

Consolidated Financial Statements

Fortune Minerals Limited

Unaudited

March 31, 2011

Fortune Minerals Limited

Incorporated under the laws of Ontario

**CONSOLIDATED STATEMENT OF
FINANCIAL POSITION**

[note 2]

As at	March 31, 2011 Cad \$	Unaudited December 31, 2010 Cad \$	January 1, 2010 Cad \$
ASSETS			
Current assets			
Cash and cash equivalents <i>[note 12[a]]</i>	6,128,332	9,143,974	18,328,148
Restricted cash <i>[note 14]</i>	—	—	2,698,561
Accounts receivable	334,293	466,976	641,637
Prepaid expenses	46,451	108,727	62,857
Total current assets	6,509,076	9,719,677	21,731,203
Other assets <i>[note 7[i][c]]</i>	391,766	391,766	238,776
Security deposit <i>[note 7[i][a]]</i>	—	—	300,000
Reclamation security deposits <i>[note 7[iii]]</i>	618,674	618,507	617,250
Capital assets, net <i>[note 6]</i>	106,946	113,675	104,135
Mining properties <i>[note 7]</i>	120,807,512	117,832,066	101,356,295
	128,433,974	128,675,691	124,347,659
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities <i>[note 14]</i>	1,489,117	1,376,882	3,581,550
Interest payable	22,500	90,000	90,000
Income taxes payable	23,894	23,894	113,659
Flow-through share premium deferred gain	—	674,316	374,600
Total current liabilities	1,535,511	2,165,092	4,159,809
Long-term debt <i>[note 10]</i>	2,934,395	2,917,749	2,854,772
Provision for environmental rehabilitation <i>[note 8]</i>	89,533	87,562	80,333
Deferred tax liabilities, net <i>[note 11]</i>	6,268,000	5,458,500	6,345,000
Total liabilities	10,827,439	10,628,903	13,439,914
Commitments and contingencies <i>[note 14]</i>			
SHAREHOLDERS' EQUITY			
Share capital <i>[note 9]</i>	119,016,940	118,764,873	110,584,239
Other reserves	7,705,360	7,734,653	7,432,025
Deficit	(9,115,765)	(8,452,738)	(7,108,519)
Total shareholders' equity	117,606,535	118,046,788	110,907,745
	128,433,974	128,675,691	124,347,659

See accompanying notes

Fortune Minerals Limited

Incorporated under the laws of Ontario

**CONSOLIDATED STATEMENTS OF NET INCOME (LOSS),
COMPREHENSIVE INCOME (LOSS), AND DEFICIT**

[note 2]

Unaudited

For the three month periods ended March 31

	2011	2010
	Cad \$	Cad \$
EXPENSES		
Administrative	293,163	345,294
Investor relations and regulatory fees	130,809	69,978
Stock-based compensation [note 9[b]]	5,950	1,100
Corporate advisory costs [note 7[ii]]	60,132	—
Interest expense [note 10]	10,411	8,867
Amortization and accretion	5,839	5,359
Loss before other items	(506,304)	(430,598)
Interest and other income	(8,468)	(8,197)
Gain on flow-through share premium	(674,316)	(374,600)
Foreign exchange loss [note 4]	30,007	74,842
Income (loss) before income taxes	146,473	(122,643)
Provision for (recovery of) income taxes [note 11]	809,500	(203,200)
Net income (loss) for the period	(663,027)	80,557
Deficit, beginning of period	(8,452,738)	(7,108,519)
Deficit, end of period	(9,115,765)	(7,027,962)
Basic and diluted loss per share [note 9[a]]	(0.01)	—

See accompanying notes

Fortune Minerals Limited

Incorporated under the laws of Ontario

**CONSOLIDATED STATEMENTS OF
CASH FLOWS**

[note 2]

Unaudited

For the three month periods ended March 31

	2011	2010
	Cad \$	Cad \$
OPERATING ACTIVITIES		
Net income (loss) for the period	(663,027)	80,557
Add (deduct) items not involving cash		
Amortization and accretion on capital assets	5,839	5,359
Deferred income taxes	809,500	(203,200)
Gain on flow-through share premium	(674,316)	(374,600)
Stock-based compensation	5,950	1,100
Non-cash portion of interest expense	16,646	14,907
	(499,408)	(475,877)
Changes in non-cash working capital balances related to operations		
Accounts receivable	132,683	38,423
Prepaid expenses	62,276	38,107
Accounts payable and accrued liabilities	112,235	1,083,607
Interest payable	(67,500)	(67,500)
Income taxes payable	—	(12,078)
Cash provided by (used in) operating activities	(259,714)	604,682
INVESTING ACTIVITIES		
Increase in exploration and evaluation expenditures	(2,677,892)	(1,930,446)
Purchase of plant and equipment and capital assets	(289,544)	(2,328,562)
Proceeds on disposal of capital assets in mining properties	2,600	—
Posting of security for reclamation security deposits	(167)	(152)
Cash used in investing activities	(2,965,003)	(4,259,160)
FINANCING ACTIVITIES		
Financing costs, net of non-cash items	—	(16,941)
Proceeds on issuance of shares, net	209,075	—
Cash provided by (used in) financing activities	209,075	(16,941)
Net decrease in cash and cash equivalents during the period	(3,015,642)	(3,671,419)
Cash and cash equivalents, beginning of period	9,143,974	18,328,148
Cash and cash equivalents, end of period [note 12[a]]	6,128,332	14,656,729

See accompanying notes

Fortune Minerals Limited

Incorporated under the laws of Ontario

**CONSOLIDATED STATEMENTS OF
CHANGES IN EQUITY**

[note 2]

Unaudited

	Common shares		Warrants		Subtotal	Other reserves	Deficit	Total Shareholders' equity
	#	Cad \$	#	Cad \$	Cad \$	Cad \$	Cad \$	Cad \$
January 1, 2010 [note 15]	94,779,407	108,380,210	20,890,275	2,204,029	110,584,239	7,432,025	7,108,519	110,907,745
Issued as a result of:								
Share issuance costs, net tax	—	(11,539)	—	—	(11,539)	—	—	(11,539)
Warrant issuance costs	—	—	—	(902)	(902)	—	—	(902)
In lieu of fees	—	—	—	96,007	96,007	—	—	96,007
Stock options granted	—	—	—	—	—	15,600	—	15,600
Net loss for the period	—	—	—	—	—	—	(80,557)	80,557
March 31, 2010 [note 15]	94,779,407	108,368,671	20,890,275	2,299,134	110,667,805	7,447,625	7,027,962	111,087,468
Issued as a result of:								
Private offerings	4,635,473	3,298,434	—	—	3,298,434	—	—	3,298,434
Exercise of options	20,000	20,100	—	—	20,100	(7,800)	—	12,300
Exercise of warrants	7,015,653	5,254,925	(7,015,653)	(922,764)	4,332,161	—	—	4,332,161
Exercise of compensation units	477,694	412,433	238,847	27,045	439,478	(128,977)	—	310,501
Share issuance costs, net tax	—	(106,913)	—	—	(106,913)	—	—	(106,913)
Warrant issuance costs	—	—	—	(1,000)	(1,000)	—	—	(1,000)
In lieu of fees	—	—	—	53,803	53,803	—	—	53,803
Expiration of warrants	—	—	(19,194)	(3,205)	(3,205)	3,205	—	—
Modification of warrants	—	—	—	64,210	64,210	—	64,210	—
Stock options granted	—	—	—	—	—	420,600	—	420,600
Net loss for the period	—	—	—	—	—	—	1,360,566	(1,360,566)
December 31, 2010 [note 15]	106,928,227	117,247,650	14,094,275	1,517,223	118,764,873	7,734,653	8,452,738	118,046,788
Issued as a result of:								
Exercise of warrants [note 9[c]]	131,969	115,236	(131,969)	(9,661)	105,575	—	—	105,575
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]]	—	—	—	—	—	21,500	—	21,500
Stock options forfeited [note 9[b]]	—	—	—	—	—	(7,800)	—	(7,800)
Net loss for the period	—	—	—	—	—	—	663,027	(663,027)
March 31, 2011	107,219,427	117,500,363	14,041,921	1,516,577	119,016,940	7,705,360	9,115,765	117,606,535

See accompanying notes

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

March 31, 2011

1. CORPORATE INFORMATION

The consolidated financial statements of Fortune Minerals Limited [“the Company”] for the period ended March 31, 2011 were authorized for issue in accordance with a resolution of the directors on May 25, 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 and the 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 consolidated interim financial statements including comparative amounts have been prepared using accounting policies consistent with IFRS as issued by the International Accounting Standards Board [“IASB”] and in accordance with *International Accounting Standard [“IAS”] 34 Interim Financial Reporting* 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 15.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These interim consolidated financial statements have been prepared by management in accordance with IFRS and are within the framework of the significant accounting policies summarized below. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. The reported amounts and note disclosures are determined using management’s best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. Actual results, however, may differ from the estimates used in the 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 further periods if the revision affects both current and future periods.

Fortune Minerals Limited

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Judgments made by management in the application of IFRS that have a significant effect on the 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.

[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 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 quarters ended March 31, 2011 and 2010, the Company has no other comprehensive income (loss) to report therefore its net income (loss) is equal to the comprehensive income (loss).

[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] Exploration and evaluation expenditures

The Company capitalizes exploration and evaluation expenditures relating to mineral properties until the costs are expected to be recouped through the successful development of the area of interest [or alternatively by its sale], or where activities in the area have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active operations are continuing, or planned for the future.

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

Exploration and evaluation expenditures are transferred to mine development assets once the work completed to date supports the future development of the property and such development receives appropriate internal approvals from the Board of Directors as well as external approvals from third parties with respect to permitting.

Payments received for exploration rights on the Company's mineral properties are treated as cost recoveries and reduce the cost of deferred exploration and evaluation expenditures related to the mineral claims.

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[e] Property, plant and equipment

i. Mining assets and other capital assets

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

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

The assets are amortized at the following rates:

Asset class	Rate of amortization %
Surface facilities	20
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

ii. Impairment

The Company's tangible and intangible assets are reviewed for an indication of impairment at each consolidated statement of financial position reporting date. If an indication of impairment exists, the assets recoverable amount is estimated. The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates, or is expected to generate, cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in profit and loss for the period. Impairment losses recognized in respect of cash-generating units are allocated

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first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

iii. Reversal of impairment

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss with respect to goodwill is never reversed.

[f] Share-based payment plans

The Company has a fixed stock-based compensation plan, approved by the shareholders at the Company's annual meeting held on June 22, 2005. The plan was 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. At March 31, 2011, the Company has 6,551,943 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.

[g] Income taxes

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to settle current tax assets against current tax liabilities and when they relate to income taxes levied by the

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same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

[h] Provision for environmental rehabilitation

Provision is made for asset retirement, restoration and for environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the financial period when the related environmental disturbance occurs, resulting in a legal or constructive obligation to the Company. The provision is based on the estimated future costs using information available at the consolidated statement of financial position date. The provision is discounted using a current market-based pre-tax discount rate and the accretion of the discount is included in amortization and accretion expense. At the time of establishing the provision, a corresponding asset is capitalised, where it gives rise to a future benefit, and depreciated over future production from the mine to which it relates.

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

[i] Financial instruments

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

- Cash and cash equivalents, restricted cash, short-term investments and reclamation bonds are designated as “assets at fair value through profit or loss” and are measured at fair value. Gains and losses resulting from the periodic revaluation of these items are recorded in net income.
- Accounts receivable are designated as “receivables” and are recorded at amortized cost, which upon initial measurement are equal to fair value. Subsequent measurement of receivables is on the basis of amortized cost using the effective interest rate method.
- Long-term debt and current portion of long-term debt are designated as “loans” and is recorded at amortized cost, which upon initial measurement is equal to fair value. Subsequent measurement of loans is on the basis of amortized cost using the effective interest rate method.
- Accounts payable, interest payable, taxes payable and accrued liabilities are designated as “other liabilities” and are recorded at amortized cost, which upon initial measurement

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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 March 31, 2011, 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.

[j] Income (loss) per common share

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

[k] Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets beginning on or after January 1, 2010. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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

[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 at fair value through profit or loss, directly attributable transaction costs relating to debt or equity activities are added to the fair value of the financial asset or liability on the consolidated statement of financial position. For a financial asset or financial liability

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classified as fair value through profit or loss, all transaction costs are recognized immediately in net income (loss) for the period.

[m] Administrative expenses

Included in exploration and evaluation expenses are directly attributable administrative and general expenses. The amounts capitalized are allocated to each project based on its pro rata share of direct expenditures.

[n] Provisions

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

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

[o] Flow-through shares

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

[p] Future accounting policy changes

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. The Company is currently evaluating the impact of IFRS 9 on its financial instruments; however the impact is not expected to be significant.

4. FINANCIAL INSTRUMENTS

The Company has designated cash and cash equivalents, restricted cash, short-term investments, and reclamation bonds as assets at fair value through profit and loss. Accounts receivable are

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designated as receivables, long-term debt is classified as loans, and accounts payable and accrued liabilities, interest payable and taxes payable are designated as other liabilities. These financial instruments are initially measured at fair value. Accounts receivable, 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 at fair value through profit and loss 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 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 March 31, 2011, the \$US balance in cash and cash equivalents was \$1,315,282.
- 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

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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.

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.

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.

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6. CAPITAL ASSETS

Capital assets consist of the following:

	Computer equipment \$	Furniture and fixtures \$	Leasehold improvements \$	Software \$	Total \$
Cost					
As at January 1, 2010	118,839	72,880	9,602	33,906	235,227
Additions	22,029	8,034	—	13,913	43,976
As at December 31, 2010	140,868	80,914	9,602	47,819	279,203
Additions	—	—	—	272	272
Disposals	—	(3,127)	—	—	(3,127)
As at March 31, 2011	140,868	77,787	9,602	48,091	276,348
Accumulated amortization					
As at January 1, 2010	73,246	33,673	8,726	15,447	131,092
Amortization for the year	17,624	8,847	438	7,527	34,436
As at December 31, 2010	90,870	42,520	9,164	22,974	165,528
Amortization for the quarter	3,750	1,920	55	1,276	7,001
Disposals	—	(3,127)	—	—	(3,127)
As at March 31, 2011	94,620	41,313	9,219	24,250	169,402
Net book value					
As at January 1, 2010	45,593	39,207	876	18,459	104,135
As at December 31, 2010	49,998	38,394	438	24,846	113,675
As at March 31, 2011	46,248	36,474	383	23,841	106,946

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 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.

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Interests in mining properties consist of the following:

	March 31, 2011			
	Capital assets \$	Property costs \$	Exploration and evaluation expenditures \$	Total - mining properties \$
NICO Project <i>[i]</i>	25,826,669	3,593,049	68,388,811	97,808,529
Mount Klappan Project <i>[ii]</i>	20,434	3,144,116	17,746,869	20,911,419
Sue-Dianne Project	—	9,164	2,039,574	2,048,738
Other properties	—	—	38,826	38,826
	25,847,103	6,746,329	88,214,080	120,807,512
	December 31, 2010			
	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
	25,611,917	6,746,329	85,473,820	117,832,066
	January 1, 2010			
	Capital assets \$	Property costs \$	Exploration and evaluation expenditures \$	Total - mining properties \$
NICO Project <i>[i]</i>	18,727,176	3,593,049	56,429,286	78,749,511
Mount Klappan Project <i>[ii]</i>	22,900	3,144,116	17,140,957	20,307,973
Sue-Dianne Project	—	9,164	2,033,420	2,042,584
Other properties	—	—	256,227	256,227
	18,750,076	6,746,329	75,859,890	101,356,295

During the three-month period ended March 31, 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, \$237,838 [March 31, 2010 - \$128,818] of directly attributable administrative expenses, \$48,956 [March 31, 2010 - \$60,363] of amortization, \$65,994 [March 31, 2010 - \$32,310] of borrowing costs and \$12,000 [March 31, 2010 - \$2,000] of stock-based compensation were capitalized to exploration and evaluation expenditures within mining properties. During the three months ended March 31, 2011, \$1,000 [March 31, 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
	\$	\$	\$	\$	\$	\$	\$	\$
Cost								
As at January 1, 2010	17,366,666	1,429,741	600,124	780,157	31,280	64,987	43,945	20,316,900
Additions	7,083,882	39,266	—	42,626	—	—	—	7,165,774
Disposals	—	—	—	—	—	—	—	—
As at December 31, 2010	24,450,548	1,469,007	600,124	822,783	31,280	64,987	43,945	27,482,674
Additions	298,245	—	—	—	—	—	—	298,245
Disposals	—	—	—	(9,518)	(8,800)	—	—	(18,318)
As at March 31, 2011	24,748,793	1,469,007	600,124	813,265	22,480	64,987	43,945	27,762,601
Accumulated amortization								
As at January 1, 2010	—	628,051	457,007	461,884	19,882	—	—	1,566,824
Amortization for the year	—	151,062	42,935	106,516	3,420	—	—	303,933
Disposals	—	—	—	—	—	—	—	—
As at December 31, 2010	—	779,113	499,942	568,400	23,302	—	—	1,870,757
Amortization for the quarter	—	31,021	7,514	19,011	501	—	—	58,047
Disposals	—	—	—	(8,192)	(5,114)	—	—	(13,306)
As at March 31, 2011	—	810,134	507,456	579,219	18,689	—	—	1,915,498
Net book value								
As at January 1, 2010	17,366,666	801,690	143,117	318,273	11,398	64,987	43,945	18,750,076
As at December 31, 2010	24,450,548	689,894	100,182	254,383	7,978	64,987	43,945	25,611,917
As at March 31, 2011	24,748,793	658,873	92,668	234,046	3,791	64,987	43,945	25,847,103

During the three-month period ended March 31, 2011, \$10,463 [March 31, 2010 - \$51,625] of corporate employee compensation and benefits, \$7,741 [March 31, 2010 - \$40,678] of borrowing costs, \$12,224 [March 31, 2010 - \$15,144] of amortization and \$3,000 [March 31, 2010 - \$12,500] of stock-based compensation were capitalized to surface facilities under construction. During the three months ended March 31, 2011, \$6,250 [March 31, 2010 - \$nil] was removed from the cost of surface facilities under construction as a result of stock options forfeited.

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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 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 March 31, 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

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. In connection with the evaluation process, incremental costs of \$60,132 have been expensed and recorded as corporate advisory costs for the period ended March 31, 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 NICO and Mount Klappan projects, respectively. Reclamation deposits consist of the following:

	March 31, 2011		December 31, 2010		January 1, 2010	
	Deposit amount	Security held (FMV[i])	Deposit amount	Security held (FMV[i])	Deposit amount	Security held (FMV[i])
	\$	\$	\$	\$	\$	\$
NICO Project	211,000	244,335	211,000	244,273	211,000	243,777
Mount Klappan Project	307,000	374,339	307,000	374,234	307,000	373,473
Net Book Value	518,000	618,674	518,000	618,507	518,000	617,250

[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:

	March 31, 2011	December 31, 2010	January 1, 2010
NICO Project			
Provision for environmental rehabilitation	\$49,854	\$48,756	\$44,731
Estimated life	25 years	25 years	25 years
Discount rate	9%	9%	9%
Mount Klappan Project			
Provision for environmental rehabilitation	\$39,679	\$38,806	\$35,602
Estimated life	32 years	32 years	32 years
Discount rate	9%	9%	9%
Total provision for environmental rehabilitation	\$89,533	\$87,562	\$80,333

9. SHARE CAPITAL

[a] The Company is authorized to issue an unlimited number of common shares without par value. At March 31, 2011, the weighted average number of common shares outstanding was 107,158,345 [March 31, 2010 – 94,779,407]. For calculating fully diluted loss per share, for the period ended March 31, 2011, there were 3,195,000 options, 13,941,921 warrants, and 955,388 compensation units (each compensation unit consists 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 consolidated financial statements.

[b] The estimated fair value of 25,000 options granted during the period ended March 31, 2011 has been allocated to stock-based compensation expense, exploration and evaluation expenditures and capital assets in the amounts of \$6,500, \$12,000 and \$3,000, respectively. The other reserves balance was increased by \$21,500 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 quarter was \$7,800, which decreased the other reserves balance for the quarter 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 based on the initial entry when the options were granted in the prior year.

The fair value of options granted during the period ended March 31, 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

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

	March 31, 2011		December 31, 2010	
	Number of shares #	Weighted-average exercise price \$	Number of shares #	Weighted-average exercise price \$
Options outstanding, beginning of period	4,245,000	1.22	3,300,000	1.61
Granted	25,000	1.67	1,195,000	0.69
Expired	(100,000)	2.84	(230,000)	4.24
Forfeited	(20,000)	0.74	—	—
Exercised	—	—	(20,000)	0.74
Options outstanding, end of period	4,150,000	1.19	4,245,000	1.22
Options exercisable, end of period	4,130,000	1.19	4,205,000	1.22

The following summarizes information about the options outstanding at March 31, 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	3.6
1.00 – 1.49	150,000	150,000	1.30	2.4
1.50 – 1.99	920,000	920,000	1.59	2.2
2.00 – 2.49	665,000	665,000	2.29	0.8
2.50 – 2.99	75,000	75,000	2.96	1.1
	4,150,000	4,130,000		

[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 quarter, the following transactions occurred:

- 130,800 warrants with a book value of \$9,529 were exercised for aggregate gross proceeds of \$104,640;
- 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 \$103,500 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 March 31, 2011, the Company issued 45,000 stock options pursuant to the Company's stock option plan and 300,000 warrants were exercised for aggregate gross proceeds of \$240,000.

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 period ended March 31, 2011, \$16,646 [March 31, 2010 - \$14,907] of transaction costs and loan discount were amortized using the effective interest method. During the quarter, interest of \$73,735 [March 31, 2010 - \$72,988] was capitalized to exploration and evaluation expenditures and surface facilities under construction within mining properties during the year.

Subsequent to March 31, 2011, 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.

11. INCOME TAXES

The Company has non-capital loss carryforwards totalling \$11,100,000 which begin to expire in 2014, un-deducted share issuance costs of \$1,455,000 and unused investment tax credits on pre-production mining costs of \$1,587,000 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 and its un-deducted share issuance costs. The benefit of these amounts has been recorded in the consolidated financial

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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:

	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Deferred tax assets			
Net operating loss carryforwards	2,967,000	2,887,000	2,117,000
Un-deducted share issuance costs ^[i]	388,000	455,000	676,000
Unused investment tax credits on pre-production costs	1,587,000	1,430,000	1,085,000
	4,942,000	4,772,000	3,878,000
Less valuation allowance related to operating losses, share issuance costs and corporate minimum tax	(405,000)	(509,000)	(530,000)
Deferred tax assets	4,537,000	4,263,000	3,348,000
Book value of exploration and evaluation expenditures and capital assets in excess of tax value	(10,381,000)	(9,339,500)	(9,403,000)
Deferred tax liability on future investment tax credits utilized	(424,000)	(382,000)	(290,000)
Net deferred tax liabilities	(6,268,000)	(5,458,500)	(6,345,000)

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

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

	March 31, 2011	March 31, 2010
	\$	\$
Combined federal and provincial income tax rate	28.27%	30.80%
Corporate income tax at statutory rate	41,000	(37,800)
Increase (decrease) in income taxes resulting from:		
Non-deductible stock compensation and other expenses	2,000	27,700
Renunciation of flow-through expenses	1,044,000	47,000
Rate difference	13,000	13,500
Non-taxable flow-through share premium	(191,000)	(115,000)
Investment tax credits on pre-production mining costs, net of tax	(117,000)	(141,500)
Other	17,500	2,900
	809,500	(203,200)

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12. CONSOLIDATED STATEMENT OF CASH FLOWS

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

	March 31, 2010	December 31, 2010	January 1, 2010
	\$	\$	\$
Cash on hand with banks	5,616,704	8,377,150	17,566,979
Short-term fixed income deposits	511,628	766,824	761,169
	6,128,332	9,143,974	18,328,148

[b] Supplemental cash flow information:

	March 31, 2011	March 31, 2010
	\$	\$
Interest and investment income received	8,269	8,197
Interest paid	135,000	135,000

13. RELATED PARTY TRANSACTIONS

For the period ended March 31, 2011, the Company paid key management personnel, including officers, directors, or their related entities for consulting services and/or management services.

Compensation of key management personnel for services provided during the periods:

	March 31, 2011	March 31, 2010
	\$	\$
Salaries and benefits	46,333	60,110
Consulting services	121,886	112,512
Director fees	55,832	37,665
Legal services	42,396	—
	266,447	210,287

At March 31, 2011, \$71,400 [March 31, 2010 – \$66,730] was owing to key management personnel for services provided during the quarter.

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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.

At January 1, 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 on January 31, 2011 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 and the portion of cash that was distributed from the trust account to the third-party claimant was netted against the related liability recorded in accounts payable and accrued liabilities at December 31, 2010. The terms of the settlement, including the amount, are bound by confidentiality.

15. 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.

As stated in note 2, these are the Company's first consolidated financial statements prepared in accordance with IFRS. The accounting policies described in note 3 have been applied in preparing the comparative consolidated financial statements for the year ended December 31, 2010 and in preparation of the opening IFRS consolidated statement of financial position at January 1, 2010.

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

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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 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 consolidated financial statements to better understand these changes, the Company's Canadian GAAP consolidated statement of financial position, consolidated statement of net income (loss), comprehensive income (loss), and deficit and the consolidated statement of cash flows for the quarter ended March 31, 2010 and the year ended December 31, 2010 have been reconciled to IFRS, with the resulting significant differences explained below.

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The December 31, 2009 closing Canadian GAAP consolidated statement of financial position has been reconciled to IFRS for the opening January 1, 2010 consolidated statement of financial position balances as follows:

		December 31, 2009	Effect of	January 1, 2010
	Notes	Canadian GAAP \$	transition to IFRS \$	IFRS \$
ASSETS				
Current assets				
Cash and cash equivalents		18,328,148	—	18,328,148
Restricted cash		2,698,561	—	2,698,561
Accounts receivable		641,637	—	641,637
Prepaid expenses		62,857	—	62,857
Total current assets		21,731,203	—	21,731,203
Other assets	[a]	213,619	25,157	238,776
Security deposit		300,000	—	300,000
Reclamation security deposits		617,250	—	617,250
Capital assets, net		104,135	—	104,135
Mining properties	[b, c, e]	100,762,428	593,867	101,356,295
		123,728,635	619,024	124,347,659
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities		3,581,550	—	3,581,550
Interest payable		90,000	—	90,000
Income taxes payable		113,659	—	113,659
Flow-through share premium deferred gain	[h]	—	374,600	374,600
Total current liabilities		3,785,209	374,600	4,159,809
Long-term debt		2,854,772	—	2,854,772
Provision for environmental rehabilitation	[b]	—	80,333	80,333
Deferred income tax liability, net	[d, i]	7,805,000	(1,460,000)	6,345,000
Total liabilities		14,444,981	(1,005,067)	13,439,914
SHAREHOLDERS' EQUITY				
Share capital	[a, d, f, h]	105,207,868	5,376,371	110,584,239
Other reserves	[d]	6,875,025	557,000	7,432,025
Deficit		(2,799,239)	—	(2,799,239)
Adjustment to opening deficit for IFRS	[b, c, d, e, f, h, i]	—	(4,309,280)	(4,309,280)
Total shareholders' equity		109,283,654	1,624,091	110,907,745
		123,728,635	619,024	124,347,659

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

March 31, 2011

The March 31, 2010 Canadian GAAP consolidated statement of financial position has been reconciled to IFRS as follows:

	Notes	March 31, 2010		
		Canadian GAAP \$	Effect of transition to IFRS \$	IFRS \$
ASSETS				
Current assets				
Cash and cash equivalents		14,656,729	—	14,656,729
Restricted cash		2,698,561	—	2,698,561
Accounts receivable		603,214	—	603,214
Prepaid expenses		24,750	—	24,750
Total current assets		17,983,254	—	17,983,254
Other assets	[a]	352,951	(18,168)	334,783
Security deposit		300,000	—	300,000
Reclamation security deposits		617,402	—	617,402
Capital assets, net		123,122	—	123,122
Mining properties	[c, e, g]	104,898,700	708,564	105,607,264
		124,275,429	690,396	124,965,825
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities		4,665,157	—	4,665,157
Interest payable		22,500	—	22,500
Income taxes payable		101,581	—	101,581
Total current liabilities		4,789,238	—	4,789,238
Long-term debt		2,869,679	—	2,869,679
Provision for environmental rehabilitation	[b]	—	82,140	82,140
Deferred income tax liability, net	[d, i]	7,608,500	(1,471,200)	6,137,300
Total liabilities		15,267,417	(1,389,060)	13,878,357
SHAREHOLDERS' EQUITY				
Share capital	[a, d, h]	105,250,559	5,417,246	110,667,805
Other reserves	[d]	6,885,625	562,000	7,447,625
Deficit		(3,128,172)	409,490	(2,718,682)
Adjustment to opening deficit		—	(4,309,280)	(4,309,280)
Total shareholders' equity		109,008,012	2,079,456	111,087,468
		124,275,429	690,396	124,965,825

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March 31, 2011

The December 31, 2010 Canadian GAAP consolidated statement of financial position has been reconciled to IFRS as follows:

	Notes	December 31, 2010		
		Canadian GAAP \$	Effect of transition to IFRS \$	IFRS \$
ASSETS				
Current assets				
Cash and cash equivalents		9,143,974	—	9,143,974
Accounts receivable		466,976	—	466,976
Prepaid expenses		108,727	—	108,727
Total current assets		9,719,677	—	9,719,677
Other assets	[a]	381,816	9,950	391,766
Reclamation security deposits		618,507	—	618,507
Capital assets, net		113,675	—	113,675
Mining properties	[c, e, g]	117,084,302	747,764	117,832,066
		127,917,977	757,714	128,675,691
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities		1,376,882	—	1,376,882
Interest payable		90,000	—	90,000
Income taxes payable		23,894	—	23,894
Flow-through share premium deferred gain	[h]	—	674,316	674,316
Total current liabilities		1,490,776	674,316	2,165,092
Long-term debt		2,917,749		2,917,749
Provision for environmental rehabilitation	[b]	—	87,562	87,562
Deferred income tax liability, net	[d, i]	6,966,000	(1,507,500)	5,458,500
Total liabilities		11,374,525	(745,622)	10,628,903
SHAREHOLDERS' EQUITY				
Share capital	[a, d, f, h]	113,987,025	4,777,848	118,764,873
Other reserves	[d]	7,131,153	603,500	7,734,653
Deficit		(4,574,726)	431,268	(4,143,458)
Adjustment to opening deficit for IFRS		—	(4,309,280)	(4,309,280)
Total shareholders' equity		116,543,452	1,503,336	118,046,788
		127,917,977	757,714	128,675,691

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[unaudited]

March 31, 2011

The Canadian GAAP consolidated statement of loss, comprehensive loss and deficit for the three months ended March 31, 2010 have been reconciled to IFRS as follows:

	Notes	3 months ended March 31, 2010		
		Canadian GAAP \$	Effect of transition to IFRS \$	IFRS \$
EXPENSES				
Administrative	[c]	236,154	109,140	345,294
Investor relations and regulatory fees		69,978	—	69,978
Stock-based compensation		1,100	—	1,100
Interest expense	[g]	41,204	(32,337)	8,867
Amortization and accretion	[b]	3,552	1,807	5,359
Loss before other items		(351,988)	(78,610)	(430,598)
Interest and other income		(8,197)	—	(8,197)
Gain on flow-through share premium	[h]	—	(374,600)	(374,600)
Foreign exchange loss		74,842	—	74,842
Loss before income taxes		(418,633)	295,990	(122,643)
Deferred income tax recovery	[e, h, i]	(89,700)	(113,500)	(203,200)
Net income (loss) for the period		(328,933)	409,490	80,557
Deficit, beginning of period		(2,799,239)	(4,309,280)	(7,108,519)
Deficit, end of period		(3,128,172)	(3,899,790)	(7,027,962)
Basic and diluted loss per share		—	—	—

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

March 31, 2011

The Canadian GAAP consolidated statement of loss, comprehensive loss and deficit for the twelve months ended December 31, 2010 has been reconciled to IFRS as follows:

	Notes	12 months ended December 31, 2010		
		Canadian GAAP \$	Effect of transition to IFRS \$	IFRS \$
EXPENSES				
Administrative	[c]	1,041,828	315,561	1,357,389
Investor relations and regulatory fees		178,809	—	178,809
Stock-based compensation		253,000	—	253,000
Capital taxes		294,508	—	294,508
Corporate advisory costs		283,639	—	283,639
Interest expense	[g]	166,488	(124,458)	42,030
Amortization and accretion	[b]	17,218	7,229	24,447
Loss before other items		(2,235,490)	(198,332)	(2,433,822)
Interest and other income		(24,889)	—	(24,889)
Gain on flow-through share premium	[h]	—	(374,600)	(374,600)
Foreign exchange loss		81,901	—	81,901
Loss before income taxes		(2,292,502)	176,268	(2,116,234)
Provision for (recovery of) income taxes				
Current provision		9,775	—	9,775
Deferred income tax recovery	[e, h, i]	(591,000)	(255,000)	(846,000)
Net loss for the period		(1,711,277)	431,268	(1,280,009)
Deficit, beginning of period		(2,799,239)	(4,309,280)	(7,108,519)
Modification of warrants		(64,210)	—	(64,210)
Deficit, end of period		(4,574,726)	(3,878,012)	(8,452,738)
Basic and diluted loss per share		(0.02)		(0.01)

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March 31, 2011

The Canadian GAAP consolidated statement of cash flows for the three months ended March 31, 2010 has been reconciled to IFRS as follows:

	Notes	March 31, 2010		
		Canadian GAAP \$	Effect of transition to IFRS \$	IFRS \$
OPERATING ACTIVITIES				
Net loss for the period		(328,933)	409,490	80,557
Add (deduct) items not involving cash				
Amortization and accretion of capital assets	[b]	3,552	1,807	5,359
Deferred income taxes	[e, h, i]	(89,700)	(113,500)	(203,200)
Gain on flow-through share premium	[h]	—	(374,600)	(374,600)
Stock-based compensation expense		1,100	—	1,100
Non-cash portion of interest expense		14,907	—	14,907
		(399,074)	(76,803)	(475,877)
Changes in non-cash working capital balances related to operations				
Accounts receivable		38,423	—	38,423
Prepaid expenses		38,107	—	38,107
Accounts payable and accrued liabilities		1,083,607	—	1,083,607
Interest payable		(67,500)	—	(67,500)
Income taxes payable		(12,078)	—	(12,078)
Cash provided by operating activities		681,485	(76,803)	604,682
INVESTING ACTIVITIES				
Purchase of plant and equipment and capital assets	[c, g]	(2,419,794)	91,232	(2,328,562)
Posting of security for reclamation security deposits		(152)	—	(152)
Increase in exploration and evaluation expenditures	[g]	(1,916,017)	(14,429)	(1,930,446)
Cash used in investing activities		(4,335,963)	76,803	(4,259,160)
FINANCING ACTIVITIES				
Financing costs, net of non-cash items		(16,941)	—	(16,941)
Cash used in financing activities		(16,941)	-	(16,941)
Net decrease in cash and cash equivalents		(3,671,419)	—	(3,671,419)
Cash and cash equivalents, beginning of period		18,328,148	—	18,328,148
Cash and cash equivalents, end of period		14,656,729	—	14,656,729

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

March 31, 2011

The Canadian GAAP consolidated statement of cash flows for the twelve months ended December 31, 2010 has been reconciled to IFRS as follows:

	Notes	December 31, 2010		
		Canadian GAAP \$	Effect of transition to IFRS \$	IFRS \$
OPERATING ACTIVITIES				
Net loss for the period		(1,711,277)	431,268	(1,280,009)
Add (deduct) items not involving cash				
Amortization and accretion of capital assets	[b]	17,218	7,229	24,447
Deferred income taxes	[e, i]	(591,000)	(255,000)	(846,000)
Gain on flow-through share premium	[h]	—	(374,600)	(374,600)
Stock-based compensation expense		253,000	—	253,000
Non-cash portion of interest expense		62,977	—	62,977
		(1,969,082)	(191,103)	(2,160,185)
Changes in non-cash working capital balances related to operations				
Accounts receivable		174,661	—	174,661
Prepaid expenses		(45,870)	—	(45,870)
Accounts payable and accrued liabilities		(2,204,668)	—	(2,204,668)
Income taxes payable		(89,765)	—	(89,765)
Cash used in operating activities		(4,134,724)	(191,103)	(4,325,827)
INVESTING ACTIVITIES				
Increase in other assets, net of non-cash items		(3,180)	—	(3,180)
Decrease in security deposit		300,000	—	300,000
Decrease (increase) in restricted cash		2,698,561	—	2,698,561
Purchase of plant and equipment and capital assets	[c, g]	(7,332,384)	262,173	(7,070,211)
Posting of security for reclamation security deposits		(1,257)	—	(1,257)
Increase in exploration and evaluation expenditures	[g]	(9,178,049)	(71,070)	(9,249,119)
Cash used in investing activities		(13,516,309)	191,103	(13,325,206)
FINANCING ACTIVITIES				
Financing costs, net of non-cash items		8,466,859	—	8,466,859
Cash provided by financing activities		8,466,859	-	8,466,859
Net decrease in cash and cash equivalents		(9,184,174)	—	(9,184,174)
Cash and cash equivalents, beginning of period		18,328,148	—	18,328,148
Cash and cash equivalents, end of period		9,143,974	—	9,143,974

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The adjustments that have been recorded at the transition date, January 1, 2010; for the three-month period ended March 31, 2010; and, for the twelve-month period ended December 31, 2010 are disclosed below, where applicable.

The amounts disclosed below for the three-months ended March 31, 2010 and twelve-months ended December 31, 2010 are year to date ["YTD"] adjustments.

[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>January 1, 2010</i>	25,157	(25,157)
<i>March 31, 2010 YTD</i>	(43,325)	43,325
<i>December 31, 2010 YTD</i>	(15,207)	15,207

[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:

	Mining properties Dr/ (Cr) \$	Environmental rehabilitation provision Dr/ (Cr) \$	Deficit Dr/(Cr) \$	Accretion (amortization) expense Dr/(Cr) \$
<i>January 1, 2010</i>	43,945	(80,333)	36,388	—
<i>March 31, 2010 YTD</i>	—	(1,807)	—	1,807
<i>December 31, 2010 YTD</i>	—	(7,229)	—	7,229

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March 31, 2011

[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>January 1, 2010</i>	(535,078)	535,078	—
<i>March 31, 2010 YTD</i>	(109,140)	—	109,140
<i>December 31, 2010 YTD</i>	(315,561)	—	315,561

[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:

	Deferred tax asset/liability Dr/(Cr) \$	Share capital Dr/(Cr) \$	Deficit Dr/(Cr) \$
<i>January 1, 2010</i>	958,000	(1,095,500)	137,500

Capitalized stock options:

	Deferred tax asset/liability Dr/(Cr) \$	Other reserves Dr/(Cr) \$	Deficit Dr/(Cr) \$
<i>January 1, 2010</i>	566,000	(557,000)	(9,000)
<i>March 31, 2010 YTD</i>	5,000	(5,000)	—
<i>December 31, 2010 YTD</i>	46,500	(46,500)	—

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Capitalized warrants:

	Share capital (warrants) Dr/ (Cr) \$	Deferred tax asset / liability Dr/ (Cr) \$
<i>January 1, 2010</i>	(76,000)	76,000
<i>March 31, 2010 YTD</i>	(37,200)	37,200
<i>December 31, 2010 YTD</i>	(44,000)	44,000

[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:

	Mining properties Dr/(Cr) \$	Deficit Dr/(Cr) \$	Tax provision Dr/(Cr) \$
<i>January 1, 2010</i>	1,085,000	(1,085,000)	—
<i>March 31, 2010 YTD</i>	191,500	—	(191,500)
<i>December 31, 2010 YTD</i>	345,000	—	(345,000)

[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:

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	Share capital Dr/ (Cr) \$	Share capital (warrants) Dr/ (Cr) \$	Deficit Dr/ (Cr) \$
<i>January 1, 2010</i>	(656,000)	(34,000)	690,000

[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:

	Mining properties Dr/ (Cr) \$	Interest expense Dr/ (Cr) \$
<i>March 31, 2010 YTD</i>	32,337	(32,337)
<i>December 31, 2010 YTD</i>	124,458	(124,458)

[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>January 1, 2010</i>	(374,600)	(3,489,714)	3,864,314	—	—
<i>March 31, 2010 YTD</i>	374,600	(47,000)	—	(374,600)	47,000
<i>December 31, 2010 YTD</i>	(299,716)	627,316	—	(374,600)	47,000

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March 31, 2011

[i] Other adjustments to deferred taxes

For certain differences between Canadian GAAP and IFRS that result in adjustments being recognized in the 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>January 1, 2010</i>	150,000	(150,000)	—
<i>March 31, 2010 YTD</i>	20,000	—	(20,000)
<i>December 31, 2010 YTD</i>	49,000	—	(49,000)

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>January 1, 2010</i>	(290,000)	290,000	—
<i>March 31, 2010 YTD</i>	(51,000)	—	51,000
<i>December 31, 2010 YTD</i>	(92,000)	—	92,000

16. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified from statements previously presented to conform to the presentation of the March 31, 2011 consolidated interim financial statements.