

Interim Condensed Consolidated Financial Statements

Fortune Minerals Limited

Unaudited

September 30, 2014

Fortune Minerals Limited

Incorporated under the laws of Ontario

**CONSOLIDATED STATEMENTS OF
FINANCIAL POSITION**

(expressed in Canadian dollars)

Unaudited

As at	September 30, 2014	December 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents <i>[notes 7ii and 13[a]]</i>	3,103,982	13,412,020
Accounts receivable	80,088	371,867
Prepaid expenses	87,057	93,512
Assets held for sale <i>[note 7vi]</i>	1,798,545	1,853,592
Total current assets	5,069,672	15,730,991
Other Assets <i>[note 7iii]</i>	61,612	—
Reclamation security deposits <i>[note 7iv]</i>	846,764	493,109
Capital assets, net <i>[note 6]</i>	244,163	253,998
Mining properties <i>[note 7]</i>	127,934,119	98,013,108
	134,156,330	114,491,206
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	2,077,363	1,516,216
Interest payable	38,438	90,000
Current debt <i>[note 10]</i>	4,459,600	2,999,526
Total current liabilities	6,575,401	4,605,742
Capital contribution liability <i>[note 7ii]</i>	14,307,339	13,466,880
Provision for environmental rehabilitation <i>[note 8]</i>	62,462	58,513
Long-term debt <i>[note 11]</i>	5,013,732	—
Deferred income tax liabilities, net <i>[note 12]</i>	1,856,000	2,398,000
Total liabilities	27,814,934	20,529,135
Commitments and contingencies <i>[notes 7ii, 7iii and 15]</i>		
SHAREHOLDERS' EQUITY		
Share capital <i>[note 9]</i>	154,627,678	139,439,655
Other reserves	11,016,669	10,482,909
Deficit	(60,026,232)	(55,960,493)
Accumulated other comprehensive income	723,281	—
Total shareholders' equity	106,341,396	93,962,071
	134,156,330	114,491,206

See accompanying notes

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(expressed in Canadian dollars)

Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
EXPENSES				
Administrative	465,293	381,874	1,679,046	1,416,885
Investor relations and regulatory fees	94,831	104,220	353,154	337,160
Stock-based compensation <i>[note 9[b]]</i>	—	23,710	307,220	552,750
Corporate development costs <i>[note 7i[c]]</i>	352,030	179,463	938,899	461,865
Interest expense <i>[note 11]</i>	136,425	25,395	291,855	76,052
Accretion <i>[notes 7ii and 8]</i>	305,767	279,194	914,409	837,582
Amortization	24,379	11,955	51,933	35,077
Loss before other items	(1,378,725)	(1,005,811)	(4,536,516)	(3,717,371)
Interest and other income	11,236	18,401	117,035	63,656
Gain on disposal of mining properties	—	20,396	—	20,396
Loss on disposal of capital assets	(36)	(2,035)	(1,899)	(2,035)
Gain on flow-through share premium	—	15,000	—	127,000
Foreign exchange gain (loss) <i>[note 4[b]ii]</i>	(114,530)	(17,422)	(169,359)	30,823
Impairment charge <i>[note 7v]</i>	—	—	—	(163,352)
Loss before income taxes	(1,482,055)	(971,471)	(4,590,739)	(3,640,883)
Recovery of income taxes <i>[note 12]</i>				
Current income taxes	—	—	—	2,600
Deferred income taxes	128,000	314,000	525,000	326,000
Net loss for the period	(1,354,055)	(657,471)	(4,065,739)	(3,312,283)
Other comprehensive income				
Currency translation adjustment	989,414	—	723,281	—
Net comprehensive loss	(364,641)	(657,471)	(3,342,458)	(3,312,283)
Basic and diluted loss per share <i>[note 9]</i>	—	—	(0.02)	(0.03)

See accompanying notes

Fortune Minerals Limited

**CONSOLIDATED STATEMENTS OF
CASH FLOWS**

(expressed in Canadian dollars)

Unaudited

For the nine-month periods ended September 30,

	2014	2013
OPERATING ACTIVITIES		
Net loss for the period	(4,065,739)	(3,312,283)
Add (deduct) items not involving cash		
Accretion	914,409	837,582
Amortization	51,933	35,077
Deferred income taxes	(525,000)	(326,000)
Gain on flow-through share premium	—	(127,000)
Stock-based compensation	307,220	552,750
Non-cash portion of interest expense	14,207	2,663
Gain on disposal of mining properties	—	(20,396)
Loss on disposal of capital assets	1,899	2,035
Impairment charge	—	163,352
	(3,301,071)	(2,192,220)
Changes in non-cash working capital balances related to operations		
Accounts receivable	291,779	(137,044)
Prepaid expenses	6,455	109,167
Other assets	(61,612)	—
Accounts payable and accrued liabilities	520,815	787,743
Interest payable	(51,562)	(67,500)
Income taxes payable	—	(21,286)
Cash used in operating activities	(2,595,196)	(1,521,140)
INVESTING ACTIVITIES		
Increase in exploration and evaluation expenditures	(4,001,189)	(10,116,766)
Acquisition of interest in Revenue Silver Mine [note 7iii]	(2,440,318)	—
Purchase of capital assets, including in mining properties	(11,356,275)	(344,133)
Posting of security for reclamation security deposits, net	(342,404)	(369)
Proceeds on disposal of assets held for sale	43,321	146,700
Cash used in investing activities	(18,096,865)	(10,314,568)
FINANCING ACTIVITIES		
Proceeds on issuance of shares, net [note 9 [d] and [e]]	4,020,051	11,700,000
Proceeds on issuance of debt	6,370,900	(691,892)
Cash provided by financing activities	10,390,951	11,008,108
Effect of foreign exchange on cash	(6,928)	—
Decrease in cash and cash equivalents during the period, net	(10,301,110)	(827,600)
Cash and cash equivalents, beginning of period	13,412,020	19,412,992
Cash and cash equivalents, end of period [note 12]	3,103,982	18,585,392

See accompanying notes

Fortune Minerals Limited

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(expressed in Canadian dollars)

Unaudited

	Common shares		Warrants		Subtotal	Other reserves	Deficit	Accumulated other comprehensive income	Total shareholders' equity
	#	\$	#	\$	\$	\$	\$	\$	\$
December 31, 2012	121,276,976	128,253,547	1,100,000	404,119	128,657,666	9,141,860	(11,629,075)	—	126,170,451
Issued as a result of:									
Private offerings	29,250,000	11,700,000	—	—	11,700,000	—	—		11,700,000
Share issuance costs, net of tax	—	(509,892)	—	—	(509,892)	—	—	—	(509,892)
Stock options granted	—	—	—	—	—	929,720	—	—	929,720
Expiration of warrants	—	—	(1,100,000)	(404,119)	(404,119)	404,119	—	—	—
Net loss for the period	—	—	—	—	—	—	(3,312,283)	—	(3,312,283)
September 30, 2013	150,526,976	139,443,655	—	—	139,443,655	10,475,699	(14,941,358)	—	134,977,996
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 <i>[note 9[c] to [f]]</i>	44,051,204	14,883,815	3,333,333	343,333	15,227,148	—	—	—	15,227,148
Share issuance costs, net of tax <i>[note 9[d] to [f]]</i>	—	(39,125)	—	—	(39,125)	—	—	—	(39,125)
Stock options granted <i>[note 9[b]]</i>	—	—	—	—	—	533,760	—	—	533,760
Net loss for the period	—	—	—	—	—	—	(4,065,739)	—	(4,065,739)
Foreign currency translation	—	—	—	—	—	—	—	723,281	723,281
September 30, 2014	194,578,180	154,284,345	3,333,333	343,333	154,627,678	11,016,669	(60,026,232)	723,281	106,341,396

See accompanying notes

Fortune Minerals Limited

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

September 30, 2014

1. CORPORATE INFORMATION

The consolidated financial statements of Fortune Minerals Limited ["the Company"] for the nine-month period ended September 30, 2014 were authorized for issuance by the Board of Directors on November 13, 2014. 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

The Company is a natural resource company with mineral deposits in Canada and the United States of America ["US"] and is focused on the exploration, assembly 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 North America, and the Company operates in one industry segment, mining.

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

These unaudited interim condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of the Company's assets and discharge of its liabilities and commitments in the normal course of business. Based on the Company's current cash flow forecasts, the Company does not have sufficient cash or working capital to fund all of its planned activities without obtaining additional financing. This results in the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Management is actively working to achieve positive cash flows through the acquisition of the Revenue Silver Mine and is continually pursuing and considering various financing opportunities and 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. 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 Company be unable to continue as a going concern.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The same accounting policies and methods of computation were followed in the preparation of these interim condensed consolidated financial statements that were followed for the audited annual consolidated financial statements for the year ended December 31, 2013 and updates to the accounting policies for September 30, 2014, to supplement the December 31, 2013 audited annual consolidated financial statements, are described below. Since the interim condensed consolidated

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financial statements for the nine-month period ended September 30, 2014 do not include all disclosures required by the IFRS for annual financial statements, they should be read together with the audited annual consolidated financial statements for the year ended December 31, 2013.

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 made by management in the application of IFRS that have a significant effect on the interim condensed consolidated financial statements and estimates with a significant risk of material adjustment in the current and following fiscal years are discussed in Notes 3[d] to 3[j], 3[o], 7iv and 11 of the Company's December 31, 2013 audited annual consolidated financial statements.

[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., 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 is accounted for as a joint operation and FCL recognizes its 80% interest in the assets, liabilities, income, loss and expenses. All intercompany transactions and balances have been eliminated.

FRSMI was incorporated on April 9, 2014 under the Colorado Corporations and Associations Act and is domiciled in Colorado, USA. FRSMI holds the Revenue Silver Mine ["RSM"] project interest, acquired in the prior quarter [refer to Note 7iii].

[b] 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.

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[c] Intangible assets

Intangible assets are amortized at the following rate:

Asset class	Rate of amortization %
Software	35

[d] 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 is 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.

[e] New accounting standards

IFRS Interpretations Committee 21, *Levies* [“IFRIC 21”] was issued by the International Accounting Standards Board [“IASB”] in May 2013. IFRIC 21 addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as well as addressing what the obligating event is that gives rise to pay a levy and when should a liability be recognized. IFRIC 21 was adopted by the Company effective January 1, 2014 and there was no impact of the policy on these interim condensed consolidated financial statements.

The IASB issued amendments to IAS 36, *Impairment of Assets* [“IAS 36”] on May 29, 2013. The amendments restrict the requirement to disclose the recoverable amount of an asset or cash-generating unit to periods in which an impairment loss has been recognized or reversed. The

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amendments also expand and clarify the disclosure requirements applicable when an asset or cash-generating unit's recoverable amount has been determined on the basis of fair value less cost of disposal. The amendments were adopted by the Company effective January 1, 2014 and there was no impact of the policy on these interim condensed consolidated financial statements.

The IASB issued amendments to IAS 32, *Financial Instruments* ["IAS 32"] effective January 1, 2014. The amendments provide further clarification on the application of the offsetting requirements. There was no impact on these interim condensed consolidated financial statements as a result of adopting this amendment.

[f] Future accounting standard

IFRS 9, *Financial Instruments* ["IFRS 9"] was issued by the IASB on November 12, 2009 with an update in July, 2014, and will replace IAS 39, *Financial Instruments: Recognition and Measurement* ["IAS 39"]. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial impairment methods in IAS 39. In July 2013, the IASB tentatively decided to defer the mandatory effective date of IFRS 9. The Company plans to adopt IFRS 9 on the effective date, January 1, 2018, and is currently evaluating the impact of this standard on its financial instruments; however, the impact, if any, is not expected to be significant.

The IASB has replaced IAS 18, *Revenue* in its entirety with IFRS 15 - Revenue from contracts with customers ["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, 2017. The Company is currently evaluating the impact the standard is expected to have on its consolidated financial statements.

4. FINANCIAL INSTRUMENTS

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

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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.

[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 September 30, 2014, the \$US balance in cash and cash equivalents was \$US 1,944,044 [\$2,129,499].
- 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 silver, lead, zinc, anthracite coal, 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. The Company's letters of credit are fully secured by deposits that conform to the Company's investment policy. The Company's debt is in good standing and does not require any principal repayments until due on August 31, 2016.

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[unaudited]

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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 and Arctos projects and there are capital projects and working capital requirements for the RSM.

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[unaudited]

September 30, 2014

6. CAPITAL ASSETS AND INTANGIBLE ASSETS

Capital assets and intangible assets consist of the following:

	Computer equipment \$	Furniture and fixtures \$	Intangible assets [Software] \$	Total \$
Cost				
As at December 31, 2013	213,339	118,514	269,814	601,667
Additions	7,597	—	48,768	56,365
Disposal	(3,537)	—	—	(3,537)
As at September 30, 2014	217,399	118,514	318,582	654,495
Accumulated amortization				
As at December 31, 2013	143,044	71,030	133,595	347,669
Amortization for the period	16,757	7,122	42,024	65,903
Disposal	(3,240)	—	—	(3,240)
As at September 30, 2014	156,561	78,152	175,619	410,332
Net book value				
As at December 31, 2013	70,295	47,484	136,219	253,998
As at September 30, 2014	60,838	40,362	142,963	244,163

7. MINING PROPERTIES

The Company's Canadian mining properties are categorized in the exploration and evaluation stage since, as at September 30, 2014 the necessary financing has not yet been obtained and a construction decision has not yet been approved by the Board of Directors. The Company's interest in the US mining property is categorized in the development stage. For management purposes, the group is organized into business 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:

	September 30, 2014			
	Capital and Intangible Assets \$	Property Costs \$	Exploration and Evaluation Expenditures \$	Total Mining Properties \$
NICO [i] and [iv]	8,267,571	2,191,442	57,511,805	67,970,818
Arctos [ii]	16,526	2,515,293	29,827,113	32,358,932
RSM [iii]	15,534,436	10,001,358	—	25,535,794
Sue-Dianne	—	9,164	2,051,105	2,060,269
Other properties	—	—	8,306	8,306
	23,818,533	14,717,257	89,398,329	127,934,119

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September 30, 2014

	December 31, 2013			
	Capital and Intangible Assets \$	Property Costs \$	Exploration and Evaluation Expenditures \$	Total Mining Properties \$
NICO [i] and [iv]	8,168,215	2,191,442	54,890,606	65,250,263
Arctos [ii]	20,623	2,515,293	28,161,473	30,697,389
Sue-Dianne	—	9,164	2,048,613	2,057,777
Other properties	—	—	7,679	7,679
	8,188,838	4,715,899	85,108,371	98,013,108

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

Included in exploration and evaluation expenditures within mining properties during the nine months ended September 30, 2014 and 2013 were the following:

	September 30, 2014 \$	September 30, 2013 \$
Directly attributable administrative expenses	113,916	471,403
Employee and contractor compensation and benefits	2,422,003	1,963,898
Amortization	76,917	122,255
Stock-based compensation	190,024	312,140

During the nine months ended September 30, 2014, the Company recovered \$21,827 [September 30, 2013 - \$42,582] from non-cash exploration and evaluation expenditures, which represents POSCO Klappan Coal Limited's ["POSCAN's"] 20% share in the Arctos Anthracite Joint Venture.

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Capital assets and software 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 \$	Computer equipment \$	Intangible assets [Software] \$	Asset retirement obligation ["ARO"] \$	Mine development expenditure \$	Total \$
Cost											
As at December 31, 2013	6,759,500	1,479,739	601,626	808,920	22,480	901,155	723	—	988	—	10,575,131
Additions	759,654	4,241,467	—	180,038	345,784	—	12,386	209,039	—	10,545,720	16,294,088
Disposal	(584,524)	—	—	—	—	(799)	—	—	—	—	(585,323)
As at September 30, 2014	6,934,630	5,721,206	601,626	988,958	368,264	900,356	13,109	209,039	988	10,545,720	26,283,896
Accumulated amortization											
As at December 31, 2013	—	1,086,332	564,831	713,776	21,074	—	280	—	—	—	2,386,293
Amortization for the period	—	48,968	8,279	21,407	316	—	100	—	—	—	79,070
As at September 30, 2014	—	1,135,300	573,110	735,183	21,390	—	380	—	—	—	2,465,363
Net book value											
As at December 31, 2013	6,759,500	393,407	36,795	95,144	1,406	901,155	443	—	988	—	8,188,838
As at September 30, 2014	6,934,630	4,585,906	28,516	253,775	346,874	900,356	12,729	209,039	988	10,545,720	23,818,533

Included in surface facilities under construction and mine development expenditure during the quarter ended September 30, 2014 is \$3,810,305 [September 30, 2013 - \$50,528] of directly attributable employee and contractor compensation and benefits, \$14,883 [September 30, 2013 - \$20,629] of amortization, \$240,000 of borrowing costs, and \$15,930 [September 30, 2013 - \$26,740] of stock-based compensation.

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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.

As a result of changes made during the prior year to detailed engineering and planning related to the use of these assets, the Company recognized an impairment loss in 2013 related to certain assets that are no longer included in the project and mine plan.

The net cost of purchase, including previously deferred amounts, deconstruction, removal, reconstruction of the assets and ongoing maintenance, security, storage and other related costs, for the assets included in the NICO project and mine plan 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. The assets are currently stored in strategic staging locations in Canada. No amortization has been charged against these assets as they are not available for use. Going forward, the Company will continue to assess the appropriateness of amounts capitalized with respect to the assets acquired for future use at NICO relative to the NICO mine plan and updated ongoing decisions.

In the second quarter, certain assets with a book value of \$584,524 were shipped to the Revenue Silver Mine for use. The assets that were shipped are now included in capital assets of Revenue Silver Mine.

[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.

[c] Corporate Development Costs

In 2011, the Company formally engaged a financial advisor to assist in a process to identify and secure strategic partners to support the development of both Arctos and NICO, including the potential of helping to arrange or provide some or all of the required project financing. The costs incurred in this process, including the engagement with the financial advisor, are recorded as corporate development costs. Additionally, costs related to the acquisition of Revenue Silver Mine have been recorded as corporate development costs.

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***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. and POSCO Klappan Coal Limited [“POSCAN”], a wholly-owned subsidiary of POSCO Canada Ltd., to advance Arctos to production through an unincorporated joint venture, the Arctos Anthracite Joint Venture [“Arctos JV”], with FCL and POSCAN having respective ownership interests of 80% and 20%, respectively.

The Arctos JV is a joint operation between FCL and POSCAN. Pursuant to the agreement, FCL recognizes its share of the assets, liabilities, revenue and expenses of the joint operation in its financial statements. Pursuant to the Agreement, in addition to \$10 million of proceeds paid to FCL and an upfront capital contribution of \$20 million paid to the Arctos JV from POSCAN in the prior year, future proceeds of \$17.2 million will be paid to FCL by POSCAN in five equal annual installments of \$3.44 million beginning one year after the commencement of commercial production. No gain has been recognized to date related to the \$17.2 million in future proceeds.

Pursuant to the Agreement, FCL is obligated to a future capital contribution of \$80 million to the Arctos JV, to be contributed when a production program has been approved by the Arctos JV management committee and when financing has been obtained. Should these criteria not be met by December 31, 2015, POSCAN can, in its sole discretion, require FCL to make a \$16 million payment directly to POSCAN in lieu of the \$80 million capital contribution, resulting in no change to each party’s respective ownership interests.

On July 13, 2011, FCL’s future capital contribution liability of \$16 million was recorded at its estimated present value of \$10,856,773 using a discount rate of 9% and a contribution date approximately 4.5 years from the closing of the transaction resulting in a \$5,143,227 gain. FCL has made capital contributions of \$350,000 during the period ending September 30, 2014. For the nine months ended September 30, 2014, accretion of \$910,459 was recognized and as at September 30, 2014 the future capital contribution liability balance is \$14,307,339.

As at September 30, 2014, the cash balance in the Arctos JV was \$27,900, of which FCL recorded its 80% share.

Upon commercial production, the Company has a royalty agreement entitling a third party to \$1 per tonne of coal delivered to the point of usage or sale. Pursuant to the Agreement, the obligation will be paid by the Arctos JV.

***iii.* Revenue Silver Mine [“RSM”]**

On May 9, 2014 the Company entered into a Participating Interest and Asset Purchase Agreement purchase agreement [“the PIAPA Agreement”]. During the second quarter, the Company completed the first phase of the purchase of RSM in southwestern Colorado, US from private arm’s length vendors. The 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 have a value of \$10,880,000 which was

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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. 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.

Pursuant to the PIAPA, the Company became the operator of the mine with sole 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. As at September 30, 2014 the Company has recognized \$10,545,720 of mine development expenditures, which is net of proceeds of \$136,794 on sales of concentrate, as the project advances through the commissioning phase. During the second quarter, the Company transferred various assets capitalized as surface facilities that were previously acquired for NICO through the Golden Giant Mine transaction to RSM. The value of the capital assets transferred from NICO to RSM was \$594,649, including \$10,125 related to assets that were previously categorized as assets held for sale.

Pursuant to the PIAPA Agreement and amendments agreed to on August 19, 2014 and September 25, 2014 [“the Amendment”], the remaining 88% interest in RSM was acquired by the Company subsequent to the quarter end, on October 1, 2014. Consideration paid in accordance with the amended PIAPA 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 are to be granted subject to shareholder and regulatory approvals by December 31, 2014. 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 made on October 1, 2014;
- 2% net smelter return royalty to a maximum of \$9 million dollars, adjusted for inflation on a Consumer Price Indexed [“CPI”] basis;
- 1% net smelter return royalty to a maximum of \$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;
- a bonus payment of \$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; and,
- a bonus payment of \$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 Company will complete a purchase price allocation in accordance with IFRS 3 *Business Combinations* during the fourth quarter of 2014.

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Project financing

In order to finance the acquisition and operations of the RSM, the Company entered into a General Corporate Facility with LRC during the quarter for \$US 4 million. 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. Refer to Note 10 for additional details of the General Corporate Facility.

Subsequent to the quarter end, 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 will be repaid from a fixed schedule of metal shipments from the RSM to LRC-FRSM LLC, plus interest of 9.25% over a five year term. Transaction costs of \$61,612 related to the Metal Prepay Facility have been recorded as Other assets for the period ended September 30, 2014.

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. During the third quarter, the Company transferred \$US 306,513 to a surety bond related to RSM in advance of the completion of the acquisition. The bond became effective subsequent to September 30, 2014 when the Company acquired the remaining 88% interest in RSM. The corporate surety is in favour of the Colorado Division of Mining Reclamation and Mining Safety.

Reclamation security deposits consist of the following:

	<u>September 30, 2014</u>		<u>December 31, 2013</u>	
	Deposit amount	Security held [FMV/<i>i</i>]	Deposit amount	Security held [FMV/<i>i</i>]
	\$	\$	\$	\$
NICO Project	221,000	257,092	211,000	246,900
Arctos Anthracite Project	245,600	246,394	245,600	246,209
RSM Project	343,278	343,278	—	—
Total Net Book Value	809,878	846,764	456,600	493,109

/i/FMV= Fair market value

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The security for the reclamation of the Arctos Anthracite Project is held in the Arctos JV. As at September 30, 2014, the security deposit amount in the Arctos JV was \$307,000 [December 31, 2013 - \$307,000] and the fair market value of the security held was \$307,992 [December 31, 2013 - \$307,761] of which FCL recorded its 80% share.

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, 2013, 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 project. The assessment indicated that the carrying amounts of the NICO project exceeded the recoverable amount. Accordingly, the Company recognized an impairment charge of \$35,040,177. The recoverable amount of the CGU was determined by calculating the fair value less cost to sell ["FVLCS"]. At September 30, 2014, the Company considered whether there had been any significant changes to indicators at year end and whether any new indicators were present and has determined that there are no indications that the carrying value of any or all of its projects is impaired.

vi. Assets Held for Sale

As a result of changes to the NICO project and mine plan during 2013 with respect to certain equipment that the Company previously acquired that will no longer be used at the NICO site, the Company completed an impairment assessment of the assets that will no longer be used as part of the NICO project. At December 31, 2013 the Company determined that the equipment no longer included in the project and mine plan will be sold or scrapped and as a result these assets were reclassified as assets held for sale and recorded at their estimated recoverable amount resulting in an impairment write down of \$8,745,263 in 2013. The recoverable amount was based on management's estimate of fair value less costs to sell using current market comparable prices for the assets. During the nine months ended September 30, 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.

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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:

	September 30, 2014	December 31, 2013
NICO Project		
Provision for environmental rehabilitation	\$36,872	\$34,540
Estimated remaining life	20 years	21 years
Discount rate	9%	9%
Arctos Anthracite Project [i]		
Provision for environmental rehabilitation	\$25,590	\$23,973
Estimated remaining life	26 years	27 years
Discount rate	9%	9%
Total provision for environmental rehabilitation	\$62,462	\$58,513

[i] As at September 30, 2014, the environmental rehabilitation provision balance in the Arctos JV was \$31,988, of which FCL recorded its 80% share.

9. SHARE CAPITAL

[a] The Company is authorized to issue an unlimited number of common shares without par value. As at September 30, 2014, the weighted average number of common shares outstanding was 191,876,096 [December 31, 2013 - 132,976,976]. For calculating diluted loss per share, for the three and nine month periods ended September 30, 2014, there were no options with an exercise price less than the average market price for the periods.

[b] The estimated fair value of 2,950,000 options granted during the nine-month period ended September 30, 2014 and the fair value of options granted in previous periods that vested during the nine-month period ended September 30, 2014 has been allocated to stock-based compensation expense, exploration and evaluation expenditures and capital assets in the amounts of \$307,220, \$190,024 and \$15,930, respectively. The fair value of the options allocated to exploration and evaluation expenditures is net of \$20,586, which represents POSCAN's 20% share in the Arctos JV. The other reserves balance was increased by \$533,760, representing the fair value of the options issued. The options granted during the nine-month period ended September 30, 2014 have a maximum term of five years and all vested immediately. The estimated volatility was calculated using historical volatility.

The fair value of options granted during the nine-month period ended September 30, 2014 was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

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Number of options granted #	Assumptions				Estimated fair value per option \$
	Risk free interest rate %	Expected dividend yield %	Expected volatility %	Expected option life [years] #	
2,950,000	1.55	0	58	4.6	0.18

A summary of the status of the Company's stock option plan as at September 30, 2014 and December 31, 2013, and changes during the periods ended on those dates are presented below:

	September 30, 2014		December 31, 2013	
	Number of shares #	Weighted- average exercise price \$	Number of shares #	Weighted- average exercise price \$
Options outstanding, beginning of period	6,935,000	0.70	5,480,000	0.94
Granted	2,950,000	0.37	3,120,000	0.58
Expired or cancelled	(1,665,000)	0.62	(1,665,000)	1.28
Options outstanding, end of period	8,220,000	0.60	6,935,000	0.70
Options vested and outstanding, end of period	8,220,000	0.60	6,900,000	0.71

The following table summarizes information about the options outstanding as at September 30, 2014:

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	3,220,000	3,220,000	0.37	4.3
0.50 – 0.99	4,540,000	4,540,000	0.68	2.5
1.00 – 1.49	340,000	340,000	1.20	1.9
1.50 – 1.99	120,000	120,000	1.60	1.6
	8,220,000	8,220,000		

[i] All options have vested as at September 30, 2014.

[c] On May 9, 2014 the Company issued 32 million common shares to the vendors of the RSM transaction as part of the proceeds issued for the purchase of 12% interest in RSM [refer to

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Note 7iii]. The fair value of the shares in exchange for the 12% interest in RSM was \$10,880,000. This value was calculated based on the fair market value per share of \$0.34 on May 9, 2014. On October 1, 2014, the Company entered into an agreement to issue an additional 17,744,000 common shares, subject to shareholder and regulatory approval, on or before December 31, 2014, to the vendors of the RSM transaction as partial consideration for the remaining 88% interest in RSM.

[d] On May 9, 2014, the Company entered into a subscription agreement with Procon pursuant to which the Company agreed to sell, and Procon agreed to purchase, an aggregate of 7,717,871 common shares at a price of \$0.40 per share, raising gross proceeds of \$3,087,149. The first tranche of the placement was completed on May 9, 2014, in which 5,631,744 shares were issued to Procon. The additional 2,086,127 common shares required shareholder approval, which was granted on June 24, 2014. Share issuance costs of \$37,044 were incurred to complete the financing.

[e] On August 18, 2014, the Company entered into a subscription agreement to sell 3,333,333 units raising gross proceeds of \$1,000,000. Each unit consists of one common share and one common share purchase warrant, with each warrant entitling the holder to purchase one common share of the Company for \$0.40 on or before August 18, 2016. The fair value of the shares and warrants issued was \$656,667 and \$343,333, respectively. Share issuance costs of \$19,081 were incurred to complete the financing.

[f] On September 17, 2014, the Company issued 1,000,000 common shares to LRC as a condition of the General Corporate Facility. The fair market value of the shares, \$260,000, was calculated based on the share price of \$0.26 on September 17, 2014. Share issuance costs of \$5,486 were incurred to complete the financing, and are recorded in Other assets.

10. CURRENT DEBT

During the quarter ended September 30, 2014, the Company entered into the General Corporate Facility with LRC to borrow \$US 4,000,000 which was received by the Company on September 18, 2014. The balance does not bear interest and has 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 offset against mine development.

Subsequent to the quarter end, on October 1, 2014, the Company repaid the loan balance in full using proceeds received from the Metal Prepay Agreement with LRC.

11. LONG-TERM DEBT

On May 8, 2014, the Company increased its long-term debt with a private investor group from the original loan principal of \$3,000,000 to \$5,125,000 when the group advanced \$2,000,000 to the Company as a promissory note. Under the terms agreed to with the group, the aggregate amount

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repayable by the Company will 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 will continue to bear interest at 9% per annum and will be secured by a charge on the Company's personal property and the NICO mining leases. Cash interest payments of \$230,625 are due on the last business day of August and February of each year during the term of the loan and promissory note. For the nine months ended September 30, 2014, \$14,206 of loan discount [September 30, 2013 - \$2,663 of transaction costs and loan discount] were amortized using the effective interest rate method.

12. INCOME TAXES

The Company has non-capital loss carryforwards totalling \$35,290,000, of which \$1,017,000 expire in 2014, un-deducted share issuance costs of \$589,000 and unused investment tax credits on pre-production mining costs of \$2,724,000 that begin to expire in 2028. The Company has completed feasibility studies for both of its principal projects 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 \$9,820,000 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:

	September 30, 2014 \$	December 31, 2013 \$
Deferred income tax assets		
Net operating loss carryforwards	9,525,000	8,318,000
Undeducted share issuance costs [i]	158,000	186,000
Unused investment tax credits on pre-production costs	2,724,000	2,492,000
	12,407,000	10,996,000
Less valuation allowance related to operating losses, share issuance costs and unused investments tax credits	(9,820,000)	(8,948,000)
Deferred income tax assets	2,587,000	2,048,000
Book value of exploration and evaluation expenditures and capital assets in excess of tax value	(4,003,000)	(3,787,000)
Book value of capital contribution liability in excess of tax value	(440,000)	(659,000)
Deferred income tax liabilities	(4,443,000)	(4,446,000)
Net deferred income tax liabilities	(1,856,000)	(2,398,000)

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

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

	September 30, 2014 \$	September 30, 2013 \$
Combined federal and provincial/state income tax rate	26.57%	26.43%
Corporate income tax recovery at statutory rate	(1,220,000)	(962,000)
Increase (decrease) in income taxes resulting from		
Non-deductible stock-based compensation and other expenses	86,000	151,000
Renunciation of flow-through expenses	—	558,000
Rate difference	9,000	108,000
Non-taxable flow-through share premium	—	(34,000)
Investment tax credits on pre-production mining costs, net of tax	(179,000)	(115,000)
Valuation allowance	746,000	—
Other	33,000	(34,600)
	(525,000)	328,600

13. CONSOLIDATED STATEMENTS OF CASH FLOWS

[a] Cash and cash equivalents consist of the following:

	September 30, 2014 \$	December 31, 2013 \$
Cash on hand with banks	2,851,086	5,611,494
Short-term fixed income deposits	252,896	7,800,526
	3,103,982	13,412,020

[b] Supplemental cash flow information for the nine months ended:

	September 30, 2014 \$	September 30, 2013 \$
Interest and investment income received	94,412	88,511
Interest paid	329,116	270,000

14. RELATED PARTY TRANSACTIONS

For the nine months ended September 30, 2014, the Company paid key management personnel including officers, directors or their related entities for consulting services and/or management services.

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

	September 30, 2014	September 30, 2013
	\$	\$
Salaries and benefits	383,686	210,223
Consulting services	581,800	408,799
Directors' fees	140,750	298,220
Legal services	292,696	279,826
Fair value of stock options granted	306,000	513,750
	1,704,932	1,710,818

As at September 30, 2014, \$329,246 [September 30, 2013 - \$193,439] was owing to key management personnel for services provided during the quarter.

15. COMMITMENTS AND CONTINGENCIES

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