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is the potential adverse impact on the Company's ability to raise new capital and generate earnings due to movement in the Company's equity price or general movement in the level of the stock market. Commodity price risk is the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company monitors commodity prices of cobalt, gold and bismuth in addition to other metal markets, individual equity movements and the stock market to determine appropriate courses of action to be taken by the Company.

[c] Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities as they come due. The Company's investment policy is to invest its excess cash in high-grade investment securities with varying terms to maturity selected with

Fortune Minerals Limited

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

March 31, 2016

regard to the expected timing of expenditures for continuing operations. Accounts payable and accrued liabilities are all current.

Fair value measurements of financial assets and liabilities

Financial assets and liabilities are characterized using a fair value hierarchy as follows:

Level 1 – quoted prices in active markets for identical assets and liabilities;
Level 2 – inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 – inputs for the asset or liability that are not based on observable market data.

The following table illustrates the classification of the Company's financial instruments within the fair value hierarchy as at March 31, 2016:

	Level 1 \$	Level 2 \$	Level 3 \$
Cash and cash equivalents	207,598	—	—
Interest payable	—	294,894	—
Long-term debt	—	4,446,575	—

The carrying amount of accounts receivable and accounts payable and accrued liabilities approximates the fair value.

The following table details the Company's contractual maturities for its financial liabilities as at March 31, 2016. Payments due by year are as follows:

	Total	2016	2022
Accounts payable and accrued liabilities	\$ 285,793	\$ 285,793	—
Interest payable	294,894	—	294,894
Long-term debt	8,750,000	—	8,750,000
	<u>\$9,330,687</u>	<u>\$ 285,793</u>	<u>\$9,044,894</u>

5. MANAGEMENT OF CAPITAL

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

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust

Fortune Minerals Limited

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

March 31, 2016

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.

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. Significant additional capital will be required to complete the development of the Company's NICO project.

6. CAPITAL ASSETS

Capital assets consist of the following:

	Computer equipment \$	Furniture and fixtures \$	Software \$	Total \$
Cost				
As at December 31, 2015	215,122	117,216	318,582	650,920
Disposal	(3,111)	—	—	(3,111)
As at March 31, 2016	212,011	117,216	318,582	647,809
Accumulated amortization				
As at December 31, 2015	175,510	87,083	236,176	498,769
Amortization for the period	2,967	1,507	7,211	11,685
Disposal	(2,965)	—	—	(2,965)
As at March 31, 2016	175,512	88,590	243,387	507,489
Net book value				
As at December 31, 2015	39,612	30,133	82,406	152,151
As at March 31, 2016	36,499	28,626	75,195	140,320

7. MINING PROPERTIES

As at March 31, 2016, 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.

Fortune Minerals Limited

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

[unaudited]

March 31, 2016

Interests in mining properties consist of the following:

	March 31, 2016			
	Capital Assets \$	Property Costs \$	Exploration and Evaluation Expenditures \$	Total Mining Properties \$
NICO [i] and [iv]	6,671,775	2,191,442	58,391,723	67,254,940
Sue-Dianne	—	9,164	153,064	162,228
Other properties	—	—	8,881	8,881
	6,671,775	2,200,606	58,553,668	67,426,049

	December 31, 2015			
	Capital Assets \$	Property Costs \$	Exploration and Evaluation Expenditures \$	Total Mining Properties \$
NICO [i] and [iv]	6,671,152	2,191,442	58,249,304	67,111,898
Sue-Dianne	—	9,164	153,064	162,228
Other properties	—	—	8,881	8,881
	6,671,152	2,200,606	58,411,249	67,283,007

During the quarter, the change in mining properties is a result of additions only and there were no disposals, write-offs or amortization.

Exploration and evaluation expenditures capitalized to mining properties during the three months ended March 31, 2016 and 2015 include the following:

	March 31, 2016 \$	March 31, 2015 \$
Employee and contractor compensation and benefits	83,940	93,828
Amortization	11,660	20,078
Stock-based compensation	40,950	—

Fortune Minerals Limited

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

March 31, 2016

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, 2015	5,560,896	1,179,717	593,724	592,034	18,060	900,356	6	8,844,793
Additions	12,283	—	—	—	—	—	—	12,283
As at March 31, 2016	5,573,179	1,179,717	593,724	592,034	18,060	900,356	6	8,857,076
Accumulated amortization								
As at December 31, 2015	—	1,016,221	577,061	562,669	17,690	—	—	2,173,641
Amortization for the period	—	8,180	1,250	2,202	28	—	—	11,660
As at March 31, 2016	—	1,024,401	578,311	564,871	17,718	—	—	2,185,301
Net book value								
As at December 31, 2015	5,560,896	163,496	16,663	29,365	370	900,356	6	6,671,152
As at March 31, 2016	5,573,179	155,316	15,413	27,163	342	900,356	6	6,671,775

Included in surface facilities under construction during the quarter ended March 31, 2016 is \$Nil [March 31, 2015 - \$13,074] of directly attributable employee and contractor compensation and benefits and \$11,950 [March 31, 2015 - \$Nil] of stock-based compensation.

Fortune Minerals Limited

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

March 31, 2016

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

The NICO project and the related claims in the Mazenod Lake Area, Northwest Territories are wholly owned by the Company.

[a] Golden Giant Mine Assets

In 2015, the Company entered into agreements with third parties to sell all the remaining assets previously purchased from the Golden Giant Mine for proceeds of \$473,876.

[b] Saskatchewan Metals Processing Plant [“SMPP”]

The Company plans to locate the hydrometallurgical processing plant for NICO at a site in Saskatchewan, Canada. In December 2012, the Company purchased lands near Saskatoon, Saskatchewan on which it proposes to construct the SMPP. The net costs of design, development, construction and related costs incurred for the SMPP have been accumulated and capitalized as surface facilities under construction until such time as the physical assets are completed and available for use, at which time they will be classified as appropriate. No amortization has been charged against these assets as they are not yet available for use.

ii. Arctos Anthracite Project, British Columbia [“Arctos”]

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

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

Going forward, under the Arctos Sale Agreement, the Arctos JV partners maintain the exclusive right to purchase back the coal licenses at the same price for a 10-year option period. If both partners do not wish to exercise the repurchase option, each of them may do so individually. No value was attributed to the option at the time of the agreement or as at the quarter ended March 31, 2016.

Fortune Minerals Limited

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

March 31, 2016

As at March 31, 2016, the only other asset in the Arctos JV was a cash balance of \$1,392, of which FCL recorded its 50% share.

iii. Reclamation Security Deposits

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

Reclamation security deposits consist of the following:

	<u>March 31, 2016</u>	<u>December 31, 2015</u>
	Deposit amount	Deposit amount
	\$	\$
NICO Project	211,260	211,260
Arctos Anthracite Project	25,000	25,000
Total Net Book Value	236,260	236,260

The security for the reclamation of the Arctos Anthracite Project is held in the Arctos JV. As at March 31, 2016, the security deposit amount in the Arctos JV was \$25,000 [December 31, 2015 - \$25,000]. The Company expects this amount to be released once the Province has completed its site inspection this year.

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.

iv. Impairment

In accordance with the Company's accounting policy, each asset or cash-generating unit ["CGU"] is evaluated at each reporting date to determine whether there are any indicators of impairment. If any such indication exists, a formal estimate of the recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount.

At March 31, 2016, the Company considered whether there had been any significant changes to indicators at the year end and whether any new indicators were present. During the quarter, the market price of gold had improved, the value of the \$CDN had strengthened and although the Company had seen an increase in its share price, the market capitalization gap continued to be significant. Management determined that the above changes in the quarter constituted an impairment indicator due to the effect the price of gold and the exchange rate have on the impairment model [as described below] and completed an impairment assessment of the NICO

Fortune Minerals Limited

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

March 31, 2016

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 the gold, cobalt, bismuth and copper simultaneously. For the purposes of assessing the impairment of the project, the financial model used 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.

Adjustments were made for prices derived from the forecasted average of US\$1,300 for gold, US\$15.00 for cobalt and US\$7.14 for bismuth and an exchange rate of US\$0.72:C\$1.00. A discount rate of 8% was used in the analysis and includes estimates for income taxes. These factors resulted in a recoverable amount in excess of book value of NICO. Accordingly, no impairment exists on the NICO project.

The impairment model is sensitive to several of the model key input variable. The following table indicates the estimated impact on the recoverable amount:

Change in Model Key Input	Change in Recoverable Amount of NICO
Effect of:	
Increase discount rate by 1%	(66%)
Increase exchange rate by \$0.01	(25%)
Increase gold, cobalt, bismuth and copper prices by 1%	18%
Increase operating costs by 5%	(38%)

8. PROVISION FOR ENVIRONMENTAL REHABILITATION

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, 2016	December 31, 2015
NICO Project		
Provision for environmental rehabilitation	\$32,401	\$31,688
Estimated remaining life	21 years	22 years
Discount rate	9%	9%
Total provision for environmental rehabilitation	\$32,401	\$31,688

Fortune Minerals Limited

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

[unaudited]

March 31, 2016

9. SHARE CAPITAL

[a] The Company is authorized to issue an unlimited number of common shares without par value. As at March 31, 2016, the weighted average number of common shares outstanding was 230,531,269 [December 31, 2015 - 221,634,727]. For calculating diluted loss per share, for the quarter ended March 31, 2016, there were no options with an exercise price less than the average market price for the period.

[b] The estimated fair value of 9,400,000 options granted during the three-month period ended March 31, 2016 and the fair value of the options granted that vested during the three-month period ended March 31, 2016 has been allocated to stock-based compensation expense, exploration and evaluation expenditures and capital assets in the amounts of \$165,200, \$40,950 and \$11,950, respectively. The other reserves balance was increased by \$218,100, representing the fair value of the options issued. The options granted during the three-month period ended March 31, 2016 have a maximum term of three years and all vested immediately except for 3,250,000 options which vests on September 16, 2016. The estimated volatility was calculated using historical volatility.

A summary of the status of the Company's stock option plan as at March 31, 2016 and December 31, 2015, and changes during the periods ended on those dates are presented below:

	<u>March 31, 2016</u>		<u>December 31, 2015</u>	
	Number of shares #	Weighted- average exercise price \$	Number of shares #	Weighted- average exercise price \$
Options outstanding, beginning of period	3,970,000	0.61	7,780,000	0.60
Granted	9,400,000	0.05	—	—
Expired or cancelled	—	—	(3,810,000)	0.59
Options outstanding, end of period	13,370,000	0.22	3,970,000	0.61
Options vested and outstanding, end of period	10,120,000	0.27	3,970,000	0.61

Fortune Minerals Limited

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

March 31, 2016

The following table summarizes information about the options outstanding as at March 31, 2016:

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	10,975,000	7,725,000	0.10	2.9
0.50 – 0.99	2,045,000	2,045,000	0.68	1.5
1.00 – 1.49	300,000	300,000	1.20	0.4
1.50 – 1.99	50,000	50,000	1.60	0.3
	13,370,000	10,120,000		

[i] The weighted average exercise price and weighted average remaining contract life are the same for options outstanding and options vested and outstanding with the exception of 3,250,000 options exercisable at \$0.05, of which none have vested at March 31, 2016.

- [c] On March 9, 2016, the Company entered into a subscription agreement to sell 14,285,714 shares at a price of \$0.035 per share, raising gross proceeds of \$500,000. Share issuance costs of \$34,665 were incurred to complete the financing.
- [d] Subsequent to the quarter end, the Company received conditional approval from the Toronto Stock Exchange to extend the expiry date of 2,952,700 warrants with an exercise price of \$0.15 by one year to April 1, 2017.
- [e] Subsequent to the quarter end, the Company entered into a subscription agreement to sell 14,285,713 shares at a price of \$0.035 per share, raising gross proceeds of \$500,000. As at March 31, 2016, a total of \$60,000 of the gross proceeds had been received in advance of the closing date.

10. LONG-TERM DEBT

On July 17, 2015 the Company entered into a restructuring agreement with LRC and its other secured creditors to settle its secured debt obligations. As part of the second stage of the restructuring [see discontinued operations note 15], the Company issued to LRC and the other secured creditors unsecured debentures in the principal amount of \$5 million to Lascaux and \$3.75 million to the other secured creditors. The debentures have a term of seven years maturing on August 12, 2022, bear interest at 5% per annum, compounding semi-annually and both principal and interest are payable at maturity.

While the debentures are outstanding, the Company cannot take the following actions without the prior written approval of LRC and its other secured creditors:

- The merger, amalgamation, combination, consolidation, tender for the shares of or similar business transaction whereby LRC or its other secured creditors are not the holders,

Fortune Minerals Limited

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

March 31, 2016

directly or indirectly, of a majority of the voting securities or its ultimate controlling person immediately after such closing;

- The sale of all or substantially all of its assets, other than to a wholly-owned subsidiary or to a NICO Joint Venture;
- The creation, incurrence, assumption or suffering to exist, or otherwise becoming liable for any indebtedness on terms that are less advantageous to the Company or causing any material asset of the Company to be posted as collateral or security, unless all net proceeds of such indebtedness are applied to explore, develop, construct, operate or otherwise advance the NICO project;
- The repurchase of equity or the declaration of dividends or distributions of any kind; and
- The settlement of any litigation, arbitration, or administrative proceeding in relation to the NICO project for an amount in excess of \$125,000.

The loan balances have been recorded at their net present value at an effective interest rate of 18%. For the quarter ended March 31, 2016, \$95,682 of loan discount was amortized using the effective interest rate method.

11. INCOME TAXES

The Company has non-capital loss carryforwards totaling \$64,260,000, un-deducted debt and share issuance costs of \$371,000 and unused investment tax credits on pre-production mining costs of \$2,754,000 that begin to expire in 2028. 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. A valuation allowance of \$23,200,000 has been recognized related to the uncertainty of realizing the benefit of deferred income tax assets in future years.

Fortune Minerals Limited

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

[unaudited]

March 31, 2016

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

	March 31, 2016	December 31, 2015
	\$	\$
Deferred income tax assets		
Net operating loss carryforwards	17,135,000	17,927,000
Undeducted debt and share issuance costs [i]	100,000	103,000
Unused investment tax credits on pre-production costs	2,754,000	2,755,000
Tax value of exploration and evaluation expenditures and capital assets in excess of book value	3,211,000	3,339,000
	23,200,000	24,124,000
Less valuation allowance related to operating losses, share issuance costs and unused investments tax credits	(23,200,000)	(24,124,000)
Deferred income tax assets	—	—
Book value of exploration and evaluation expenditures and capital assets in excess of tax value	—	—
Book value of capital contribution liability in excess of tax value	—	—
Deferred income tax liabilities	—	—
Net deferred income tax liabilities	—	—

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

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

	March 31, 2016	March 31, 2015
	\$	\$
Combined federal and provincial/state income tax rate	26.68%	26.57%
Corporate income tax recovery at statutory rate	(180,000)	(85,000)
Increase (decrease) in income taxes resulting from		
Non-deductible stock-based compensation and other expenses	44,500	—
Renunciation of flow-through expenses	53,000	(35,900)
Rate difference	(40,000)	5,000
Non-taxable flow-through share premium	—	(5,000)
Investment tax credits on pre-production mining costs, net of tax	1,200	(193,000)
Tax value of loss carryforwards not recognized	212,750	36,900
Other	(91,450)	104,000
	—	(173,000)

Fortune Minerals Limited

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

March 31, 2016

12. CONSOLIDATED STATEMENTS OF CASH FLOWS

Supplemental cash flow information for the period ending:

	March 31, 2016	December 31, 2015
	\$	\$
Interest and investment income received	—	658
Interest paid	—	975,095

13. RELATED PARTY TRANSACTIONS

For the three months ended March 31, 2016, the Company paid key management personnel including officers, directors or their related entities for consulting services and/or management services.

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

	March 31, 2016	March 31, 2015
	\$	\$
Salaries and benefits	2,088	115,085
Consulting services	83,000	79,000
Legal services	—	73,000
Fair value of stock options granted	221,000	—
	306,088	267,085

As at March 31, 2016, \$29,750 [December 31, 2015 - \$97,964] was owing to key management personnel for services provided during the quarter.

14. DISCONTINUED OPERATIONS

On July 1, 2015, the Company received notice from LRC that events of default had occurred under the amended Metal Prepay Facility, dated as of March 25, 2015 among FRSMI, the Company and LRC. The notice from LRC declared all amounts and deliveries owing under the Metal Prepay Facility to be immediately due and payable. FRSMI's obligations under the Metal Prepay Facility are secured by all of its assets and guaranteed by the Company and certain of its other subsidiaries, including FMNWT and FMSI, which have also granted LRC security over their respective assets. Each of the Company, FMNWT and FMSI have also received notice from LRC pursuant to the Bankruptcy and Insolvency Act [Canada] of LRC's intention to enforce its security. LRC had the right to enforce such security at any time after July 10, 2015.

Fortune Minerals Limited

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

March 31, 2016

On July 17, 2015 the Company entered into a restructuring agreement with LRC and its other secured creditors to settle its secured debt obligations. The restructuring was completed in two stages as summarized below:

Stage 1 – Completed on July 17, 2015

- The Company contributed to the capital of FRSMI all intercompany indebtedness owing by FRSMI to the Company and transferred all of the shares of FRSMI to LRC; FRSMI was subsequently renamed Ouray Silver Mines, Inc. [“Ouray”]
- All obligations of the Company and its Canadian subsidiaries under the LRC short term facility have been released
- Ouray paid US\$200,000 to the Company as compensation for costs incurred prior to July 1, 2015
- The Company agreed to provide certain purchasing, logistics and operations transition services subsequent to July 1, 2015 to Ouray and LRC to assist in the operation of the RSM

Stage 2 – Completed on August 12, 2015

- The Company issued to LRC and the other secured creditors:
 - Unsecured debentures in the principal amount of C\$5 million to Lascaux and C\$3.75 million to the other secured creditors. The debentures have a term of seven years, bear interest at 5% per annum accruing semi-annually and are repayable at maturity
 - 7.5 million Class A warrants and 29,019,391 Class B warrants to Lascaux and
 - 5 million Class A warrants and 14 million Class B warrants to the other secured creditors
- Each Class A warrant will entitle the holder to purchase one common share of the Company at C\$0.15 and will expire on the fifth anniversary of the date of issuance
- Each Class B warrant will entitle the holder to purchase one common share of the Company at C\$0.25 and will expire on the seventh anniversary of the date of issuance. 42,259,476 of the Class B warrants can only be exercised for the purposes of setting off or financing the repayment of an equivalent amount owing under the debenture held by the warrant holder
- The debentures will be repayable in the event that NICO is sold, directly or indirectly
- Ouray paid \$US320,000 to the Company for additional costs paid prior to July 1, 2015
- All remaining security in the Company’s and its subsidiaries assets held by LRC under the Metal Prepay Facility and by the other secured creditors were released and discharged.

The comparative consolidated statements of gain (loss) and comprehensive gain (loss) has been restated to show the discontinued operation separately from continuing operations and is presented below.

Fortune Minerals Limited

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

[unaudited]

March 31, 2016

The gain on discontinued operations consists of the following:

	Three months ended March 31,	
	2016	2015
Results of discontinued operations [a]	—	2,960,440
Basic and diluted gain per share	—	0.01

[a] Results of discontinued operations:

	Three months ended March 31,	
	2016	2015
EXPENSES		
Administrative	—	(580,318)
Corporate development costs	—	(91,287)
Interest expense	—	(34,665)
Accretion	—	(4,346)
Interest and other income	—	(378,141)
Foreign exchange gain	—	236,479
Gain on extinguishment of debt or other	—	3,812,718
Net gain for the period	—	2,960,440
Other comprehensive income		
Currency translation adjustment	—	2,020,718
Net comprehensive gain	—	4,981,158

[b] Cash flows from (used in) discontinued operations:

	Three months ended March 31,	
	2016	2015
Net cash used in operating activities	—	(3,054,919)
Net cash used in investing activities	—	(8,484,386)
Net cash from financing activities	—	9,284,788
Net cash flow	—	(2,254,517)

Fortune Minerals Limited

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

[unaudited]

March 31, 2016

15. COMMITMENTS AND CONTINGENCIES

The Company is from time to time involved in claims and litigation arising in the normal course of business. Claims are made by third parties against the Company and by the Company against third parties with respect to costs incurred and/or amounts charged under applicable contract provisions.