

Consolidated Financial Statements

Fortune Minerals Limited

December 31, 2010 and 2009

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

[Signed]
Robin Goad
*President and
Chief Executive Officer*

[Signed]
Julian Kemp
*Vice President Finance and
Chief Financial Officer*

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Fortune Minerals Limited

We have audited the accompanying consolidated financial statements of **Fortune Minerals Limited**, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of loss and deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

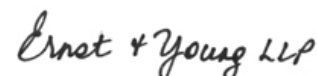
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements,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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Fortune Minerals Limited** as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

London, Canada,
March 9, 2011.



Chartered Accountants
Licensed Public Accountants

Fortune Minerals Limited
 Incorporated under the laws of Ontario

CONSOLIDATED BALANCE SHEETS

As at December 31

	2010	2009
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents <i>[note 10[a], 13]</i>	9,143,974	18,328,148
Restricted cash <i>[note 13]</i>	—	2,698,561
Accounts receivable	466,976	641,637
Prepaid expenses	108,727	62,857
Total current assets	9,719,677	21,731,203
Other assets <i>[note 6[i]]</i>	381,816	213,619
Security deposit <i>[note 6[i]]</i>	—	300,000
Reclamation bonds <i>[note 6[iii]]</i>	618,507	617,250
Capital assets, net <i>[note 5]</i>	113,675	104,135
Mining properties <i>[note 6]</i>	117,084,302	100,762,428
	127,917,977	123,728,635
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities <i>[note 13]</i>	1,376,882	3,581,550
Interest payable	90,000	90,000
Income taxes payable	23,894	113,659
Total current liabilities	1,490,776	3,785,209
Long-term debt <i>[note 8]</i>	2,917,749	2,854,772
Future income taxes <i>[note 9]</i>	6,966,000	7,805,000
Total liabilities	11,374,525	14,444,981
Commitments and contingencies <i>[note 6, 12]</i>		
SHAREHOLDERS' EQUITY		
Share capital <i>[note 7]</i>	113,987,025	105,207,868
Contributed surplus	7,131,153	6,875,025
Deficit	(4,574,726)	(2,799,239)
Total shareholders' equity	116,543,452	109,283,654
	127,917,977	123,728,635

See accompanying notes

On behalf of the Board:

[Signed]
 Robin Goad
 Director

[Signed]
 Mahendra Naik
 Director

Fortune Minerals Limited
 Incorporated under the laws of Ontario

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

Years ended December 31

	2010	2009
	\$	\$
REVENUE		
Interest and other income	24,889	50,334
EXPENSES		
Administrative	1,041,828	947,129
Investor relations	178,809	222,661
Stock-based compensation <i>[note 7[h]]</i>	253,000	216,500
Capital taxes	294,508	41,000
Corporate advisory costs <i>[note 6[ii]]</i>	283,639	—
Interest expense <i>[note 8]</i>	166,488	136,416
Amortization of capital assets	17,218	19,693
	2,235,490	1,583,399
Loss before other items	(2,210,601)	(1,533,065)
Foreign exchange loss <i>[note 3]</i>	(81,901)	(79,187)
Loss before income taxes	(2,292,502)	(1,612,252)
Provision for (recovery of) income taxes <i>[note 9]</i>		
Current provision	9,775	88,200
Future income tax recovery	(591,000)	(368,000)
Net loss for the year	(1,711,277)	(1,332,452)
Deficit, beginning of year	(2,799,239)	(1,466,787)
Modification of warrants <i>[note 7[e]]</i>	(64,210)	—
Deficit, end of year	(4,574,726)	(2,799,239)
Basic and diluted loss per share <i>[note 7[b]]</i>	(0.02)	(0.02)

See accompanying notes

Fortune Minerals Limited
 Incorporated under the laws of Ontario

**CONSOLIDATED STATEMENTS OF
 CASH FLOWS**

Years ended December 31

	2010	2009
	\$	\$
OPERATING ACTIVITIES		
Net loss for the year	(1,711,277)	(1,332,452)
Add (deduct) items not involving cash		
Amortization on capital assets	17,218	19,693
Future income taxes	(591,000)	(368,000)
Stock-based compensation	253,000	216,500
Non-cash portion of interest expense	62,977	47,832
	(1,969,082)	(1,416,427)
Changes in non-cash working capital balances related to operations		
Accounts receivable	174,661	(288,302)
Prepaid expenses	(45,870)	(16,642)
Accounts payable and accrued liabilities	(2,204,668)	772,196
Interest payable	—	90,000
Income taxes payable	(89,765)	80,511
Cash used in operating activities	(4,134,724)	(778,664)
INVESTING ACTIVITIES		
Decrease (increase) in other assets, net of non-cash items	(3,180)	568,321
Decrease in security deposit	300,000	177,015
Decrease (increase) in restricted cash <i>[note 13]</i>	2,698,561	(2,698,561)
Purchase of plant and equipment and capital assets	(7,332,384)	(5,910,454)
Loss on disposal of capital assets in mining properties	—	23,361
Posting of security for reclamation bonds	(1,257)	(15,383)
Increase in exploration and development expenditures	(9,178,049)	(7,655,489)
Cash used in investing activities	(13,516,309)	(15,511,190)
FINANCING ACTIVITIES		
Proceeds on issuance of debt, net	—	2,900,690
Proceeds on issuance of shares, net	8,466,859	22,782,119
Cash provided by financing activities	8,466,859	25,682,809
Increase (decrease) in cash and cash equivalents during the year, net	(9,184,174)	9,392,955
Cash and cash equivalents, beginning of year	18,328,148	8,935,193
Cash and cash equivalents, end of year <i>[note 10[a]]</i>	9,143,974	18,328,148

See accompanying notes

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

1. NATURE OF OPERATIONS

Fortune Minerals Limited [the “Company”] is a natural resource company with mineral deposits and exploration projects in Canada. The Company is focused on the exploration and the assembly and development of natural resource projects. The recoverability of amounts shown for mineral properties and related exploration and development expenditures is dependent upon the economic viability of recoverable reserves, the ability of the Company to obtain the necessary permits and financing to complete the development, and future profitable production or proceeds from the disposition thereof.

The Company currently operates in one geographic region, Canada, and in one industry segment, mining.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles [“GAAP”] and are within the framework of the significant accounting policies summarized below. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. The reported amounts and note disclosure are determined using management’s best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. Actual results, however, may differ from the estimates used in the consolidated financial statements.

[a] Principles of consolidation

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”] and Fortune Coal Limited [“FCL”]. All intercompany transactions and balances have been eliminated.

[b] Comprehensive income

Comprehensive income is composed of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on available-for-sale financial assets, translation gains and losses on self-sustaining foreign operations and accounting for certain derivative instruments and hedging activities. The components of comprehensive income, if any, are disclosed in the consolidated statements of comprehensive income (loss). For the years ended December 31, 2010 and 2009, the Company has no other comprehensive income (loss) to report therefore its net income (loss) is equal to the comprehensive income (loss).

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

[c] Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, and short-term fixed income deposits with original maturity dates shorter than three months.

[d] Short-term investments

Short-term investments consist of marketable securities and guaranteed deposits and are recorded at fair market value.

[e] Capital assets

Capital assets are stated at cost less accumulated amortization. Amortization of capital assets is recorded using the declining balance method at the following rates:

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

[f] Mineral properties and exploration and development expenditures

The Company capitalizes acquisition costs and exploration and development expenditures relating to mineral properties until the properties are brought into commercial production, disposed of, or the mineral property is no longer economically viable or there is a permanent impairment in value, at which time the carrying value will be written down to its estimated fair value. Payments received for exploration rights on the Company's mineral properties are treated as cost recoveries and reduce the cost of deferred exploration expenditures related to the mineral claims.

[g] Income taxes

The Company follows the liability method of tax allocation in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

[h] Administrative expenses

Included in exploration and development expenses and certain capital assets is a partial allocation of administrative, general and interest expenses. The allocation is based on the portion of expenses directly attributable to the exploration and development expenses and capital assets. The allocation is distributed among each project based on its pro rata share of direct expenditures in the year.

[i] Stock-based compensation plans

The Company has a fixed stock-based compensation plan approved by the shareholders at the Company's annual meeting held on June 22, 2005. The plan was re-approved including certain amendments at the Company's annual meeting held on May 29, 2007. Under the plan, the Company may grant options to eligible individuals for up to 10% of the issued and outstanding common shares subject to certain conditions. As at December 31, 2010, the Company has 6,427,800 [2009 – 5,564,000] options available for grant in addition to any options issued and outstanding. The exercise price of each option is equal to or higher than the market price of the Company's stock on the date of grant. The plan does not provide for a maximum term. Options are granted and their terms determined at the discretion of the Board of Directors.

The Company recognizes an expense for option awards using the fair value method of accounting based on the Black-Scholes model. The expense is capitalized to a similar extent as the optionee's salary, wages or fees are capitalized. The Black-Scholes model, used by the Company to calculate option and warrant values, as well as other accepted option valuation models, was developed to estimate fair value of freely tradable, fully transferable options and warrants, which significantly differ from the Company's stock option awards. These models also require four highly subjective assumptions, including future stock price volatility and expected time until exercise, which greatly affect the calculated values. Accordingly, management believes that these models do not necessarily provide a reliable single measure of the fair value of the Company's stock option awards and warrants.

[j] Financial instruments

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

- Cash and cash equivalents, restricted cash, short-term investments and reclamation bonds are designated as "assets held for trading" and are measured at fair value. Gains and losses resulting from the periodic revaluation of these items are recorded in net income.

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

- Accounts receivable and security deposit are designated as “receivables” and are recorded at amortized cost, which upon initial recognition are equal to fair value. Subsequent measurement of receivables is on the basis of amortized cost using the effective interest rate method.
- Long-term debt is designated as “loans” and is recorded at amortized cost, which upon initial recognition is equal to fair value. Subsequent measurement of loans is on the basis of amortized cost using the effective interest rate method.
- Accounts payable and accrued liabilities, interest payable, and income taxes payable are designated as “other liabilities” and are recorded at amortized cost, which upon initial recognition is equal to fair value. Subsequent measurement of other liabilities is on the basis of amortized cost using the effective interest rate method.

As at December 31, 2010, the Company was not a party to any forward foreign exchange or metal pricing contracts for which hedge accounting may apply, but may use such instruments in the future. The purpose of hedge accounting is to ensure that counterbalancing gains, losses, revenues and expenses (including the effects of counterbalancing changes in cash flows) are recognized in net income in the same period or periods. Hedge accounting is applied only when gains, losses, revenues and expenses on a hedging item would otherwise be recognized in income in a different period than gains, losses, revenues and expenses on the hedged item. Where gains, losses, revenues and expenses on the hedging item and counterbalancing gains, losses, revenues and expenses on the hedged item are recognized in income in the same period, hedge accounting is both considered not necessary and not permitted by the standards.

[k] Income (loss) per common share

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

[l] Transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. For a financial asset or financial liability classified other than as held for trading, transaction costs are added to the fair value of the financial asset or liability on the balance sheet. For a financial asset or financial liability classified as held for trading, all transaction costs are recognized immediately in net income.

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

[m] New accounting pronouncements

International Financial Reporting Standards

Effective January 1, 2011, the accounting framework under which financial statements are prepared in Canada for all publicly accountable enterprises is scheduled to change to International Financial Reporting Standards ["IFRS"]¹. Accordingly, the Company's first interim financial statements presented in accordance with IFRS will be for the three-month period ended March 31, 2011, and its first annual financial statements presented in accordance with IFRS will be for the year ended December 31, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosure requirements.

Set out below are the more significant areas where IFRS will have an impact on the Company's consolidated financial statements and note disclosure:

- Share-based payments (IFRS 2);
- Exploration for and evaluation of mineral resource (IFRS 6);
- Income taxes (IAS 12);
- Property, plant and equipment (IAS 16);
- Borrowing costs (IAS 23);
- Impairment of assets (IAS 36);
- Provisions (IAS 37).

The list should not be regarded as a complete list of changes that will result from transition to IFRS. It is intended to highlight areas that the Company believes to be the most significant.

Furthermore, IFRS 1 provides guidance to entities on the general approach to be taken when first adopting IFRS. The underlying principle of IFRS 1 is retrospective application of IFRS standards in force at the date an entity first reports using IFRS. IFRS 1 acknowledges that full retrospective application may not be practical or appropriate in all situations and prescribes:

- Optional exemptions from specific aspects of certain IFRS standards in the preparation of the Company's opening consolidated balance sheet; and
- Mandatory exceptions to retrospective application of certain IFRS standards.

The Company has analyzed various accounting policy choices available under IFRS 1; the following areas have been identified as most applicable on transition:

- Valuation of property, plant and equipment
- Measurement of prior share payments
- Treatment of past borrowing costs
- Measurement of an asset retirement obligation

¹ IFRS also includes International Accounting Standards ["IAS"], International Financial Reporting Interpretation Committee Updates ["IFRIC"], and Standing Interpretations Committee Updates ["SIC"].

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

3. FINANCIAL INSTRUMENTS

The Company has designated cash and cash equivalents, short-term investments, and reclamation bonds as assets held for trading. Accounts receivable are designated as receivables, long-term debt is classified as loans, and accounts payable and accrued liabilities, interest payable and income taxes payable are designated as other liabilities. These financial instruments are initially measured at fair value. Receivables, accounts payable and accrued liabilities and long-term debt are subsequently measured on the basis of amortized cost using the effective interest rate method. Assets held for trading are revalued on the reporting date based on relevant market information about the financial instrument. 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, short-term investments 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.
- 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 December 31, 2010, included in cash and cash equivalents was \$US 1,320,274.
- 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

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

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 in March 2012.

4. 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.

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 the 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.

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

5. CAPITAL ASSETS

Capital assets consist of the following:

	2010		2009	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$	\$	\$
Computer equipment	140,868	90,870	118,839	73,246
Furniture and fixtures	80,914	42,520	72,880	33,673
Leasehold improvements	9,602	9,164	9,602	8,726
Software	47,819	22,974	33,906	15,447
	279,203	165,528	235,227	131,092
Less accumulated amortization	165,528		131,092	
Net book value	113,675		104,135	

6. MINING PROPERTIES

Interests in mining properties consist of the following:

	2010			
	Capital assets	Property costs	Exploration and development expenditures	Total - mining properties
	\$	\$	\$	\$
NICO Project [i]	26,362,826	3,593,049	64,413,001	94,368,876
Mount Klappan Project [ii]	2,396	3,144,116	17,482,177	20,628,689
Sue-Dianne Project	—	9,164	2,038,761	2,047,925
Other properties	—	—	38,812	38,812
	26,365,222	6,746,329	83,972,751	117,084,302

	2009			
	Capital assets	Property costs	Exploration and development expenditures	Total - mining properties
	\$	\$	\$	\$
NICO Project [i]	19,237,784	3,593,049	55,344,287	78,175,120
Mount Klappan Project [ii]	3,424	3,144,116	17,140,957	20,288,497
Sue-Dianne Project	—	9,164	2,033,420	2,042,584
Other properties	—	—	256,227	256,227
	19,241,208	6,746,329	74,774,891	100,762,428

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

During the year ended December 31, 2010, \$665,300 [2009 - \$610,099] of administrative expenses, \$251,810 [2009 - \$314,489] of amortization and \$113,700 [2009 - \$103,500] of stock-based compensation were capitalized to exploration and development expenditures within mining properties. Pre-production mining tax credits with a recorded value of \$345,000 [2009 - \$1,085,000] were deducted from exploration and development expenditures within mining properties.

Capital assets consist of the following:

	<u>2010</u>		<u>2009</u>	
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Cost</u>	<u>Accumulated amortization</u>
	\$	\$	\$	\$
Surface facilities under construction	25,247,798	—	17,901,744	—
Surface facilities	1,469,007	779,113	1,429,741	628,051
Camp structures	600,124	499,942	600,124	457,008
Mobile equipment	822,783	568,400	780,157	461,884
Site furniture and equipment	31,280	23,302	31,280	19,882
Land acquisition costs	64,987	—	64,987	—
	28,235,979	1,870,757	20,808,033	1,566,825
Less accumulated amortization	1,870,757		1,566,825	
Net book value	26,365,222		19,241,208	

During the year ended December 31, 2010, \$492,561 [2009 - \$450,664] of administrative expenses, \$70,041 [2009 - \$94,043] of amortization and \$69,500 [2009 - \$35,500] of stock-based compensation were capitalized to surface facilities under construction.

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.

Golden Giant Mine Assets

On August 31, 2006, the Company acquired, from an equipment dealer [the “Vendor”], certain mill, related surface facilities and processing equipment for future use at the NICO Project. Pursuant to the purchase agreement with the Vendor, the Company had an obligation to the Vendor to dismantle and remove the assets from the site of the land owner [the “Land Owner”] by August 31, 2009. In 2008, the Company entered into an agreement with the Land Owner, whereby certain additional assets were acquired and the dismantling and removal of the assets to be used at NICO would not be required until April 2010. Amendments to the purchase agreement with the Vendor were entered into reflecting the revised date. Accordingly, the Company undertook a program designed to dismantle and remove these assets.

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

During 2009, the agreements with the Vendor were terminated and an amending agreement with the Land Owner was executed. Under the amended agreement with the Land Owner, the Company posted \$300,000 in financial assurance in relation to the Company's remaining obligations with the Land Owner to dismantle a warehouse and remove the assets salvaged prior to April 2011. The amount posted was recorded as a security deposit, and upon completion of the Company's obligation, in October 2010, the security deposit was released to the Company.

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. 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.

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 SMPP and incorporated 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.

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 \$381,816 [2009 - \$213,619] have been recorded in other assets for the year ended December 31, 2010, including warrants issued in lieu of fees valued at \$364,050 (refer to Note 7[f]) and other incremental costs of \$17,766 incurred to date.

ii. Mount Klappan Project, British Columbia

The Mount Klappan Project in northwest British Columbia and related coal licenses are wholly owned by the Company through its subsidiary, FCL. 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 is formally seeking a strategic partner to help develop the Mount Klappan Project and has engaged a financial advisor to assist with the process of evaluating potential alternatives.

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

In connection with the evaluation process, incremental costs of \$283,639 have been expensed and recorded as corporate advisory costs for the year ended December 31, 2010.

iii. Reclamation Bonds

The Company has provided reclamation bonds 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 bonds consist of the following:

	2010		2009	
	Bond	Security held	Bond	Security held
	amount	(fair market	amount	(fair market
	\$	value)	\$	value)
	\$	\$	\$	\$
NICO Project	211,000	244,273	211,000	243,777
Mount Klappan Project	307,000	374,234	307,000	373,473
Net book value	518,000	618,507	518,000	617,250

The security held for the reclamation bonds consists of cash balances in accounts with a large Canadian financial institution.

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

7. SHARE CAPITAL

[a] Issued and outstanding common shares:

	2010		2009	
	#	\$	#	\$
Common shares				
Beginning of period	94,779,407	103,192,996	55,550,107	83,353,111
Issued as a result of:				
Public offering	—	—	26,538,550	16,188,516
Private offerings [c]	4,635,473	3,972,750	12,690,750	6,331,095
Exercise of options [h]	20,000	20,100	—	—
Exercise of warrants [d, e]	7,015,653	5,254,925	—	—
Exercise of compensation units [d]	477,694	412,433	—	—
Share issuance costs, net tax [c, e, g]	—	(118,452)	—	(1,429,726)
Future tax impact of renunciation of development costs expended	—	(47,000)	—	(1,250,000)
End of period [b]	106,928,227	112,687,752	94,779,407	103,192,996
Warrants				
Beginning of period	20,890,275	2,014,872	5,448,000	1,986,060
Issued as a result of:				
Public offering	—	—	13,269,275	1,061,542
Private offerings	—	—	4,546,000	734,030
Exercise of compensation units [d]	238,847	27,045	—	—
Warrant issuance costs, net tax [c, d]	—	(1,902)	—	(118,263)
In lieu of fees, net tax [f, g]	—	121,017	2,975,000	216,783
Exercise of warrants [d, e]	(7,015,653)	(922,764)	—	—
Expiration of warrants [e]	(19,194)	(3,205)	(5,348,000)	(1,865,280)
Modification of warrants [e]	—	64,210	—	—
End of period	14,094,275	1,299,273	20,890,275	2,014,872
		113,987,025		105,207,868

[b] The Company is authorized to issue an unlimited number of common shares without par value. At December 31, 2010, the weighted average number of common shares outstanding was 98,058,973 [2009 – 64,588,990]. For calculating fully diluted loss per share, for the year ended December 31, 2010 there were 2,320,000 options and 13,994,275 warrants, and 1,114,619 compensation units with 557,310 warrants underlying in the compensation units 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.

[c] On November 1, 2010, the Company issued 2,100,473 common shares on a flow-through basis at a price of \$0.95 per share for aggregate gross proceeds of \$1,995,450. On June 30, 2010, the Company issued 2,535,000 common shares on a flow-through basis at a price of \$0.78 per share for aggregate gross proceeds of \$1,977,300. Share issuance costs, net of tax, of \$93,250, were incurred in 2010 relating to these financings. Share and warrant issuance

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

costs, net of tax, of \$21,702 and \$902 respectively, relate to additional expenditures incurred from the December 3, 2009 public offering.

- [d]** During December 2010, 375,000 warrants with a book value of \$27,318 were exercised for aggregate gross proceeds of \$300,000; 477,694 compensation units were exercised resulting in the issuance of 477,694 common shares with a book value of \$121,040 and 238,847 warrants with a book value of \$7,937 for aggregate gross proceeds of \$310,501, which were allocated between the common shares and warrants at \$291,393 and \$19,108 respectively. The 238,847 warrants issued from the compensation units with a book value of \$27,045 were also exercised during December 2010 for aggregate gross proceeds of \$191,078.
- [e]** On August 26, 2010, the Company modified the terms of 6,421,000 outstanding warrants, by extending the expiration date from September 2, 2010 to September 30, 2010 and decreasing the exercise price from \$0.80 to \$0.60 effective September 14, 2010. The fair value of the amendment was \$64,210 (\$0.01 per warrant) as estimated using the Black-Scholes option pricing model with assumptions of: 1.21% risk-free rate; no expected dividend yield; 14.5% expected volatility; and a life of 37 days. The incremental value of the modified warrants was measured by the difference between the fair value of the modified warrants and the value of the original warrants immediately before their terms were modified, and was recorded as a charge to deficit. From September 16, 2010 to September 30, 2010, 6,401,806 of the 6,421,000 modified warrants, with a book value of \$868,400, were exercised for \$0.60 per unit, resulting in the issuance of 6,401,806 common shares for gross proceeds of \$3,841,084. Share issuance costs, net of tax, of \$3,500 were incurred. The remaining 19,194 warrants expired on September 30, 2010, with a recorded value of \$3,205, which was charged to contributed surplus.
- [f]** The Company issued 1,100,000 warrants on October 16, 2009 with an exercise price of \$0.72 per share and expiration date of April 16, 2013 in relation to an engagement to arrange debt financing for the NICO Project. The warrants issued in relation to the engagement represent transaction costs and had vesting dates of 300,000 on October 16, 2009; 266,666 on each of February 1, 2010 and May 3, 2010; and, 266,668 on August 2, 2010. At September 30, 2010 all of the warrants are fully vested. These warrants are recorded at fair value measured on the vesting date. The value of the warrants is recorded in Other assets until either the debt facility is arranged or the proposed financing abandoned and was estimated using the Black-Scholes option pricing model based on the following assumptions:

Number of units granted #	Assumptions			Expected unit life [years] #	Estimated fair value per unit \$
	Risk-free interest rate %	Expected dividend yield %	Expected volatility %		
Warrants:					
266,668	1.53	—	64	2.8	0.22
266,666	2.00	—	67	2.9	0.39
266,666	1.65	—	66	3.2	0.38
300,000	1.90	—	63	3.5	0.34

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

[g] Included in share issuance costs is \$43,000 [2009 - \$415,000] to record a future tax asset for deductible share issuance costs and included within in lieu of fees, net of tax, is \$44,000 to record a future tax liability for non-deductible revaluations of warrants in lieu of fees [2009 - \$76,000 for loan issue costs].

[h] The estimated fair value of 1,195,000 options granted during the year ended December 31, 2010 has been allocated to stock-based compensation expense, exploration and development expenditures and capital assets in the amounts of \$253,000, \$113,700 and \$69,500, respectively. Contributed surplus was increased by \$436,200 representing the fair value compensation recorded less \$49,000 related to the tax effect of the amount capitalized.

The fair value of options granted during the year ended December 31, 2010 was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

Number of options granted #	Assumptions				Estimated fair value per option \$
	Risk-free interest rate %	Expected dividend yield %	Expected volatility %	Expected option life [years] #	
40,000	2.90	—	59	5	0.39
1,115,000	2.55	—	59	5	0.36
40,000	2.48	—	59	5	0.48

During the year ended December 31, 2010, 20,000 options were exercised with a book value of \$5,300 for gross proceeds of \$14,800.

A summary of the status of the Company's stock option plan as at December 31, 2010 and December 31, 2009, and changes during the years ended on those dates, are presented below:

	December 31, 2010		December 31, 2009	
	Number of shares #	Weighted-average exercise price \$	Number of shares #	Weighted-average exercise price \$
Options outstanding, beginning of year	3,300,000	1.61	2,785,000	2.45
Granted	1,195,000	0.69	1,185,000	0.60
Expired	(230,000)	4.24	(670,000)	3.28
Exercised	(20,000)	0.74	—	—
Options outstanding, end of year	4,245,000	1.22	3,300,000	1.61
Options exercisable, end of year	4,205,000	1.22	3,300,000	1.61

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

The following summarizes information about the options outstanding at December 31, 2010:

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	2,360,000	2,320,000	0.64	3.9
1.00 – 1.49	150,000	150,000	1.30	2.7
1.50 – 1.99	895,000	895,000	1.59	2.4
2.00 – 2.49	665,000	665,000	2.29	1.1
2.50 – 2.99	175,000	175,000	2.89	0.7
	4,245,000	4,205,000		

[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.

[i] At December 31, 2010, 900,000 [2009 – 900,000] issued common shares are being held in escrow, subject to certain production thresholds for the NICO property.

[j] Subsequent to December 31, 2010, the following equity related transactions have occurred:

- i. the Company issued 25,000 stock options pursuant to the Company's stock option plan;
- ii. 20,000 stock options were forfeited;
- iii. a total of 131,969 warrants were exercised for aggregate gross proceeds of \$105,575; and,
- iv. 159,231 compensation units were exercised resulting in the issuance of 159,231 common shares and 79,615 warrants for aggregate gross proceeds of \$103,500;

8. 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 (refer to Note 7 [e]) 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. As at December 31, 2010, \$110,809 of transaction costs and loan discount were amortized using the

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

effective interest method and were included in interest expense. Consistent with the Company's policy on capitalizing general and administration expenses, \$166,488 [2009 – \$136,416] of interest was capitalized to exploration and development and certain capital assets during the year.

9. INCOME TAXES

The Company has non-capital loss carryforwards totalling \$10,800,000 which began to expire in 2010, un-deducted share issuance costs of \$1,705,000 and unused investment tax credits on preproduction costs of \$1,430,000 which begin to expire in 2028. The Company has completed feasibility studies for both of its principal projects and is undertaking related permitting and financing activities. Management has determined it is more likely than not that the Company will achieve production and will realize the benefit of certain non-capital losses and its un-deducted share issuance costs. The benefit of these amounts has been recorded in the 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 future income tax assets and liabilities are as follows:

	2010 \$	2009 \$
Future tax assets		
Net operating loss carryforwards	2,887,000	2,117,000
Un-deducted share issuance costs	455,000	676,000
Unused investment tax credits on preproduction costs	1,430,000	1,085,000
	4,772,000	3,878,000
Less valuation allowance related to operating losses, share issuance costs and corporate minimum tax	(509,000)	(530,000)
Future tax assets	4,263,000	3,348,000
Future tax liabilities		
Book value of exploration and development expenditures and capital assets in excess of tax value	(11,229,000)	(11,153,000)
Net future tax liabilities	(6,966,000)	(7,805,000)

The reconciliation of income taxes computed at the statutory income tax rates to the recovery for income taxes is as follows:

	2010 \$	2009 \$
Combined federal and provincial income tax rate	30.63%	32.79%
Corporate income tax at statutory rate	(702,200)	(528,700)
Increase (decrease) in income taxes resulting from:		
Non-deductible stock compensation and other expenses	78,000	111,000
Rate difference	(50,000)	97,000
Other	92,975	40,900
	(581,225)	(279,800)

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

10. CONSOLIDATED STATEMENT OF CASH FLOWS

[a] Cash and cash equivalents consist of the following:	2010	2009
	\$	\$
Cash on hand and balances with banks	8,377,150	17,566,979
Short-term fixed income deposits	766,824	761,169
	9,143,974	18,328,148

[b] Supplemental cash flow information:	2010	2009
	\$	\$
Interest and investment income received	23,316	72,380
Interest paid	270,000	135,000

11. RELATED PARTY TRANSACTIONS

For the year ended December 31, 2010, the Company paid certain officers, directors, or their related entities an aggregate of \$707,929 [2009 - \$765,753] for third-party consulting services on behalf of the Company during the year. At year end, \$64,446 [2009 - \$89,442] was owing to these related parties for services during the year. These transactions have been recorded at their exchange amount.

12. 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.

13. SUBSEQUENT EVENTS

At December 31, 2010, the Company had deposited \$2,698,561 in a trust account as security in relation to a larger claim amount disputed by the Company. This dispute was settled subsequent to year end and the funds were distributed to the Company and third-party claimant based on their respective share of the settlement. The portion of cash that was distributed from the trust account to the Company is recorded in cash and cash equivalents at December 31, 2010. The portion of cash that was distributed from the trust account to the third-party claimant is netted against the related liability recorded in Accounts payable and accrued liabilities. This cash was previously recorded as restricted cash pending resolution of the dispute. The terms of the settlement, including the amount, are bound by confidentiality.

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

14. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified from statements previously presented to conform to the presentation of the December 31, 2010 consolidated financial statements.