

Interim Condensed Consolidated Financial Statements

**Fortune Minerals Limited**

Unaudited

June 30, 2011

**Fortune Minerals Limited**

Incorporated under the laws of Ontario

**CONSOLIDATED STATEMENT OF  
FINANCIAL POSITION**

[note 2]

As at	Unaudited	
	June 30, 2011 Cad \$	December 31, 2010 Cad \$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents <i>[note 12[a]]</i>	3,702,010	9,143,974
Accounts receivable	178,392	466,976
Prepaid expenses	4,480	108,727
Taxes receivable	22,946	—
<b>Total current assets</b>	<b>3,907,828</b>	<b>9,719,677</b>
Other assets <i>[note 7i[c]]</i>	391,766	391,766
Reclamation security deposits <i>[note 7iii]</i>	620,325	618,507
Capital assets, net <i>[note 6]</i>	99,946	113,675
Mining properties <i>[note 7]</i>	122,397,713	117,832,066
	<b>127,417,578</b>	<b>128,675,691</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	710,760	1,376,882
Interest payable	90,000	90,000
Income taxes payable	—	23,894
Flow-through share premium deferred gain	—	674,316
<b>Total current liabilities</b>	<b>800,760</b>	<b>2,165,092</b>
Long-term debt <i>[note 10]</i>	2,950,167	2,917,749
Provision for environmental rehabilitation <i>[note 8]</i>	91,503	87,562
Deferred income tax liabilities, net <i>[note 11]</i>	6,005,000	5,458,500
<b>Total liabilities</b>	<b>9,847,430</b>	<b>10,628,903</b>
Commitments and contingencies <i>[note 14]</i>		
<b>SHAREHOLDERS' EQUITY</b>		
Share capital <i>[note 9]</i>	119,280,940	118,764,873
Other reserves	7,742,260	7,734,653
Deficit	(9,453,052)	(8,452,738)
<b>Total shareholders' equity</b>	<b>117,570,148</b>	<b>118,046,788</b>
	<b>127,417,578</b>	<b>128,675,691</b>

See accompanying notes

**Fortune Minerals Limited**  
 Incorporated under the laws of Ontario

**CONSOLIDATED STATEMENTS OF LOSS,  
 COMPREHENSIVE LOSS AND DEFICIT**

[note 2]

Unaudited

	Three months ended		Six months ended	
	June 30,		June 30,	
	2011	2010	2011	2010
	Cad \$	Cad \$	Cad \$	Cad \$
<b>EXPENSES</b>				
Administrative	316,202	345,018	609,365	690,313
Investor relations and regulatory fees	73,327	34,666	204,136	104,644
Stock-based compensation [note 9[b]]	12,000	238,400	17,950	239,500
Capital taxes	—	294,508	—	294,508
Corporate advisory costs [note 7ii]	177,977	38,891	238,109	38,891
Interest expense [note 10]	23,971	9,385	34,382	18,251
Amortization and accretion	5,764	6,250	11,603	11,609
<b>Loss before other items</b>	<b>(609,241)</b>	<b>(967,118)</b>	<b>(1,115,545)</b>	<b>(1,397,716)</b>
Interest and other income	3,762	5,222	12,230	13,419
Gain on flow-through share premium	—	—	674,316	374,600
Foreign exchange gain (loss) [note 4]	(9,808)	86,946	(39,815)	12,104
<b>Loss before income taxes</b>	<b>(615,287)</b>	<b>(874,950)</b>	<b>(468,814)</b>	<b>(997,593)</b>
Recovery of (provision for) income taxes [note 11]				
Current income taxes	15,000	(9,775)	15,000	(9,775)
Deferred income taxes	263,000	311,800	(546,500)	515,000
<b>Net loss and comprehensive loss for the period</b>	<b>(337,287)</b>	<b>(572,925)</b>	<b>(1,000,314)</b>	<b>(492,368)</b>
Deficit, beginning of period	(9,115,765)	(7,027,962)	(8,452,738)	(7,108,519)
<b>Deficit, end of period</b>	<b>(9,453,052)</b>	<b>(7,600,887)</b>	<b>(9,453,052)</b>	<b>(7,600,887)</b>
<b>Basic and diluted loss per share [note 9[a]]</b>	<b>—</b>	<b>(0.01)</b>	<b>(0.01)</b>	<b>(0.01)</b>

See accompanying notes

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## CONSOLIDATED STATEMENTS OF CASH FLOWS

[note 2]

	Unaudited	
	Six months ended June 30,	
	2011	2010
	Cad \$	Cad \$
<b>OPERATING ACTIVITIES</b>		
Net loss and comprehensive loss for the period	(1,000,314)	(492,368)
Add (deduct) items not involving cash		
Amortization and accretion of capital assets	11,603	11,609
Deferred income taxes	546,500	(515,000)
Gain on flow-through share premium	(674,316)	(374,600)
Stock-based compensation expense	17,950	239,500
Non-cash portion of interest expense	32,418	30,931
	(1,066,159)	(1,099,928)
Changes in non-cash working capital balances related to operations		
Accounts receivable	288,584	450,555
Prepaid expenses	104,247	26,861
Accounts payable and accrued liabilities	(666,122)	451,237
Taxes payable/ receivable	(46,840)	(14,626)
<b>Cash used in operating activities</b>	<b>(1,386,290)</b>	<b>(185,901)</b>
<b>INVESTING ACTIVITIES</b>		
Increase in other assets, net of non-cash items	—	(3,180)
Purchase of plant and equipment and capital assets	(511,076)	(4,225,494)
Posting of security for reclamation security deposits	(1,818)	(314)
Proceeds on disposal of capital assets in mining properties	2,600	—
Increase in exploration and evaluation expenditures	(4,018,455)	(4,078,971)
<b>Cash used in investing activities</b>	<b>(4,528,749)</b>	<b>(8,307,959)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds on issuance of shares, net [note 9]	473,075	1,916,897
<b>Cash provided by financing activities</b>	<b>473,075</b>	<b>1,916,897</b>
<b>Decrease in cash and cash equivalents during the period</b>	<b>(5,441,964)</b>	<b>(6,576,963)</b>
Cash and cash equivalents, beginning of period	9,143,974	18,328,148
<b>Cash and cash equivalents, end of period [note 12]</b>	<b>3,702,010</b>	<b>11,751,185</b>

*See accompanying notes*

**Fortune Minerals Limited**

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**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

[note 2]

Unaudited

	Common shares		Warrants		Subtotal Cad \$	Other reserves Cad \$	Deficit Cad \$	Total shareholders' equity Cad \$
	#	Cad \$	#	Cad \$				
<b>January 1, 2010</b> [note 16]	<b>94,779,407</b>	<b>108,380,210</b>	<b>20,890,275</b>	<b>2,204,029</b>	<b>110,584,239</b>	<b>7,432,025</b>	<b>7,108,519</b>	<b>110,907,745</b>
Issued as a result of:								
Private offerings	2,535,000	1,977,300	—	—	1,977,300	—	—	1,977,300
Flow-through share premium deferred gain	—	(380,250)	—	—	(380,250)	—	—	(380,250)
Share issuance costs, net tax	—	(51,501)	—	—	(51,501)	—	—	(51,501)
Warrant issuance costs	—	—	—	(902)	(902)	—	—	(902)
In lieu of fees	—	—	—	139,493	139,493	—	—	139,493
Stock options granted	—	—	—	—	—	417,000	—	417,000
Net loss for the period	—	—	—	—	—	—	492,368	(492,368)
<b>June 30, 2010</b> [note 16]	<b>97,314,407</b>	<b>109,925,759</b>	<b>20,890,275</b>	<b>2,342,620</b>	<b>112,268,379</b>	<b>7,849,025</b>	<b>7,600,887</b>	<b>112,516,517</b>
<b>December 31, 2010</b> [note 16]	<b>106,928,227</b>	<b>117,247,650</b>	<b>14,094,275</b>	<b>1,517,223</b>	<b>118,764,873</b>	<b>7,734,653</b>	<b>8,452,738</b>	<b>118,046,788</b>
Issued as a result of:								
Exercise of warrants [note 9[c]]	461,969	403,275	(461,969)	(33,700)	369,575	—	—	369,575
Exercise of compensation units [note 9[c]]	159,231	137,477	79,615	9,015	146,492	(42,993)	—	103,499
Stock options granted [note 9[b]]	—	—	—	—	—	58,400	—	58,400
Stock options forfeited [note 9[b]]	—	—	—	—	—	(7,800)	—	(7,800)
Net loss for the period	—	—	—	—	—	—	1,000,314	(1,000,314)
<b>June 30, 2011</b>	<b>107,549,427</b>	<b>117,788,402</b>	<b>13,711,921</b>	<b>1,492,538</b>	<b>119,280,940</b>	<b>7,742,260</b>	<b>9,453,052</b>	<b>117,570,148</b>

See accompanying notes

## **Fortune Minerals Limited**

# **NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

[unaudited]

June 30, 2011

### **1. CORPORATE INFORMATION**

The interim condensed consolidated financial statements of Fortune Minerals Limited [“the Company”] for the period ended June 30, 2011 were authorized for issue in accordance with a resolution of the directors on August 12, 2011. Fortune Minerals Limited is a limited company incorporated under the laws of Ontario and domiciled in London, Ontario, Canada whose shares are publicly traded on the Toronto Stock Exchange.

### **2. BASIS OF PRESENTATION**

The Company is a natural resource company with mineral deposits in Canada 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 currently operates in one geographic region, Canada, and in one industry segment, mining.

Effective January 1, 2011, the accounting framework under which financial statements are prepared in Canada for all publicly accountable enterprises changed to International Financial Reporting Standards [“IFRS”]. These interim condensed consolidated financial statements including comparative amounts have been prepared in accordance with *International Accounting Standard* [“IAS”] 34, *Interim Financial Reporting* [“IAS 34”] and *IFRS 1, First-Time Adoption of International Financial Reporting Standards* [“IFRS 1”]. The disclosures concerning the transition from Canadian generally accepted accounting principles [“GAAP”] to IFRS are included in Note 16.

### **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 three month period ended March 31, 2011. In addition, the interim consolidated financial statements for the three-month period ended March 31, 2011 contain certain incremental IFRS disclosures not included in the annual financial statements for the year ended December 31, 2010 prepared in accordance with previous Canadian GAAP. Accordingly, these interim condensed consolidated financial statements for the three- and six- month periods ended June 30, 2011 should be read together with the annual consolidated financial statements for the year ended December 31, 2010 prepared in accordance with previous Canadian GAAP as well as the interim consolidated financial statements for the three month period ended March 31, 2011.

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

## Fortune Minerals Limited

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

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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[i], 3[n], and 11 of the Company's March 31, 2011 interim consolidated financial statements.

### **[a] Application of new and revised International Financial Reporting Standards**

*IFRS 9 Financial Instruments* ["IFRS 9"] was issued by the IASB on November 12, 2009 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. IFRS 9 is effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company is currently evaluating the impact of IFRS 9 on its financial instruments; however, the impact, if any, is not expected to be significant.

*IFRS 10 Consolidated Financial Statements* ["IFRS 10"] was issued by the IASB on May 12, 2011. The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

*IFRS 11 Joint Arrangements* ["IFRS 11"] was issued by the IASB on May 12, 2011 and will replace *IAS 31, Interests in Joint Ventures* ["IAS 31"]. IFRS 11 established principles for financial reporting by parties to a joint venture and elaborates on IAS 31 by requiring a party to a joint venture to determine the type of joint arrangement(s) in which it is involved by assessing the rights and obligations arising from the arrangement.

*IFRS 12 Disclosure of Interests in Other Entities* ["IFRS 12"] was issued by the IASB on May 12, 2011. IFRS 12 requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in their entities and the effects of those interests on its financial position, financial performance and cash flows.

*IFRS 13 Fair Value Measurement* ["IFRS 13"] was issued by the IASB on May 12, 2011. IFRS 13 provides a single framework for measuring fair value while requiring enhanced disclosures when fair value is applied.

*IAS 27 Separate Financial Statements* ["IAS 27"] was amended on May 12, 2011 as a consequence of the issuance of IFRS 10, 11 and 12. IAS 27 sets the standards for investments in subsidiaries, jointly controlled entities, and associates when an entity elects, or is required, to present separate non-consolidated financial statements.

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*IAS 28 Investments in Associates and Joint Ventures* ["IAS 28"] was amended on May 12, 2011 as a consequence of the issuance of IFRS 10, 11 and 12. IAS 28 provides additional guidance for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This standard will be applied by the Company if there is joint control or significant influence over an investee.

IFRS 10, IFRS 11, IFRS 12, IFRS 13 and the amendments to IAS 27 and IAS 28 are effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of these standards or determined whether it will adopt the standards early.

## 4. FINANCIAL INSTRUMENTS

The Company has designated cash and cash equivalents, short-term investments, and reclamation bonds as financial assets at fair value through profit and loss. Financial assets at fair value through profit and 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. Long-term debt, accounts payable and accrued liabilities, interest payable and taxes payable are designated as financial liabilities measured initially at fair value and subsequently on the basis of amortized costs 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 third party to a financial instrument fails to meet its contractual obligations. Cash and cash equivalents and reclamation bonds are composed of financial instruments issued by large Canadian financial institutions with high investment-grade ratings maturing over various dates. Further, the Company limits its credit risk to any individual counterparty. The Company's recurring receivables consist primarily of Goods and Services Tax ["GST"] and Harmonized Sales Tax ["HST"] 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 is comprised of 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.

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- ii.* Currency risk arises because of changes in foreign exchange rates. Nearly all of the Company's current activities are priced in Canadian dollars ["\$CDN"]. However, the Company expects certain of its future capital and operating costs as well as its future revenue streams will be priced in United States dollars ["\$US"]. The Company has an operating account in \$US to pay United States vendors and to receive \$US payments as well as to manage the timing of conversion of \$CDN to \$US, or vice versa. At June 30, 2011, the \$US balance in cash and cash equivalents was \$1,306,938.
- 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 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 long-term debt is in good standing and does not require any principal repayments until due on August 31, 2012.

#### 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 which 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.

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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 with maturities of less than a year from the original date of acquisition, selected with regards to the expected timing of expenditure from operations.

The Company expects its current capital resources will be sufficient to carry out its exploration and development plans and operations for 2011. However, significant additional capital will be required to complete the development of the Company's NICO and Mount Klappan projects.

#### 6. CAPITAL ASSETS

Capital assets consist of the following:

	Computer equipment \$	Furniture and fixtures \$	Leasehold improvements \$	Software \$	Total \$
<b>Cost</b>					
As at December 31, 2010	140,868	80,914	9,602	47,819	279,203
Additions	—	—	—	272	272
Disposals	—	(3,127)	—	—	(3,127)
<b>As at June 30, 2011</b>	<b>140,868</b>	<b>77,787</b>	<b>9,602</b>	<b>48,091</b>	<b>276,348</b>
<b>Accumulated amortization</b>					
As at December 31, 2010	90,870	42,520	9,164	22,974	165,528
Amortization for the period	7,500	3,839	109	2,553	14,001
Disposals	—	(3,127)	—	—	(3,127)
<b>As at June 30, 2011</b>	<b>98,370</b>	<b>43,232</b>	<b>9,273</b>	<b>25,527</b>	<b>176,402</b>
<b>Net book value</b>					
As at December 31, 2010	49,998	38,394	438	24,845	113,675
<b>As at June 30, 2011</b>	<b>42,498</b>	<b>34,555</b>	<b>329</b>	<b>22,564</b>	<b>99,946</b>

#### 7. MINING PROPERTIES

The Company's mining properties are categorized in the exploration and evaluation stage since the necessary mining permits have 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 business units based on the significant mining properties that the Company is currently exploring

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and evaluating. Management monitors the monthly expenditures of its operating segments separately for the purpose of making decisions about resource allocation and financing requirements. There is only one geographic segment, Canada.

Interests in mining properties consist of the following:

	<b>June 30, 2011</b>			
	Capital assets \$	Property costs \$	Exploration and evaluation expenditures \$	Total - mining properties \$
NICO Project <i>[i]</i>	26,007,686	3,593,049	69,634,646	99,235,381
Mount Klappan Project <i>[ii]</i>	20,357	3,144,116	17,905,436	21,069,909
Sue-Dianne Project	—	9,164	2,043,099	2,052,263
Other properties	—	—	40,160	40,160
	<b>26,028,043</b>	<b>6,746,329</b>	<b>89,623,341</b>	<b>122,397,713</b>
	<b>December 31, 2010</b>			
	Capital assets \$	Property costs \$	Exploration and evaluation expenditures \$	Total - mining properties \$
NICO Project <i>[i]</i>	25,590,045	3,593,049	65,911,079	95,094,173
Mount Klappan Project <i>[ii]</i>	21,872	3,144,116	17,485,117	20,651,105
Sue-Dianne Project	—	9,164	2,038,798	2,047,962
Other properties	—	—	38,826	38,826
	<b>25,611,917</b>	<b>6,746,329</b>	<b>85,473,820</b>	<b>117,832,066</b>

During the six-month period ended June 30, 2011, the change in exploration and evaluation expenditures balance is a result of additions only and there were no disposals, write-offs or amortization. During the period, \$417,941 [June 30, 2010 - \$282,249] of directly attributable administrative expenses, \$97,757 [June 30, 2010 - \$122,940] of amortization, \$114,446 [June 30, 2010 - \$70,627] of borrowing costs and \$30,900 [June 30, 2010 - \$109,000] of stock-based compensation were capitalized to exploration and evaluation expenditures within mining properties. During the six months ended June 30, 2011, \$1,000 [June 30, 2010 - \$nil] was removed from the cost of surface facilities under construction as a result of stock options forfeited.

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Capital assets in mining properties consist of the following:

	Surface facilities under construction	Surface facilities	Camp structures	Mobile equipment	Site furniture and equipment	Land acquisition costs	Asset retirement obligation	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Cost</b>								
<b>As at December 31, 2010</b>	24,450,548	1,469,007	600,124	822,783	31,280	64,987	43,945	27,482,674
Additions	537,003	—	—	—	—	—	—	537,003
Disposals	—	—	—	(9,518)	(8,800)	—	—	(18,318)
<b>As at June 30, 2011</b>	<b>24,987,551</b>	<b>1,469,007</b>	<b>600,124</b>	<b>813,265</b>	<b>22,480</b>	<b>64,987</b>	<b>43,945</b>	<b>28,001,359</b>
<b>Accumulated amortization</b>								
<b>As at December 31, 2010</b>	—	779,113	499,942	568,400	23,302	—	—	1,870,757
Amortization for the period	—	62,041	15,027	37,988	809	—	—	115,865
Disposals	—	—	—	(8,192)	(5,114)	—	—	(13,306)
<b>As at June 30, 2011</b>	<b>—</b>	<b>841,154</b>	<b>514,969</b>	<b>598,196</b>	<b>18,997</b>	<b>—</b>	<b>—</b>	<b>1,973,316</b>
<b>Net book value</b>								
As at December 31, 2010	24,450,548	689,894	100,182	254,383	7,978	64,987	43,945	25,611,917
<b>As at June 30, 2011</b>	<b>24,987,551</b>	<b>627,853</b>	<b>85,155</b>	<b>215,069</b>	<b>3,483</b>	<b>64,987</b>	<b>43,945</b>	<b>26,028,043</b>

During the six-month period ended June 30, 2011, \$34,722 [June 30, 2010 - \$98,264] of corporate employee compensation and benefits, \$17,113 [June 30, 2010 - \$76,254] of borrowing costs, \$24,448 [June 30, 2010 - \$30,514] of amortization and \$8,000 [June 30, 2010 - \$68,500] of stock-based compensation were capitalized to surface facilities under construction. During the six months ended June 30, 2011, \$6,250 [June 30, 2010 - \$nil] was removed from the cost of surface facilities under construction as a result of stock options forfeited.

## Fortune Minerals Limited

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

June 30, 2011

### *i.* NICO Project, Northwest Territories

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 the NICO Project. The Company undertook a project designed to dismantle and remove these assets, which was completed during 2010. A security deposit of \$300,000 was released to the Company in 2010 upon completion of the project.

The net cost of purchase, including previously deferred amounts, deconstruction, removal, reconstruction of the assets and ongoing maintenance, security and other related costs, 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. The Company has received a third-party feasibility study and has commenced detailed engineering and planning related to the use of these assets at NICO but a construction decision has not been taken.

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

During 2009, a decision was made to locate the hydrometallurgical processing plant of the NICO project from the mine site in the Northwest Territories to a site in southern Canada. The Company entered into an agreement to purchase lands near Saskatoon, Saskatchewan on which it proposes to construct the NICO Project refinery and incorporated Fortune Minerals Saskatchewan Inc. [“FMSI”], a wholly owned subsidiary. A deposit of \$50,000 was paid with the balance of \$825,000 due upon closing, subject to certain conditions being satisfied or waived by FMSI prior to but no later than December 31, 2012. Costs of purchasing the land are being capitalized as Land acquisition costs until the purchase closes. 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 available for use.

#### *[c] Project Financing*

The Company has engaged a financial institution to provide advice and financial services in connection with the arrangement of a \$US 200-250 million debt facility to finance the construction, start-up and operation of the Company's NICO Project. Transaction costs of \$391,766 have been recorded in other assets as at the period ended June 30, 2011, including warrants issued in lieu of fees valued at \$374,000 and other incremental costs of \$17,766 incurred to date.

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#### *ii.* Mount Klappan Project, British Columbia

At June 30, 2011 the Mount Klappan Project in northwest British Columbia and related coal licenses was wholly owned by the Company through its subsidiary, Fortune Coal Limited ["Fortune Coal"]. Upon commercial production, the Company has a royalty agreement obligation entitling a third party to \$1 per tonne of coal delivered to the point of usage or sale.

The Company was formally seeking a strategic partner to help develop the Mount Klappan Project and engaged a financial advisor to assist with the process of evaluating potential alternatives. In connection with the evaluation process, incremental costs of \$238,109 have been expensed and recorded as corporate advisory costs for the six-month period ended June 30, 2011 [June 30, 2010 – \$38,891]. Refer to note 15, Events after the reporting period, for an update on the process subsequent to June 30, 2011.

#### *iii.* Reclamation Security Deposits

The Company has provided reclamation security deposits in the form of a letter of credit in favour of the Receiver General for Canada and Government of British Columbia for the NICO and Mount Klappan projects, respectively. Reclamation deposits consist of the following:

	<u>June 30, 2011</u>		<u>December 31, 2010</u>	
	<b>Deposit amount</b>	<b>Security held [FMV/<i>i</i>]</b>	Deposit amount	Security held [FMV/ <i>i</i> ]
	\$	\$	\$	\$
NICO Project	<b>211,000</b>	<b>244,986</b>	211,000	244,273
Mount Klappan Project	<b>307,000</b>	<b>375,339</b>	307,000	374,234
Net Book Value	<b>518,000</b>	<b>620,325</b>	518,000	618,507

*i*]FMV= Fair market value

The security held for the 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. PROVISION FOR ENVIRONMENTAL REHABILITATION

Although the ultimate amount of the environment rehabilitation provision is uncertain, the fair value 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 to date.

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

	<b>June 30, 2011</b>	December 31, 2010
<b>NICO Project</b>		
Provision for environmental rehabilitation	<b>\$50,950</b>	\$48,756
Estimated life	<b>25 years</b>	25 years
Discount rate	<b>9%</b>	9%
<b>Mount Klappan Project</b>		
Provision for environmental rehabilitation	<b>\$40,553</b>	\$38,806
Estimated life	<b>32 years</b>	32 years
Discount rate	<b>9%</b>	9%
<b>Total provision for environmental rehabilitation</b>	<b>\$91,503</b>	\$87,562

## 9. SHARE CAPITAL

[a] The Company is authorized to issue an unlimited number of common shares without par value. At June 30, 2011, the weighted average number of common shares outstanding was 107,296,126 [December 31, 2010 – 98,058,973]. For calculating fully diluted loss per share, for the period ended June 30, 2011, there were 2,900,000 options, 13,611,921 warrants, and 955,388 compensation units (compensation units consist of 955,388 common share purchase options and 477,694 warrants) with an exercise price less than the average market price for the year but these were excluded from the fully diluted loss per share computation because inclusion would have been anti-dilutive. There have been no other transactions involving common shares or potential common shares between the reporting date and the date of completion of these interim condensed consolidated financial statements except as disclosed in 9[d] below.

[b] The estimated fair value of 70,000 options granted during the six-month period ended June 30, 2011 has been allocated to stock-based compensation expense, exploration and evaluation expenditures and capital assets in the amounts of \$18,500, \$31,900 and \$8,000, respectively. The other reserves balance was increased by \$58,400 representing the fair value compensation recorded. These options vested immediately and have a maximum term of five years. The estimated volatility is calculated using historical volatility. The fair value of the options forfeited during the six-months ended June 30, 2011 was \$7,800, which decreased the other reserves balance for the period and was recorded against stock-based compensation expense, exploration and evaluation expenditures and capital assets in the amounts of \$550, \$1,000 and \$6,250, respectively. The fair value of 1,155,000 stock options granted during the six-month period ended June 30, 2010 was \$417,000.

The fair value of options granted during the six-month period ended June 30, 2011 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] #	
25,000	2.54	0	63	4.4	0.86
45,000	2.65	0	63	4.4	0.82

A summary of the status of the Company's stock option plan as at June 30, 2011 and December 31, 2010, and changes during the periods ending on those dates are presented below:

	June 30, 2011		December 31, 2010	
	Number of shares #	Weighted-average exercise price \$	Number of shares #	Weighted-average exercise price \$
<b>Options outstanding, beginning of period</b>	<b>4,245,000</b>	<b>1.22</b>	3,300,000	1.61
Granted	70,000	1.60	1,195,000	0.69
Expired	(100,000)	2.84	(230,000)	4.24
Forfeited	(20,000)	0.74	—	—
Exercised	—	—	(20,000)	0.74
<b>Options outstanding, end of period</b>	<b>4,195,000</b>	<b>1.19</b>	4,245,000	1.22
<b>Options vested and outstanding, end of period</b>	<b>4,175,000</b>	<b>1.20</b>	4,205,000	1.22

The following summarizes information about the options outstanding at June 30, 2011:

Range of exercise prices \$	Number outstanding #	Number vested and outstanding #	Weighted average exercise price [i] \$	Weighted average remaining contract life [i] [years]
0.50 – 0.99	2,340,000	2,320,000	0.64	3.4
1.00 – 1.49	150,000	150,000	1.30	2.2
1.50 – 1.99	965,000	965,000	1.59	2.1
2.00 – 2.49	665,000	665,000	2.29	0.6
2.50 – 2.99	75,000	75,000	2.96	0.9
	4,195,000	4,175,000		

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

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**[c]** During the six-months ended June 30, 2011 the following transaction occurred:

- 460,800 warrants with a book value of \$33,568 were exercised for aggregate gross proceeds of \$368,640;
- 159,231 compensation units were exercised resulting in the issuance of 159,231 common shares with a book value of \$40,347 and 79,615 warrants with a book value of \$2,646 for aggregate gross proceeds of \$103,499 allocated between the common shares and warrants at \$97,130 and \$6,369, respectively; and,
- 1,169 warrants issued from the compensation units with a book value of \$132 were also exercised during the quarter for aggregate gross proceeds of \$935.

**[d]** Subsequent to June 30, 2011, the following transactions occurred:

- 125,000 stock options were issued pursuant to the Company's stock option plan;
- 120,000 stock options were exercised for aggregate gross proceeds of \$76,800;
- 20,000 warrants were exercised for aggregate gross proceeds of \$16,000;
- 636,925 compensation units were exercised resulting in the issuance of 636,925 common shares and 318,462 warrants for aggregate gross proceeds of \$414,001; and,
- 318,462 warrants issued from the compensation units were exercised for aggregate gross proceeds of \$254,770.

## 10. LONG-TERM DEBT

On March 2, 2009, the Company raised net proceeds excluding transaction costs of \$2,925,000 pursuant to a loan agreement with a private investor. The loan has a face value of \$3,000,000, is unsecured, has a term of three years and bears interest at an annual rate of 9%. Cash interest payments of \$135,000 are due on the last business day of August and February of each year during the term agreement. Transaction costs totalling \$118,060 consist of \$93,750 for warrants issued in lieu of fees and \$24,310 for listing and legal fees incurred. Transaction costs are recorded as a reduction to net proceeds of the loan on initial recognition and are amortized to interest expense using the effective interest rate method over the life of the loan. For the six-month period ended June 30, 2011, \$32,418 [June 30, 2010 - \$30,931] of transaction costs and loan discount were amortized using the effective interest rate method and interest of \$131,558 [June 30, 2010 - \$146,881] was capitalized to exploration and evaluation expenditures and surface facilities under construction within mining properties during the period.

During the period, the loan agreement was amended to extend the initial three-year term by an additional six months from March 2, 2012 to August 31, 2012.

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**11. INCOME TAXES**

The Company has non-capital loss carryforwards totalling \$12,193,000 which begin to expire in 2014, undeducted share issuance costs of \$1,270,000 and unused investment tax credits on pre-production mining costs of \$1,705,000 which begin to expire in 2028. The Company has completed feasibility studies for both of its principal projects and undertaken related permitting and financing activities. Management has determined it is probable that the Company will achieve production and will realize the benefit of certain non-capital losses, undeducted share issuance costs and unused investment tax credits. The benefit of these amounts has been recorded in the interim condensed consolidated financial statements to the extent that the deduction for share issuance costs and operating losses expire post-2015.

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

	<b>June 30, 2011</b>	December 31, 2010
	\$	\$
<b>Deferred tax assets</b>		
Net operating loss carryforwards	<b>3,264,000</b>	2,887,000
Undeducted share issuance costs <i>[i]</i>	<b>339,000</b>	455,000
Unused investment tax credits on pre-production costs	<b>1,705,000</b>	1,430,000
	<b>5,308,000</b>	4,772,000
Less valuation allowance related to operating losses, share issuance costs and corporate minimum tax	<b>(405,000)</b>	(509,000)
<b>Deferred tax assets</b>	<b>4,903,000</b>	4,263,000
Book value of exploration and evaluation expenditures and capital assets in excess of tax value	<b>(10,453,000)</b>	(9,339,500)
Deferred tax liability on future investment tax credits utilized	<b>(455,000)</b>	(382,000)
<b>Net deferred tax liabilities</b>	<b>(6,005,000)</b>	(5,458,500)

*[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 six month period is as follows:

	<b>June 30, 2011</b>	June 30, 2010
	\$	\$
<b>Combined federal and provincial income tax rate</b>	<b>28.27%</b>	30.80%
Corporate income tax at statutory rate	(132,500)	(307,300)
Increase (decrease) in income taxes resulting from:		
Non-deductible stock compensation and other expenses	6,000	74,000
Renunciation of flow-through expenses	1,044,000	47,000
Rate difference	30,000	(81,600)
Non-taxable flow-through share premium	(191,000)	(115,000)
Investment tax credits on pre-production mining costs, net of tax	(204,000)	(94,000)
Other	(21,000)	(28,325)
	<b>531,500</b>	<b>(505,225)</b>

**12. CONSOLIDATED STATEMENT OF CASH FLOWS**

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

	<b>June 30, 2011</b>	December 31, 2010
	\$	\$
Cash on hand with banks	3,689,890	8,377,150
Short-term fixed income deposits	12,120	766,824
	<b>3,702,010</b>	<b>9,143,974</b>

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

	<b>June 30, 2011</b>	June 30, 2010
	\$	\$
Interest and investment income received	12,643	13,419
Interest paid	135,000	135,000

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#### 13. RELATED PARTY TRANSACTIONS

For the six-month period ended June 30, 2011, the Company paid key management personnel, including officers, directors, or their related entities for consulting services and/or management services.

Compensation paid to key management personnel for services provided during the six-month periods ended:

	<b>June 30, 2011</b>	June 30, 2010
	\$	\$
Salaries and benefits	<b>125,533</b>	119,319
Consulting services	<b>289,491</b>	273,421
Directors' fees	<b>112,333</b>	113,037
Legal services	<b>142,796</b>	25,000
	<b>670,153</b>	530,777

At June 30, 2011, \$122,000 [June 30, 2010 – \$127,069] was owing to key management personnel for services provided during the period.

#### 14. 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.

#### 15. EVENTS AFTER THE REPORTING PERIOD

On July 13, 2011, Fortune Coal Limited (“Fortune Coal”), a wholly owned subsidiary of Fortune Minerals Limited, entered into a definitive agreement to form a joint venture [“Klappan Coal JV”] with POSCO Canada Ltd. [“POSCAN”] and its wholly owned subsidiary POSCO Klappan Coal Ltd., to advance the Mount Klappan Project to production. Pursuant to the agreement, POSCAN will acquire a 20% interest in the Mount Klappan Project, POSCAN will provide \$10 million to Fortune Coal, \$20 million in upfront funding to represent their initial capital contribution to the Klappan Coal JV, as well as additional payments to Fortune Coal totaling \$17.2 million based on commencement of commercial production. POSCAN’s \$20 million in upfront funding to Klappan Coal JV is ultimately subject to Fortune Coal making a proportionate capital contribution of \$80 million by December 31, 2015. POSCAN will fund 20% of the total development, capital costs and operating costs for the Mount Klappan Project and will receive in return 20% of the product

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produced. Fortune Coal will serve as Manager of the Klappan Coal JV and will be compensated, on a recovery basis, for providing operational, technical and administrative support over the life of the mine. As at the date of this report, the \$30 million has been received in accordance with the agreement.

## 16. INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company has adopted International Financial Reporting Standards ["IFRS"] beginning January 1, 2010 and, as a result, the 2010 comparative information has been adjusted and presented in accordance with IFRS. However, the January 1, 2010 and December 31, 2010 comparative consolidated statements of financial position for the year ending December 31, 2011 may differ from herein if there are changes to IFRS standards requiring retroactive adjustment.

### i. First-time adoption of IFRS

Under IFRS 1, IFRS has been applied retrospectively at the transition consolidated statement of financial position date with all adjustments to assets and liabilities as stated under Canadian GAAP taken to retained earnings except where certain exemptions and elections were applied. The primary exemptions and elections that were applied by the Company are:

#### Business combinations

IFRS 1 indicates that a first-time adopter may elect not to apply *IFRS 3 Business Combinations* ["IFRS 3"] retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has taken this election and applied IFRS 3 only to business combinations that occurred on or after January 1, 2010.

#### Share-based payment transactions

IFRS 1 allows first-time adopters to apply *IFRS 2 Share-based Payments* ["IFRS 2"] to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010.

#### Borrowing costs

A first-time adopter may choose to apply *IAS 23 Borrowing Costs* ["IAS 23"] retrospectively or as at the transition date. IAS 23 requires borrowing costs directly attributable to acquisition, construction or production of an asset to be capitalized. An entity shall recognize other borrowing costs as an expense in the period incurred. The Company has elected to begin applying IAS 23 as at the transition date, January 1, 2010.

#### Provision for environmental rehabilitation

A Company may elect under IFRS 1 not to assess the inputs to the present value calculation of the decommissioning liability recognized under *IAS 37 Provisions, contingent liabilities and*

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*contingent assets* ["IAS 37"] at each reporting date prior to the transition date. The Company has elected to take this exemption, and has measured the provision for environmental rehabilitation as at the transition date, January 1, 2010.

#### Property, plant and equipment

In valuing capital assets under *IAS 16 Property, plant and equipment* ["IAS 16"], a company may elect to use cost in accordance with IFRS; use fair value at the date of transition as deemed cost; or, use a revaluation carried out at a previous date as deemed cost, subject to certain conditions. The election may be applied to any individual item of property, plant and equipment. The Company has elected to use cost in accordance with IFRS at the date of transition.

#### Estimates

In accordance with IFRS 1, estimates made under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's estimates as of January 1, 2010 under IFRS are consistent with its Canadian GAAP estimates for the same date.

#### ii. Adjustments recorded on transition and for comparative periods

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While adoption of IFRS has not changed the Company's actual cash flows, it has resulted in changes to the Company's reported financial position and results of operations. In order to allow the users of the interim condensed consolidated financial statements to better understand these changes, the Company's Canadian GAAP consolidated statement of financial position at June 30, 2010 and the consolidated statements of net loss, comprehensive loss and deficit and the consolidated statements of cash flows for the three- and six-month periods ended June 30, 2010 have been reconciled to IFRS, with the resulting significant differences explained below.

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The June 30, 2010 Canadian GAAP consolidated statement of financial position has been reconciled to IFRS as follows:

	Notes	June 30, 2010		
		Canadian GAAP \$	Effect of transition to IFRS \$	IFRS \$
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		11,751,185	—	11,751,185
Restricted cash		2,698,561	—	2,698,561
Accounts receivable		191,082	—	191,082
Prepaid expenses		35,996	—	35,996
<b>Total current assets</b>		<b>14,676,824</b>	<b>—</b>	<b>14,676,824</b>
Other assets	[a]	381,816	(367)	381,449
Security deposit		300,000	—	300,000
Reclamation security deposits		617,564	—	617,564
Capital assets, net		117,272	—	117,272
Mining properties	[b, c, e, g]	109,232,992	584,136	109,817,128
		<b>125,326,468</b>	<b>583,769</b>	<b>125,910,237</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities		4,032,787	—	4,032,787
Interest payable		90,000	—	90,000
Income taxes payable		99,033	—	99,033
<b>Total current liabilities</b>		<b>4,221,820</b>	<b>—</b>	<b>4,221,820</b>
Long-term debt		2,885,703	—	2,885,703
Provision for environmental rehabilitation	[b]	—	83,947	83,947
Deferred income tax liability, net	[d, i]	7,375,000	(1,553,000)	5,822,000
Flow-through premium deferred gain	[h]	—	380,250	380,250
<b>Total liabilities</b>		<b>14,482,523</b>	<b>(1,088,803)</b>	<b>13,393,720</b>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	[a, d, f, h]	107,206,782	5,061,597	112,268,379
Other reserves	[d]	7,245,025	604,000	7,849,025
Deficit		(3,607,862)	316,255	(3,291,607)
Adjustment to opening deficit for IFRS*		—	(4,309,280)	(4,309,280)
<b>Total shareholders' equity</b>		<b>110,843,945</b>	<b>1,672,572</b>	<b>112,516,517</b>
		<b>125,326,468</b>	<b>583,769</b>	<b>125,910,237</b>

\*Refer to the March 31, 2011 interim consolidated financial statements for a reconciliation of the deficit from Canadian GAAP to IFRS at January 1, 2010, the Company's transition date to IFRS.

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The Canadian GAAP consolidated statement of loss, comprehensive loss and deficit for the three months ended June 30, 2010 have been reconciled to IFRS as follows:

	Notes	3 months ended June 30, 2010		
		Canadian GAAP \$	Effect of transition to IFRS \$	IFRS \$
<b>EXPENSES</b>				
Administrative	[c]	251,713	93,305	345,018
Investor relations and regulatory fees		34,666	—	34,666
Stock-based compensation		238,400	—	238,400
Capital taxes		294,508	—	294,508
Corporate advisory costs		38,891	—	38,891
Interest expense	[g]	41,762	(32,377)	9,385
Amortization and accretion	[b]	4,443	1,807	6,250
<b>Loss before other items</b>		<b>(904,383)</b>	<b>(62,735)</b>	<b>(967,118)</b>
Interest and other income		5,222	—	5,222
Foreign exchange gain		86,946	—	86,946
<b>Loss before income taxes</b>		<b>(812,215)</b>	<b>(62,735)</b>	<b>(874,950)</b>
Recovery of (provision for) income taxes				
Current income tax provision		(9,775)	—	(9,775)
Deferred income tax recovery	[e, i]	342,300	(30,500)	311,800
<b>Net loss for the period</b>		<b>(479,690)</b>	<b>(93,235)</b>	<b>(572,925)</b>
Deficit, beginning of period*		(3,128,172)	(3,899,790)	(7,027,962)
<b>Deficit, end of period</b>		<b>(3,607,862)</b>	<b>(3,993,025)</b>	<b>(7,600,887)</b>
<b>Basic and diluted loss per share</b>		<b>(0.01)</b>	<b>—</b>	<b>(0.01)</b>

\*Refer to the March 31, 2011 interim consolidated financial statements for a reconciliation of the deficit from Canadian GAAP to IFRS at March 31, 2010.

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The Canadian GAAP consolidated statement of loss, comprehensive loss and deficit for the six months ended June 30, 2010 have been reconciled to IFRS as follows:

	Notes	<b>6 months ended June 30, 2010</b>		
		Canadian GAAP \$	Effect of transition to IFRS \$	IFRS \$
<b>EXPENSES</b>				
Administrative	[c]	487,868	202,445	690,313
Investor relations and regulatory fees		104,644	—	104,644
Stock-based compensation		239,500	—	239,500
Capital taxes		294,508	—	294,508
Corporate advisory costs		38,891	—	38,891
Interest expense	[g]	82,965	(64,714)	18,251
Amortization and accretion	[b]	7,995	3,614	11,609
<b>Loss before other items</b>		<b>(1,256,371)</b>	<b>(141,345)</b>	<b>(1,397,716)</b>
Interest and other income		13,419	—	13,419
Gain on flow-through share premium	[h]	—	374,600	374,600
Foreign exchange gain		12,104	—	12,104
<b>Loss before income taxes</b>		<b>(1,230,848)</b>	<b>233,255</b>	<b>(997,593)</b>
Recovery of (provision for) income taxes				
Current income tax provision		(9,775)	—	(9,775)
Deferred income tax recovery	[e, h, i]	432,000	83,000	515,000
<b>Net loss for the period</b>		<b>(808,623)</b>	<b>316,255</b>	<b>(492,368)</b>
Deficit, beginning of period		(2,799,239)	(4,309,280)	(7,108,519)
<b>Deficit, end of period</b>		<b>(3,607,862)</b>	<b>(3,993,025)</b>	<b>(7,600,887)</b>
<b>Basic and diluted loss per share</b>		<b>(0.01)</b>	<b>—</b>	<b>(0.01)</b>

*\*Refer to the March 31, 2011 interim consolidated financial statements for a reconciliation of the deficit from Canadian GAAP to IFRS at January 1, 2010, the Company's transition date to IFRS.*

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[unaudited]

June 30, 2011

The Canadian GAAP consolidated statement of cash flows for the six months ended June 30, 2010 has been reconciled to IFRS as follows:

	Notes	6 months ended June 30, 2010		
		Canadian GAAP \$	Effect of transition to IFRS \$	IFRS \$
<b>OPERATING ACTIVITIES</b>				
Net loss and comprehensive loss for the period		(808,623)	316,255	(492,368)
Add (deduct) items not involving cash				
Amortization and accretion of capital assets	[b]	7,995	3,614	11,609
Deferred income taxes	[e, h, i]	(432,000)	(83,000)	(515,000)
Gain on flow-through share premium	[h]	—	(374,600)	(374,600)
Stock-based compensation expense		239,500	—	239,500
Non-cash portion of interest expense		30,931	—	30,931
		(962,197)	(137,731)	(1,099,928)
Changes in non-cash working capital balances related to operations				
Accounts receivable		450,555	—	450,555
Prepaid expenses		26,861	—	26,861
Accounts payable and accrued liabilities		451,237	—	451,237
Income taxes payable		(14,626)	—	(14,626)
<b>Cash used in operating activities</b>		<b>(48,170)</b>	<b>(137,731)</b>	<b>(185,901)</b>
<b>INVESTING ACTIVITIES</b>				
Increase in exploration and evaluation expenditures	[g]	(4,047,795)	(31,176)	(4,078,971)
Purchase of plant and equipment and capital assets	[c, g]	(4,394,401)	168,907	(4,225,494)
Increase in other assets, net of non-cash items		(3,180)	—	(3,180)
Posting of security for reclamation security deposits		(314)	—	(314)
<b>Cash used in investing activities</b>		<b>(8,445,690)</b>	<b>137,731</b>	<b>(8,307,959)</b>
<b>FINANCING ACTIVITIES</b>				
Proceeds on issuance of shares, net		1,916,897	—	1,916,897
<b>Cash provided by financing activities</b>		<b>1,916,897</b>	<b>—</b>	<b>1,916,897</b>
<b>Net decrease in cash and cash equivalents during the period</b>		<b>(6,576,963)</b>	<b>—</b>	<b>(6,576,963)</b>
Cash and cash equivalents, beginning of period		18,328,148	—	18,328,148
<b>Cash and cash equivalents, end of period</b>		<b>11,751,185</b>	<b>—</b>	<b>11,751,185</b>

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The disclosure below summarizes the adjustments to the opening statement of financial position on the transition date, January 1, 2010, as well as the adjustments to the statement of financial position and statement of loss, comprehensive loss and deficit for the six months ended June 30, 2010 ["YTD"] and the three months ended June 30, 2010 ["QTD"].

#### [a] Share-based payments

Share-based payments that were outstanding but not fully vested subsequent to January 1, 2010 have been assessed for the differences between Canadian GAAP and IFRS. IFRS 2 requires the fair value of share-based payments issued to a non-employee in exchange for services to be measured at the date the service was rendered, and recognized over the life of the share-based payment. The Company had such share-based payments at the date of transition to IFRS related to warrants issued to a financial institution for services performed for the NICO project financing initiatives. Under Canadian GAAP, the Company re-measured the fair value of these share-based payments at each reporting date and at the vesting dates. The re-measurement of the fair value has been reversed under IFRS, resulting in the following adjustments:

	Other assets Dr/ (Cr) \$	Share capital (warrants) Dr/ (Cr) \$
<i>Adjustment to opening balance</i>	25,157	(25,157)
<i>June 30, 2010 YTD</i>	(25,524)	25,524
<b><i>Cumulative to June 30, 2010</i></b>	<b>(367)</b>	<b>367</b>
<b><i>June 30, 2010 QTD</i></b>	<b>(17,801)</b>	<b>17,801</b>

#### [b] Provision for environmental rehabilitation

IAS 37 requires a company to recognize an asset retirement obligation if a legal or constructive obligation exists upon commencement of the project when and if it can be reliably measured. IAS 37 provides guidance that differs from Canadian GAAP related to measurement of such asset retirement obligations and requires certain assumptions to be made. The amount recorded is reassessed each reporting period based on new estimates and assumptions. IAS 16 requires the cost of property, plant and equipment to include the estimated cost of dismantling and removing the asset and restoring the site. Under Canadian GAAP a company is required to recognize an asset retirement obligation if a legal obligation exists and a reasonable estimate for that obligation can be made. An asset retirement obligation has been recorded under IFRS, resulting in the following adjustments:

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	Mining properties Dr/ (Cr) \$	Environmental rehabilitation provision Dr/ (Cr) \$	Deficit Dr/(Cr) \$	Accretion (amortization) expense Dr/(Cr) \$
<i>Adjustment to opening balance</i>	43,945	(80,333)	36,388	—
<i>June 30, 2010 YTD</i>	—	(3,614)	—	3,614
<b><i>Cumulative to June 30, 2010</i></b>	<b>43,945</b>	<b>(83,947)</b>	<b>36,388</b>	<b>3,614</b>
<b><i>June 30, 2010 QTD</i></b>	<b>—</b>	<b>(1,807)</b>	<b>—</b>	<b>1,807</b>

[c] Property, plant and equipment

Under IAS 16 administrative and general overhead expenditures are not considered to be a cost of an item of property, plant and equipment. Under Canadian GAAP the Company included these expenditures in the cost of property, plant and equipment to the extent that the expenditures were directly attributable. Administrative and general overhead costs previously capitalized in property, plant and equipment have been expensed under IFRS resulting in the following adjustments:

	Mining properties Dr/(Cr) \$	Deficit Dr/(Cr) \$	Administrative expense Dr/(Cr) \$
<i>Adjustment to opening balance</i>	(535,078)	535,078	—
<i>June 30, 2010 YTD</i>	(202,445)	—	202,445
<b><i>Cumulative to June 30, 2010</i></b>	<b>(737,523)</b>	<b>535,078</b>	<b>202,445</b>
<b><i>June 30, 2010 QTD</i></b>	<b>(93,305)</b>	<b>—</b>	<b>93,305</b>

[d] Initial recognition exemption of deferred taxes

Under *IAS 12 Income Taxes* ["IAS 12"], a company should not recognize the deferred tax on the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction does not impact accounting or taxable income at the time of initial recognition. Canadian GAAP contains no such exemption. Deferred tax assets and liabilities previously recorded under Canadian GAAP that meet the initial recognition exemption requirements under IFRS have been reversed. This includes deferred tax liabilities previously recorded on the acquisition of the minority interest of NICO, capitalized stock options, and warrant value included in transaction costs. The resulting adjustments recorded are as follows:  
Acquisition of minority interest in NICO:

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	Deferred tax asset/liability	Share capital	Deficit
	Dr/(Cr)	Dr/(Cr)	Dr/(Cr)
	\$	\$	\$
<i>Adjustment to opening balance</i>	958,000	(1,095,500)	137,500
<i>June 30, 2010 YTD</i>	—	—	—
<b><i>Cumulative to June 30, 2010</i></b>	<b>958,000</b>	<b>(1,095,500)</b>	<b>137,500</b>
<b><i>June 30, 2010 QTD</i></b>	<b>—</b>	<b>—</b>	<b>—</b>

Capitalized stock options:

	Deferred tax asset/liability	Other reserves	Deficit
	Dr/(Cr)	Dr/(Cr)	Dr/(Cr)
	\$	\$	\$
<i>Adjustment to opening balance</i>	566,000	(557,000)	(9,000)
<i>June 30, 2010 YTD</i>	47,000	(47,000)	—
<b><i>Cumulative to June 30, 2010</i></b>	<b>613,000</b>	<b>(604,000)</b>	<b>(9,000)</b>
<b><i>June 30, 2010 QTD</i></b>	<b>42,000</b>	<b>(42,000)</b>	<b>—</b>

Capitalized warrants:

	Share capital (warrants)	Deferred tax asset / liability
	Dr/ (Cr)	Dr/ (Cr)
	\$	\$
<i>Adjustment to opening balance</i>	(76,000)	76,000
<i>June 30, 2010 YTD</i>	(44,000)	44,000
<b><i>Cumulative to June 30, 2010</i></b>	<b>(120,000)</b>	<b>120,000</b>
<b><i>June 30, 2010 QTD</i></b>	<b>(6,800)</b>	<b>6,800</b>

[e] Pre-production mining investment tax credits

Under IFRS, investment tax credits [“ITC”] are not explicitly addressed and are excluded from the scope of IAS 12 and IAS 20 *Accounting for Government Grants* [“IAS 20”]. However, the “GAAP Hierarchy” discussed in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* [“IAS 8”] suggests that the Company is not prohibited in applying these standards. The Company assesses IAS 12 as the most appropriate standard currently for accounting for deferred taxes on the pre-production mining ITCs. As a result, the ITCs are recorded through net income (loss) for the period. Under Canadian GAAP, the Company has recorded the non refundable ITCs as a reduction of the related asset, through the deferred exploration expenditures in mining properties. As a result of the differences between IFRS and Canadian GAAP, the ITCs previously recorded against deferred exploration expenditures have been recorded through opening retained earnings as follows:

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	Mining properties Dr/(Cr) \$	Deficit Dr/(Cr) \$	Tax provision Dr/(Cr) \$
<i>Adjustment to opening balance</i>	1,085,000	(1,085,000)	—
<i>June 30, 2010 YTD</i>	128,000	—	(128,000)
<b><i>Cumulative to June 30, 2010</i></b>	<b>1,213,000</b>	<b>(1,085,000)</b>	<b>(128,000)</b>
<b><i>June 30, 2010 QTD</i></b>	<b>(63,500)</b>	<b>—</b>	<b>63,500</b>

[f] Backwards tracing of deferred taxes

Under IFRS, current and deferred taxes that arise from an item recorded directly in equity should also be recorded through equity, and not through net income (loss) as per IAS 12. Any re-measurement of an item recorded directly in equity that originally triggered the recognition of the current or deferred taxes are also recorded through the equity account and not through net income (loss); this concept is referred to as “backwards tracing”. Canadian GAAP does not allow backwards tracing on items recorded directly in equity. In 2007, the Company recorded a deferred tax asset for certain un-deducted share issuance costs that were previously assessed as less likely than not to be realized in the future. As a result of the difference between Canadian GAAP and IFRS related to backwards tracing, a transitional adjustment to move future taxes recorded on share issuance costs from net income to the share capital account in the consolidated statement of changes in financial position has been recorded through opening retained earnings as follows:

	Share capital Dr/ (Cr) \$	Share capital (warrants) Dr/ (Cr) \$	Deficit Dr/ (Cr) \$
<i>Adjustment to opening balance</i>	(656,000)	(34,000)	690,000
<i>June 30, 2010 YTD</i>	—	—	—
<b><i>Cumulative to June 30, 2010</i></b>	<b>(656,000)</b>	<b>(34,000)</b>	<b>690,000</b>
<b><i>June 30, 2010 QTD</i></b>	<b>—</b>	<b>—</b>	<b>—</b>

[g] Borrowing costs

Under IFRS, IAS 23 requires that an entity capitalize borrowing costs, including interest, which is directly attributable to the acquisition, construction or production of a qualifying asset. Canadian GAAP does not contain comprehensive guidance on the method for capitalization of borrowing costs. As a result of applying IAS 23 to 2010 borrowing costs, the Company has recorded an adjustment to reduce the interest expense in net income (loss), and increase the amount of interest being capitalized to mining properties as follows:

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	Mining properties Dr/ (Cr)* \$	Interest expense Dr/ (Cr) \$
<i>Adjustment to opening balance</i>	—	—
<i>June 30, 2010 YTD</i>	64,714	(64,714)
<b><i>Cumulative to June 30, 2010</i></b>	<b>64,714</b>	<b>(64,714)</b>
<b><i>June 30, 2010 QTD</i></b>	<b>32,377</b>	<b>(32,377)</b>

\* The adjustment includes capital assets within mining properties and exploration and evaluation expenditures within mining properties in amounts of \$15,630 and \$16,747, respectively for June 30, 2010 QTD and \$33,538 and \$31,176, respectively, for June 30, 2010 YTD.

[h] Flow-through shares

Under IFRS, flow-through shares issued are recognized in share capital based on the quoted market price of the Company's shares on the date of issue. Any premium between the amount recognized in common shares and the amount the investor pays for the shares is recognized as a deferred gain which is recognized in earnings as gain on flow-through share premium when the eligible expenditures have been renounced. An income tax expense and deferred tax liability are recorded on renunciation. Previously, under Canadian GAAP, flow-through shares were recorded at their face value, net of related issuance costs and when the eligible expenditures were renounced, a future tax liability was recognized as a cost of issuing the shares by reducing the share capital amount recorded. As a result of this difference, a retrospective adjustment has been made to bifurcate and account for the premium amount paid by investors historically as a liability, and to record the deferred tax on renunciation of flow-through shares through earnings rather than share capital, and adjustments have been made to the 2010 comparative balances. These adjustments are summarized below:

	Flow-through premium deferred gain Dr/(Cr) \$	Share capital Dr/ (Cr) \$	Deficit Dr/(Cr) \$	Gain on flow-through share premium Dr/ (Cr) \$	Tax provision Dr/ (Cr) \$
<i>Adjustment to opening balance</i>	(374,600)	(3,489,714)	3,864,314	—	—
<i>June 30, 2010 YTD</i>	(5,650)	333,250	—	(374,600)	47,000
<b><i>Cumulative to June 30, 2010</i></b>	<b>(380,250)</b>	<b>(3,156,464)</b>	<b>3,864,314</b>	<b>(374,600)</b>	<b>47,000</b>
<b><i>June 30, 2010 QTD</i></b>	<b>(380,250)</b>	<b>380,250</b>	<b>—</b>	<b>—</b>	<b>—</b>

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[i] Other adjustments to deferred taxes

For certain differences between Canadian GAAP and IFRS that result in adjustments being recognized in the interim condensed consolidated financial statements as described above there are corresponding adjustments required to recognize changes in the deferred income tax assets and liabilities, due to changes between book and tax values.

The impact on deferred taxes as a result of the recognition of the environmental rehabilitation provision [refer to [b] above], the reduction in administrative and general overhead costs capitalized to property, plant and equipment [refer to [c] above] and the capitalization of borrowing costs [refer to [g] above] is as follows:

	Deferred tax asset/ liability Dr/ (Cr) \$	Deficit Dr/ (Cr) \$	Tax provision Dr/ (Cr) \$
<i>Adjustment to opening balance</i>	150,000	(150,000)	—
<i>June 30, 2010 YTD</i>	36,000	—	(36,000)
<b><i>Cumulative to June 30, 2010</i></b>	<b>186,000</b>	<b>(150,000)</b>	<b>(36,000)</b>
<b><i>June 30, 2010 QTD</i></b>	<b>16,000</b>	<b>—</b>	<b>(16,000)</b>

Deferred tax liability related to pre-production mining tax credits adjustment [refer to [e] above]:

	Deferred tax asset/ liability Dr/ (Cr) \$	Deficit Dr/ (Cr) \$	Tax provision Dr/ (Cr) \$
<i>Adjustment to opening balance</i>	(290,000)	290,000	—
<i>June 30, 2010 YTD</i>	(34,000)	—	34,000
<b><i>Cumulative to June 30, 2010</i></b>	<b>(324,000)</b>	<b>290,000</b>	<b>34,000</b>
<b><i>June 30, 2010 QTD</i></b>	<b>17,000</b>	<b>—</b>	<b>(17,000)</b>

## 17. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified from statements previously presented to conform to the presentation of the June 30, 2011 interim condensed consolidated financial statements.