Interim Condensed Consolidated Financial Statements

Fortune Minerals Limited

March 31, 2019

Fortune Minerals Limited

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

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

Fortune Minerals Limited
Incorporated under the laws of Ontario

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(expressed in Canadian dollars)

Unaudited

As at	See note 2 going concern uncertainty **March 31, 2019**	December 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents *[note 10]*	**2,873,238**	3,611,228
Reclamation security deposits *[note 7]*	**25,000**	25,000
Accounts receivable	**111,070**	99,187
Prepaid expenses	**21,933**	58,774
Total current assets	**3,031,241**	3,794,189
Reclamation security deposits *[note 7]*	**192,001**	191,245
Capital assets, net *[note 8]*	**62,648**	67,770
Mining properties *[note 3]*	**75,161,487**	74,272,856
	78,447,377	78,326,060
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**465,765**	321,906
Total current liabilities	**465,765**	321,906
Provision for environmental rehabilitation *[note 7]*	**37,387**	36,564
Long-term debt *[note 11]*	**7,727,335**	7,442,171
Derivatives *[note 5ii[b]]*	**5,575,169**	3,292,724
Total liabilities	**13,805,656**	11,093,365
SHAREHOLDERS' EQUITY		
Share capital *[note 5]*	**172,444,028**	173,663,326
Other reserves *[notes 5 and 6]*	**14,745,403**	13,129,875
Deficit	**(122,547,710)**	(119,560,506)
Total shareholders' equity	**64,641,721**	67,232,695
	78,447,377	78,326,060

See accompanying notes

Fortune Minerals Limited

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(expressed in Canadian dollars)

Unaudited

For the three-months ended March 31,

	2019	2018
REVENUE AND OTHER INCOME		
Interest and other income *[note 13]*	**12,604**	24,427
	12,604	24,427
EXPENSES		
General and administrative	**349,298**	407,183
Interest	**285,164**	257,484
Corporate development	**77,779**	107,222
Amortization *[note 8]*	**5,122**	5,300
Change in fair value related to derivative liability *[note 5ii[b]]*	**2,282,445**	(2,859,902)
	2,999,808	(2,082,713)
Net income (loss) and comprehensive income (loss) for the period	**(2,987,204)**	2,107,140
Basic and diluted income (loss) per share *[note 17]*	**(0.01)**	0.01

See accompanying notes

Fortune Minerals Limited

CONSOLIDATED STATEMENTS OF CASH FLOWS

(expressed in Canadian dollars)

Unaudited

For the three-months ended March 31,	**2019**	2018
OPERATING ACTIVITIES		
Net income (loss) for the period from continuing operations	**(2,987,204)**	2,107,140
Changes in non-cash working capital balances related to operations		
Accounts receivable	**(11,883)**	82,421
Prepaid expenses	**36,841**	13,807
Accounts payable and accrued liabilities	**143,859**	268,913
Accrued interest on debentures	**128,608**	122,411
	(2,689,779)	2,594,692
Add (deduct) items not involving cash		
Accretion	**823**	755
Amortization	**5,122**	5,300
Stock-based compensation	**22,610**	13,780
Non-cash portion of loan discount *[note 11]*	**156,556**	135,073
Change in fair value related to derivative liability	**2,282,445**	(2,859,902)
Cash used in operating activities	**(222,223)**	(110,302)
INVESTING ACTIVITIES		
Increase in exploration and evaluation expenditures	**(524,667)**	(406,297)
Purchase of capital assets, including in mining properties	**(355,344)**	(1,032,436)
Posting of security for reclamation security deposits, net	**(756)**	(470)
Cash used in investing activities	**(880,767)**	(1,439,203)
FINANCING ACTIVITIES		
Proceeds on issuance of shares, net *[note 5i.]*	**—**	(26,131)
Proceeds on exercise of derivatives *[note 5 ii.[a]]*	**—**	493,417
Proceeds on exercise of options *[note 6]*	**365,000**	96,250
Cash provided by financing activities	**365,000**	563,536
Increase (decrease) in cash and cash equivalents during the period, net	**(737,990)**	(985,969)
Cash and cash equivalents, beginning of period	**3,611,228**	8,524,567
Cash and cash equivalents, end of period [note 10]	**2,873,238**	7,538,598

See accompanying notes

Fortune Minerals Limited

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(expressed in Canadian dollars)

Unaudited

	Common shares		Warrants		Subtotal	Other reserves	Deficit	Total shareholders' equity
	#	$	#	$	$	$	$	$
December 31, 2017	**333,443,319**	**170,302,749**	**27,770,880**	**2,620,279**	**172,923,028**	**12,940,075**	**(128,109,193)**	**57,753,910**
Issued as a result of:								
Share issuance costs, net of tax	—	(26,131)	—	—	(26,131)	—	—	(26,131)
Exercise of derivatives	3,709,901	493,417	—	—	493,417	—	—	493,417
Exercise of stock options	1,250,000	164,750	—	—	164,750	(68,500)	—	96,250
Stock options granted	—	—	—	—	—	13,780	—	13,780
Net income for the period	—	—	—	—	—	—	2,107,140	2,107,140
March 31, 2018	**338,403,220**	**170,934,785**	**27,770,880**	**2,620,279**	**173,555,064**	**12,885,355**	**(126,002,053)**	**60,438,366**
December 31, 2018	**340,003,220**	**171,060,047**	**27,605,880**	**2,603,279**	**173,663,326**	**13,129,875**	**(119,560,506)**	**67,232,695**
Issued as a result of:								
Exercise of stock options *[note 6]*	7,300,000	613,200	—	—	613,200	(248,200)	—	365,000
Stock options granted *[note 6]*	—	—	—	—	—	31,230	—	31,230
Expiration of warrants *[note 5ii.[a]]*	—	—	(12,900,000)	(1,832,498)	(1,832,498)	1,832,498	—	—
Net loss for the period	—	—	—	—	—	—	(2,987,204)	(2,987,204)
March 31, 2019	**347,303,220**	**171,673,247**	**14,705,880**	**770,781**	**172,444,028**	**14,745,403**	**(122,547,710)**	**64,641,721**

See accompanying notes

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

March 31, 2019

1. CORPORATE INFORMATION

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

The unaudited interim condensed consolidated financial statements of Fortune Minerals Limited ["the Company"] for the three months ended March 31, 2019 were authorized for issuance by the Board of Directors on May 8, 2019.

2. BASIS OF PRESENTATION

i. *Statement of Compliance*

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

ii. *Going Concern of Operations*

These unaudited interim condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of the Company's assets and discharge of its liabilities and commitments in the normal course of business. With the existing working capital of $2,565,476 at March 31, 2019, the Company has sufficient cash to conduct certain critical path activities in 2019. However, the NICO project requires further funding to advance the project through to production. This results in the existence of a material uncertainty that casts significant doubt about the Company's ability to continue as a going concern. Management is actively working to achieve positive cash flows beyond 2019 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 unaudited interim condensed consolidated financial statements do not include adjustments, which may be material, to the amounts and classification of assets and liabilities that would be necessary should the going concern principle not be appropriate.

iii. *Basis of Measurement*

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

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

["Arctos JV'] is accounted for as a joint operation and FCL recognizes its 50% interest in the assets, liabilities, income, loss and expenses. All intercompany transactions and balances have been eliminated upon consolidation.

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

iv. *Judgment and Estimates*

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

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

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

[a] *Impairment of non-financial assets*

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

[b] *Fair values*

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

[c] *Exploration and evaluation expenditures*

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

In addition, in preparing the unaudited interim condensed consolidated financial statements, the notes to the unaudited interim condensed consolidated financial statements were ordered such that the most relevant information was presented earlier in the notes and the disclosures that

management deemed to be immaterial were excluded from the notes to unaudited interim condensed consolidated financial statements. The determination of the relevance and materiality of disclosures involves significant judgment.

3. MINING PROPERTIES

As at March 31, 2019, the Company's mining properties are categorized in the exploration and evaluation stage since the necessary financing has not yet been obtained and a construction decision has not yet been approved by the Board of Directors. For management purposes, the group is organized into cash generating units based on the significant mining properties that the Company is currently exploring and evaluating or developing. Management monitors the monthly expenditures of its operating segments separately for the purpose of making decisions about resource allocation and financing requirements.

Interests in mining properties consist of the following:

	March 31, 2019			
	Capital Assets $	**Property Costs $**	**Exploration and Evaluation Expenditures $**	**Total Mining Properties $**
NICO *[i]*	**8,937,191**	**2,191,442**	**63,853,228**	**74,981,861**
Sue-Dianne	**—**	**9,164**	**159,748**	**168,912**
Other properties	**—**	**—**	**10,714**	**10,714**
	8,937,191	**2,200,606**	**64,023,690**	**75,161,487**

	December 31, 2018			
	Capital Assets $	Property Costs $	Exploration and Evaluation Expenditures $	Total Mining Properties $
NICO *[i]*	8,587,377	2,191,442	63,314,411	74,093,230
Sue-Dianne	—	9,164	159,748	168,912
Other properties	—	—	10,714	10,714
	8,587,377	2,200,606	63,484,873	74,272,856

During the three months ended March 31, 2019, there was no change to Property Costs [March 31, 2018 – Nil] and Exploration and Evaluation Expenditures increased by $538,817 [March 31, 2018 - $421,283]. There were no disposals, write-offs or amortization.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

March 31, 2019

Exploration and evaluation expenditures capitalized to mining properties during the three months ended March 31, 2019 and 2018 include the following:

	March 31, 2019	March 31, 2018
	$	$
Employee and contractor compensation and benefits	**205,210**	157,238
Amortization	**6,460**	6,986
Stock-based compensation	**7,690**	—

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

March 31, 2019

Capital assets in mining properties consist of the following:

	Surface facilities under construction $	Surface facilities $	Camp structures $	Mobile equipment $	Site furniture and equipment $	Land and land acquisition costs $	Asset retirement obligation [“ARO”] $	Total $
Cost								
As at December 31, 2018	7,583,538	1,179,717	593,724	595,034	19,947	900,356	6	10,872,322
Additions	299,719	—	—	—	31,555	25,000	—	356,274
As at March 31, 2019	**7,883,257**	**1,179,717**	**593,724**	**595,034**	**51,502**	**925,356**	**6**	**11,228,596**
Accumulated amortization								
As at December 31, 2018	—	1,096,046	588,008	582,486	18,405	—	—	2,284,945
Amortization for the period	—	4,186	429	941	904	—	—	6,460
As at March 31, 2019	**—**	**1,100,232**	**588,437**	**583,427**	**19,309**	**—**	**—**	**2,291,405**
Net book value								
As at December 31, 2018	7,583,538	83,671	5,716	12,548	1,542	900,356	6	8,587,377
As at March 31, 2019	**7,883,257**	**79,485**	**5,287**	**11,607**	**32,193**	**925,356**	**6**	**8,937,191**

Included in surface facilities under construction during the three months ended March 31, 2018 is $15,678 [March 31, 2018 - $25,477] of directly attributable employee and contractor compensation and benefits and $930 [March 31, 2018 - $Nil] of stock-based compensation.

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

The NICO project and the related claims in the Marian River Area, Northwest Territories are wholly owned by the Company. The Company plans to locate 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 Saskatchewan Metals Processing Plant [“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.

On March 25, 2019, Fortune received a decision from the Rural Municipality of Corman Park [“Corman Park”] rejecting the Company’s application to change the zoning of its lands in Saskatchewan from Agriculture to M2 Rural Industrial. The rezoning is required to construct and operate a hydrometallurgical facility to process metal concentrates from the Company's planned NICO mine in the Northwest Territories. Subsequent to March 31, 2019, the Company entered into an option to purchase an alternative site in Saskatchewan which has already been planned for industrial use and meets the Company’s infrastructure and services requirements.

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

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

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

Going forward, under the Arctos Sale Agreement, the Arctos JV partners maintain the exclusive right to purchase back the coal licenses at the same price for a 10-year option period. If both partners do not wish to exercise the repurchase option, each of them may do so individually. No value was attributed to the option at the time of the agreement or as at the three months ended March 31, 2019.

4. ASSET IMPAIRMENT

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

At March 31, 2019, the Company considered whether there had been any significant changes to impairment indicators from its previous impairment assessment completed at December 31, 2018 and whether any new indicators were present. Management determined that as a result of not obtaining financing during the period, substantive expenditure on further exploration for and evaluation of mineral resources of the NICO project cannot be budgeted or planned and completed an impairment assessment of the NICO project. As a result of that analysis, management has determined that the carrying value of its projects is not impaired or does not require a reversal of a prior impairment charge.

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

Assumptions underlying the estimate of the recoverable amount included expected commodity prices based on forecasted averages of US$1,300/oz for gold, US$35/lb for cobalt and US$6/lb for bismuth and an exchange rate of US$0.75:C$1.00. A discount rate of 8% was used in the cash flow analysis. These factors resulted in a recoverable amount in excess of book value of NICO. Accordingly, no impairment was recognized on the NICO project.

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

5. SHARE CAPITAL AND RESERVES

i. Common Shares

The Company is authorized to issue an unlimited number of common shares without par value. As at March 31, 2019, the weighted average number of common shares outstanding was 342,220,998 [December 31, 2018 - 338,392,567].

The Company did not enter into any agreements to issue shares during the three months ended March 31, 2019.

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

	2019	2018
Shares outstanding, beginning of period	**340,003,220**	333,443,319
Exercise of derivatives *[note 5ii.[b]]*	**—**	3,709,901
Exercise of options *[note 6]*	**7,300,000**	1,250,000
Shares outstanding, end of period	**347,303,220**	338,403,220

ii. Share Purchase Warrants

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

	2019		**2018**	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Warrants outstanding, beginning of period	**27,605,880**	**$ 0.30**	27,770,880	$ 0.30
Expiry of Warrants *[note 5ii.[a]]*	**(12,900,000)**	**0.35**	—	—
Warrants outstanding, end of period	**14,705,880**	**$ 0.25**	27,770,880	$ 0.30

[a] During the three months ended March 31, 2019, 12,900,000 [March 31, 2018 – Nil] warrants with an exercise price of $0.35 expired unexercised. These warrants had a book value of $1,832,498.

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

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

	2019		2018	
	Class A	**Class B**	Class A	Class B
Derivatives outstanding, beginning of period	**8,484,296**	**51,718,040**	12,194,197	51,718,040
Exercise of derivatives	**—**	**—**	(3,709,901)	—
Shares outstanding, end of period	**8,484,296**	**51,718,040**	8,484,296	51,718,040

The exercise price for Class A and Class B warrants at March 31, 2019 were $0.133 [March 31, 2018 - $0.133] and $0.208 [March 31, 2018 - $0.208], respectively.

There were no Class A or Class B warrants exercised during the three months ended March 31, 2019. During the three months ended March 31, 2018, 3,709,901 Class A warrants were exercised with an exercise price of $0.133 raising gross proceeds of $493,417.

The determination of the fair value of the resulting derivative requires the Company to make a number of assumptions and estimates regarding the inputs into the model used to determine the value of the warrants. The assumptions used for the three months ended March 31, 2019 and 2018 are as follows: dividend yield of 0% [2018 – 0%], expected volatility of between 101.93% and 162.89% [2018 – 98.97% and 114.64%], risk free interest rate of between 1.56% and 1.59% [2018 – 1.76% and 1.94%] and expected life of between 1.37 and 3.37 years [2018 – 2.37 and 4.37 years]. These assumptions will change from time to time and the impact will be reflected in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). Small changes to the inputs into the model can have a substantial impact on the value of the warrants. A change in the warrant unit value of approximately 10%, or approximately $0.01 [2018 - $0.02], will result in the value of the derivative changing by approximately $556,000 [2018 – $1,205,000].

iii. Nature and Purpose of Equity and Reserves

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

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

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

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

6. STOCK-BASED COMPENSATION

The other reserves balance was increased by $31,230, representing the fair value of 2,100,000 options granted in the prior year and vested during the three months ended March 31, 2019, and has been allocated to general and administrative expense, corporate development costs, exploration and evaluation expenditures and capital assets in the amounts of $17,710, $4,900, $7,690 and $930, respectively. No options have been granted during the three months ended March 31, 2019.

A summary of the status of the Company's stock option plan as at March 31, 2019 and December 31, 2018, and changes during the periods ended on those dates are presented below:

	March 31, 2019		December 31, 2018	
	Number of shares	**Weighted-average exercise price**	Number of shares	Weighted-average exercise price
	#	**$**	#	$
Options outstanding, beginning of period	**19,050,000**	**0.12**	19,050,000	0.15
Granted	**—**	**—**	5,200,000	0.11
Exercised	**(7,300,000)**	**0.05**	(2,850,000)	0.06
Expired or cancelled	**(1,750,000)**	**0.28**	(1,650,000)	0.55
Options outstanding, end of period	**10,700,000**	**0.14**	19,750,000	0.12
Options vested and outstanding, end of period	**8,625,000**	**0.15**	17,650,000	0.12

During the three months ended March 31, 2019, 7,300,000 stock options with a book value of $248,200 were exercised for aggregate gross proceeds of $365,000 and 1,750,000 stock options expired unexercised.

The following tables summarize information about the options outstanding as at March 31, 2019:

March 31, 2019

Range of exercise prices	**Number outstanding**	**Number vested and outstanding**	**Weighted average exercise price – all [i]**	**Weighted average remaining contract life – all [i]**
$	#	#	$	years
Nil – 0.49	10,700,000	8,625,000	0.14	2.72

[i] The weighted average exercise price and weighted average remaining contract life are the same for options outstanding and options vested and outstanding with the exception of 4,150,000 options exercisable at $0.10 of which only 2,075,000 have vested at March 31, 2019.

7. PROVISION FOR ENVIRONMENTAL REHABILITATION AND SECURITY DEPOSITS

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

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

	March 31, 2019	December 31, 2018
NICO Project		
Provision for environmental rehabilitation	**$37,387**	$36,564
Estimated remaining life	**19 years**	19 years
Discount rate	**9%**	9%
Total provision for environmental rehabilitation	**$37,387**	$36,564

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

Reclamation security deposits consist of the following:

	March 31, 2019	December 31, 2018
	Deposit amount $	Deposit amount $
NICO Project	**192,001**	191,245
Arctos Anthracite Project	**25,000**	25,000
Total Net Book Value	**217,001**	216,245

The security for the reclamation of the Arctos Anthracite Project is held in the Arctos JV. As at March 31, 2019, the security deposit amount in the Arctos JV was $25,000 [December 31, 2018 - $25,000]. The Company expects this amount to be released once the Province has completed its reclamation workplan review.

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

8. CAPITAL ASSETS

Capital assets consist of the following:

	Computer equipment $	Furniture and fixtures $	Software $	Total $
Cost				
As at December 31, 2018	200,792	117,216	328,690	646,698
As at March 31, 2019	**200,792**	**117,216**	**328,690**	**646,698**
Accumulated amortization				
As at December 31, 2018	182,438	101,787	294,703	578,928
Amortization for the period	1,376	772	2,974	5,122
As at March 31, 2019	**183,814**	**102,559**	**297,677**	**584,050**
Net book value				
As at December 31, 2018	18,354	15,429	33,987	67,770
As at March 31, 2019	**16,978**	**14,657**	**31,013**	**62,648**

9. EXPENSES BY NATURE

	March 31, 2019	March 31, 2018
Employee and contractor compensation and benefits (i)	**239,163**	239,673
Operating lease expense – property (ii)	**22,904**	22,904
Stock-based compensation (iii)	**22,610**	13,780
Amortization	**5,122**	5,300
Foreign exchange loss	**(4)**	(846)
Change in fair value related to derivative liability	**2,282,445**	(2,859,902)

(i) $167,373 [2018 - $184,357] and $71,790 [2018 - $55,316] of employee and contractor compensation benefits are included in general and administrative and corporate development expenses, respectively, on the consolidated statements of income (loss) and comprehensive income (loss)

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

(iii) $17,710 [2018 - $7,170] and $4,900 [2018 - $6,610] of stock-based compensation are included in general and administrative expenses and corporate development expense, respectively, on the consolidated statements of income (loss) and comprehensive income (loss)

10. CASH AND CASH EQUIVALENTS

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

11. LONG-TERM DEBT

The Company has $8.75 million unsecured debentures outstanding as of March 31, 2019. The debentures have a term of seven years maturing on August 12, 2022, bear interest at 5% per annum, compounding semi-annually and both principal and interest are payable at maturity.

The long-term debt is summarized as follows for the three months ending March 31,2019:

	March 31, 2019	December 31, 2018
Debentures at maturity	**$ 8,750,000**	$ 8,750,000
Loan discount	**(2,761,729)**	(2,918,285)
Accrued interest on debentures	**1,739,064**	1,610,456
	$ 7,727,335	$ 7,442,171

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

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

The loan balances have been recorded at their amortized cost at an effective interest rate of 18%. For the three months ended March 31, 2019, $156,556 [March 31, 2018 - $135,073] of loan discount was amortized using the effective interest rate method.

12. FINANCIAL INSTRUMENTS

The Company is exposed to risks through its operations that arise from its use of financial instruments, which include credit risk, interest rate risk, market price risk, liquidity risk and foreign exchange risk. The Company's management believes that these risks are minimal due to the nature of the financial instruments. The principal financial instruments used by the Company,

from which financial instrument risk arises, are cash and cash equivalents, reclamation security deposits, accounts receivables, accounts payable and accrued liabilities, provision for environmental rehabilitation, long-term debt and derivatives.

i. Financial instruments by category

Financial assets

	Financial assets at amortized cost	
	March 31, 2019	December 31, 2018
Cash and cash equivalents	$ 2,873,238	$ 3,611,228
Reclamation security deposits	217,001	216,245
Accounts receivables	111,070	99,187
Total financial assets	$ 3,201,309	$ 3,926,660

Financial liabilities

	Financial liabilities at fair value through profit or loss		Financial liabilities at amortized cost	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Accounts payable and accrued liabilities	$ —	$ —	$ 465,765	$ 321,906
Provision for environmental rehabilitation	—	—	37,387	36,564
Long-term debt	—	—	7,727,335	7,442,171
Derivatives	5,575,169	3,292,724	—	—
Total financial liabilities	$ 5,575,169	$ 3,292,724	$ 8,230,487	$ 7,800,641

ii. Financial instruments at amortized cost

The fair value of the Company's cash and cash equivalents, reclamation security deposits, accounts receivable, and accounts payable and accrued liabilities approximate their carrying values due to their short-term nature. The fair value of the long-term debt measured at amortized cost has a fair value of $8,967,149 estimated using a 10% discount rate.

iii. Financial instruments measured at fair value

The fair value hierarchy of financial instruments measured at fair value is provided below:

	Level 3	
	March 31, 2019	December 31, 2018
Derivatives	5,575,169	3,292,724

There were no transfers between levels during the period. The change in fair value of level 3 financial instruments of $2,282,445 is attributed to the change in fair value calculated on the derivative at the reporting date and has been recognized in the consolidated statements of income (loss) and comprehensive income (loss).

iv. Contractual maturities of financial liabilities

The following tables detail the Company's contractual maturities for its financial liabilities as at March 31, 2019. Payments due by year are as follows:

	Total	2019	2022	Greater than 5 years
Accounts payable and accrued liabilities	$ 465,765	$ 465,765	$ —	$ —
Provision for environmental rehabilitation	188,000	—	—	188,000
Long-term debt	8,750,000	—	8,750,000	—
Accrued interest on debentures	3,613,518	—	3,613,518	—
	$13,017,283	$ 465,765	$12,363,518	$ 188,000

13. INTEREST AND OTHER INCOME

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

	2019	2018
Interest income	**12,600**	23,581
Foreign exchange loss	**4**	846
Total Interest and Other Income	**12,604**	24,427

14. INCOME TAXES

The Company has non-capital loss carryforwards totaling $47,800,000, net capital loss carryforwards of $18,200,000, un-deducted debt and share issuance costs of $574,000 and unused investment tax credits on pre-production mining costs of $1,975,000. The non-capital losses will begin to expire in 2026. The Company has completed feasibility studies for its principal project

and undertaken related permitting and financing activities. The benefit of certain non-capital losses and undeducted share issuance costs has been recorded in the unaudited interim condensed consolidated financial statements only to the extent of existing taxable temporary differences. The potential benefits of these carry-forward non-capital losses, capital losses, and other deductible temporary differences have not been recognized in these unaudited interim condensed consolidated financial statements as it is not considered probable that sufficient future taxable profit will allow the deferred tax asset to be recovered. A valuation allowance of $15,892,500 has been recognized related to the uncertainty of realizing the benefit of deferred income tax assets in future years.

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

	March 31, 2019 $	December 31, 2018 $
Deferred income tax assets		
Net operating loss carryforwards	**12,678,000**	12,564,000
Undeducted debt and share issuance costs *[i]*	**152,100**	169,000
Unused investment tax credits on pre-production costs	**1,974,500**	1,974,500
Tax value of exploration and evaluation expenditures and capital assets in excess of book value	**1,087,900**	922,500
	15,892,500	15,630,000
Less valuation allowance related to operating losses, share issuance costs and unused investments tax credits	**(15,892,500)**	(15,630,000)
Deferred income tax assets	**—**	—

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

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

	March 31, 2019 $	March 31, 2018 $
Combined federal and provincial/state income tax rate	**26.50%**	26.50%
Corporate income tax provision (recovery) at statutory rate	**(791,600)**	563,000
Increase (decrease) in income taxes resulting from		
Non-deductible stock-based compensation and other expenses	**47,600**	41,000
Non-deductible change in fair value of derivative	**605,000**	(764,000)
Rate difference	**(169,000)**	23,000
Tax value of loss carryforwards not recognized	**308,000**	137,000
	—	—

15. MANAGEMENT OF CAPITAL

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

16. RELATED PARTY TRANSACTIONS

For the three months ended March 31, 2019, the Company paid key management personnel including officers, directors or their related entities for consulting services and/or management services.

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

	March 31, 2019	March 31, 2018
	$	$
Salaries and benefits	**7,386**	5,644
Consulting services	**229,797**	246,725
Legal services	**7,400**	9,800
	244,583	262,169

As at March 31, 2019, $36,537 [2018 - $45,450] was owing to key management personnel for services provided during the period.

17. INCOME (LOSS) PER SHARE

Basic income (loss) per share is calculated by dividing net income (loss) for the period 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.

i. Basic income (loss) per share

	March 31, 2019	March 31, 2018
Net income (loss)	**$ (2,987,204)**	$ 2,107,140
Weighted average number of common shares	**342,220,998**	337,562,793
Basic income (loss) per share	**$ (0.01)**	$ 0.01

ii. Diluted income (loss) per share

For calculating diluted income (loss) per share, for the three months ended March 31, 2019 and 2018, the following weighted average options, warrants and derivative warrants had an exercise price less than the average market price for the period:

	2019	2018
Options	—	16,075,616
Warrants	—	165,000
Derivative Warrants	—	60,202,336
	—	76,442,952

The diluted loss per share for the period ending March 31, 2019 is equal to the basic loss per share as there are no options, warrants or derivative warrants with an exercise price less than the average market price for the period. The diluted income per share computation for the period ended March 31, 2018 is as follows:

	March 31, 2018
Net income	$ 2,107,140
Weighted average number of common shares (diluted)	369,179,755
Diluted income per share	$ 0.01

18. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	2019 **$**	2018 $
Interest and investment income received	**12,583**	15,655

19. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET IN EFFECT

i. New accounting standards

- IFRS 16 Leases – effective for the December 31, 2019 year end. This standard has been adopted by the Company and there was no significant impact on the Company's unaudited interim condensed consolidated financial statements.