

Consolidated Financial Statements

Fortune Minerals Limited

December 31, 2017 and 2016

RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements and the Management Discussion and Analysis are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise as they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis given currently available information in order to ensure that the financial statements are presented fairly, in all material respects.

The Company maintains systems of internal accounting and administrative controls in order to provide, on a reasonable basis, assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board, and its members are outside directors. The Committee meets with management as well as the external auditors to discuss auditing matters and financial reporting issues and to review the consolidated financial statements, the Management's Discussion and Analysis and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or reappointment of the external auditors.

The consolidated financial statements have been audited by BDO Canada LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of shareholders. The external auditors have free access to the Audit Committee.

[Signed]
Robin Goad
President and
Chief Executive Officer

[Signed]
David Massola
VP Finance and
Chief Financial Officer



Tel: 519-432-5534
Fax: 519-432-6544
www.bdo.ca

BDO Canada LLP
633 Colborne Street, Suite 300
London, ON
N6B 2V3, Canada

Independent Auditor's Report

To the shareholders of Fortune Minerals Limited

We have audited the accompanying consolidated financial statements of Fortune Minerals Limited and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of loss and other comprehensive loss, changes in shareholders' equity, and cash flows for the years ended December 31, 2017 and December 31, 2016, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Fortune Minerals Limited and its subsidiaries as at December 31, 2017 and December 31, 2016 and its financial performance and its cash flows for the years ended December 31, 2017 and December 31, 2016 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Fortune Minerals Limited and its subsidiaries' ability to continue as a going concern.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

London, Ontario
March 22, 2018

Fortune Minerals Limited

Incorporated under the laws of Ontario

**CONSOLIDATED STATEMENTS OF
FINANCIAL POSITION**

(expressed in Canadian dollars)

As at	See note 2 going concern uncertainty December 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents <i>[note 9]</i>	8,524,567	940,071
Reclamation security deposits <i>[note 7]</i>	25,000	25,000
Accounts receivable	241,530	63,945
Prepaid expenses	35,969	40,066
Total current assets	8,827,066	1,069,082
Reclamation security deposits <i>[note 7]</i>	188,976	143,260
Capital assets, net <i>[note 8]</i>	71,318	102,245
Mining properties <i>[note 3]</i>	70,512,155	67,816,400
	79,599,515	69,130,987
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	506,451	139,521
Flow-through share premium deferred gain	—	40,229
Total current liabilities	506,451	179,750
Provision for environmental rehabilitation <i>[note 7]</i>	33,545	23,409
Long-term debt <i>[note 10]</i>	6,373,830	5,406,662
Derivatives <i>[note 5ii[b]]</i>	14,931,779	5,819,694
Total liabilities	21,845,605	11,429,515
SHAREHOLDERS' EQUITY		
Share capital <i>[note 5]</i>	172,923,028	161,748,120
Other reserves <i>[notes 5 and 6]</i>	12,940,075	11,916,014
Deficit	(128,109,193)	(115,960,664)
Accumulated other comprehensive income	—	(1,998)
Total shareholders' equity	57,753,910	57,701,472
	79,599,515	69,130,987

See accompanying notes

*[Signed]*Robin Goad
Director*[Signed]*Mahendra Naik
Director

Fortune Minerals Limited

**CONSOLIDATED STATEMENTS OF LOSS AND
OTHER COMPREHENSIVE LOSS**

(expressed in Canadian dollars)

For the year ended December 31,

	2017	2016
EXPENSES		
Administrative	(1,006,234)	(836,738)
Investor relations and regulatory fees	(304,337)	(178,801)
Stock-based compensation [note 6]	(322,920)	(394,250)
Corporate development costs	(485,324)	(141,127)
Interest expense [note 10]	(967,239)	(872,039)
Accretion [note 7]	(10,136)	8,279
Amortization	(30,927)	(45,869)
Interest and other income	52,368	14,118
Loss on disposal of capital assets	—	(3,887)
Gain on flow-through share premium	40,229	1,021
Foreign exchange gain (loss)	(1,924)	(1,405)
Change in fair value related to derivative liability [note 5ii[b]]	(9,112,085)	(5,423,948)
Net loss for the year	(12,148,529)	(7,874,646)
Other comprehensive income		
Currency translation adjustment	1,998	25
Net comprehensive loss	(12,146,531)	(7,874,621)
Basic and diluted loss per share [note 15]	(0.04)	(0.03)

See accompanying notes

Fortune Minerals Limited

**CONSOLIDATED STATEMENTS OF
CASH FLOWS**

(expressed in Canadian dollars)

For the year ended December 31,

	2017	2016
OPERATING ACTIVITIES		
Net loss for the year from continuing operations	(12,148,529)	(7,874,646)
Changes in non-cash working capital balances related to operations		
Accounts receivable	(177,585)	58,870
Prepaid expenses	4,097	(20,550)
Accounts payable and accrued liabilities	366,930	(231,193)
Accrued interest on debentures <i>[note 10]</i>	475,067	452,375
	(11,480,020)	(7,615,144)
Add (deduct) items not involving cash		
Accretion	10,136	(8,279)
Amortization	30,927	45,869
Reclassification of other comprehensive income <i>[note 2iii]</i>	1,998	—
Gain on flow-through share premium	(40,229)	(1,021)
Stock-based compensation <i>[note 6]</i>	392,520	394,250
Non-cash portion of loan discount <i>[note 10]</i>	492,101	419,604
Loss on disposal of capital assets	—	3,887
Change in fair value related to derivative liability	9,112,085	5,423,948
Cash used in operating activities	(1,480,482)	(1,336,886)
INVESTING ACTIVITIES		
Increase in exploration and evaluation expenditures	(1,854,532)	(401,156)
Purchase of capital assets, including in mining properties	(722,543)	(5,907)
Posting of security for reclamation security deposits, net	(45,716)	—
Receipt of reclamation security deposit	—	68,000
Proceeds on disposal of capital assets in mining properties	—	150
Cash used in investing activities	(2,622,791)	(338,913)
FINANCING ACTIVITIES		
Proceeds on issuance of shares, net <i>[noted 5i.[a] and [b]]</i>	10,620,975	2,471,010
Proceeds on exercise of derivatives <i>[note 5ii.[b]]</i>	258,857	—
Proceeds on exercise of warrants <i>[note 5ii.[a]]</i>	807,937	—
Cash provided by financing activities	11,687,769	2,471,010
Effect of foreign exchange on cash	—	25
Increase in cash and cash equivalents during the year, net	7,584,496	795,211
Cash and cash equivalents, beginning of year	940,071	144,835
Cash and cash equivalents, end of year <i>[note 9]</i>	8,524,567	940,071

See accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(expressed in Canadian dollars)

	Common shares		Warrants		Subtotal	Other reserves	Deficit	Accumulated other comprehensive income	Total shareholders' equity
	#	\$	#	\$	\$	\$	\$	\$	\$
December 31, 2015	227,077,580	159,318,360	6,286,033	378,765	159,697,125	11,016,669	(108,086,018)	(2,023)	62,625,753
Issued as a result of:									
Private offerings	43,821,427	2,410,000	6,415,000	297,000	2,707,000	—	—	—	2,707,000
Flow-through share premium deferred gain	—	(41,250)	—	—	(41,250)	—	—	—	(41,250)
Share issuance costs, net of tax	—	(228,602)	—	(7,388)	(235,990)	—	—	—	(235,990)
Warrant expiration date amendment	—	(151,245)	—	(227,520)	(378,765)	378,765	—	—	—
Stock options granted	—	—	—	—	—	520,580	—	—	520,580
Net loss for the year	—	—	—	—	—	—	(7,874,646)	—	(7,874,646)
Foreign currency translation	—	—	—	—	—	—	—	25	25
December 31, 2016	270,899,007	161,307,263	12,701,033	440,857	161,748,120	11,916,014	(115,960,664)	(1,998)	57,701,472
Issued as a result of:									
Private offerings <i>[note 5i.]</i>	55,211,766	8,350,950	27,605,880	3,099,050	11,450,000	—	—	—	11,450,000
Share issuance costs, net of tax <i>[notes 5i. and 5ii.]</i>	—	(593,254)	—	(235,771)	(829,025)	—	—	—	(829,025)
Exercise of warrants <i>[note 5ii.]</i>	5,386,250	978,933	(5,386,250)	(170,996)	807,937	—	—	—	807,937
Exercise of derivatives <i>[note 5 ii[b]]</i>	1,946,296	258,857	—	—	258,857	—	—	—	258,857
Stock options granted <i>[note 6]</i>	—	—	—	—	—	511,200	—	—	511,200
Expiration of warrants	—	—	(7,149,783)	(512,861)	(512,861)	512,861	—	—	—
Net loss for the year	—	—	—	—	—	—	(12,148,529)	—	(12,148,529)
Foreign currency translation	—	—	—	—	—	—	—	1,998	1,998
December 31, 2017	333,443,319	170,302,749	27,770,880	2,620,279	172,923,028	12,940,075	(128,109,193)	—	57,753,910

See accompanying notes

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

1. CORPORATE INFORMATION

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

The consolidated financial statements of Fortune Minerals Limited ["the Company"] for the year ended December 31, 2017 were authorized for issuance by the Board of Directors on March 22, 2018.

2. BASIS OF PRESENTATION

i. Statement of Compliance

These consolidated financial statements of the Company have been prepared by management in accordance with International Financial Reporting Standards ["IFRS"] as issued by the International Accounting Standards Board ["IASB"].

ii. Going Concern of Operations

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of the Company's assets and discharge of its liabilities and commitments in the normal course of business. With the existing working capital of \$8,320,615 at December 31, 2017, the Company has sufficient cash to conduct certain critical path activities in 2018. However, the NICO project requires further funding to advance the project through to production and the Company has engaged a consulting firm, to assist with securing this financing. This results in the existence of a material uncertainty that casts significant doubt about the Company's ability to continue as a going concern. Management is actively working to achieve positive cash flows beyond 2018 and is continually pursuing and considering various financing opportunities. The Company has historically been successful in financing its activities, however, there can be no assurances that the Company will be able to obtain continued support from existing lenders or obtain sufficient financing on terms acceptable to management to be able to meet its current liabilities as they come due. These financial statements do not include adjustments, which may be material, to the amounts and classification of assets and liabilities that would be necessary should the going concern principle not be appropriate.

iii. Basis of Measurement

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

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

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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

Fortune Minerals Marketing Limited, a company incorporated under the Companies Act of Barbados and domiciled in Barbados was dissolved on April 5, 2017. As a result of the dissolution, the Company has recognized \$1,998 of other comprehensive income related to foreign currency translation in the statement of loss and other comprehensive loss.

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

iv. Judgment and Estimates

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

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

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

[a] *Impairment of non-financial assets*

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

[b] *Fair values*

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

[c] *Exploration and evaluation expenditures*

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

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

[d] *Income taxes*

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

[e] *Amortization of capital assets*

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

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

3. MINING PROPERTIES

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

As at December 31, 2017, 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:

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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

December 31, 2016				
	Capital Assets \$	Property Costs \$	Exploration and Evaluation Expenditures \$	Total Mining Properties \$
NICO [i]	6,650,808	2,191,442	58,800,238	67,642,488
Sue-Dianne	—	9,164	155,292	164,456
Other properties	—	—	9,456	9,456
	6,650,808	2,200,606	58,964,986	67,816,400

During the year ended December 31, 2017 there was no change to Property Costs [2016 – Nil] and Exploration and Evaluation Expenditures increased by \$1,994,636 [2016 - \$553,737]. There were no disposals, write-offs or amortization.

Exploration and evaluation expenditures capitalized to mining properties during the year ended December 31, 2017 and 2016 include the following:

	December 31, 2017 \$	December 31, 2016 \$
Employee and contractor compensation and benefits	570,180	321,971
Amortization	35,914	46,641
Stock-based compensation	104,190	105,940

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 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	26,297	—	—	—	—	—	—	26,297
As at December 31, 2016	5,587,193	1,179,717	593,724	592,034	18,060	900,356	6	8,871,090
Accumulated amortization								
As at December 31, 2015	—	1,016,221	577,061	562,669	17,690	—	—	2,173,641
Amortization for the year	—	32,722	4,999	8,809	111	—	—	46,641
As at December 31, 2016	—	1,048,943	582,060	571,478	17,801	—	—	2,220,282
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 December 31, 2016	5,587,193	130,774	11,664	20,556	259	900,356	6	6,650,808
Cost								
As at December 31, 2016	5,587,193	1,179,717	593,724	592,034	18,060	900,356	6	8,871,090
Additions	737,033	—	—	—	—	—	—	737,033
As at December 31, 2017	6,324,226	1,179,717	593,724	592,034	18,060	900,356	6	9,608,123
Accumulated amortization								
As at December 31, 2016	—	1,048,943	582,060	571,478	17,801	—	—	2,220,282
Amortization for the year	—	26,171	3,499	6,166	78	—	—	35,914
As at December 31, 2017	—	1,075,114	585,559	577,644	17,879	—	—	2,256,196
Net book value								
As at December 31, 2016	5,587,193	130,774	11,664	20,556	259	900,356	6	6,650,808
As at December 31, 2017	6,324,226	104,603	8,165	14,390	181	900,356	6	7,351,927

Included in surface facilities under construction during the year ended December 31, 2017 is \$42,036 [December 31, 2016 - \$4,329] of directly attributable employee and contractor compensation and benefits and \$14,490 [December 31, 2016 - \$20,390] of stock-based compensation.

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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

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

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

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

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

Going forward, under the Arctos Sale Agreement, the Arctos JV partners maintain the exclusive right to purchase back the coal licenses at the same price for a 10-year option period. If both partners do not wish to exercise the repurchase option, each of them may do so individually. No value was attributed to the option at the time of the agreement or as at the year ended December 31, 2017.

4. ASSET IMPAIRMENT

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

At December 31, 2017, the Company considered whether there had been any significant changes to impairment indicators from its previous impairment assessment completed at December 31, 2016 and whether any new indicators were present. During the year ended December 31, 2017, commodity prices, specifically cobalt and gold, saw significant improvement and the Company has seen an increase in its share price, reducing the market capitalization gap. Management

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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

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

Assumptions underlying the estimate of the recoverable amount included expected commodity prices based on forecasted averages of US\$1,250/oz for gold, US\$23.40/lb for cobalt and US\$7.14/lb for bismuth and an exchange rate of US\$0.80:C\$1.00. A discount rate of 8% was used in the cash flow analysis. These factors resulted in a recoverable amount in excess of book value of NICO. Accordingly, no impairment was recognized on the NICO project.

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

5. SHARE CAPITAL AND RESERVES

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

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

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

***i.* Common Shares**

The Company is authorized to issue an unlimited number of common shares without par value. As at December 31, 2017, the weighted average number of common shares outstanding was 297,385,408 [December 31, 2016 - 254,558,843].

The Company completed the following share issuances during the year ended December 31, 2017 and 2016:

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

	2017	2016
Shares outstanding, beginning of year	270,899,007	227,077,580
Issuance of Shares	55,211,766	43,821,427
Exercise of warrants [note 5ii.[a]]	5,386,250	—
Exercise of derivatives [note 5ii.[b]]	1,946,296	—
Shares outstanding, end of year	333,443,319	270,899,007

- [a] On March 8, 2017, the Company issued 25,800,000 units at a price of \$0.25 per unit, through a short form prospectus offering, raising gross proceeds of \$6,450,000. Each unit consists of one common share and one half of a common share purchase warrant. One warrant entitles the holder to purchase one common share of the Company for \$0.35 on or before March 8, 2019. The fair value of the shares and warrants issued was \$4,429,225 and \$2,020,775, respectively. The value of the warrants was estimated using the Black-Scholes option pricing model with the following weighted average assumptions used for grants as follows: dividend yield of 0%, expected volatility of 153.50%, risk free interest rate of 0.79% and expected life of 2 year. Share issuance costs of \$594,933 were incurred to complete the financing.
- [b] On December 8, 2017 and December 14, 2017, the Company entered into a subscription agreement to sell 26,381,999 and 3,029,767 units, respectively, at a price of \$0.17 per unit, raising gross proceeds of \$5,000,000. Each unit consists of one common share and one half of a common share purchase warrant. One warrant entitles the holder to purchase one common share of the Company for \$0.25 on or before December 8, 2019 and December 14, 2019, respectively. The fair value of the shares and warrants issued was \$3,921,725 and \$1,078,275, respectively. The value of the warrants was estimated using the Black-Scholes option pricing model with the following weighted average assumptions used for grants as follows: dividend yield of 0%, expected volatility of 101%, risk free interest rate between 1.50% and 1.57% and expected life of 2 years. Share issuance costs of \$234,092 were incurred to complete the financing.
- [c] As at December 31, 2017, 900,000 [2016 – 900,000] issued common shares are being held in escrow, subject to certain production thresholds for the NICO property.
- [d] During 2016, the Company issued 43,821,427 shares through subscription agreements and one flow-through agreement. The subscription agreements were entered into on March 9, April 8, August 5 and August 15 for 14,285,714 (\$0.035 per share), 14,285,713 (\$0.035 per share), 10,000,000 (\$0.10 per unit) and 2,500,000 (\$0.10 per unit), respectively, raising gross proceeds of \$500,000, \$500,000, \$1,000,000 and \$250,000, respectively. The units issued on August 5 and August 15 consisted of one common share and one half of a common share purchase warrant. One warrant entitles the holder to purchase one common share of the Company for \$0.15 for a period of one year following the closing date. These units have all been exercised or expired during 2017. The Company entered into a flow-through agreement on October 28 to issue 2,750,000 shares at a price of \$0.16 per share raising gross proceeds of \$440,000.

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

ii. Share Purchase Warrants

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

	2017		2016	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Warrants outstanding, beginning of year	12,701,033	\$ 0.22	6,286,033	\$ 0.28
Issue of warrants [notes 5i.[a] and [b]]	27,605,880	0.30	6,415,000	0.15
Exercise of warrants [note 5ii.[a]]	(5,386,250)	0.15	—	—
Expiry of Warrants [note 5ii.[a]]	(7,149,783)	0.25	—	—
Warrants outstanding, end of year	27,770,880	\$ 0.30	12,701,033	\$ 0.22

[a] During the year ended December 31, 2017, 5,386,250 warrants with an exercise price of \$0.15 were exercised raising gross proceeds of \$807,937. These warrants had a book value of \$170,996. During the year ended December 31, 2017, 7,149,783 warrants with an exercise price between \$0.15 and \$0.40 expired unexercised. These warrants had a book value of \$512,861.

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

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

	2017		2016	
	Class A	Class B	Class A	Class B
Derivatives outstanding, beginning of year	14,140,493	50,365,661	12,705,153	43,830,066
Exercise of derivatives	(1,946,296)	—	—	—
Adjustment as a result of General Offering	—	1,352,379	1,435,340	6,535,595
Shares outstanding, end of year	12,194,197	51,718,040	14,140,493	50,365,661

The exercise price for Class A and Class B warrants were \$0.133 [2016 - \$0.133] and \$0.208 [2016 - \$0.214], respectively, at December 31, 2017 and 2016.

On December 6, 2017 and December 18, 2017, 689,781 and 1,256,515 Class A warrants, respectively, were exercised with an exercise price of \$0.133 raising gross proceeds of \$258,857. Subsequent to year end 3,709,901 Class A warrants were exercised with an exercise price of \$0.133 raising gross proceeds of \$493,417.

The determination of the fair value of the resulting derivative requires the Company to make a number of assumptions and estimates regarding the inputs into the model used to determine the value of the warrants. These assumptions will change from time to time and the impact on the resulting change will be reflected in the Consolidated Statements of

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

Loss and Comprehensive Loss. Small changes to the inputs into the model can have a substantial impact on the value of the warrants. A change in the warrant unit value of approximately 10%, or less than \$0.02 [2016 - \$0.01], will result in the value of the derivative changing by approximately \$1,490,000 [2016 - \$615,000].

iii. Nature and Purpose of Equity and Reserves

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

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

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

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

6. STOCK-BASED COMPENSATION

The Company has a fixed stock-based compensation plan, approved by the shareholders at the Company's annual meeting held on June 22, 2005. The plan was most recently confirmed and approved at the Company's annual meeting held on June 21, 2017. Under the plan, the Company may grant options to eligible individuals for up to 10% of the issued and outstanding common shares, subject to certain conditions. As at December 31, 2017, the Company has 14,294,332 [2016 – 11,749,901] options available for grant in addition to any options issued and outstanding. The exercise price of each option is equal to or higher than the market price of the Company's stock on the date of grant. The plan does not provide for a maximum term. Options are granted and their terms determined at the discretion of the Board of Directors.

The Company recognizes an expense for option awards using the fair value method of accounting based on the Black-Scholes model. The expense is capitalized to a similar extent as the optionee's salary, wages or fees are capitalized. The Black-Scholes model used by the Company to calculate option and warrant values as well as other accepted option valuation models, was developed to estimate fair value of freely tradable, fully transferable options and warrants, which significantly differ from the Company's stock option awards. These models also require four highly subjective assumptions, including future stock price volatility and expected time until exercise, which greatly affect the calculated values. Due to the number of estimates involved, it is likely that the actual fair value of the options will differ from what has been recorded in the financial statements.

The estimated fair value of 3,700,000 and 12,400,000 options granted and vested during the year ended December 31, 2017 and 2016, respectively, has been allocated to investor relations and regulatory fees, stock-based compensation expense, corporate development costs, exploration and evaluation expenditures and capital assets in the amounts of \$7,500 [2016 – Nil], \$322,920 [2016 - \$394,250], \$62,100 [2016 – Nil], \$104,190 [2016 - \$105,940] and \$14,490 [2016 – \$20,390],

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

respectively. The other reserves balance was increased by \$511,200 [2016 – \$520,580], representing the fair value of the options issued. The options granted during the year ended December 31, 2017 have a maximum term of between two and five years and all vested immediately, except for 50,000 options which vest on June 14, 2018 and 50,000 options which vest on December 14, 2018. The value of the options was estimated using the Black-Scholes option pricing model with the following weighted average assumptions used for grants as follows: dividend yield of 0%, expected volatility between 101.40% and 105.43%, risk free interest rate between 0.95% and 1.62% and expected life between 1.83 and 4.58 years. The options granted during the year ended December 31, 2016 have a maximum term of between three and five years and all vested immediately except for 3,750,000 options which vested on September 16, 2016. The value of the options was estimated using the Black-Scholes option pricing model with the following weighted average assumptions used for grants as follows: dividend yield of 0%, expected volatility between 100.98% and 121.83%, risk free interest rate between 0.54% and 0.75% and expected life between 3 and 5 years.

A summary of the status of the Company's stock option plan as at December 31, 2017 and December 31, 2016, and changes during the years ended on those dates are presented below:

	<u>December 31, 2017</u>		<u>December 31, 2016</u>	
	Number of shares	Weighted-average exercise price	Number of shares	Weighted-average exercise price
	#	\$	#	\$
Options outstanding, beginning of period	15,340,000	0.14	3,970,000	0.61
Granted	3,800,000	0.19	12,400,000	0.06
Expired or cancelled	(90,000)	0.84	(1,030,000)	0.95
Options outstanding, end of year	19,050,000	0.15	15,340,000	0.14
Options vested and outstanding, end of year	18,950,000	0.15	15,340,000	0.14

The following tables summarize information about the options outstanding as at December 31, 2017 and 2016:

<u>December 31, 2017</u>				
Range of exercise prices	Number outstanding	Number vested and outstanding	Weighted average exercise price – all [i]	Weighted average remaining contract life – all [i]
\$	#	#	\$	years
Nil – 0.49	17,730,000	17,630,000	0.11	2.13
0.50 – 0.99	1,320,000	1,320,000	0.60	0.09
	19,050,000	18,950,000		

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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

December 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	13,930,000	13,930,000	0.09	2.5
0.50 – 0.99	1,410,000	1,410,000	0.62	1.0
	15,340,000	15,340,000		

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

Subsequent to year end, 1,000,000 options with an exercise price of \$0.05 and 250,000 options with an exercise price of \$0.185 were exercised raising gross proceeds of \$96,250. On February 1, 2018, 1,320,000 options with an exercise price of \$0.60 expired unexercised.

7. PROVISION FOR ENVIRONMENTAL REHABILITATION AND SECURITY DEPOSITS

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

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

	December 31, 2017	December 31, 2016
NICO Project		
Provision for environmental rehabilitation [i]	\$33,545	\$23,409
Estimated remaining life	20 years	21 years
Discount rate	9%	9%
Total provision for environmental rehabilitation	\$33,545	\$23,409

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

[i] During the year ended December 31, 2017 the reclamation security deposit for the NICO project was increased by \$45,000 [2016 – decreased by \$68,000]. As a result, the provision for environmental rehabilitation has been adjusted to reflect this increase.

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>December 31, 2017</u>	<u>December 31, 2016</u>
	Deposit amount \$	Deposit amount \$
NICO Project	188,976	143,260
Arctos Anthracite Project	25,000	25,000
Total Net Book Value	213,976	168,260

The security for the reclamation of the Arctos Anthracite Project is held in the Arctos JV. As at December 31, 2017, the security deposit amount in the Arctos JV was \$25,000 [December 31, 2016 - \$25,000]. The Company expects this amount to be released once the Province has completed its site inspection.

In July 2017, the security for the reclamation of the NICO project was increased by \$45,000 as a result of additional work completed under an existing Land Use Permit.

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

8. CAPITAL ASSETS

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

The assets are amortized at the following rates:

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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

Capital assets consist of the following:

	Computer equipment \$	Furniture and fixtures \$	Software \$	Total \$
Cost				
As at December 31, 2016	194,138	117,216	316,646	628,000
As at December 31, 2017	194,138	117,216	316,646	628,000
Accumulated amortization				
As at December 31, 2016	169,282	93,109	263,364	525,755
Amortization for the year	7,457	4,821	18,649	30,927
As at December 31, 2017	176,739	97,930	282,013	556,682
Net book value				
As at December 31, 2016	24,856	24,107	53,282	102,245
As at December 31, 2017	17,399	19,286	34,633	71,318

9. 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.

10. LONG-TERM DEBT

The Company has \$8.75 million unsecured debentures outstanding as of December 31, 2017. The debentures have a term of seven years maturing on August 12, 2022, bear interest at 5% per annum, compounding semi-annually and both principal and interest are payable at maturity.

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

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

	2017	2016
Debentures at maturity	\$ 8,750,000	\$ 8,750,000
Loan discount	(3,487,402)	(3,979,503)
Accrued interest on debentures	1,111,232	636,165
	<u>\$ 6,373,830</u>	<u>\$ 5,406,662</u>

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

- The merger, amalgamation, combination, consolidation, tender for the shares of or similar business transaction whereby its creditors are not the holders, directly or indirectly, of a majority of the voting securities or its ultimate controlling person immediately after such closing;
- The sale of all or substantially all of its assets, other than to a wholly-owned subsidiary or to a NICO Joint Venture;
- The creation, incurrence, assumption or suffering to exist, or otherwise becoming liable for any indebtedness on terms that are less advantageous to the Company or causing any material asset of the Company to be posted as collateral or security, unless all net proceeds of such indebtedness are applied to explore, develop, construct, operate or otherwise advance the NICO project;
- The repurchase of equity or the declaration of dividends or distributions of any kind; and
- The settlement of any litigation, arbitration, or administrative proceeding in relation to the NICO project for an amount in excess of \$125,000.

The loan balances have been recorded at their net present value at an effective interest rate of 18%. For the year ended December 31, 2017, \$492,101 [2016 - \$419,604] of loan discount was amortized using the effective interest rate method.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table illustrates the classification of the Company's financial instruments within the fair value hierarchy as at December 31, 2017 and 2016:

	December 31, 2017		
	Level 1	Level 2	Level 3
	\$	\$	\$
Cash and cash equivalents	8,524,567	—	—
Long-term debt	—	—	6,373,830
Derivatives	—	—	14,931,779

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

	December 31, 2016		
	Level 1	Level 2	Level 3
	\$	\$	\$
Cash and cash equivalents	940,071	—	—
Long-term debt	—	—	5,406,662
Derivatives	—	—	5,819,694

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 December 31, 2017 and 2016. Payments due by year are as follows:

	December 31, 2017		
	Total	2018	2022
Accounts payable and accrued liabilities	\$ 506,451	\$ 506,451	\$ —
Long-term debt	8,750,000	—	8,750,000
Accrued interest on debentures	3,613,518	—	3,613,518
	<u>\$ 12,869,969</u>	<u>\$ 506,451</u>	<u>\$ 12,363,518</u>

	December 31, 2016		
	Total	2017	2022
Accounts payable and accrued liabilities	\$ 139,521	\$ 139,521	\$ —
Long-term debt	8,750,000	—	8,750,000
Accrued interest on debentures	3,613,518	—	3,613,518
	<u>\$ 12,503,039</u>	<u>\$ 139,521</u>	<u>\$ 12,363,518</u>

12. INCOME TAXES

The Company has non-capital loss carryforwards totaling \$44,000,000 [2016 - \$35,850,000], net capital loss carryforwards of \$17,843,000 [2016 - \$17,385,000], un-deducted debt and share issuance costs of \$843,000 [2016 - \$392,000] and unused investment tax credits on pre-production mining costs of \$1,975,000 [2016 - \$2,779,000]. The non-capital losses will begin to expire in 2026. The Company has completed feasibility studies for its principal project and undertaken related permitting and financing activities. The benefit of certain non-capital losses and undeducted share issuance costs has been recorded in the consolidated financial statements only to

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

the extent of existing taxable temporary differences. The potential benefits of these carry-forward non-capital losses, capital losses, and other deductible temporary differences have not been recognized in these financial statements as it is not considered probable that sufficient future taxable profit will allow the deferred tax asset to be recovered. A valuation allowance of \$15,480,000 [2016 - \$15,372,000] has been recognized related to the uncertainty of realizing the benefit of deferred income tax assets in future years.

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

	December 31, 2017 \$	December 31, 2016 \$
Deferred income tax assets		
Net operating loss carryforwards	11,720,000	9,554,000
Undeducted debt and share issuance costs [i]	225,000	105,000
Unused investment tax credits on pre-production costs	1,975,000	2,779,000
Tax value of exploration and evaluation expenditures and capital assets in excess of book value	1,560,000	2,934,000
	15,480,000	15,372,000
Less valuation allowance related to operating losses, share issuance costs and unused investments tax credits	(15,480,000)	(15,372,000)
Deferred income tax assets	—	—

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

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

	December 31, 2017 \$	December 31, 2016 \$
Combined federal and provincial income tax rate	26.71%	26.68%
Corporate income tax recovery at statutory rate	(3,251,000)	(2,101,000)
Increase (decrease) in income taxes resulting from		
Non-deductible stock-based compensation and other expenses	268,000	217,000
Non-deductible change in fair value of derivative	2,434,000	1,448,000
Renunciation of flow-through expenses	116,000	53,000
Rate difference	25,500	40,000
Non-taxable flow-through share premium	(10,750)	—
Investment tax credits on pre-production mining costs, net of tax	—	(13,000)
Tax value of loss carryforwards not recognized	418,250	356,000
	—	—

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

13. MANAGEMENT OF CAPITAL

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

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

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

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

14. RELATED PARTY TRANSACTIONS

For the year ended December 31, 2017, the Company paid key management personnel including officers, directors or their related entities for consulting services and/or management services.

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

	December 31, 2017	December 31, 2016
	\$	\$
Salaries and benefits	21,227	6,722
Consulting services	815,776	389,200
Legal services	163,632	141,000
Fair value of stock options granted	441,600	439,000
	1,442,235	975,922

As at December 31, 2017, \$77,250 [December 31, 2016 - \$17,270] was owing to key management personnel for services provided during the year.

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

15. LOSS PER SHARE

Basic loss per share is calculated by dividing net loss for the year by the weighted average number of common shares outstanding in each respective year. Diluted loss per share reflects the potential dilution of securities by adding other common stock equivalents in the weighted average number of common shares outstanding during the year, if dilutive.

For calculating diluted loss per share, for the year ended December 31, 2017, there were 16,050,000 [2016 – 10,400,000], 165,000 [2016 – Nil] and 63,912,237 [2016 – Nil] weighted average options, warrants and derivative warrants outstanding, respectively, with an exercise price less than the average market price but these were excluded from the fully diluted loss per share computation because inclusion would have been anti-dilutive.

	December 31, 2017	December 31, 2016
Net loss	\$ (12,148,529)	\$ (7,874,646)
Weighted average number of common shares	297,385,408	254,558,843
Basic and fully diluted loss per share	\$ (0.04)	\$ (0.03)

16. CONSOLIDATED STATEMENTS OF CASH FLOWS

Supplemental cash flow information for the year ending:

	December 31, 2017 \$	December 31, 2016 \$
Interest and investment income received	38,529	2,566

17. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET IN EFFECT

i. Future accounting standards

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

- IFRS 9 Financial Instruments – effective for the December 31, 2018 year end. This standard is not expected to have much impact on the Company as it currently has very simple financial assets.
- IFRS 15 Revenue from Contracts with Customers – effective for the December 31, 2018 year end. The Company currently has no revenue stream as it is still in the exploration

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

and evaluation stage. As it evolves out of that stage, the Company will have a closer look at how this standard will impact how it recognizes revenue.

- IFRS 16 Leases – effective for the December 31, 2019 year end. The Company, in its current form, has minimal leases that would be impacted by this standard. However, as it moves into the production phase, which it expects to achieve by the implementation date, all leases will be reviewed to assess their impact.