FORTUNE MINERALS LIMITED

2015 Annual Financial Report

Management's Discussion and Analysis and Consolidated Financial Statements

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Year ended December 31, 2015

This Management's Discussion and Analysis of Financial Conditions and Results of Operations ("MD&A") of Fortune Minerals Limited ("Fortune" or the "Company") is dated March 30, 2016 and should be read in conjunction with the Company's Annual Audited Consolidated Financial Statements and the notes thereto for the year ended December 31, 2015, prepared in accordance with International Financial Reporting Standards ("IFRS"). This discussion contains certain forward-looking information and is expressly qualified by the cautionary statement at the end of this MD&A. All dollar amounts are presented in Canadian dollars unless indicated otherwise. Unless the context otherwise requires, the terms "Fortune" and "the Company" where used herein refer to Fortune Minerals Limited and its subsidiaries on a consolidated basis.

SELECTED ANNUAL INFORMATION

	2015	2014	2013
Net loss from continuing operations	(10,808,454)	(7,037,400)	(44,331,418)
Basic and fully diluted loss per common share	(0.19)	(0.06)	(0.33)
Total assets	67,958,584	181,909,638	114,491,206
Debt - current	—	68,350,603	2,999,526
Debt - non-current	4,350,893	—	—

SUMMARY OF QUARTERLY RESULTS

The following table provides selected consolidated financial information that is derived from the unaudited interim consolidated financial statements and audited consolidated financial statements of the Company.

	2015				2014			
	Dec-31	**Sep-30**	**Jun-30**	**Mar-31**	**Dec-31**	**Sep-30**	**Jun-30**	**Mar-31**
Net gain (loss) (1)	3,302,635	(45,140,537)	(3,958,732)	4,626,407	(6,950,468)	(1,354,055)	(1,454,488)	(1,257,196)
Basic and fully diluted loss per common share(2)	0.01	(0.20)	(0.02)	0.02	(0.03)	(0.01)	(0.01)	(0.01)

Notes:

(1) Interest and other income is included in other items on the consolidated statements of net loss, comprehensive loss, and deficit.
(2) The sum of quarterly loss per common share for any given period may not equal the year-to-date amount due to rounding.

OVERVIEW

Fortune's vision is to be a recognized expert in developing, mining and processing precious and specialty minerals projects. Supporting the vision is Fortune's mission to profitably produce precious and specialty metals to meet the needs of our customers and partners by attracting and developing an exceptional team of people motivated to acquire, explore, develop, mine and reclaim resource properties in a safe and responsible manner.

The Company's most significant development asset is its wholly owned NICO gold-cobalt-bismuth-copper project in the Northwest Territories ("NICO") and the related refinery proposed to be constructed near Saskatoon, Saskatchewan.

Fortune has experienced personnel focused on advancing the NICO project towards commercial production, while also minimizing the risks associated with its development. Fortune is committed to developing its project in a socially and environmentally responsible manner. Fortune has received Bronze Level recognition for its work in Progressive Aboriginal Relations ("PAR") by the Canadian Council for Aboriginal Business ("CCAB"). The PAR program is the first and only corporate responsibility assurance program in the world with an emphasis on aboriginal relations. The Company is committed to open and constructive dialog with aboriginal communities and will continue to make every effort to increase aboriginal employment and business through its human resources and supply chain policies.

NICO Project

Fortune continues to advance its wholly-owned NICO project and the Company's business activities have been focused on certain priority critical path activities required to advance permitting and financing for this development. The NICO project is comprised of a proposed mine and mill in the Northwest Territories as well as its related hydrometallurgical process facility in Saskatchewan, the Saskatchewan Metals Processing Plant ("SMPP") as contemplated by a technical report entitled "*Technical Report and Updated Mineral Reserve Estimate and Front-End Engineering & Design (FEED) Study on the NICO Gold-Cobalt-Bismuth Deposit, Mazenod Lake Area, Northwest Territories, Canada*" dated July 2, 2012 (the "2012 FEED Study") filed on SEDAR at www.sedar.com by the Company under National Instrument 43-101.

An updated feasibility study report was also prepared in order to document a number of improvements that had been made to the NICO project since the 2012 FEED Study had been completed. The report updates the economics for the project from the 2012 FEED Study and a technical report reflecting the updated feasibility study dated May 5, 2014, prepared by Micon International and entitled "*Technical Report on the Feasibility Study for the Nico Gold-Cobalt-Bismuth-Copper Project, Northwest Territories, Canada*" was filed on SEDAR at www.sedar.com by the Company under National Instrument 43-101.

In support of permitting and financing initiatives for NICO, the Company undertook the following activities during the year ended December 31, 2015:

- Held various meetings and discussions with local communities and stakeholders near the future SMPP site;
- Continued to review alternate locations for process residue storage for the SMPP in Saskatchewan to address community concerns;
- Continued to hold various meetings and discussions with representatives from the Tlicho communities and Tlicho Government to achieve an Access Agreement and an Impact and Benefit Agreement ("IBA");
- Continued to hold discussions with the Government of the Northwest Territories including in relation to a socio-economic agreement and funding for the all-weather access road which is critical in determining the construction schedule for the project;
- Continued discussions with potential partners interested in helping finance the NICO Project; and,
- Continued discussions with companies interested in acquiring off-take for the metals and chemicals Fortune plans to produce from the NICO project.

Revenue Silver Mine

On October 1, 2014, Fortune Revenue Silver Mines, Inc. ("Fortune Revenue"), a then wholly-owned subsidiary of Fortune, completed the purchase of a 100% ownership interest in the Revenue Silver Mine (the "RSM"), a proposed silver mine located in southwestern Colorado in the late stages of commissioning.

In order to finance the acquisition and operations of the RSM, the Company entered into a General Corporate Facility agreement ("the General Corporate Facility") with LRC-FRSM LLC ("LRC") during the third quarter of 2014 for $US4 million. This $US4 million bridge loan supported the Company's short-term working capital requirements and the advancement of near-term capital improvements required at the mine.

On October 1, 2014, the Company entered into a second facility with LRC, a Senior Secured Metal Prepay Facility ("the Metal Prepay Facility"), which resulted in the Company receiving total financing of $US35 million. The first tranche of $US25 million was received on October 1, 2014 and the second tranche of $US10 million was received on October 16, 2014. The Company used the funding from the first tranche to repay the General Corporate Facility, fund the RSM acquisition, including amounts owing to the previous owner of the mine, make capital investments to improve the mine operations, and provide working capital.

The Metal Prepay Facility was amended on December 22, 2014, February 12, 2015 and March 25, 2015, resulting in an aggregate of an additional $US16 million of working capital being received by Fortune Revenue.

On July 1, 2015, the Company received notice from LRC that events of default had occurred under the Metal Prepay Facility. The notice from LRC declared all amounts and deliveries owing under the Metal Prepay Facility to be immediately due and payable. Fortune Revenue's obligations under the Metal Prepay Facility were secured by all of its assets and guaranteed by the Company and certain of its other subsidiaries, including Fortune Minerals NWT Inc. ("Fortune NWT") and Fortune Minerals Saskatchewan Inc. ("Fortune Saskatchewan"), which also granted LRC security over their respective assets.

On July 17, 2015 the Company entered into a Master Restructuring Agreement ("Restructuring Agreement") with LRC and its other secured creditors to settle its secured debt obligations. The Restructuring Agreement was subsequently amended on August 12, 2015. The restructuring has been completed in two stages as summarized below:

Stage 1 – Completed on July 17, 2015

- Fortune contributed to the capital of Fortune Revenue all intercompany indebtedness owing by Fortune Revenue to Fortune and transferred all of the shares of Fortune Revenue to LRC; Fortune Revenue was subsequently renamed Ouray Silver Mines, Inc. ("Ouray")
- All obligations of Fortune and its Canadian subsidiaries under the LRC short term facility have been released
- Ouray paid US$200,000 to Fortune
- Fortune agreed to provide certain purchasing, logistics and operations transition services to Ouray and LRC to assist in the operation of the RSM

Stage 2 – Completed on August 12, 2015

- Fortune 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 Fortune common share 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 Fortune common share 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 Fortune
- All remaining security in Fortune's assets and its subsidiaries' assets held by LRC under the Metal Prepay Facility and by the other secured creditors was released and discharged.

As a result of the Restructuring Agreement, Fortune no longer has an interest in the RSM.

Arctos Project

On July 13, 2011, the Company and FCL, a wholly-owned subsidiary of the Company, entered into an agreement [the "Agreement"] with POSCO Canada Ltd. ["POSCAN"] and POSCO Klappan Coal Limited ["POSCO Klappan"], a wholly-owned subsidiary of POSCAN, to advance Arctos to production through an unincorporated joint venture, the Arctos JV, with FCL and POSCO Klappan having respective ownership interests of 80% and 20%, respectively.

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 for $18,308,000.

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 for $308,000. 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.

The Company's share of the net proceeds were $9,000,000 resulting in a net loss of $8,670,539 on disposal of the Company's interest in the underlying assets of Arctos. This loss also includes $257,754 of costs incurred to reclaim the property offset by the proceeds received from the reclamation security deposit.

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, 2015.

The Company used its $9 million share of the funds from this transaction to satisfy its obligation under the Metal Prepay Facility to contribute US$ 5 million in capital support for the RSM, for working capital and to repay debt.

RESULTS OF 2015 OPERATIONS

Summary

The Company's net loss for the year ended December 31, 2015 was $41,170,227 or $0.19 per share compared to $11,016,207 or $0.06 per share for the prior year.

Expenses

Expenses increased to $12,063,954 compared to $8,149,400 for the years ended December 31, 2015 and 2014, respectively.

The increase year over year is primarily attributable to the following:

- On May 1, 2015, received net proceeds of $9,000,000 on the sale of the Arctos assets resulting in a net loss of $8,670,539 on disposal of the Company's interest in the underlying assets of Arctos. This loss also includes $257,754 of costs incurred to reclaim the property offset by the proceeds received from the reclamation security deposit.

- During the year, the Company entered into agreements with third parties to sell all of its remaining assets from the Golden Giant Mine equipment for proceeds of $473,876. The total book value of these assets was $1,670,812 resulting in a loss on sale of assets of $1,196,936.
- During the year ended December 31, 2015, the Company closed its Yellowknife office and sold the furniture and office equipment for proceeds of $1,200 resulting in a loss of $757. Additional assets at the Company's corporate office were sold for proceeds of $825 resulting in a loss of $1,379.

The above increase if year over year is partially offset by the following:

- Decrease in administrative expenditures primarily as a result of the Company downsizing and cost saving measures.
- Decrease in investor relations due to cost saving measures.
- Decrease in stock-based compensation expense as a result of no stock options being granted in 2015.
- Decrease in accretion expenses as a result of the sale of the Arctos project and no longer needing to record adjustments to the long term contribution payable to the AAJV/POSCO.
- A gain on flow-through share premium of $71,091 was recognized in the year ended December 31, 2015 as a result of expenditures incurred in that period that were previously renounced through flow-through shares issued in 2014. The gain was calculated as the difference between the market price of the Company's shares on the day the flow-through financings closed and the price that the investors paid for the shares.
- Fortune has an operating bank account in United States dollars ("$US") to pay certain US vendors and to receive $US payments as well as to manage the timing of conversion of Canadian dollars ("$C") to $US, or vice versa. The foreign exchange gain from converting $US balances in Fortune to $C at December 31, 2015 was $382,419 (December 31, 2014 - loss of $96,042). Currency translation adjustment for the year ended December 31, 2015 was ($1,571) compared with ($452) for the same period in 2014.

Below is a summary of the estimated fair value of stock options granted for the years ended December 31, 2015 and 2014:

	2015	2014
Options granted during the year	—	2,950,000
Total estimated fair value	—	$533,760
Average fair value per option	—	$0.18
Allocated to:		
Stock-based compensation expense	—	$307,220
Exploration and development expenditures	—	$210,610[(1)]
Capital assets within mining properties	—	$15,930

(1) In 2014 the Company recovered $20,586 of this value, representing POSCAN's 20% share in the Arctos JV.

Deferred Taxes

The Company recognized a deferred income tax recovery of $1,255,500 for the year ended December 31, 2015 compared to $1,112,000 for the same period in 2014. The 2015 deferred income taxes results from recognition of $11,719,000 from the estimated tax loss and $49,000 for other expenses. The net recovery includes a provision of $9,745,000 for a loss carryforward not recognized and $767,500 for non-deductible stock-based compensation, renunciation of flow-through expenses and other expenses. During the same period in 2014, the deferred income tax net recovery of $1,112,000 resulted primarily from a recognition of $3,220,000 from the estimated tax loss, $428,000 due to tax rate difference and $193,000 for investment tax credits on pre-production mining expenditures recorded during the period. The net recovery included a provision of $2,591,000 for a loss carryforward not recognized and $139,000 for non-deductible stock-based compensation and other expenses. A valuation allowance of $24,124,000 has been recognized related to the uncertainty of realizing the benefit of deferred income tax assets in future years.

Cash Flow

Cash used in operating activities during the year ended December 31, 2015 was $6,952,134 compared to $5,034,506 for the same period in 2014. The use of cash in operating activities, before changes in non-cash working capital, is primarily related to expenditures related to RSM prior to the Restructuring Agreement offset by the decrease in expenditures as discussed above in the "Expenses" section.

Cash used in activities was $8,707,923 compared to cash used in investing activities of $54,611,567 when comparing the year ended December 31, 2015 to 2014. This change is primarily due to proceeds received in the year on the sale of Arctos and other assets, offset by cash invested in a subsidiary prior to discontinuing operations. In the prior year, cash was used for the acquisition of the RSM, which incurred significant mine development costs. Exploration and evaluation expenditures have decreased from $4,197,126 in 2014 to $562,664 in 2015 due to reduced spending pending further financing and additional clarity from the Government of the NWT on its plans for construction of an all-weather road.

The NICO and Arctos projects, along with other exploration projects of the company are classified as exploration and evaluation stage projects for accounting purposes. Exploration and evaluation cash expenditures incurred by Fortune on its properties during the three and twelve months ended December 31, 2015 were $101,222 and $562,664 respectively, and were spent on the projects as follows:

	Three months ended December 31, 2015	**Twelve months ended December 31, 2015**

NICO	$ 101,222	$ 442,164
Arctos	—	117,697
All Other Projects	—	2,803
Total cash exploration and evaluation expenditures	$ 101,222	$ 562,664

For comparison, exploration and evaluation expenditures incurred by Fortune on its properties during the three and twelve months ended December 31, 2014 were $195,937 and $4,197,126, respectively, and were spent on the projects as follows:

	Three months ended December 31, 2014	**Year ended December 31, 2014**
NICO	$ 214,246	$ 2,660,155
Arctos	(18,309)	1,533,865
All Other Projects	—	3,106
Total cash exploration and evaluation expenditures	$ 195,937	$4,197,126

Exploration and evaluation expenditures for the three and twelve months ended December 31, 2015 were lower compared to the same period in 2014, as a result of decreased expenditures on both Arctos and NICO. With respect to NICO, the Company has reduced spending pending further financing and additional clarity from the Government of the NWT on its plans for construction of an all-weather road.

Cash provided by financing activities decreased to $9,585,207 from $52,706,468 for the year ended December 31, 2015. Cash provided in 2015 was as result of $472,431 received from a private placement effective April 1, 2015 and $200,000 from a flow-through offering during the quarter, offset by financing costs. More details are provided in below in the “Liquidity and Capital Resources” section.

Below is a summary of common shares issued and net cash proceeds from financing activities for the years ended December 31, 2015 and 2014:

	2015		2014	
	Shares/Warrants Issued	Cash Proceeds and Costs, Net	Shares/Warrants Issued	Cash Proceeds and Costs, Net
	#	$	#	$
Common shares issued during the year				
Private offerings	10,905,400	758,499	13,551,204	4,587,148
Shares as consideration	1,350,000		50,744,000	
Share issuance costs	-	(40,763)	-	(82,026)
Total	**12,255,400**	**717,736**	**64,295,204**	**4,505,122**
Average proceeds per share issued		**0.06**		**0.07**

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2015, Fortune had cash and cash equivalents of $144,835 and a working capital deficit of $58,548. Of the total consolidated cash, $859 represents Fortune's 50% share of cash from the AAJV.

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

Contractual Obligations	*Payments Due by Period*				
	Total	*Less than 1 year*	*1 - 3 years*	*4 - 5 years*	*After 5 years*
Long-term debt	**8,750,000**	—	—	—	8,750,000

Contractual Obligations	*Payments Due by Period*				
	Total	***Less than 1 year***	***1 - 3 years***	***4 - 5 years***	***After 5 years***
Interest on Long-term debt	**183,790**	—	—	—	183,790
Provision for Environmental Rehabilitation	**31,688**	—	—	—	31,688
Total Contractual Obligations	**8,965,478**	—	—	—	**8,965,478**

The long-term debt represents unsecured debentures in the principal amount of C$5 million to LRC and C$3.75 million to the other secured creditors which Fortune issued as part of the Restructuring Agreement discussed above. The debentures have a term of seven years maturing on August 12, 2022, bear interest at 5% per annum, compounding semi-annually, and both principal and interest are payable at maturity. The loan balances have been recorded at their net present value using an effective interest rate of 18%.

The Company regularly reviews its planned activities relative to available funding and prioritizes activities based on what is required to complete critical path activities and budgets accordingly. The Company invests its surplus cash in low risk, liquid investments, which typically have low yields but hold their value during times of market uncertainty.

The NICO project requires further funding to advance the project through to production.

In addition to contractual obligations noted, non-discretionary budget commitments required to keep current mining leases for NICO in good standing consist of annual payments of $12,700 plus an additional $2,715 for water licenses.

The Company's current environmental reclamation obligations as defined by government regulators are fully secured by cash held in accounts with a large Canadian financial institution for NICO and Arctos. As indicated above, additional financing is required to construct mine infrastructure and processing facilities, to acquire additional equipment for the NICO project. Potential sources for future funding include but are not limited to equity financing, project financing, off-take and royalty agreements, additional strategic partnerships, mergers and acquisitions. The Company continues to evaluate its alternatives with a view to executing a financing plan suitable to fund its transformation into a producer and minimize potential dilution to shareholders.

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 may cast significant doubt about the Company's ability to continue as a going concern. Management is continually pursuing and considering various financing opportunities. The Company has historically been successful in financing its activities, however, there are no assurances that it will be successful in raising future funds required.

OUTLOOK

The Company's principal objective is to achieve successful development and financing of the NICO project. The Company's activities in pursuit of its objectives are subject to many risks as discussed under the heading "Risks and Uncertainties" section below. The most significant risks to meeting its objectives for NICO continues to be permitting and financing. These risks arise primarily from external parties such as government regulators, First Nations and investors who have significant influence over the outcome of the Company's efforts and external factors such as commodity prices, economic conditions and the financial markets. Accordingly, management has sought and continues to seek proactive ways to address risks in its business model and has developed appropriate strategies to move forward by focusing expenditures on critical path activities in a socially and environmentally responsible manner.

Major milestones to achieve on the path forward for the development of the NICO mine site and SMPP include:

- work with governments to achieve certainty on the road funding and construction schedule which will determine the mine construction schedule;
- complete re-zoning followed by the receipt of all necessary environmental licenses and permits for the SMPP site in Saskatchewan;
- completing an agreement with the Tlicho Government for the NICO access road and an IBA;
- identifying and engaging strategic partners to support the development of the NICO project site and the SMPP, by helping to arrange or provide some or all of the project financing, evaluating potential transactions and ultimately entering into a strategic arrangement suitable to the Company;
- completing road construction agreements and site preparation plans, including construction of laydown areas to receive equipment and material required for early work construction; and
- continue detailed engineering and procurement activities once financing is secured.

In the year ending December 31, 2015, the Company focused on continued dialogue with key parties including the Tlicho for developing mutually beneficial agreements, and worked to identify and advance opportunities to develop additional strategic partnerships. The Company has made significant progress towards achieving its milestones through the Procon strategic investment, the Federal and Tlicho government approvals for the NICO mine and mill, receipt of the land use permit and Type A water licence for the NICO site, and the ministerial approval of the SMPP, which will allow the Company to complete the process of rezoning its land with the Rural Municipality of Corman Park, Saskatchewan.

Activities undertaken during 2015 towards achieving the next major milestones for the NICO project will remain the Company's focus through 2016. As it pursues this objective, the Company will strive to prudently manage capital resources and mitigate risks.

TRANSACTIONS WITH RELATED PARTIES

During the year ended December 31, 2015, the Company paid key management personnel, including officers, directors, or their related entities, an aggregate of $1,012,269 for consulting and/or management services and legal services. At December 31, 2015, $97,964 was owing to these related parties for services received during the period.

The following table summarizes the amounts paid and payable to related parties and the nature of the payments as at December 31, 2015:

Related Party	Relationship	Business Purpose of Transaction						Total	
		Salaries and Benefits [5]		Consulting Services		Legal Services			
		Paid	Payable	Paid	Payable	Paid	Payable	Paid/Awarded	Payable
Clouter, Carl [1]	Director	$ -	$ -	$ 44,000	$ 4,000	$ -	$ -	$ 44,000	$ 4,000
Goad, Robin [2]	President & CEO, Director	4,481	-	325,000	-	-	-	329,481	-
Jean, Adam [3]	VP Finance & CFO	48,967	-	-	-	-	-	48,967	-
Knight, David [4]	Director, Corporate Secretary	-	-	-	-	375,500	93,964	375,500	93,964
Romaniuk, Mike	VP Operations & COO	214,321	-	-	-	-	-	214,321	-
Total		$ 267,769	$ -	$ 369,000	$ 4,000	$ 375,500	$ 93,964	$ 1,012,269	$ 97,964

[1] Carl Clouter is President of Clouter Enterprises Limited which provides professional services to the Company.

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

[3] Adam Jean resigned as Vice President Finance and Chief Financial Officer of the Company effective January 31, 2015.

[4] David Knight is a partner with the law firm Norton Rose Fullbright Canada LLP, which provides legal services to the Company. Mr. Knight resigned as a director on September 23, 2015 but remains as Corporate Secretary.

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

CRITICAL ACCOUNTING ESTIMATES

Mining Properties Valuation

The Company continues to consider, on a regular basis, whether indicators exist that suggest that the carrying value of its projects is impaired for accounting purposes. While the market capitalization relative to the carrying value of the Company's projects is reviewed, it is not considered a sole indication of impairment. Given the Company's stage of development and the volatility of the market, using the share price as a sole indication of impairment is not practical, although the Company does monitor the magnitude of the gap between its market capitalization and the project carrying values. At December 31, 2015, the Company considered whether there had been any significant changes to indicators at the quarter end and whether any new indicators were present. Management determined that a further decline in the market price of metals and a significant increase in the market capitalization gap constituted an impairment indicator and completed an impairment assessment of the NICO project. Management has determined that there are no indications that the carrying value of any or all of its projects is impaired or requires a reversal of a prior impairment charge.

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

- the Company has obtained EA approval for the NICO project and is focused on obtaining all necessary permits for the NICO project to proceed, and has plans in place and resources assigned to help achieve this;
- the Company has obtained a final land use permit for the NICO mine;
- substantive expenditures on the Company's main project, NICO, are planned and budgeted for 2016 and beyond;
- the feasibility study completed to date on NICO demonstrates a net present value in excess of the carrying values of the project;
- the Company engaged the services of cobalt and bismuth experts to analyze the market as it relates to cobalt and bismuth products, results showed great opportunity for the NICO project returns relative to spot prices, particularly as a consequence of the growing interest in cobalt usage in high performance rechargeable batteries contributing to an average cumulative annual growth rate in the market of approximately 6% as well as constrained and geographical concentration of supply; and
- The recovering price of gold and other metals

Interests in Mining Properties and Exploration and Development Expenditures
In accordance with the Company's accounting policies, acquisition costs and exploration expenditures relating to mineral properties are capitalized until the properties are brought into commercial production or disposed. Amortization will commence when a property is put into commercial production. As the Company does not currently have any properties in commercial production, no amortization has been recorded.

Mineral reserve and mineral resource estimates are not precise and also depend on statistical inferences drawn from drilling and other data, which may prove to be unreliable. Future production could differ from mineral resource estimates for the following reasons:

- mineralization or formation could be different from those predicted by drilling, sampling and similar tests;
- the grade of mineral resources may vary from time to time and there can be no assurance that any particular level of recovery can be achieved from the mineral resources; and
- declines in the market prices of contained minerals may render the mining of some or all of the Company's mineral resources uneconomic.

Any of these factors may result in impairment of the carrying amount of interests in mining properties or exploration and development expenditures.

Going Concern Assumption

The recoverability of amounts shown for mineral properties and related exploration and development expenditures is dependent upon the economic viability of recoverable reserves, the ability of the Company to obtain the necessary permits and financing to complete the development, and future profitable production or proceeds from the disposition thereof.

Currently, the Company does not have a source of revenue other than investment income and it has relied, primarily, on equity financings and strategic partners to fund its activities. The Company may have limited access to capital at an acceptable cost to existing shareholders depending on economic conditions from time to time. The Company had a working capital deficit and positive cash balances at December 31, 2015 and the Company endeavours to manage the cash position prudently though ongoing monitoring of current and future cash and working capital balances relative to planned activities. The available capital is not sufficient to fund the Company's critical path activities in 2016 and additional expenditures will be dependent on and paced with financing activities during the year.

Deferred Income Taxes

The Company follows the deferred tax liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Assessing the recoverability of deferred tax assets requires management to make significant estimates related to expectations of future taxable income and substantively enacted tax rates. Prior to 2015, the Company completed feasibility studies and updates thereto for its principal project and is undertaking related permitting and financing activities. The benefit of certain non-capital losses, investment tax credits, undeducted share issuance costs and tax value of exploration and evaluation expenditures and capital assets in excess of book value of $24,124,000, has been offset by a valuation allowance of the same amount due to the uncertainty of realizing the benefit of deferred income tax assets in future years.

Stock Based Compensation, Warrants and Compensation Options

The Company recognizes an expense for option awards using the fair value method of accounting. The Company also records the fair value of warrants granted through private offerings or in lieu of fees and compensation options granted using a fair-value estimate. Management estimates the fair value of stock options, warrants granted through private offerings or in lieu of fees, and compensation options using the Black-Scholes model. The Black-Scholes model, used by the Company to calculate fair values, as well as other accepted option valuation models, was developed to estimate fair value of freely tradable, fully transferable options and warrants, which may significantly differ from the Company's stock option awards or warrant grants. These models also require four highly subjective assumptions, including future stock price volatility and expected time until exercise, which greatly affect the calculated values. Accordingly, management believes that these models do not necessarily provide a reliable single measure of the fair value of the Company's stock option awards. The valuation models are used to provide a reasonable estimate of fair value given the variables used.

Asset Retirement Obligations

Legal or constructive obligations associated with site restoration on the retirement of assets are recognized when they are incurred and when a reasonable estimate of the value of the obligation can be made. While the Company has not commenced commercial operations on its mining properties, certain site development and exploration activities have occurred that have given rise to a constructive obligation related to the reclamation of the site at the NICO project. As a result, the Company has recognized an environmental rehabilitation provision for the project. Due to the uncertainty around the settlement date and measurement of potential asset retirement obligations for the Company's project, management considers the assumptions used to calculate the present value of such liabilities at each reporting period and updates the value recognized as required.

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 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.

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. The Company is currently evaluating the impact of these amendments on its consolidated financial statements.

ENVIRONMENT

Fortune is committed to a program of environmental protection at its exploration sites. Fortune was in compliance with government regulations in 2015. Secured letters of credit have been provided to be held against future environmental obligations with respect to Arctos and NICO in the amounts of $25,000, representing 100% of the remaining Arctos JV letter of credit, and $211,000, respectively.

RISK AND UNCERTAINTIES

The operations of the Company are speculative due to the high-risk nature of its business, which are the acquisition, financing, exploration and development of mining properties. The risks below are not the only ones facing the Company. Additional risks not currently known to the Company, or that the Company currently deems immaterial, may also impair the Company's operations. If any of the following risks actually occur, the Company's business, financial condition and operating results could be adversely affected.

Nature of Mineral Exploration and Mining

At the present time, the Company does not hold any interest in a mining property in commercial production. The Company's viability and potential success is based on its ability to develop, exploit and generate revenue from mineral deposits. The exploration and development of mineral deposits involves significant financial risk over a significant period of time, which even a combination of careful evaluation, experience and knowledge may not eliminate. In order to continue developing the projects towards operation and commercial production, the Company will be required to make substantial additional capital investments. It is impossible to ensure that the past or proposed exploration and development programs on the properties in which the Company has an interest will result in a profitable commercial mining operation.

The operations of the Company are subject to all of the hazards and risks normally incident to mining, exploration and development of mineral properties, any of which could result in damage to life and property, the environment and possible legal liability. The activities of the Company may be subject to prolonged disruptions due to weather conditions as a result of the Company's properties in northern Canada. At NICO, the Company is subject to increased risks relating to the dependence on ice roads to supply and equip its work programs. While the Company has obtained insurance against certain risks in such amounts as it considers adequate, the nature of these risks are such that liabilities could exceed policy limits or could be excluded from coverage. There are also risks against which the Company cannot insure or against which it may elect not to insure. For example, the Company has not obtained environmental insurance at its project sites to date and has limited its insured values of its assets to stated amounts approximating the estimated cash invested in its capital assets to date. The potential costs which could be associated with any liabilities not covered by insurance or in excess of insurance coverage or associated with compliance with applicable laws and regulations may cause substantial delays and require significant capital outlays, adversely affecting the future earnings and competitive position of the Company.

Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are the particular attributes of the deposit, such as size and grade, proximity to infrastructure, financing costs and governmental regulations, including regulations relating to prices, taxes, royalties, infrastructure, land use, importing and exporting and environmental protection. The Company has undertaken activities to reduce certain risks related to its major projects through: completion of extensive exploration and drilling programs; completion of numerous environmental baseline studies; pilot plant test work and process optimization and verification; and, investing in significant engineering studies for the mine planning, mine site buildings and equipment, infrastructure and processing facility.

Limited Financial Resources

The existing financial resources of the Company are not sufficient to bring any of its properties into commercial production. The Company will need to obtain additional financing from external sources and/or find suitable joint venture partners in order to fund the development of NICO, including the SMPP. There is no assurance that the Company will be able to obtain such financing or joint venture partners on favourable terms or at all. Failure to obtain financing or joint venture partners could result in delay or indefinite postponement of further exploration and development of the Company's properties.

Dependence on Key Personnel and Limited Management Team

Fortune is dependent on the services of its senior executives including the President and Chief Executive Officer, Chief Financial Officer, and other skilled and experienced employees and consultants. The loss of such individuals could have a material adverse effect on Fortune's operations. Fortune will need to supplement its existing management team in order to bring any of its projects into production.

Fluctuating Prices

Factors beyond the control of the Company may affect the marketability of cobalt, bismuth, gold, copper or any other minerals discovered. The range in market prices, over the last five years are as follows: annual average gold prices have ranged from a low of US$1,160/oz in 2015 to a high of US$1,669/oz in 2012; annual average cobalt prices have ranged from a low of US$13.20/lb (2013 and

2015) to a high of US$17.60/lb (2011); annual average copper prices have ranged from a low of US$2.49/lb (2015) to a high of US$3.99/lb (2011); annual average bismuth prices have ranged from a low of US$6.43lb (2015) to a high of US$11.62/lb (2011). The commodity prices have fluctuated widely and are affected by numerous factors beyond the Company's control such as the economic downturn observed in 2008 and 2009, commodity supply shortages, weather events, political instability, and changes in exchange and interest rates. The effect of these factors cannot accurately be predicted. Further, there is opportunity for the product mix of cobalt and bismuth from the NICO project to be adjusted to produce products with varying prices depending on the market.

Permits and Licenses

The operations of the Company require licenses and permits from various governmental authorities. The Company believes that it presently holds all necessary licenses and permits required to carry out the activities it is currently conducting under applicable laws and regulations and the Company believes it is presently complying in all material respects with the terms of such licenses and permits. However, such licenses and permits are subject to change in regulations and in various operating circumstances. On February 11, 2014, the Saskatchewan Minister of Environment accepted the SEAB's recommendation and approved the Company's proposed SMPP, subject to certain conditions. With this approval, the Company can move forward with completing the process of rezoning its land with the Rural Municipality of Corman Park. There can be no assurance that the Company will be able to obtain all licenses and permits required to carry out future exploration, development and mining operations at its projects.

Competition

The mining and mineral exploration business is competitive in all of its phases. The Company competes with numerous other companies and individuals, including other resource companies with greater financial, technical and other resources than the Company, in the search for and acquisition of attractive mineral properties, acquisition of mining equipment and related supplies, and the attraction and retention of qualified personnel. The Company will be constrained in its ability to manage the cost of salaries at NICO and the SMPP during construction and operations as Fortune may be competing for labour with the much larger diamond mining companies operating in the Northwest Territories, oil sands projects in Alberta and potash companies operating in Saskatchewan. There is no assurance that the Company will continue to be able to compete successfully in the acquisition of building materials, sourcing equipment or hiring people.

Environmental and Climate Change Regulation

The operations of the Company are subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner which means standards, enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and their directors, officers and employees. The Company has carried out and completed significant environmental base line studies and environmental monitoring to position the Company to successfully complete required environmental assessments; however, despite this, the Company has not been able to obtain certain environmental certificates in a timely manner due to the complexities of the regulatory requirements and process. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of future operations. The impacts of international or domestic climate agreements, carbon taxes and other potential climate change legislation are difficult to predict and are not yet fully understood, including impacts on capital and operating costs.

Aboriginal Title and Rights Claims

Aboriginal title and rights may be claimed with respect to Crown properties or other types of tenure with respect to which mining rights have been conferred. The Company is not aware of any aboriginal land claims having been formally asserted or any legal actions relating to aboriginal issues having been instituted with respect to NICO or the SMPP properties other than certain treaty rights established by the Tlicho for NICO. The lands that surround NICO are owned by the Tlicho Government pursuant to an agreement between the Government of Canada, the Northwest Territories and the Tlicho Government. The Company is aware of certain First Nations that claim certain title and rights with respect to Crown properties related to the Company's projects that may or may not be formally asserted with the Crown in order to seek comprehensive land claim settlements.

While the Company has a right of access to the NICO mine site under the Tlicho agreement with the Crown, an access agreement will be required between the Tlicho and the Company for the use of the access roads to be built through Tlicho territory to the site. During 2015, various discussions with the GNWT have taken place in relation to the socio-economic agreement and funding for the all-weather road which is critical in determining the construction schedule for the project. The Company is aware of the mutual benefits afforded by co-operative relationships with aboriginal communities in conducting exploration and development activity and is supportive of measures established to achieve such cooperation including preferential hiring practices, local business development activities, involvement in environmental stewardship and other forms of accommodation. The Company has previously entered into a Co-operative Relationship Agreement and Environmental Assessment Funding Agreement with the Tlicho Government. The Company also received a Bronze Level award for work in Progressive Aboriginal Relations ("PAR") from the Canadian Council for Aboriginal Business ("CCAB").

The PAR program is the first and only corporate responsibility assurance program in the world with an emphasis on aboriginal relations. The Company is committed to open and constructive dialogue with aboriginal communities and will continue to make every effort to increase aboriginal employment and business through its human resources and supply chain policies. However, certain challenges with respect to timely decision making may be encountered when working with First Nation governments as a result of the limited number of key individuals in leadership positions, turnover of leadership personnel and delays while elections are held. It will also be necessary for the Company to negotiate and enter into appropriate participation agreements with relevant First Nations in order to bring its projects into production and there is no assurance that the Company will be able to negotiate such agreements on favourable terms or at all. In addition, other parties may dispute the Company's title to the properties and the properties may be subject to prior unregistered agreements or transfers or land claims by aboriginal peoples, and title may be affected by undetected encumbrances or defects or government actions.

Estimates of Mineral Reserves and Resources May Not be Realized

The mineral reserve and resource estimates published from time to time by the Company with respect to its properties are estimates only and no assurance can be given that any particular level of recovery of minerals will in fact be realized or that an identified resource will ever qualify as a commercially mineable (or viable) deposit which can be legally and economically exploited. Material changes in resources, grades, stripping ratios or recovery rates may affect the economic viability of projects. However, through extensive investment in exploration drilling, test mining, bulk sampling, engineering planning and pilot plant testing, the Company has substantially mitigated and reduced these risks. There is a risk that minerals recovered in small-scale laboratory and large scale pilot plant tests will be materially different under on-site conditions or in production scale operations. Short-term factors, such as the need for orderly development of deposits or the processing of new or different grades, may have an adverse effect on mining operations or the results of operations.

The Company has engaged expert independent technical consultants to advise it with respect to mineral reserves and resources and project engineering, among other things. The Company believes that those experts are competent and that they have carried out their work in accordance with all internationally recognized industry standards. However, if the work conducted by those experts is ultimately found to be incorrect or inadequate in any material respect, the Company may experience delays and increased costs in developing its properties.

Health and Safety Matters

The Company's exploration projects are affected by various laws and regulations, including those which cover health and safety matters. Existing legislation and regulations are subject to change, the impacts of which are difficult to measure. It is the policy of the Company to maintain safe working conditions at all its work sites, comply with health and safety legislation, maintain equipment and premises in safe condition and ensure that all employees are trained and comply with safety procedures. The Company has successfully implemented policies and procedures relating to health and safety matters at its project sites and has a good safety record to date.

FINANCIAL INSTRUMENTS

As at the date hereof, the Company's financial instruments consist of: cash and cash equivalents and reclamation security deposits, designated as financial assets measured at fair value through profit and loss; accounts receivable which is a financial asset designated as a receivable, measured initially at fair value and subsequently on the basis of amortized cost using the effective interest rate method; and accounts payable and accrued liabilities, and long-term debt, which are financial liabilities designated as other liabilities measured initially at fair value and subsequently on the basis of amortized cost using the effective interest rate method. It is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments.

ADDITIONAL INFORMATION

Additional information relating to the Company, including its current and previous year's annual information forms are available on SEDAR at www.sedar.com.

SHARE DATA

As at the date hereof, the Company has 241,363,294 common shares issued and outstanding, 61,805,424 warrants which entitle the holder to purchase one common share between $0.15 and $0.40 and expiring between April 1, 2017 and August 12, 2022, and stock options to purchase an aggregate of 13,370,000 common shares expiring at various dates between May 15, 2016 and March 16, 2019 and exercisable at various prices between $0.05 and $1.60 per option. All stock options have vested as at the date hereof, except for 3,250,000 which are exercisable at a price of $0.05 and vest on September 16, 2016.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Internal controls over financial reporting ("ICFR") are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements in compliance with IFRS. Any system of ICFR, no matter how well-designed, has inherent limitations. Therefore, even well-designed systems of internal control can provide only reasonable assurance with respect to financial statement preparation and presentation.

The control framework used to design and assess the effectiveness of the Company's ICFR is the *Internal Control - Integrated Framework* (COSO Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO). Further, the Company uses *Internal Control over Financial Reporting - Guidance for Smaller Public Companies* published by COSO, which provides guidance to smaller public companies on the implementation of the COSO Framework.

The Company assesses internal controls over financial reporting on an ongoing basis and, where determined appropriate, proactively implements enhancements to the design of controls required to support anticipated changes to and growth of the business. Due to operational, financial and administrative changes planned to occur as the Company transforms from an exploration company to a producer, changes will be required to the Company's internal controls over financial reporting in order to maintain reasonable assurance regarding the reliability of the Company's financial reporting and preparation of financial statements. As at December 31, 2015, no material weaknesses in the Company's ICFR have been identified and for the period commencing on January 1, 2015 and ending December 31, 2015, there were no changes made to the Company's ICFR considered to have materially affected, or are reasonably likely to materially affect, its ICFR.

This document contains certain forward-looking information. This forward-looking information includes statements with respect to, among other things, includes, among others, statements regarding the anticipated development of the NICO project and the SMPP. With respect to forward-looking information contained in this document, the Company has made assumptions, including assumptions regarding, among other things, the Company's ability to obtain the necessary financing to develop and operate the NICO project and the SMPP. Some of the risks that could affect the Company's future results and could cause results to differ materially from those expressed in the Company's forward-looking information include: the inherent risks involved in the exploration and development of mineral properties and in the mining industry in general; the risk that the Company may not be able to arrange the necessary financing to fund the capital and operating improvements necessary to carry on operating or to develop, construct and operate the NICO project and the SMPP; uncertainties with respect to the receipt or timing of required permits for the development of the NICO project or the SMPP; the risk that the operating and/or capital costs for any of the Company's projects may be materially higher than *anticipated; the risk of decreases in the market prices of the metals to be produced by the Company's projects; loss of key personnel; discrepancies between actual and estimated mineral resources or between actual and estimated metallurgical recoveries; uncertainties associated with estimating mineral resources and even if such resources prove accurate the risk that such resources may not be converted into mineral reserves, once economic conditions are applied; labour shortages; workplace accidents; the cost and timing of expansion activities; changes in applicable laws or regulations; competition for, among other things, capital and skilled personnel; unforeseen geological, technical, drilling and processing problems; compliance with and liabilities under environmental laws and regulations; changes to the Company's current business strategies and objectives; and other factors, many of which are beyond the Company's control. See "Risks and Uncertainties". Readers are cautioned to not place undue reliance on forward-looking information because it is possible that predictions, forecasts, projections and other forms of forward-looking information will not be achieved by the Company. These forward-looking statements are made as of the date hereof and the Company assumes no responsibility to update them or revise them to reflect new events or circumstances, except as required by law.*

Consolidated Financial Statements

Fortune Minerals Limited

December 31, 2015 and 2014

MANAGEMENT'S 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 for the year ended December 31, 2015 have been audited by BDO Canada LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of shareholders. The consolidated financial statements for the year ended December 31, 2014 were audited by Ernst & Young LLP. The external auditors have free access to the Audit Committee.

[Signed]	*[Signed]*
Robin Goad	Mahendra Naik
President and *Chief Executive Officer*	*Chief Financial Officer*

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BDO Canada LLP
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Unit 300
London ON N6B 2V3 Canada

To the Shareholders of Fortune Minerals Limited

We have audited the accompanying financial statements of Fortune Minerals Limited, which comprise the consolidated statement of financial position as at December 31, 2015 and the consolidated statements of loss and comprehensive loss, changes in shareholders equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained 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 as at December 31, 2015 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We wish to bring to the attention to the readers of the financial statements the issue of the Company's ability to continue as a going concern which is discussed more fully in note 2 to the financial statements.

Other Matter

The financial statements of Fortune Minerals Limited for the year ended December 31, 2014 were audited by another auditor who expressed an unmodified opinion on those statements on March 31, 2015.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

March 31, 2016
London, Ontario

Fortune Minerals Limited

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(expressed in Canadian dollars)

For the year ended December 31,	**2015**	2014
EXPENSES		
Administrative	**(1,469,813)**	(2,172,522)
Investor relations and regulatory fees	**(114,240)**	(437,895)
Stock-based compensation	**—**	(307,220)
Corporate development costs *[note 7i[c]]*	**(264,073)**	(247,161)
Interest expense *[notes 11 and 12]*	**(320,778)**	(417,427)
Accretion *[notes 7ii and 8]*	**(423,860)**	(1,223,231)
Amortization	**(68,535)**	(76,292)
Interest and other income	**12,213**	550,973
Loss on disposal of mining properties *[notes 7i and 7ii]*	**(9,867,475)**	—
Loss on disposal of capital assets	**(1,379)**	(1,899)
Gain on flow-through share premium	**71,091**	3,909
Foreign exchange gain (loss) *[note 4[b]ii]*	**382,895**	(96,042)
Loss on extinguishment of debt or other	**—**	(25,779)
Impairment charge *[notes 7v and 7vi]*	—	(3,698,814)
Loss before income taxes	**(12,063,954)**	(8,149,400)
Recovery of (provision for) income taxes *[note 13]*		
Deferred income taxes	**1,255,500**	1,112,000
Net loss for the year from continuing operations	**(10,808,454)**	(7,037,400)
Discontinued Operations		
Loss from discontinued operation *[note 17]*	**(29,003,110)**	(3,978,807)
Net loss for the year	**(39,811,564)**	(11,016,207)
Other comprehensive income		
Currency translation adjustment	**(1,358,663)**	1,357,092
Net comprehensive loss	**(41,170,227)**	(9,659,115)
Basic and diluted loss per share *[note 9]*	**(0.19)**	(0.05)

See accompanying notes

Fortune Minerals Limited

CONSOLIDATED STATEMENTS OF CASH FLOWS

(expressed in Canadian dollars)

For the year ended December 31,	2015	2014
OPERATING ACTIVITIES		
Net loss for the year from continuing operations	**(10,808,454)**	(7,037,400)
Changes in non-cash working capital balances related to operations		
Accounts receivable	**820,892**	(602,620)
Prepaid expenses	**30,829**	43,160
Accounts payable and accrued liabilities	**(534,430)**	(585,919)
Interest payable	**30,040**	63,750
	(10,461,123)	(8,119,029)
Add (deduct) items not involving cash		
Accretion	**423,860**	1,223,231
Amortization	**68,535**	76,292
Deferred income taxes	**(1,255,500)**	(1,112,000)
Gain on flow-through share premium	**(71,091)**	(3,909)
Stock-based compensation	**—**	307,220
Non-cash portion of interest expense	**156,978**	24,506
Loss on disposal of mining properties	**9,867,475**	—
Loss on disposal of capital assets	**1,379**	1,899
Impairment charge	**—**	3,698,814
Cash used in operating activities	**(1,269,487)**	(3,902,976)
Cash used in operating activities - discontinued operations	**(5,682,647)**	(1,131,530)
Cash used in operating activities	**(6,952,134)**	(5,034,506)
INVESTING ACTIVITIES		
Net investment in discontinued operations *[note 17]*	**(8,349,278)**	(9,818,940)
Increase in exploration and evaluation expenditures	**(562,664)**	(4,197,126)
Purchase of capital assets, including in mining properties	**(84,336)**	(859,083)
Repayment of capital contribution liability *[note 7ii]*	**(83,000)**	(72,000)
Posting of security for reclamation security deposits, net	**(145)**	(10,377)
Receipt of reclamation security deposit	**329,193**	—
Proceeds on disposal of capital assets in mining properties	**479,151**	—
Proceeds on sale of mining properties	**9,000,000**	43,321
Cash provided (used) in investing activities	**728,921**	(14,914,205)
Cash provided (used) in investing activities - discontinued operations	**(9,436,844)**	(39,697,362)
Cash provided (used) in investing activities	**(8,707,923)**	(54,611,567)
FINANCING ACTIVITIES		
Proceeds on issuance of shares, net *[note 9 [d]]*	**631,668**	4,505,122
Proceeds on issuance of debt	**—**	6,479,600
Repayment of corporate facility	**—**	(4,479,600)
Cash provided (used) in financing activities	**631,668**	6,505,122
Cash provided (used) in financing activities - discontinued operations	**8,953,539**	46,201,346
Cash provided by financing activities	**9,585,207**	52,706,468
Effect of foreign exchange on cash on continued operations	**685**	(253,415)
Decrease in cash and cash equivalents during the year, net	**(6,074,850)**	(6,939,605)
Cash and cash equivalents, beginning of year	**6,219,000**	13,412,020
Cash and cash equivalents, end of year	**144,835**	6,219,000
Cash held by discontinued operations	**—**	5,119,606
Cash and cash equivalents held by continuing operations	**144,835**	1,099,394

See accompanying notes

Fortune Minerals Limited

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, 2013	**150,526,976**	**139,439,655**	**—**	**—**	**139,439,655**	**10,482,909**	**(55,960,493)**	—	**93,962,071**
Issued as a result of:									
Private offerings	64,295,204	19,287,495	3,333,333	343,333	19,630,828	—	—	—	19,630,828
Flow-through share premium deferred gain		(75,000)	—	—	(75,000)	—	—		(75,000)
Share issuance costs, net of tax	—	(60,026)	—	—	(60,026)	—	—	—	(60,026)
Stock options granted	—	—	—	—	—	533,760	—	—	533,760
Net loss for the year	—	—	—	—	—	—	(11,016,207)	—	(11,016,207)
Foreign currency translation	—	—	—	—	—	—	—	2,714,636	2,714,636
December 31, 2014	**214,822,180**	**158,592,124**	**3,333,333**	**343,333**	**158,935,457**	**11,016,669**	**(66,976,700)**	**2,714,636**	**105,690,062**
Issued as a result of:									
Private offerings *[note 9[c] to [f]]*	12,255,400	758,499	58,472,091	492,087	1,250,586	—	—	—	1,250,586
Share issuance costs, net of tax *[notes 9[c], [d] and [f]]*	—	(32,263)	—	—	(32,263)	—	—	—	(32,263)
Foreign currency translation	—	—	—	—	—	—	—	1,694,140	1,694,140
Adjustment due to discontinued operations of foreign subsidiary *[note 17]*	—	—	—	—	—	—	—	(3,053,255)	(3,053,255)
Net loss for the year	—	—	—	—	—	—	(41,170,227)	—	(41,170,227)
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**

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

1. CORPORATE INFORMATION

The consolidated financial statements of Fortune Minerals Limited ["the Company"] for the year ended December 31, 2015 were authorized for issuance by the Board of Directors on March 30, 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 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, combined with working capital deficit of $58,548 (calculated as the difference between current assets of $312,166 and current liabilities of $370,714), 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

These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ["IFRS"] and are within the framework of the significant accounting policies summarized below.

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 next 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.

[a] Principles of consolidation and joint arrangement

The 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”], Fortune Minerals Marketing Limited [“FMMkL”], Fortune Minerals Mining Limited [“FMML”] and Fortune Revenue Silver Mines, Inc. [“FRSMI’]. The Arctos Anthracite Joint Venture [“Arctos JV’] is accounted for as a joint operation and FCL recognizes its 50% interest in the assets, liabilities, income, loss and expenses. All intercompany transactions and balances have been eliminated.

On May 1, 2015 the Arctos JV sold its interests of the coal licenses comprising the Arctos project. At this time, the Exploration, Development and Mine Operating Joint Venture Agreement was amended to restructure the Arctos JV, reducing FCL’s interest from 80% to 50%. See note 7*ii* for further details.

On July 17, 2015, the Company entered into a restructuring agreement with LRC-FRSM LLC [“LRC”] whereby all shares of the Company’s wholly-owned subsidiary, Fortune Revenue Silver Mines, Inc. [“FRSMI”], were transferred to LRC. See the discontinued operations note 17 for further details.

[b] Discontinued operation

A discontinued operation is a component of the Company’s business, the operations and cash flows of which can be clearly distinguished from the rest of the Company and which:

- ***i.*** Represents a separate major line of business or geographical area of operations;
- ***ii.*** Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- ***iii.*** Is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

[c] Functional and presentation currency

The functional and presentation currency of the Company and its subsidiaries is the Canadian dollar, other than FRSMI and FMMkL whose functional currency was the US dollar [“$US”].

Transactions denominated in foreign currencies are translated into the functional currency as follows:

- Monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date;
- Non-monetary assets and liabilities are translated at historical exchange rates prevailing at each transaction date; and
- Revenues and expenses are translated at the average exchange rates throughout the reporting period.
- Exchange gains and losses on translation are included in income (loss) in the consolidated statements of loss and comprehensive loss.

Balances of FRSMI and FMMkL are translated into the presentation currency as follows:

- Assets and liabilities are translated at the exchange rate in effect at the balance sheet date; and
- Revenues and expenses are translated at the average exchange rates throughout the reporting period.
- Exchange gains and losses on translation are included in other comprehensive income.

[d] Comprehensive loss

Comprehensive loss is composed of net loss and other comprehensive loss. Other comprehensive loss includes unrealized gains and losses on available-for-sale financial assets, accounting for certain derivative instruments and hedging activities and currency translation adjustment. The components of comprehensive loss, if any, are disclosed in the consolidated statements of comprehensive loss.

[e] 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.

[f] Exploration and evaluation expenditures

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 or otherwise of economically recoverable reserves, and active operations are continuing or planned for the future.

Accumulated costs in relation to an abandoned area are written off to the consolidated statements of loss, comprehensive loss and deficit in the period in which the decision to abandon the area is made. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to capitalize costs in relation to that area of interest.

Exploration and evaluation expenditures are transferred to mine development assets once the work completed to date supports the technical feasibility and commercial viability of the property and such development receives appropriate internal approvals from the Board of Directors as well as external approvals from third parties with respect to permitting.
Payments received for exploration rights on the Company's mineral properties are treated as cost recoveries and reduce the cost of deferred exploration and evaluation expenditures related to the mineral claims.

[g] Mine development expenditures

The cost of developing mineral reserves and mineral resources is capitalized on the balance sheet as incurred. Mine development expenditures, included in capital assets within mining properties, includes costs net of any proceeds received on concentrate sales associated with a start-up period where the asset is available for use but incapable of operating at normal levels without a commissioning period.

These costs are not amortized but the carrying value is assessed for impairment whenever facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount. These costs will be amortized once commercial production begins.

[h] Capital Assets

i. Mining assets and other capital assets

Capital assets are stated at cost less accumulated amortization. Where an item of capital assets comprises major components with different useful lives, the components are accounted for as separate items of capital assets.

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

The assets are amortized at the following rates:

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

ii. Impairment

The Company's tangible and intangible assets are reviewed for an indication of impairment at each consolidated statement of financial position reporting date. If an indication of impairment exists, the asset's recoverable amount is estimated. The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates, or is expected to generate, cash inflows that are largely independent of the cash inflows from other assets or groups of assets. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. The recoverable amount is calculated as the greater of the fair value less costs to sell and value in use. Impairment losses are recognized in profit and loss for the period. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

iii. Reversal of impairment

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. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss with respect to goodwill is never reversed.

[i] Assets held for sale

An asset is classified as held for sale when it meets the criteria in IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, and is measured at the lower of the carrying amount and fair value less costs to sell. If the fair value less costs to sell is lower than the carrying amount, an impairment loss is recognized in net income/loss. Upon classification as held for sale, assets are no longer depreciated.

[j] Share-based payment plans

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 24, 2014. 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, 2015, the Company has 18,737,758 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.

[k] Income taxes

The Company follows the liability method of tax allocation in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Temporary differences that do not affect accounting or taxable profit do not result in deferred tax assets or liabilities being recognized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to settle current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

[l] Provision for environmental rehabilitation

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. The provision is based on the estimated future costs using information available at the consolidated statement of financial position date. The provision is discounted using a current market-based pre-tax discount rate and the accretion of the discount is included in amortization and accretion expense. At the time of establishing the provision, a corresponding asset is capitalized [where it gives rise to a future benefit] and depreciated over future production from the mine to which it relates.

The provision is reviewed on an annual basis for changes to obligations, legislation or discount rates that affect changes in cost estimates or life of operations. The cost of the related asset is adjusted for changes in the provision resulting from changes in the estimated cash flows or discount rate and the adjusted cost of the asset is depreciated prospectively.

[m] Financial instruments

Financial instruments are designated into one of the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other liabilities. Depending on the financial instrument designation, fair value or cost-based measures are used for estimating fair value on the consolidated statements of financial position, and gains and losses are recognized in either net income or other comprehensive income. Financial assets at fair value through profit or loss and available-for-sale are measured in the consolidated statements of financial position at fair value and financial instruments designated as held-to-maturity investments, loans and receivables or other liabilities are measured at amortized cost. Subsequent measurement and changes in fair value depend on initial classification. The Company has made the following designations:

- Short-term investments within cash and cash equivalents and reclamation security deposits are designated as "assets at fair value through profit or loss" and are measured at fair value. Gains and losses resulting from the periodic revaluation of these items are recorded in net income.
- Accounts receivable are financial assets designated as receivables and are recorded at amortized cost, which upon initial measurement are equal to fair value. Subsequent measurement of receivables is on the basis of amortized cost using the effective interest rate method.
- Accounts payable and accrued liabilities, interest payable, current and long-term debt and capital contribution liability are financial liabilities designated as other liabilities recorded at amortized cost, which upon initial measurement is equal to fair value. Liabilities that contain embedded derivatives are separated into their individual components with the derivative portion being adjusted to fair value at the end of each reporting period. Subsequent measurement of other liabilities is on the basis of amortized cost using the effective interest rate method.

As at December 31, 2015, the Company was not a party to any forward foreign exchange or metal pricing contracts for which hedge accounting may apply, but may use such instruments in the future. The purpose of hedge accounting is to ensure that counterbalancing gains, losses, revenues and expenses [including the effects of counterbalancing changes in cash flows] are recognized in net income in the same period or periods. Hedge accounting is applied only when gains, losses, revenues and expenses on a hedging item would otherwise be recognized in income in a different period than gains, losses, revenues and expenses on the hedged item. Where gains, losses, revenues and expenses on the hedging item and counterbalancing gains, losses, revenues and expenses on the hedged item are recognized in income in the same period, hedge accounting is both considered not necessary and not permitted by the standards.

[n] Income (loss) per common share

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

[o] Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets when it is probable that they will result in future economic benefits to the entity and the costs can be measured reliably. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Interest on borrowings directly relating to the financing of qualifying capital projects is added to the capitalized cost of those projects or to the capital asset until such time as the assets are substantially ready for their intended use or sale which, in the case of mining properties, is when they are capable of commercial production. Where funds have been borrowed specifically to finance a capital project, the amount capitalized represents the actual borrowing costs incurred. Where the funds used to finance a capital project form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of the Company during the period.

[p] Transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. For a financial asset or financial liability classified other than at fair value through profit or loss, directly attributable transaction costs relating to debt or equity activities are added to the fair value of the financial asset or liability on the consolidated statements of financial position. For a financial asset or financial liability classified as fair value through profit or loss, all transaction costs are recognized immediately in net loss for the year.

[q] Administrative expenses

Included in exploration and evaluation expenses are directly attributable administrative and general expenses.

[r] Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the consolidated statements of financial position date taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably [see 3[t] below on fair value measurement].

[s] Flow-through shares

Flow-through shares issued are recognized in share capital based on the quoted market price of the Company's shares on the date of issue. Any premium between the amount recognized in common shares and the amount that investor pays for the 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.

[t] Fair Value Measurement

Effective January 1, 2013, the Company adopted IFRS 13, *Fair Value Measurement* ["IFRS 13"], which was issued by the International Accounting Standards Board ["IASB"] on May 12, 2011. Fair value is an estimate of the price that would be received by the Company to sell an asset, or paid to transfer a liability, in a timely transaction between independent market participants in the principal or most advantageous market of the security. IFRS 13 establishes a three-tier hierarchy as a framework for measuring fair value based on inputs used to value the Company's investments and requires additional disclosure about fair value. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability including assumptions about risk and these assumptions may be observable or unobservable. The Company may use various methods and inputs to measure the fair value of its investments. The three levels of the fair value hierarchy are as follows:

Level 1 – inputs are quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – inputs are unobservable inputs for the assets or liabilities to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

The availability of observable inputs varies from security to security and depends on, but is not limited to, factors such as type of security, uniqueness in the market and/or liquidity of the markets. While inputs for any given security may fall into different levels, for disclosure purposes, the fair value hierarchy levels that have been assigned are the lowest level inputs that are significant to each fair value measurement in its entirety.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

[u] Future accounting standard

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.

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. The Company is currently evaluating the impact of these amendments 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 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. All of the Company's current activities are priced in either Canadian dollars or US dollars, depending on the location of the project. 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 $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 Canadian dollars to $US or vice versa. As at December 31, 2015, the $US balance in cash and cash equivalents was $US 13,148 [$18,197].

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 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 1that 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 December 31, 2015:

	Level 1 $	Level 2 $	Level 3 $
Cash and cash equivalents	144,835	—	—
Interest payable	—	183,790	—
Long-term debt	—	4,350,893	—

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, 2015. Payments due by year are as follows:

Total	2016	2022

Accounts payable and accrued liabilities	$ 370,714	$ 370,714	—
Interest payable	183,790	—	183,790
Long-term debt	8,750,000	—	8,750,000
	$9,304,504	$ 370,714	$8,933,790

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 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, 2014	217,399	118,514	318,582	654,495
Additions	3,086	—	—	3,086
Disposal	(5,363)	(1,298)	—	(6,661)
As at December 31, 2015	**215,122**	**117,216**	**318,582**	**650,920**
Accumulated amortization				

As at December 31, 2014	162,360	80,527	191,804	434,691
Amortization for the year	16,593	7,570	44,372	68,535
Disposal	(3,443)	(1,014)	—	(4,457)
As at December 31, 2015	**175,510**	**87,083**	**236,176**	**498,769**
Net book value				
As at December 31, 2014	55,039	37,987	126,778	219,804
As at December 31, 2015	**39.612**	**30,133**	**82,406**	**152,151**

7. MINING PROPERTIES

As at December 31, 2015, the Company's mining properties are categorized in the exploration and evaluation stage since the necessary financing has not yet been obtained and a construction decision has not yet been approved by the Board of Directors. For management purposes, the group is organized into cash generating units based on the significant mining properties that the Company is currently exploring and evaluating or developing. Management monitors the monthly expenditures of its operating segments separately for the purpose of making decisions about resource allocation and financing requirements.

Interests in mining properties consist of the following:

	December 31, 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**
Arctos ***[ii]***	**—**	**—**	**—**	**—**
RSM ***[iii and notes 15 & 17]***	**—**	**—**	**—**	**—**
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**

	December 31, 2014			
	Capital and Intangible Assets $	Property Costs $	Exploration and Evaluation Expenditures	Total Mining Properties $

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

			$	
NICO *[i] and [iv]*	8,322,216	2,191,442	57,746,081	68,259,739
Arctos *[ii]*	15,161	2,515,293	29,810,169	32,340,623
RSM *[iii and note 15]*	41,109,394	31,519,260	—	72,628,654
Sue-Dianne	—	9,164	150,836	160,000
Other properties	—	—	8,306	8,306
	49,446,771	36,235,159	87,715,392	173,397,322

During the year ended December 31, 2015, the change in mining properties is a result of the sale of assets previously purchased from the Golden Giant Mine [see note i below], the sale of the Company's interest in Arctos [see note ii below] and the discontinued operation of RSM [see note iii below]. There were no other disposals, write-offs or amortization.

Exploration and evaluation expenditures capitalized to mining properties during the year ended December 31, 2015 and 2014 were the following:

	December 31, 2015 **$**	December 31, 2014 $
Directly attributable administrative expenses	**—**	113,916
Employee and contractor compensation and benefits	**312,750**	2,873,917
Amortization	**61,060**	98,312
Stock-based compensation	**—**	190,024

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

Capital assets and software in mining properties consist of the following:

	Surface facilities under construction $	Surface facilities $	Camp structure s $	Mobile equipment $	Site furniture and equipment $	Land and land acquisition costs $	Computer equipment $	Intangible assets [Software] $	Asset retirement obligation ["ARO"] $	Mine development expenditure $	Finance Leases $	Total $
Cost												
As at December 31, 2014	7,014,266	14,319,837	601,626	1,242,193	975,851	900,356	43,380	249,160	171,277	24,937,823	1,482,722	51,938,491
Derecognize RSM assets	—	(12,840,098)	—	(433,273)	(953,371)	—	(42,658)	(249,160)	(170,289)	(24,937,823)	(1,482,722)	(41,109,394)
Additions	91,609	—	—	—	—	—	—	—	—	—	—	91,609
Disposals	(1,544,979)	(300,022)	(7,902)	(216,886)	(4,420)	—	(722)	—	(982)	—	—	(2,075,913)
As at December 31, 2015	**5,560,896**	**1,179,717**	**593,724**	**592,034**	**18,060**	**900,356**	**—**	**—**	**6**	**—**	**—**	**8,844,793**
Accumulated amortization												
As at December 31, 2014	—	1,151,623	575,869	742,319	21,496	—	413	—	—	—	—	2,491,720
Amortization for the year	—	47,289	7,294	16,078	238	—	24	—	—	—	—	70,923
Disposals	—	(182,691)	(6,102)	(195,728)	(4,044)	—	(437)	—	—	—	—	(389,002)
As at December 31, 2015	**—**	**1,016,221**	**577,061**	**562,669**	**17,690**	**—**	**—**	**—**	**—**	**—**	**—**	**2,173,641**
Net book value												
As at December 31, 2014	7,014,266	13,168,214	25,757	499,874	954,355	900,356	42,967	249,160	171,277	24,937,823	1,482,722	49,446,771
As at December 31, 2015	**5,560,896**	**163,496**	**16,663**	**29,365**	**370**	**900,356**	**—**	**—**	**6**	**—**	**—**	**6,671,152**

Included in surface facilities under construction and mine development expenditure during the year ended December 31, 2015 is $19,360 [December 31, 2014 - $4,923,607] of directly attributable employee and contractor compensation and benefits and $8,845 [December 31, 2014 - $19,843] of amortization.

The Company entered into a restructuring agreement during the year whereby all shares of the Company's wholly-owned subsidiary, FRSMI, were transferred to LRC. The Company has accounted for this transaction as a discontinued operation and has derecognized all related assets and liabilities of the subsidiary as at July 1, 2015 [see discontinued operations note 17 for further details].

The disposals relate to the assets held by the Arctos JV and are recorded in Fortune Coal Limited ["FCL"] at their 50% share [see note ii below]. Also included in the disposals are assets previously purchased from the Golden Giant Mine [see note i below] and assets from the Yellowknife office, which was closed during the year and sold for $1,200 resulting in a loss of $757.

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
The Company previously acquired certain mill, related surface facilities and processing equipment for future use at NICO. The Company undertook a project designed to dismantle and remove these assets, which was completed during 2010. In 2014, certain of these assets with a book value of $584,524 were shipped to the RSM for use. The assets that were shipped were included in capital assets of RSM.

During the year, 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. The total book value of these assets was $1,670,812 resulting in a loss on sale of assets of $1,196,936.

[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 July 13, 2011, the Company and FCL, a wholly-owned subsidiary of the Company, entered into an agreement [the “Agreement”] with POSCO Canada Ltd. [“POSCAN”] and POSCO Klappan Coal Limited [“POSCO Klappan”], a wholly-owned subsidiary of POSCAN, to advance Arctos to production through an unincorporated joint venture, the Arctos JV, with FCL and POSCO Klappan having respective ownership interests of 80% and 20%, respectively.

Pursuant to the Agreement, FCL was obligated to a future capital contribution of $80 million to the Arctos JV, to be contributed when a production program was approved by the Arctos JV management committee and when financing was obtained. Under the agreement if these criteria were not met by December 31, 2015, POSCO Klappan could have, in its sole discretion, required FCL to make a $16 million payment directly to POSCO Klappan in lieu of the $80 million capital contribution, resulting in no change to each party’s respective ownership interests.

During the year, and prior to the disposal of the assets, FCL had made capital contributions of $166,000, and recognized accretion of the capital contribution liability of $429,331.

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 for $18,308,000.

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 for $308,000. 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.

The Company’s share of the net proceeds were $9,000,000 resulting in a net loss of $8,670,539 on disposal of the Company’s interest in the underlying assets of Arctos. This loss also includes $257,754 of costs incurred to reclaim the property offset by the proceeds received from the reclamation security deposit.

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, 2015.

The Company used its $9 million share of the funds from this transaction to satisfy its obligation under the Metal Prepay Facility to contribute US$ 5 million in capital support for the RSM, for working capital and to repay debt.

As at December 31, 2015, the only other asset in the Arctos JV was a cash balance of $1,717, of which FCL recorded its 50% share.

iii. *Revenue Silver Mine [“RSM”]*

On October 1, 2014, the Company completed the acquisition of a 100% interest in RSM, a mine involved in the production of silver in Colorado, USA through its wholly-owned subsidiary FRSMI. The key assets acquired include all of RSM’s capital equipment assets and mineral interests in the mine.

On July 1, 2015 the Company received notice from LRC that events of default had occurred and all amounts and deliveries owing were immediately due and payable. The Company entered into a restructuring agreement with LRC shortly thereafter and resulted in the Company derecognizing all assets and liabilities of FRSMI as of July 1, 2015. See the discontinued operations note 17 for further details.

iv. 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:

	December 31, 2015	December 31, 2014
	Deposit amount $	Deposit amount $
NICO Project	**211,260**	257,156
Arctos Anthracite Project	**25,000**	246,455
RSM Project	**—**	355,584
Total Net Book Value	**236,260**	859,195

The security for the reclamation of the Arctos Anthracite Project is held in the Arctos JV. As at December 31, 2015, the security deposit amount in the Arctos JV was $25,000 [December 31, 2014 - $307,000]. The Company received $283,193 upon completion of the reclamation work undertaken in 2015 and expects the remaining amount to be released once the Province has completed its site inspection in 2016.

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.

v. 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 December 31, 2014, management of the Company determined that the continued decline in the market price of metals constituted an impairment indicator and completed an impairment assessment of the NICO and Sue-Dianne projects. The Company recognized an impairment charge of $1,900,269 on the Sue-Dianne project. At December 31, 2015, the Company considered whether there had been any significant changes to indicators at the year end and whether any new indicators were present. Management determined that a further decline in the market price of metals and a significant increase in the market capitalization gap constituted an impairment indicator 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 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$1,200 for gold, US$15.00 for cobalt and US$7.12 for bismuth and an exchange rate of US$0.70: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%)

vi. Assets Held for Sale

During the year ended December 31, 2014, the Company sold $44,922 of assets held for sale for net proceeds of $43,321 and transferred $10,125 of assets previously classified as held for sale to RSM. The remaining balance of assets held for sale were written off resulting in a loss on disposal of these assets of $1,798,545 being recognized in the statement of operations.

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:

	December 31, 2015	December 31, 2014
NICO Project		
Provision for environmental rehabilitation	**$31,688**	$37,649
Estimated remaining life *[i]*	**22 years**	20 years
Discount rate	**9%**	9%
Arctos Anthracite Project *[ii]*		
Provision for environmental rehabilitation	—	$26,130
Estimated remaining life	—	26 years
Discount rate	—	9%
RSM Project *[iii]*		
Provision for environmental rehabilitation	—	$174,431
Estimated remaining life	—	9 years
Discount rate	—	9.25%
Total provision for environmental rehabilitation	**$31,688**	$238,210

[i] During the year the estimated remaining life of the provision for environmental rehabilitation for the NICO project was increased by three years resulting in a reduction in the value of the provision for environmental rehabilitation of $9,349.

[ii] As at May 1, 2015, the environmental rehabilitation provision balance in the Arctos JV was written down to $Nil. Pursuant to the Amended Agreement, FCL will be responsible for all reclamation costs related to the Arctos project. As at December 31, 2015, management has completed the reclamation work and has recorded all related expenditures.

[iii] On July 1, 2015 the Company received notice from LRC that events of default had occurred and all amounts and deliveries owing were immediately due and payable. The Company entered into a restructuring agreement with LRC shortly thereafter and resulted in the Company derecognizing all assets and liabilities of FRSMI as of July 1, 2015. See the discontinued operations note 17 for further details.

9. SHARE CAPITAL

[a] The Company is authorized to issue an unlimited number of common shares without par value. As at December 31, 2015, the weighted average number of common shares outstanding was 221,634,727 [December 31, 2014 - 179,605,564]. For calculating diluted loss per share, for the year ended December 31, 2015, there were no options with an exercise price less than the average market price for the periods.

[b] A summary of the status of the Company's stock option plan as at December 31, 2015 and December 31, 2014, and changes during the years ended on those dates are presented below:

	December 31, 2015		December 31, 2014	
	Number of shares	**Weighted-average exercise price**	Number of shares	Weighted-average exercise price
	#	**$**	#	$
Options outstanding, beginning of year	**7,780,000**	**0.60**	6,935,000	0.70
Granted	—	—	2,950,000	0.37
Expired or cancelled	**(3,810,000)**	**0.59**	(2,105,000)	0.60
Options outstanding, end of year	**3,970,000**	**0.61**	7,780,000	0.60
Options vested and outstanding, end of year	**3,970,000**	**0.61**	7,780,000	0.60

The following table summarizes information about the options outstanding as at December 31, 2015:

Range of exercise prices	**Number outstanding**	**Number vested and outstanding**	**Weighted average exercise price - all**	**Weighted average remaining contract life - all**
$	#	#	$	years
Nil – 0.49	1,575,000	1,575,000	0.37	3.1
0.50 – 0.99	2,045,000	2,045,000	0.68	1.5
1.00 – 1.49	300,000	300,000	1.20	0.7
1.50 – 1.99	50,000	50,000	1.60	0.5
	3,970,000	3,970,000		

[c] On February 24, 2015 the Company issued 1,350,000 common shares to the lenders of the private loan in exchange for the release of first charge security over the Company's personal property and the NICO mining leases. The fair value of the shares was $121,500. The value of these shares was calculated based on the fair market value per share of $0.09 on February 24, 2015. Share issuance costs of $5,228 were incurred to complete the financing.

[d] On April 1, 2015, the Company entered into a subscription agreement to sell 5,905,400 units at a price of $0.08 per share, raising gross proceeds of $472,431. 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 $0.15 on or before March 31, 2016. The fair value of the shares and warrants issued was $436,999 and $35,432, 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 53.41%, risk free interest rate of 0.49% and expected life of 1 year. Share issuance costs of $26,403 were incurred to complete the financing. Subsequent to December 31, 2015, the Company received conditional approval from the Toronto Stock Exchange to extend the expiry date of the warrants by one year to April 1, 2017.

[e] On August 12, 2015 the Company issued 12,500,000 Class A warrants and 43,019,391 Class B warrants as part of the final stage of the restructuring agreement entered into with LRC and its other creditors. One Class A warrant entitles the holder to purchase one common share of the Company for $0.15 on or before August 12, 2020. One Class B warrant entitles the holder to purchase one common share of the Company for $0.25 on or before August 12, 2022. The fair value of the warrants issued were $112,500 and $344,155, respectively, for Class A and Class B warrants. The value of the warrants was estimated using the Black-Scholes option pricing model with the following weighted average assumptions used for Class A and Class B warrants, respectively, as follows: dividend yield of 0% for both classes, expected volatility of 88.12% and 78.02%, risk free interest rate of 0.72% and 1.02%, and expected life of 5 and 7 years.

[f] On September 15, 2015, the Company entered into a flow-through agreement to issue 5,000,000 shares at a price of $0.04 per share for aggregate gross proceeds of $200,000. There was no flow-through share premium deferred gain recognized as the market price of the Company's shares on the day the flow-through financings closed and the price that the investor paid for the shares were the same. The proceeds were received in advance of the shares being issued on October 2, 2015. Shares issuance costs of $9,132 were incurred to complete the financing.

[g] As at December 31, 2015, 900,000 [2014 – 900,000] issued common shares are being held in escrow, subject to certain production thresholds for the NICO property.

[h] Subsequent to December 31, 2015, 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. This represents the first tranche of an anticipated $1,000,000 private placement.

[i] Subsequent to December 31, 2015, 9,400,000 stock options were issued pursuant to the Company's stock option plan.

10. FINANCE LEASE LIABILITY

In 2014, the Company acquired certain equipment that it classified as mining properties. The leases were accounted for as finance leases. These leases were all disposed of as part of the restructuring that took place on July 1, 2015 related to RSM. See the discontinued operations note 17 for further details.

11. CURRENT DEBT

The following table represents the Company's current debt for the year ended December 31, 2015 and the year ended December 31, 2014;

	December 31, 2015	December 31, 2014
	$	$
Loan	—	5,024,031
Metal Prepay Facility	—	48,713,728
	—	53,737,759

Metal Prepay Facility

In order to finance the acquisition and operations of the RSM, the Company entered into the General Corporate Facility with LRC to borrow US $4 million which was received by the Company on September 18, 2014. This US $4 million bridge loan supported the Company's short-term working capital requirements and the advancement of near term capital improvements required at the mine. The balance did not bear interest and had a maturity date of no later than March 18, 2015. As per the General Corporate Facility, the Company issued 1,000,000 common shares to LRC. The share issuance was treated as a borrowing cost and capitalized to mine development.

On October 1, 2014, the Company entered into a second facility with LRC, a Senior Secured Metal Prepay Agreement ["the Metal Prepay Facility"], which resulted in the Company receiving total financing of US $35 million. The first tranche of US $25 million was received on October 1, 2014 and the second tranche of US $10 million was received on October 16, 2014. The Company used the funding from the first tranche to repay the US $4 million General Corporate Facility on October 1, 2014, fund the RSM acquisition, including amounts owing to the previous owner of the mine, make capital investments to improve the mine operations, and provide working capital to RSM. The Metal Prepay Facility principal was to be repaid from a fixed schedule of metal shipments from RSM to LRC commencing April 2015, plus interest of 9.25% over a five year term. Additional terms included a concentrate payment of $7.50 per metric ton of each shipment made and an offtake payment equal to $0.30 for each ounce of silver and $10 for each ounce of gold, excluding repayment units. Cash interest payments were due on the 15th business day of each month for interest relating to the calendar month immediately preceding.

In accordance with the Metal Prepay Facility, FRSMI was required to maintain net working capital and cash in an aggregate of not less than US $2 million during the term of the facility. The Metal Prepay Facility was secured by the assets of the RSM and a corporate guarantee.

On December 22, 2014, the Company amended the Metal Prepay Facility, which resulted in the Company receiving US $7 million. The additional US $7 million was to be repaid with 430,000 of silver equivalent ounces, within a 1 year period, accruing interest at 15%, to be paid in accrued ounces. The debt was to be repaid using a silver equivalent price of US $16.50 or if lower, the silver market price at the time of the delivery. In addition, LRC was entitled to a net smelter revenue royalty ["NSR"] to be paid to LRC commencing January 2016. The NSR percentage ranged from 2 to 4% until the original facility was repaid and 1 to 2% thereafter for the life of the mine. Also included in the agreement was a copper payment equal to 25% of any shipment of copper during the repayment period of the Metal Prepay Facility. As the amendment included substantially different terms from the Metal Prepay Facility the amendment was accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

On February 12, 2015, the Company amended the Metal Prepay Facility which resulted in the Company receiving an additional $US 5 million. The amendment added an additional 308,000 silver equivalent units to the outstanding working capital balance. The interest rate and repayment term remained the same as that outlined in the December 22, 2014 amendment.

On March 25, 2015, the Company amended the Metal Prepay Facility, resulting in an additional US $4 million of working capital being received. The Company's metal delivery obligations under the original prepay facility and additional working capital facilities were restructured but the applicable interest rates remained the same under an amended agreement with LRC. As the amendment included substantially different terms from the Metal Prepay Facility the amendment was accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The following were the significant changes to the Metal Prepay Facility:

- Capital support by the Company of US $4,000,000 was required no later than May 1, 2015.
- The additional US $4 million of working capital resulted in an increase of 246,400 silver equivalent units to the repayment of the facility.
- The Metal Prepay Facility was restructured to reduce the required payment of silver equivalent units from 2,904,892 to 1,138,087 and extended the repayment period to fifty four months beginning July 2015.
- The working capital portion of the facility increased the required payment of silver equivalent units from 738,000 to 3,165,156.
- The working capital payback period was extended from December 31, 2015 to March 31, 2016. Full payback of the working capital facility prior to March 31, 2016 was discounted by 3% per month.
- Cash interest payments would accrue beginning July 1, 2015.
- The Company granted a security interest in all of its assets of Fortune Minerals Limited and the assets of its material subsidiaries.

On May 6, 2015, the Company repaid part of the current debt using proceeds received from the sale of Arctos. The repayment was in the amount of US $1,397,938.

Under the Metal Prepay Facility, should the Company be in default of the agreement, LRC had the right to terminate the agreement and declare all amounts owing due and payable. At December 31, 2014 the Company was in default of certain covenants, which were subsequently waived by LRC in the agreement amended on February 12, 2015. As at December 31, 2014 LRC had the right to demand accelerated payment and as a result, the long-term debt of US $41,991,234 [$48,713,728] as at December 31, 2014 was classified as current debt.

On July 1, 2015 the Company received notice from LRC that events of default had occurred and all amounts and deliveries owing were immediately due and payable. The Company entered into a restructuring agreement with LRC shortly thereafter and resulted in the Company derecognizing all assets and liabilities of FRSMI as of July 1, 2015. See the discontinued operations note 17 for further details.

<u>Loan payable</u>

On May 8, 2014, the Company increased its debt with a private investor group ["other secured creditors"] from the original loan principal of $3,000,000 to $5,125,000 when the other secured creditors advanced $2,000,000 to the Company as a promissory note. Under the terms agreed to with the other secured creditors, the aggregate amount repayable by the Company would be $5,125,000, representing a 2.5% premium over the proceeds, and the maturity date for the original loan as well as the new loan was extended from August 31, 2014 to August 31, 2016. The loans continued to bear interest at 9% per annum and were secured by a charge on the Company's personal property and the NICO mining leases. Cash interest payments of $230,625 were due on the last business day of August and February of each year during the term of the loan and promissory note. The debt was classified as current debt as at December 31, 2014 due to a cross default provision in the agreement.

On February 24, 2015, the other secured creditors entered into an agreement with the Company relinquishing its secured charge on the Company's assets in exchange for 1,350,000 common shares. In addition, the agreement deferred the payment of all interest payments until July 1, 2015. For the year ended December 31, 2015, $20,597 of loan discount [December 31, 2014 - $24,505 of transaction costs and loan discount] was amortized using the effective interest rate method.

On July 17, 2015, the Company entered into a restructuring agreement with the other secured creditors during the year to settle this loan. See the discontinued operations note 17 and long-term debt note 12 for further details.

12. 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 17], 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, 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, 2015, $136,381 of loan discount was amortized using the effective interest rate method.

13. INCOME TAXES

The Company has non-capital loss carryforwards totaling $65,900,000, of which $500,000 expires in 2015, undeducted debt and share issuance costs of $385,000 and unused investment tax credits on pre-production mining costs of $2,755,000 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 $24,124,000 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, 2015 $	December 31, 2014 $
Deferred income tax assets		
Net operating loss carryforwards	**17,927,000**	11,031,000
Undeducted debt and share issuance costs *[i]*	**103,000**	515,000
Unused investment tax credits on pre-production costs	**2,755,000**	2,742,000
Tax value of exploration and evaluation expenditures and capital assets in excess of book value	**3,339,000**	—
	24,124,000	14,288,000
Less valuation allowance related to operating losses, share issuance costs and unused investments tax credits	**(24,124,000)**	(10,615,000)
Deferred income tax assets	**—**	3,673,000
Book value of exploration and evaluation expenditures and capital assets in excess of tax value	**—**	(4,576,000)
Book value of capital contribution liability in excess of tax value	**—**	(361,000)
Deferred income tax liabilities	**—**	(4,937,000)
Net deferred income tax liabilities	**—**	(1,264,000)

[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 December 31, 2015 is as follows:

	December 31, 2015 $	December 31, 2014 $
Combined federal and provincial/state income tax rate	**26.65%**	26.57%
Corporate income tax recovery at statutory rate	**(10,610,000)**	(3,220,000)
Increase (decrease) in income taxes resulting from		
Non-deductible stock-based compensation and other expenses	**2,000**	85,000
Renunciation of flow-through expenses	**132,400**	—
Rate difference	**(20,000)**	(428,000)

Non-taxable flow-through share premium	**(19,000)**	(1,000)
Investment tax credits on pre-production mining costs, net of tax	**(10,000)**	(193,000)
Tax value of loss carryforwards not recognized	**8,636,000**	2,591,000
Other	**633,100**	54,000
	(1,255,500)	(1,112,000)

14. CONSOLIDATED STATEMENTS OF CASH FLOWS

[a] Supplemental cash flow information for the year ending:

	December 31, 2015 $	December 31, 2014 $
Interest and investment income received	**658**	96,197
Interest paid *[i]*	**975,095**	868,620

[i] FRSMI paid US$ 809,258 [$975,095] of interest to LRC on the outstanding debt balance prior to the restructure.

15. RELATED PARTY TRANSACTIONS

For the year ended December 31, 2015, 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, 2015 $	December 31, 2014 $
Salaries and benefits	**267,769**	513,040
Consulting services	**369,000**	697,150
Directors' fees	**—**	140,750
Legal services	**375,500**	590,896
Fair value of stock options granted	**—**	306,000
	1,012,269	2,247,836

As at December 31, 2015, $97,964 [December 31, 2014 - $223,196] was owing to key management personnel for services provided during the year.

16. BUSINESS COMBINATIONS

During 2014, the Company acquired a 100% interest in RSM through two phases:

Phase 1

On May 9, 2014 the Company entered into a Participating Interest and Asset Purchase Agreement purchase agreement [“the PIAPA Agreement”]. This first phase of the acquisition included the purchase of a 12% interest in RSM in exchange for consideration of $US 2 million [$2,167,136] and 32 million common shares of the Company. The 32 million common shares had a value of $10,880,000 which was determined based on the fair market value per share of $0.34 on May 9, 2014. The total consideration of $13,047,136 was allocated to mineral properties and capital assets in the amounts of $9,393,938 and $3,653,198, respectively on the date of the transaction. Pursuant to the PIAPA, the Company became the operator of the mine with joint responsibility for the direction and control of the activities of the mine when it acquired the 12% interest in RSM. In addition, the Company also took responsibility for all costs, expenses and liabilities related to the mine, retroactive to May 1, 2014.

On September 18, 2014 the Company entered into a $US 4 million General Corporate Facility agreement [“the General Corporate Facility”] with LRC-FRSM LLC [“LRC”]. From these proceeds, the Company paid $US 0.25 million in interim period expenditures to the vendors of RSM, in accordance with the amended PIAPA described below.

Phase 2

Pursuant to the PIAPA Agreement and amendments agreed to on July 31, 2014, August 19, 2014 and September 26, 2014 [“the Amendments”], the remaining 88% interest in RSM was acquired by the Company on October 1, 2014. Consideration paid in accordance with the PIAPA Agreement and the Amendments was $US 18 million paid in installments of $US 15 million on October 1, 2014 and $US 3 million on October 16, 2014 and an additional $0.25 million in interim period expenditures to the vendors of RSM on October 1, 2014. In addition, 17,744,000 common shares were granted following both shareholder and regulatory approvals on November 20, 2014. The fair market value of these shares on the acquisition date of October 1, 2014 was $3,903,680. On close of the acquisition on October 1, 2014, the Company assumed certain obligations and liabilities of the vendors to a third party including:

- US $4 million cash payment to RVM Holdings LLC, made on October 1, 2014;
- 2% net smelter return royalty to a maximum of US $9 million dollars, adjusted for inflation on a Consumer Price Indexed [“CPI”] basis. This has been included in the preliminary acquisition valuation of the mineral interests;
- 1% net smelter return royalty to a maximum of US $9 million, adjusted for inflation on a CPI basis to be paid on sales during a calendar month, if and when the price of silver is more than $60 per ounce to be paid after the 2% net smelter return royalty reached $9 million on a CPI basis. Due to the uncertainty of this contingent liability, this has not been included in the preliminary acquisition valuation;

- a bonus payment of US $2 million if the price of silver on the London Bullion market exceeds $40 per ounce for any day on or prior to December 31, 2016. Due to the uncertainty of this contingent liability, this has not been included in the preliminary acquisition valuation; and,
- a bonus payment of US $500,000 to be paid in ten equal monthly installments if the price of silver on the London Bullion market exceeds $30 per ounce for any day on or prior to December 31, 2017.

The allocations of the consideration to the fair values of identifiable assets and liabilities as at October 1, 2014 were as follows:

Purchase Price:

	USD	CAD
Cash	$ 27,932,147	$ 31,202,131
Debt	3,000,000	3,351,206
Shares	13,475,886	15,053,492
	$ 44,408,033	$ 49,606,829

Fair Value of Assets Acquired and Liabilities Assumed:

	USD	CAD
Mining Properties	$ 48,408,033	$ 54,075,104
Environmental provision	146,961	164,166
Assets under capital lease	1,224,826	1,368,215
Due to RVM Holdings LLC.	(4,000,000)	(4,468,275)
Provision for environmental Rehabilitation	(146,961)	(164,166)
Finance lease obligations	(1,224,826)	(1,368,215)
	$ 44,408,033	$ 49,606,829

Transaction costs of $537,028 were incurred in relation to the acquisition of the RSM and were included in corporate development costs at December 31, 2014. In addition, $2,663,784 of transactions costs related to obtaining financing to purchase the RSM were incurred and have been expensed to transaction costs. At December 31, 2014, the amounts expensed to transaction costs were reclassified to loss on extinguishment of debt.

17. 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.

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 operations of FRSMI were not previously classified as held-for-sale or as a discontinued operation. The comparative consolidated statements of loss and comprehensive loss has been restated to show the discontinued operation separately from continuing operations and is presented below.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

The loss on discontinued operations consists of the following:

	2015	2014
Results of discontinued operations [a]	**(1,492,593)**	(3,978,807)
Loss on disposal of RSM *[b]*	**(27,510,517)**	—
Loss on discontinued operations	**(29,003,110)**	(3,978,807)
Basic and diluted loss per share	**(0.13)**	(0.02)

[a] Results of discontinued operations:

	Year ended December 31,	
	2015	2014
EXPENSES		
Administrative	**(1,185,958)**	(209,948)
Corporate development costs	**(384,149)**	(849,960)
Interest expense	**(74,869)**	(27,703)
Accretion	**(8,583)**	(3,849)
Interest and other income	**-**	(407,397)
Foreign exchange gain (loss)	**160,966**	1,082
Gain (loss) on extinguishment of debt or other	**—**	(2,481,032)
Net (loss) for the period	**(1,492,593)**	(3,978,807)
Other comprehensive income		
Currency translation adjustment	**1,695,711**	1,357,544
Net comprehensive income (loss)	**203,118**	(2,621,263)

[b] Loss on the disposal of RSM:

Effect of disposal on the financial position of the Company:	2015
Mining properties	**106,396,434**
Accounts receivables	**2,182**
Cash and cash equivalents	**2,072,539**
Prepaid expenses	**456,625**
Reclamation security deposits	**382,854**
Accounts payable and accrued liabilities	**(3,517,358)**
Royalty payable	**(1,316,230)**
Current debt	**(61,903,462)**
Finance lease obligations	**(861,127)**
Provision for environmental rehabilitation	**(196,495)**
Accrued interest	**(9,424,722)**
Net assets directly associated with FRSMI	**32,091,240**
Loan and accrued interest included in settlement	**(5,539,504)**
Debentures issued on settlement	**4,214,512**
Warrants issued on settlement	**456,512**
Cash received	**(658,988)**
Reclassification of foreign exchange differences from other comprehensive income	**(3,053,255)**
Loss on disposal of RSM	**27,510,517**

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

	Year ended December 31,	
	2015	2014
Net cash used in operating activities	**(5,424,170)**	(1,131,530)
Net cash used in investing activities	**(9,436,844)**	(39,697,362)
Net cash from financing activities	**8,953,539**	46,201,346
Net cash flow	**(5,907,474)**	5,372,454

18. 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.

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, 2015**	December 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents *[notes 7ii, 14[a] and note 17]*	**144,835**	6,219,000
Reclamation security deposits *[note 7iv]*	**25,000**	—
Accounts receivable *[note 17]*	**122,815**	202,372
Prepaid expenses *[note 17]*	**19,516**	1,011,945
Total current assets	**312,166**	7,433,317
Reclamation security deposits *[notes 7iv and 17]*	**211,260**	859,195
Capital assets, net *[note 6]*	**152,151**	219,804
Mining properties *[notes 7 and 17]*	**67,283,007**	173,397,322
	67,958,584	181,909,638
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities *[note 17]*	**370,714**	4,834,799
Interest payable	**—**	466,689
Flow-through share premium deferred gain	**—**	71,091
Current portion of finance lease liability *[notes 10 and 17]*	**—**	949,491
Royalty payable *[notes 11 and 17]*	**—**	993,877
Current debt *[notes 11 and 17]*	**—**	53,737,759
Capital contribution liability *[note 7ii]*	**—**	14,612,844
Total current liabilities	**370,714**	75,666,550
Interest payable *[note 12]*	**183,790**	—
Finance lease liability *[notes 10 and 17]*	**—**	408,360
Provision for environmental rehabilitation *[notes 8 and 17]*	**31,688**	238,210
Long-term debt *[note 12]*	**4,350,893**	—
Deferred income tax liabilities, net *[note 13]*	**—**	1,264,000
Total liabilities	**4,937,085**	77,577,120
Commitments and contingencies *[notes 7ii, 7iii and 18]*		
SHAREHOLDERS' EQUITY		
Share capital *[note 9]*	**160,153,780**	158,935,457
Other reserves	**11,016,669**	11,016,669
Deficit	**(108,146,927)**	(66,976,700)
Accumulated other comprehensive income	**(2,023)**	1,357,092
Total shareholders' equity	**63,021,499**	104,332,518
	67,958,584	181,909,638

See accompanying notes

[Signed]

Robin Goad
Director

[Signed]

Mahendra Naik
Director