

Consolidated Financial Statements

**Fortune Minerals Limited**

Unaudited

September 30, 2010

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

**CONSOLIDATED BALANCE SHEETS**

As at	Unaudited	
	September 30, 2010	December 31, 2009
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents <i>[note 10[a]]</i>	9,049,109	18,328,148
Restricted cash <i>[note 12]</i>	2,698,561	2,698,561
Accounts receivable	197,138	641,637
Prepaid expenses	131,425	62,857
<b>Total current assets</b>	<b>12,076,233</b>	21,731,203
Other assets <i>[note 6i[c]]</i>	381,816	213,619
Security deposit <i>[note 6i[a]]</i>	300,000	300,000
Reclamation bonds <i>[note 6iii]</i>	618,121	617,250
Capital assets, net <i>[note 5]</i>	118,673	104,135
Mining properties <i>[note 6]</i>	114,066,565	100,762,428
	<b>127,561,408</b>	123,728,635
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	3,314,651	3,581,550
Interest payable	22,500	90,000
Income taxes payable	23,895	113,659
<b>Total current liabilities</b>	<b>3,361,046</b>	3,785,209
Long-term debt <i>[note 8]</i>	2,901,726	2,854,772
Future income taxes <i>[note 9]</i>	7,050,000	7,805,000
<b>Total liabilities</b>	<b>13,312,772</b>	14,444,981
<b>SHAREHOLDERS' EQUITY</b>		
Share capital <i>[note 7]</i>	111,116,974	105,207,868
Contributed surplus	7,248,230	6,875,025
Deficit	(4,116,568)	(2,799,239)
<b>Total shareholders' equity</b>	<b>114,248,636</b>	109,283,654
	<b>127,561,408</b>	123,728,635

*See accompanying notes*

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

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

	Unaudited			
	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>REVENUE</b>				
Interest and other income	5,397	6,032	18,816	46,698
<b>EXPENSES</b>				
Administrative	188,181	190,285	593,084	527,771
Investor relations	36,726	47,415	141,370	163,867
Stock-based compensation	—	—	239,500	216,500
Capital taxes	—	10,000	294,508	41,000
Corporate advisory costs <i>[note 6ii]</i>	100,523	—	139,414	—
Interest expense	83,523	81,849	249,453	190,982
Amortization	4,512	4,958	12,507	14,713
	413,465	334,507	1,669,836	1,154,833
<b>Loss before other items</b>	(408,068)	(328,475)	(1,651,020)	(1,108,135)
Foreign exchange loss <i>[note 3[b]ii]</i>	(48,428)	(53,757)	(36,324)	(53,757)
<b>Loss before income taxes</b>	(456,496)	(382,232)	(1,687,344)	(1,161,892)
Recovery (provision) of income taxes <i>[note 9]</i>				
Current provision	—	—	(9,775)	(88,200)
Future income tax recovery	12,000	158,000	444,000	310,000
<b>Net loss and comprehensive loss for the period</b>	(444,496)	(224,232)	(1,253,119)	(940,092)
Deficit, beginning of period	(3,607,862)	(2,182,647)	(2,799,239)	(1,466,787)
Modification of warrants <i>[note 7 [c]]</i>	(64,210)	—	(64,210)	—
<b>Deficit, end of period</b>	(4,116,568)	(2,406,879)	(4,116,568)	(2,406,879)
<b>Basic and diluted loss per share <i>[note 7[b]]</i></b>	—	—	(0.01)	(0.02)

*See accompanying notes*

**Fortune Minerals Limited**

Incorporated under the laws of Ontario

**CONSOLIDATED STATEMENTS OF  
CASH FLOWS**

Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2010 \$	2009 \$	2010 \$	2009 \$
<b>OPERATING ACTIVITIES</b>				
Net loss and comprehensive loss for the period	(444,496)	(224,232)	(1,253,119)	(940,092)
Add (deduct) items not involving cash				
Amortization	4,512	4,958	12,507	14,713
Future income taxes	(12,000)	(158,000)	(444,000)	(310,000)
Stock-based compensation expense	—	—	239,500	216,500
Non-cash portion of interest expense	16,023	14,349	46,954	33,482
	(435,961)	(362,925)	(1,398,158)	(985,397)
Changes in non-cash working capital balances related to operations				
Prepaid expenses	(95,429)	8,958	(68,568)	(59,457)
Accounts receivable	(6,056)	60,362	444,499	168,934
Accounts payable and accrued liabilities	(718,136)	(73,141)	(266,899)	(216,218)
Interest payable	(67,500)	(67,500)	(67,500)	22,500
Income taxes payable	(75,138)	(533)	(89,764)	95,340
<b>Cash used in operating activities</b>	<b>(1,398,220)</b>	<b>(434,779)</b>	<b>(1,446,390)</b>	<b>(974,298)</b>
<b>INVESTING ACTIVITIES</b>				
Decrease in security deposit	—	176,979	—	177,015
Decrease (increase) in other assets, net of non-cash items	—	—	(3,180)	582,907
Increase in restricted cash	—	(2,698,561)	—	(2,698,561)
Purchase of plant and equipment and capital assets	(1,887,304)	(138,196)	(6,281,705)	(5,303,685)
Increase in fair value posted for reclamation bonds	(557)	(334)	(871)	(15,229)
Loss on disposal of capital assets in mining properties	—	20,532	—	23,361
Increase in exploration and development expenditures	(3,257,182)	(2,062,948)	(7,304,977)	(6,014,451)
<b>Cash used in investing activities</b>	<b>(5,145,043)</b>	<b>(4,702,528)</b>	<b>(13,590,733)</b>	<b>(13,248,643)</b>
<b>FINANCING ACTIVITY</b>				
Proceeds on issuance of debt, net	—	—	—	2,900,690
Proceeds on issuance of shares, net [note 7]	103	2,306,853	1,917,000	6,870,212
Proceeds on exercise of warrants [note 7]	3,841,084	—	3,841,084	—
<b>Cash provided by financing activities</b>	<b>3,841,187</b>	<b>2,306,853</b>	<b>5,758,084</b>	<b>9,770,902</b>
<b>Decrease in cash and cash equivalents</b>	<b>(2,702,076)</b>	<b>(2,830,454)</b>	<b>(9,279,039)</b>	<b>(4,452,039)</b>
Cash and cash equivalents, beginning of period	11,751,185	7,313,608	18,328,148	8,935,193
<b>Cash and cash equivalents, end of period [note 10]</b>	<b>9,049,109</b>	<b>4,483,154</b>	<b>9,049,109</b>	<b>4,483,154</b>

See accompanying notes

## Fortune Minerals Limited

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

September 30, 2010

## 1. BASIS OF PRESENTATION

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 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.

The accompanying unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles. These unaudited condensed notes to the interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report for the fiscal year ended December 31, 2009.

## 2. ADOPTION OF NEW ACCOUNTING STANDARDS

### *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”]<sup>1</sup>. 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. The Company is currently assessing the impact of this transition on the consolidated financial statements.

Set out below are the main areas where changes in accounting policies are expected to have an impact on the Company's consolidated financial statements including 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).

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<sup>1</sup> 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

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September 30, 2010

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; however, analysis is still in process and the selection of accounting policies where choices are available under IFRS has not been completed.

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 balance sheet; and
- Mandatory exceptions to retrospective application of certain IFRS standards.

The Company is in the process of analyzing 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

### 3. FINANCIAL INSTRUMENTS

The Company has designated cash and cash equivalents, restricted cash, 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, interest payable, taxes payable and accrued liabilities are designated as other liabilities. These financial instruments are initially measured at fair value. Receivables, accounts payable, 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"] 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.

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

September 30, 2010

- 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 September 30, 2010, the \$US balance in cash and cash equivalents was \$1,356,136. The exchange rate used at September 30, 2010 to convert \$US to \$CDN was \$US 1 is equal to \$CDN 1.029.
  - iii.* Other price risk arises because of changes in market prices other than those due to interest rates and currency changes. The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is the potential adverse impact on the Company's ability to raise new capital and generate earnings due to movement in the Company's equity price or general movement in the level of the stock market. Commodity price risk is the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company monitors commodity prices of anthracite coal, cobalt, gold and bismuth in addition to other metal markets, individual equity movements and the stock market to determine appropriate courses of action to be taken by the Company.
- [c]** Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities as they come due. The Company's investment policy is to invest its excess cash in high-grade investment securities with varying terms to maturity, selected with regard to the expected timing of expenditures for continuing operations. Accounts payable and accrued liabilities are all current. The Company's letters of credit are fully secured by deposits that conform to the Company's investment policy. The Company's long-term debt is in good standing and does not require any principal repayments until due in March 2012.

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

September 30, 2010

#### 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 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 into 2011. However, significant additional capital will be required to complete the development of the Company's NICO and Mount Klappan projects.

#### 5. CAPITAL ASSETS

Capital assets consist of the following:

	<u>September 30, 2010</u>		<u>December 31, 2009</u>	
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Cost</u>	<u>Accumulated amortization</u>
	\$	\$	\$	\$
Computer equipment	139,392	85,798	118,839	73,246
Furniture and fixtures	79,247	40,214	72,880	33,673
Leasehold improvements	9,602	9,054	9,602	8,726
Software	46,537	21,039	33,906	15,447
	<b>274,778</b>	<b>156,105</b>	235,227	131,092
Less accumulated amortization	<b>156,105</b>		131,092	
<b>Net book value</b>	<b>118,673</b>		104,135	

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

September 30, 2010

#### 6. MINING PROPERTIES

Interests in mining properties consist of the following:

	September 30, 2010			
	Capital assets \$	Property costs \$	Exploration and development expenditures \$	Total - mining properties \$
NICO Project [i]	25,374,933	3,593,049	62,177,988	91,145,580
Mount Klappan Project [ii]	2,653	3,144,116	17,374,529	20,521,298
Sue-Dianne Project	—	9,164	2,037,974	2,047,138
Other properties	—	—	352,549	352,549
	<b>25,377,586</b>	<b>6,746,329</b>	<b>81,942,650</b>	<b>114,066,565</b>

  

	December 31, 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

During the nine-month period ended September 30, 2010, \$447,304 of administrative expenses, \$186,782 of amortization and \$109,000 of stock-based compensation were capitalized to exploration and development expenditures within mining properties. Pre-production mining tax credits reduced exploration and development expenditures within mining properties by \$433,000.

Capital assets consist of the following:

	September 30, 2010		December 31, 2009	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$	\$	\$
Surface facilities under construction	24,182,933	—	17,901,744	—
Surface facilities	1,469,007	740,539	1,429,741	628,051
Camp structures	600,124	489,209	600,124	457,008
Mobile equipment	822,783	541,333	780,157	461,884
Site furniture and equipment	31,280	22,447	31,280	19,882
Land acquisition costs	64,987	—	64,987	—
	<b>27,171,114</b>	<b>1,793,528</b>	20,808,033	1,566,825
Less accumulated amortization	<b>1,793,528</b>	—	1,566,825	—
<b>Net book value</b>	<b>25,377,586</b>	—	19,241,208	—

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

September 30, 2010

During the nine-month period ended September 30, 2010, \$390,328 of administrative expenses, \$52,429 of amortization and \$68,500 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.

##### *[a] 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.

During 2009, the agreements with the Vendor were terminated and an amending agreement with the Land Owner was executed. Under the amending agreement with the Land Owner, the Company has 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 is recorded as a security deposit. Upon completion of the Company’s obligation, the security deposit will be released to the Company. Subsequent to September 30, 2010 the security deposit was released to the Company (refer to Note 13/a).

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.

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

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

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

September 30, 2010

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 \$381,816 have been recorded in Other assets as at the period ended September 30, 2010, including warrants issued in lieu of fees valued at \$364,050 (refer to Note 7[e]) 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, Fortune Coal Limited ["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 proposed transaction, incremental costs of \$139,414 have been expensed and recorded as Corporate advisory costs for the nine-month period ended September 30, 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 NICO and Mount Klappan projects, respectively. Reclamation bonds consist of the following:

	<u>September 30, 2010</u>		<u>December 31, 2009</u>	
	<b>Bond amount</b>	<b>Security held (fair market value)</b>	<b>Bond amount</b>	<b>Security held (fair market value)</b>
	\$	\$	\$	\$
NICO Project	211,000	244,121	211,000	243,777
Mount Klappan Project	307,000	374,000	307,000	373,473
<b>Net book value</b>	<b>518,000</b>	<b>618,121</b>	<b>518,000</b>	<b>617,250</b>

The security held for the reclamation bonds 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.

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

September 30, 2010

#### 7. SHARE CAPITAL

[a] Issued and outstanding common shares:

	<u>September 30, 2010</u>		<u>December 31, 2009</u>	
	#	\$	#	\$
<b>Common shares</b>				
<b>Beginning of period</b>	<b>94,779,407</b>	<b>103,192,996</b>	55,550,107	83,353,111
Issued as a result of:				
Public offering	—	—	26,538,550	16,188,516
Private offerings [d]	<b>2,535,000</b>	<b>1,977,300</b>	12,690,750	6,331,095
Share issuance costs, net tax [d,f]	—	<b>(43,398)</b>	—	(1,429,726)
Exercise of warrants [c]	<b>6,401,806</b>	<b>4,709,484</b>	—	—
Future tax impact of renunciation of development costs expended	—	<b>(47,000)</b>	—	(1,250,000)
<b>End of period [b]</b>	<b>103,716,213</b>	<b>109,789,382</b>	94,779,407	103,192,996
<b>Warrants</b>				
<b>Beginning of period</b>	<b>20,890,275</b>	<b>2,014,872</b>	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
Warrant issuance costs, net tax [c,d]	—	<b>(902)</b>	—	(118,263)
In lieu of fees, net tax [e,f]	—	<b>121,017</b>	2,975,000	216,783
Modification of warrants [c]	—	<b>64,210</b>	—	—
Exercise of warrants [c]	<b>(6,401,806)</b>	<b>(868,400)</b>	—	—
Expiration of warrants [c]	<b>(19,194)</b>	<b>(3,205)</b>	(5,348,000)	(1,865,280)
<b>End of period</b>	<b>14,469,275</b>	<b>1,327,592</b>	20,890,275	2,014,872
		<b>111,116,974</b>		105,207,868

[b] The Company is authorized to issue an unlimited number of common shares without par value. At September 30, 2010, the weighted average number of common shares outstanding was 95,633,693 (September 30, 2009 – 60,636,421). For calculating fully diluted loss per share, for the three-month period ending September 30, 2010, there were no warrants or compensation options with an exercise price less than the average market price for the period and 1,185,000 stock options had an exercise price less than the average market price for the period but were excluded from the fully diluted loss per share computation because inclusion would have been anti-dilutive. Stock options to purchase 1,155,000 common shares, warrants to purchase 1,100,000 common shares and compensation units to purchase 1,592,313 common shares had exercise prices less than the average market price of common shares during the nine months ended September 30, 2010. However, these options, warrants and compensation units were excluded from the fully diluted loss per share computation because inclusion would have been anti-dilutive.

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

September 30, 2010

- [c]** 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 old warrants immediately before their terms were modified, and was recorded as a charge to the 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.
- [d]** 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 of \$18,196 net of tax, were incurred. Share and warrant issuance costs, net of tax of \$21,702 and \$902 respectively, relate to additional expenditures incurred from the December 3, 2009 public offering.
- [e]** 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				Estimated fair value per unit \$
	Risk free interest rate %	Expected dividend yield %	Expected volatility %	Expected unit life [years] #	
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

The Black-Scholes model, used by the Company to calculate warrant values, as well as other accepted valuation models, was developed to estimate fair value of freely tradable, fully

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transferable warrants. These models 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 warrants.

**[f]** Included in share issuance costs, net of tax, is \$16,000 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.

**[g]** The estimated fair value of 1,155,000 options granted during the nine-month period ended September 30, 2010 has been allocated to stock-based compensation expense, exploration and development expenditures and capital assets in the amounts of \$239,500, \$109,000 and \$68,500, respectively. Contributed surplus was increased by \$417,000 representing the fair value compensation recorded less \$47,000 related to the tax effect of the amount capitalized.

The fair value of options granted during the nine-month period ended September 30, 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

The Black-Scholes model, used by the Company to calculate option values, as well as other accepted option valuation models, was developed to estimate fair value of freely tradable, fully transferable options, 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.

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A summary of the status of the Company's stock option plan as at September 30, 2010 and December 31, 2009, and changes during the periods ending on those dates are presented below:

	<u>September 30, 2010</u>		<u>December 31, 2009</u>	
	<b>Number</b>	<b>Weighted-</b>	<b>Number</b>	<b>Weighted-</b>
	<b>of shares</b>	<b>average</b>	<b>of shares</b>	<b>average</b>
	<b>#</b>	<b>exercise</b>	<b>#</b>	<b>exercise</b>
		<b>price</b>		<b>price</b>
		<b>\$</b>		<b>\$</b>
<b>Options outstanding, beginning of period</b>	<b>3,300,000</b>	<b>1.61</b>	2,785,000	2.45
Granted	<b>1,155,000</b>	<b>0.68</b>	1,185,000	0.60
Expired	<b>230,000</b>	<b>4.24</b>	670,000	3.28
<b>Options outstanding, end of period</b>	<b>4,225,000</b>	<b>1.22</b>	3,300,000	1.61
<b>Options exercisable, end of period</b>	<b>4,205,000</b>	<b>1.22</b>	3,300,000	1.61

The following summarizes information about the options outstanding at September 30, 2010:

<b>Range of exercise prices</b>	<b>Number outstanding</b>	<b>Number vested and outstanding</b>	<b>Weighted average exercise price [i]</b>	<b>Weighted average remaining contract life [i]</b>
<b>\$</b>	<b>#</b>	<b>#</b>	<b>\$</b>	<b>[years]</b>
0.50 – 0.99	2,340,000	2,320,000	0.64	4.1
1.00 – 1.49	150,000	150,000	1.30	2.9
1.50 – 1.99	895,000	895,000	1.59	2.7
2.00 – 2.49	665,000	665,000	2.29	1.3
2.50 – 2.99	175,000	175,000	2.89	1.0
	<b>4,225,000</b>	<b>4,205,000</b>		

[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.

As at September 30, 2010, the Company has, subject to Board approval, contractual obligations to issue 40,000 stock options pursuant to the Company's stock option plan to recently hired employees.

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#### 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 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 nine-month period ending September 30, 2010, \$46,954 of transaction costs and loan discount were amortized using the effective interest method and were included in interest expense of \$249,453.

#### 9. INCOME TAXES

The Company has non-capital loss carryforwards totalling \$10,055,000 which begin to expire in 2010, un-deducted share issuance costs of \$1,869,000 and unused investment tax credits on preproduction costs of \$1,515,000 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 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-2014.

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

	September 30, 2010 \$	December 31, 2009 \$
<b>Future tax assets</b>		
Net operating loss carryforwards	2,687,000	2,117,000
Un-deducted share issuance costs	500,000	676,000
Unused investment tax credits on preproduction costs	1,515,000	1,085,000
	<b>4,702,000</b>	3,878,000
Less valuation allowance related to operating losses, share issuance costs and corporate minimum tax	<b>(509,000)</b>	(530,000)
<b>Future tax assets</b>	<b>4,193,000</b>	3,348,000
<b>Future tax liabilities</b>		
Book value of exploration and development expenditures and capital assets in excess of tax value	<b>(11,243,000)</b>	(11,153,000)
<b>Net future tax liabilities</b>	<b>(7,050,000)</b>	(7,805,000)

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

	September 30, 2010 \$	December 31, 2009 \$
<b>Combined federal and provincial income tax rate</b>	<b>30.80%</b>	32.79%
Corporate income tax at statutory rate	(519,700)	(528,700)
Increase (decrease) in income taxes resulting from:		
Non-deductible stock compensation and other expenses	74,000	111,000
Rate difference	(60,000)	97,000
Other	71,475	40,900
	<b>(434,225)</b>	(279,800)

### 10. CONSOLIDATED STATEMENT OF CASH FLOWS

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

	September 30, 2010 \$	December 31, 2009 \$
Cash on hand and balances with banks	8,284,272	17,566,979
Short-term fixed income deposits	764,837	761,169
	<b>9,049,109</b>	18,328,148

[b] Supplemental cash flow information:

	September 30, 2010 \$	December 31, 2009 \$
Interest and investment income received	18,815	72,380
Interest paid	270,000	135,000

### 11. RELATED PARTY TRANSACTIONS

For the nine-month period ending September 30, 2010, the Company paid certain officers or directors an aggregate of \$633,333 for third party consulting services on behalf of the Company. These transactions have been recorded at their exchange amount.

## **Fortune Minerals Limited**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **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. Although management makes an estimate and provides for the final resolution of these claims in the financial statements, it is possible that the final resolution of these matters may require the Company to make expenditures in excess of estimates. Management believes that none of these claims will have a material impact on the Company's financial position. At September 30, 2010, the Company has deposited \$2,698,561 in a trust account in relation to a disputed claim. This amount is recorded as restricted cash pending resolution of the dispute.

#### **13. SUBSEQUENT EVENTS**

**[a]** Subsequent to September 30, 2010, the Company fulfilled its obligation to dismantle a warehouse and remove the salvaged assets from the Golden Giant Mine location (refer to Note 61/a) and no obligations remain relating to these activities. Accordingly, on October 21, 2010, the \$300,000 security deposit was released to the Company.

**[b]** 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.

#### **14. COMPARATIVE AMOUNTS**

Certain comparative amounts have been reclassified from statements previously presented to conform to the presentation of the September 30, 2010 financial statements.