



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Year Ended December 31, 2010

This Management's Discussion and Analysis of Fortune Minerals Limited ("Fortune" or the "Company") is dated February 24, 2011 and should be read in conjunction with the Company's Annual Audited Consolidated Financial Statements for the year ended December 31, 2010 prepared in accordance with Canadian generally accepted accounting principles. This discussion contains certain forward-looking information and is expressly qualified by this cautionary statement at the end of this Discussion. All dollar amounts are presented in Canadian dollars unless indicated otherwise.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company has included an update on the status of the conversion to International Financial Reporting Standards ("IFRS") which addresses the applicable areas of IFRS 1 exemptions and exceptions and key differences between IFRS and Canadian generally accepted accounting principles ("Canadian GAAP") that will have an impact on the financial statements and note disclosure of Fortune Minerals Limited (refer to pages 10 through 18).

SELECTED ANNUAL INFORMATION

	2010	2009	2008
Total revenues	\$24,889	\$50,334	\$506,921
Net loss	(1,711,277)	(1,332,452)	(1,378,793)
Basic and fully diluted loss per common share	(0.02)	(0.02)	(0.03)
Total assets	127,917,977	123,728,635	99,286,206
Total long term financial liabilities	2,917,749	2,854,772	-

SUMMARY OF QUARTERLY RESULTS

	2010				2009			
	Dec-31	Sep-30	Jun-30	Mar-31	Dec-31	Sep-30	Jun-30	Mar-31
Revenues	\$6,073	\$5,397	\$5,222	\$8,197	\$3,636	\$6,032	\$21,180	\$19,486
Net loss	(458,158)	(444,496)	(479,690)	(328,933)	(392,360)	(224,232)	(523,321)	(192,539)
Basic and fully diluted loss per common share*	—	—	(0.01)	—	(0.01)	—	(0.01)	—

*Note: the sum of quarterly loss per common share for a fiscal year may not equal the year-to-date amount due to rounding.

OVERVIEW

The Company's most significant assets are the Mount Klappan anthracite metallurgical coal project in northwest British Columbia ("Klappan") and the NICO gold-cobalt-bismuth-copper project in the Northwest Territories ("NICO"), both of which are in the development phase and wholly owned. Prices for Fortune's primary commodities remain reasonably strong and with rising demand, the Company is well positioned as it continues to pursue its core objective of transforming itself into a producer. The advantages Fortune offers include: diversified

assets; our projects are located in Canada, a mining friendly politically stable country; our development projects provide participation in commodities of critical importance to the world economy including gold, cobalt, bismuth, copper, and metallurgical coal; and, a near-term production plan that offers a different risk profile than grass roots exploration companies.

Fortune is committed to seeking an appropriate joint venture partner to help develop the Mount Klappan project. The Company entered into an engagement with Deloitte & Touche Corporate Finance Canada Inc. to act as the Company's financial advisor during the second quarter of 2010 to implement a renewed strategy for identifying and engaging a suitable strategic partner in order to maximize value for shareholders and realize the potential of Klappan. Activities in relation to this engagement are proceeding as planned into 2011. Further, the Company engaged Marston & Marston Inc. ("Marston") to update the financial model from its 2008 definitive feasibility study. The update indicates positive economics for the project using a new railway development strategy for haulage of anthracite metallurgical coal products from Klappan to the port of Prince Rupert (see news release dated November 4, 2010 on the Company's website or on SEDAR). As the economy continues to recover and prices for metallurgical coal firm up due to increasing demand and global supply constraints, management believes that the environment for finding a suitable partner for the project is favourable.

Fortune is continuing to develop NICO independently and the Company's 2010 business activities were focused on advancing engineering, permitting and financing of NICO and its related hydrometallurgical process facility, the Saskatchewan Metals Processing Plant ("SMPP"), in Saskatchewan while minimizing expenditures in other areas not on the critical path to production. In support of engineering, permitting and financing initiatives, the Company undertook the following activities in 2010:

- Conducted additional environmental and socio-economic studies for NICO and the SMPP;
- Developed management plans and reports required by various regulatory bodies;
- Conducted community consultation, mine site visits and preparation for negotiations with the Tlicho on an Participation Agreement;
- Advanced Front End Engineering and Design ("FEED") programs for NICO and the SMPP including the completion of additional pilot plant testing;
- Completion of due diligence activities for the SMPP property including environmental, geotechnical and hydrogeological studies; and,
- A 37-hole exploration drill program at NICO, in part, to support ongoing engineering and construction of the mill, mine buildings and airstrip.

The main objectives for the 37-hole drill program were to extend the known mineral reserves for the deposit and provide better definition of the perimeter of the ore body for detailed mine operations and production scheduling. The results from the first 10 drill holes were received during the third quarter and for the remaining 27 holes were received during the fourth quarter and both identified additional high-grade intersections (see news release dated September 9, 2010 and December 3, 2010 on the Company's website, www.fortuneminerals.com, or on SEDAR at www.sedar.com, for a summary of drill results). During the year ended December 31, 2010, the Company also completed the dismantling of the remaining structures and relocated its salvaged milling and process assets from the Golden Giant Mine (the "Hemlo Assets") to strategic staging locations prior to refurbishment and shipment to the Northwest Territories. As a result, the Company fulfilled its remaining obligations at the Golden Giant Mine site ahead of its April 1, 2011 deadline and its security deposit was returned. Subsequent to year end, the Company also settled a dispute with the contractor who was hired to complete portions of the dismantling and demolition scope relating to the Hemlo Assets and no further amounts are owed, resulting in the Company receiving its share of disputed amounts previously held in trust pending resolution of the dispute. The Hemlo Assets were acquired by Fortune in 2006 as part of the purchase of mill and related facilities for the NICO project and no further obligations relating to the assets exist, the Hemlo project is complete and the assets are now available for refurbishment at the appropriate time. Subsequent to year end, the Company also received the SMPP draft Project Specific Guidelines ("PSG's") from the Environmental Assessment Branch of Saskatchewan's Ministry of Environment, an important milestone in the environmental assessment process in Saskatchewan. Once finalized, the PSG's will outline the

requirements of the provincial environmental assessment process and identify key issues that will need to be addressed in the Environmental Impact Statement ("EIS"). Fortune also held information sessions in local communities near the future site of the SMPP to update the general public on the Company's plans for the SMPP and to address any questions prior to the submission of the EIS.

The Company continues to maintain its core group of management and employees to lead activities on the critical path to production while focusing on minimizing general and administration expenses to support and finance its principal projects. An additional \$8,466,859 in net cash proceeds were raised during the year to continue to fund the key activities of the Company. Management continues to review various financing alternatives to maximize value for shareholders and has an ongoing relationship with BNP Paribas as financial advisor and lead arranger to pursue a future project financing facility to fund the construction and commissioning of NICO and the SMPP.

RESULTS OF OPERATIONS

Summary

The Company's net loss for the three-month period ended December 31, 2010 was \$458,158 or \$nil per share compared to \$392,360 or \$0.01 per share for the same period in the prior year. The net loss for the year ended December 31, 2010 was \$1,711,277 or \$0.02 per share compared to \$1,332,452 or \$0.02 per share for the prior year.

The increase in net loss for 2010 is attributable primarily to increased capital taxes and corporate advisory costs incurred during the year related to Mount Klappan. Expenditures for much of the ongoing activity in 2010 were funded from financing proceeds received in late 2009. The Company maintained a reasonable cash position and working capital balance throughout 2010, by raising additional funds as required for 2010 and for preliminary planned activities for 2011. At the end of 2010, Fortune had cash and cash equivalents of \$9,143,974, a working capital balance of \$8,228,901 and long-term debt of \$2,917,749. At December 31, 2009, the Company has cash and cash equivalents of \$18,328,148, a working capital balance of \$17,945,994 and long-term debt of \$2,854,772.

Revenues

Fortune's investment income, its primary source of revenue, decreased to \$24,889 in 2010 compared to \$50,334 in 2009. Interest and other income was lower in 2010 due to lower investment income earned on smaller cash balances held with financial institutions. The Company invests its surplus cash in low risk, liquid investments, which typically have low yields but preserve their principle value during times of market uncertainty.

Expenses

Expenses increased in 2010 to \$2,235,490 compared to \$1,583,399 in 2009. The increase in 2010 is primarily a result of capital taxes and corporate advisory costs with some nominal increases attributable to interest expenses, stock based compensation and administrative expenses and a nominal decrease in investor relations expenses. Capital taxes applicable to the Company in Ontario were eliminated effective July 1, 2010, therefore, in subsequent periods, capital taxes are anticipated to be \$nil. The corporate advisory costs incurred in 2010 relate to an engagement to find a strategic partner for the Mount Klappan project which was entered into during 2010. Interest expense was higher for the year ended December 31, 2010 since interest was not incurred until late in the first quarter of 2009 when the long-term debt was arranged.

Upon the grant of stock options, management estimates the fair value of the options using the Black-Scholes model. The estimated fair value of the options is allocated to stock-based compensation expense, capital assets and deferred assets based on an approximation of the allocation of the optionee's future compensation. In the case of directors, the entire fair value of the options granted is recorded as a stock-based compensation expense.

Below is a summary of the estimated fair value of stock options granted for the periods ending December 31, 2010 and 2009:

	2010	2009
Options granted during the year	1,195,000	1,185,000
Total estimated fair value	\$436,200	\$355,500
Average fair value per option	\$0.37	\$0.30
Allocated to:		
Stock-based compensation expense	\$253,000	\$216,500
Exploration and development expenditures	\$113,700	\$103,500
Capital assets	\$69,500	\$35,500

In 2010, the Company's net loss included \$81,901 in foreign exchange loss from \$US cash on hand during the year that decreased in value due to the strengthening of the \$CDN compared to the \$US. These funds are being held to settle various anticipated \$US denominated purchases of equipment and supplies.

Future Tax Recovery

The Company recognized a future income tax recovery of \$591,000 in 2010 compared to \$368,000 in 2009. The current year recovery reflects the recognition of future tax benefits resulting from the current year tax loss as well as a reduction in the future tax rate. In 2009, the recognition of future tax benefits resulted primarily from the tax loss for the year and from un-deducted share issuance costs. The Company's future tax liability has decreased, principally, due to and the increase in non-capital losses and pre-production mining investment tax credits carry forwards. The current tax provision recorded is the estimated amount owing related to the enactment of income tax harmonization between the Ontario and Federal Governments.

Cash Flow

Cash used in operating activities during 2010 was \$4,134,724 compared to \$778,664 used in operating activities during 2009. However, the majority of the difference between periods is due to changes in non-cash working capital. Operating activities before changes in non-cash working capital used cash of \$1,969,082 in 2010 compared to \$1,416,427 in 2009. The use of cash by operating activities is related to the level of administrative and investor relations activity during the period as well as interest payments made on long-term debt, capital taxes and corporate advisory costs. The use of cash from changes in working capital balances during 2010 is a result of a decrease in accounts payable and accrued liabilities of \$2,204,668 due to the timing of certain business activities and settlement of related accounts with vendors, specifically the settlement of a dispute that arose during 2009 with a contractor hired to dismantle and demolish certain Hemlo assets. The source of cash from changes in working capital balances for 2009 reflected an increase in accounts payable and accrued liabilities offset by an increase in accounts receivable due to the timing of certain business activities.

Cash used in investing activities decreased to \$13,516,309 in 2010 from \$15,511,190 in 2009. Net cash exploration and development expenditures incurred by Fortune on its properties during the three- and twelve-month periods ending December 31, 2010 were \$1,873,072 and \$9,178,049, respectively, which includes recovery of expenditures previously capitalized of \$322,373 from a third party. Net cash expenditures related to the following projects:

	Three months ended December 31, 2010	Year ended December 31, 2010
NICO	\$ 2,080,887	\$ 9,070,502
Klappan	105,224	319,799
Other projects, net recovery of expenditures	(313,039)	(212,252)
Total cash exploration and development expenditures	\$ 1,873,072	\$ 9,178,049

Fortune Minerals Limited
Management's Discussion and Analysis of Financial Conditions and Results of Operations
Year Ended December 31, 2010

For comparison, net cash exploration and development expenditures incurred by Fortune on its properties during the three- and twelve-month periods ending December 31, 2009 were \$1,641,038 and \$7,655,489, respectively. The expenditures related to the following projects:

	Three months ended December 31, 2009	Year ended December 31, 2009
NICO	\$ 1,532,848	\$ 7,279,119
Klappan	51,864	291,820
All other projects	56,326	84,550
Total cash exploration and development expenditures	\$ 1,641,038	\$ 7,655,489

The 2010 project expenditures were consistent with the original forecasted net expenditures at NICO and Klappan reflecting the planned activities undertaken, with the exception of approximately \$1 million of budgeted NICO expenditures not incurred during 2010 that will be deferred to 2011 due to the timing of certain activities.

In addition, the Company spent \$1,050,679 and \$7,332,384 during the three- and twelve-month periods ended December 31, 2010 on plant and equipment and capital assets compared to \$606,769 and \$5,910,454 for the same periods in 2009. In 2010, this included net cash expenditures related to the SMPP of \$5,207,795 primarily due to environmental and FEED activities. In addition, the cost of capital assets includes expenditures on the Company's Hemlo Assets. In the prior year, the expenditures on the Hemlo Assets consisted primarily of dismantling, deconstruction and salvage of the Hemlo Assets for their future use at NICO. During 2010, the remaining warehouse was dismantled, the project was completed and additional expenses were incurred for transporting and storing the assets prior to refurbishment for future construction at NICO. The Company exceeded its planned 2010 expenditures for the SMPP by approximately \$1.3 million in order to accelerate activities required to permit and finance the facility and for due diligence activities undertaken on the land prior to closing of the purchase agreements which is required by December 31, 2012. This was partially offset by the remaining salvage and transportation of the Hemlo Assets was completed for less than the budgeted by approximately \$0.3 million.

The Company raised net cash proceeds of \$8,466,859 as a result of financing activities during 2010. Net cash proceeds of \$3,845,998 were raised from the issuance of 4,635,473 common shares through private offerings during 2010. In addition, net cash proceeds of \$4,326,164, \$310,501, and \$14,800 were raised through the exercise of 7,015,653 warrants, 477,694 compensation units, and 20,000 employee stock options, respectively. In 2010 expenses of \$30,604 were incurred relating to the public offering in late 2009.

Fortune Minerals Limited
Management's Discussion and Analysis of Financial Conditions and Results of Operations
Year Ended December 31, 2010

Reconciliation of cash and non-cash changes in share capital:

	2010			
	Shares/Warrants Issued	Cash Proceeds and Costs, Net	Non-cash Proceeds, Net	Total Proceeds, Net
	#	\$	\$	\$
Common shares issued during the year				
Public offering	-	(29,702)	-	(29,701)
Private offerings	4,635,473	3,845,998	-	3,845,998
Exercise of options	20,000	14,800	5,300	20,100
Exercise of warrants	7,015,653	4,327,164	922,763	5,249,927
Exercise of compensation units	477,694	291,393	121,040	412,433
Future tax impact	-	-	(4,001)	(4,001)
Total common shares issued	12,148,820	8,449,653	1,045,102	9,494,755
Average proceeds per share issued		0.70	0.08	0.78
Warrants issued during the year				
Public offering	-	(902)	-	(902)
Private offerings	-	-	-	-
Exercise of compensation units	238,847	19,108	7,937	27,045
Warrants in lieu of fees	-	-	121,017	121,017
Exercise of warrants	(7,015,653)	(1,000)	(922,763)	(923,764)
Expiration of warrants	(19,194)	-	(3,205)	(3,205)
Modification of warrants	-	-	64,210	64,210
Total net warrants issued	(6,796,000)	17,206	(732,804)	(715,598)
Average proceeds per warrant issued		0.08	0.03	0.11
Change in share capital		8,466,859	312,298	8,779,157

*Note: as a result of rounding of Total Proceeds, Net, to the nearest dollar, certain individual items disclosed above may also be rounded.

	2009			
	Shares/Warrants Issued	Cash Proceeds and Costs, Net	Non-cash Proceeds, Net	Total Proceeds, Net
	#	\$	\$	\$
Common shares issued during the year				
Public offering ⁽¹⁾	26,538,550	14,944,371	(403,468)	14,540,903
Private offerings	12,690,750	6,156,567		6,156,567
Future tax impact			(857,585)	(857,585)
Total common shares issued	39,229,300	21,100,938	(1,261,053)	19,839,885
Average proceeds per share issued		0.54	-0.03	0.51
Warrants issued during the year				
Public offering ⁽¹⁾	13,269,275	967,535	(26,457)	941,078
Private offerings	4,546,000	713,646		713,646
Warrants in lieu of fees	2,975,000		292,783	292,783
Future tax impact			(53,415)	(53,415)
Expiration of warrants	(5,348,000)		(1,865,280)	(1,865,280)
Total net warrants issued	15,442,275	1,681,181	(1,652,369)	28,812
Average proceeds per warrant issued		0.08	0.01	0.09
Change in share capital		22,782,119	(2,913,422)	19,868,697

⁽¹⁾ Public offering consisted of 26,538,550 units for \$0.65 per unit. Each unit consisted of one common share and one half of one common share purchase warrant.

*Note: as a result of rounding of Total Proceeds, Net, to the nearest dollar, certain individual items disclosed above may also be rounded.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2010, Fortune had cash and cash equivalents of \$9,143,974, a working capital balance of \$8,228,901 and long-term debt of \$2,917,749. The Company's principal operational objectives for 2011 with respect to the NICO project are to continue its focus on obtaining the necessary permits for the project and completing activities required to support future financing arrangements. The Company's principal objectives for 2011 with respect to Klappan are to continue the process of seeking a strategic partner and to continue progressing activities in support of obtaining the necessary permits for the project in the future. The Company's working capital is sufficient to fund its preliminary planned activities for 2011. The Company regularly reviews its planned activities relative to available funding and prioritizes activities based on what is required to complete critical path activities. Ultimately, additional financing will be required to construct the mine infrastructure, the processing facilities and acquire additional equipment for the NICO and Klappan. The Company will continue evaluating its alternatives with a view to executing a financing plan suitable to fund its transformation into a producer.

OUTLOOK

As noted, the Company's principal objective remains to achieve successful commercial production for its projects. The Company's activities in pursuit of its objectives are subject to many risks as discussed under the heading "Risks and Uncertainties" section below. The most significant risks to meeting its objective in the targeted time frame continue to be permitting and financing. These risks arise primarily from external stakeholders such as government regulators, First Nations, and investors who have significant influence over the outcome of the Company's efforts. Accordingly, management has sought proactive ways to address risks in its business model and has developed appropriate strategies to move forward by focusing expenditures on critical path activities.

Major milestones on the path forward for NICO and the SMPP include:

- the receipt of environmental permits;
- the completion of a debt financing agreement; and
- sourcing any additional equity required to fulfill the Company's contribution to the projects under any debt financing agreements.

The major milestone on the path forward for Klappan is:

- Identification of potential partners, evaluation of potential transactions and ultimately entering into a strategic arrangement suitable to the Company.

The Company, as it moves forward, will continue to focus on prudent management of capital resources while advancing the development of its projects and mitigating risks.

TRANSACTIONS WITH RELATED PARTIES

During 2010, the Company paid businesses owned or controlled by or related to the President and CEO, the Vice President Finance and CFO, the Corporate Secretary and Director, and a Director, in aggregate, \$707,929 for various third party consulting and legal services received during the year. Additional amounts of \$64,446 were owing to these related parties for services received during 2010.

CRITICAL ACCOUNTING ESTIMATES

Going Concern Assumption

The recoverability of amounts shown for mineral properties and related exploration and development expenditures is dependent upon the economic viability of recoverable reserves, the ability of the Company to obtain the necessary permits and financing to complete the development, and future profitable production or proceeds from the disposition thereof.

Currently, the Company does not have a source of revenue other than investment income and it has relied, primarily, on equity financings to fund its activities. However, the Company raised a small amount of long-term debt to supplement equity financings when the cost of equity capital was not acceptable. The Company may have limited access to capital at an acceptable cost to existing shareholders depending on economic conditions from time to time. The Company's share price has steadily risen through the second half of 2010 and into 2011, increasing the market capitalization of the Company, and improving the cost of capital compared to the prior year. As well, the Company at December 31, 2010 has positive working capital and cash balances and manages the cash position prudently though ongoing monitoring of current and future cash and working capital balances relative to planned activities. The available capital is sufficient to fund the Company's preliminary planned activities for 2011.

Interests in Mining Properties and Exploration and Development Expenditures

In accordance with the Company's accounting policies, acquisition costs and exploration expenditures relating to mineral properties are capitalized until the properties are brought into commercial production or disposed. Amortization will commence when a property is put into commercial production. As the Company does not currently have any properties in commercial production, no amortization has been recorded.

Mineral reserve and mineral resource estimates are not precise and also depend on statistical inferences drawn from drilling and other data, which may prove to be unreliable. Future production could differ from mineral resource estimates for the following reasons:

- (a) Mineralization or formation could be different from those predicted by drilling, sampling and similar tests;
- (b) The grade of mineral resources may vary from time to time and there can be no assurance that any particular level of recovery can be achieved from the mineral resources; and

- (c) Declines in the market prices of contained minerals may render the mining of some or all of the Company's mineral resources uneconomic.

Any of these factors may result in impairment of the carrying amount of interests in mining properties or exploration and development expenditures.

Future Income Taxes

The Company follows the liability method of tax allocation in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Assessing the recoverability of deferred tax assets requires management to make significant estimates related to expectations of future taxable income and substantively enacted tax rates. The Company, by 2010, has completed feasibility studies and certain updates for both of its principal projects and is undertaking related permitting and financing activities. Management has determined it is more likely than not that the Company will achieve production and realize the benefit of certain non-capital losses, its un-deducted share issuance costs and pre-production mining investment tax credits. The benefit of these amounts is estimated to be \$4,263,000 and has been recorded in the consolidated financial statements to the extent that the deduction for share issuance costs and operating losses expire post-2015 and pre-production investment tax credits begin to expire in 2028. A future tax liability of \$11,229,000 has also been recorded in the consolidated financial statements for the book value of exploration and development expenditures and capital assets in excess of tax value.

Stock Based Compensation and Warrants or Compensation Options Issued Privately or in Lieu of Fees

The Company recognizes an expense for option awards using the fair value method of accounting. The company also records the fair value of warrants granted through private offerings or in lieu of fees and compensation options granted using a fair-value estimate. Management estimates the fair value of stock options, warrants granted through private offerings or in lieu of fees, and compensation options using the Black-Scholes model. The Black-Scholes model, used by the Company to calculate values, as well as other accepted option valuation models, was developed to estimate fair value of freely tradable, fully transferable options and warrants, which may significantly differ from the Company's stock option awards or warrant grants. 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. The valuation models are used to provide a reasonable estimate of fair value given the variables used.

Asset Retirement Obligations

Legal obligations associated with site restoration on the retirement of assets are recognized when they are incurred and when a reasonable estimate of the fair value of the obligation can be made. If a reasonable estimate of fair value cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the fair value of the obligation can be made. The Company has not commenced operations on its mining properties and the principal projects are in the development stage. Due to the uncertainty around the settlement date of potential asset retirement obligations for the Company's projects, management is not able to make a reasonable estimate of the fair value of the legal obligation in accordance with Canadian GAAP. Each period, Management reviews whether a reasonable estimate of fair value can be made on potential future asset retirement obligations for each project.

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. Subsequent to year end, a dispute with a third party relating to a claim was settled and the result of the settlement was not materially different than the estimate that had previously been recorded by management.

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 IFRS as issued by the International Accounting Standards Board ("IASB"). IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. An IFRS convergence plan is in the process of being completed. In 2010, the Company hired an additional employee and engaged advisors to assist with the evaluation of differences between Canadian GAAP and IFRS and implementation of the convergence plan to be able to meet the timelines. The following provides a summary of the status of IFRS implementation, including management's analysis of key differences between IFRS and Canadian GAAP and the adjustments that are expected on transition and to 2010 comparative balances. The analysis included below has been completed by management and included consultation with the external auditors throughout the process, however, the analysis and adjustments described below have not been audited by the Company's external auditors.

IFRS Transition - Identify and Select Applicable IFRS 1 Exemptions and Exceptions

The Company has conducted an assessment of the impact of *IFRS 1 First-time Adoption of International Financial Reporting Standards* ("IFRS 1"). The key principle of IFRS 1 is full retrospective application of all IFRS in force at the closing balance sheet date for the first IFRS financial statements prepared on transition to IFRS. IFRS 1 acknowledges that full retrospective application may not be practical or appropriate in all situations and prescribes:

- Optional exemptions to provide limited relief for first time adopters 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.

Additionally, to ensure financial statements contain high-quality information that is transparent to users, IFRS 1 contains disclosure requirements to highlight changes made to financial statements due to the transition to IFRS. The Company has reviewed the available exemptions and has elected to take the following exemptions, as allowed under IFRS 1:

Business Combinations

For all transactions accounted for as business combinations under previous GAAP, the Company may elect to not restate business combinations before the date of transition, restate all business combinations before the date of transition; or restate a particular business combination, in which case subsequent business combinations must be restated.

- The Company will elect to apply *IFRS 3 Business Combinations* ("IFRS 3") to business combinations that occurred on or after January 1, 2010.

Share-based payments

A company may choose to apply *IFRS 2 Share based payments* ("IFRS 2"), to any equity instruments that were granted before November 7, 2002 or that vested before the later of the date of transition to IFRS and January 1, 2005 but only if the company has previously disclosed publicly the fair value of the instruments, determined at the measurement date.

- The Company will elect not to apply IFRS 2 to awards that vested prior to January 1, 2010.

Borrowing Costs/ Interest Capitalization

A company may choose to apply *IAS 23 Borrowing Costs* ("IAS 23"), retrospectively, to borrowing costs relating to qualifying assets by designating any date prior to the transition date and applying the Standard to borrowing costs relating to all qualifying assets for which the commencement date for capitalisation is on or after that date. Alternatively, a Company may apply IAS 23 beginning at the transition date.

- The Company will elect to begin applying IAS 23 as at the transition date, January 1, 2010.

Decommissioning Liabilities

A first-time adopter need not comply with the requirements for changes in decommissioning liabilities that occurred before the date of transition to IFRS. If a first-time adopter uses this exemption, it shall measure the liability as at the date of transition to IFRSs in accordance with *IAS 37 Provisions* ("IAS 37").

- The Company will elect to take this exemption, and will measure any decommissioning liabilities as at the transition date, January 1, 2010.

Property, Plant and Equipment

For property, plant and equipment, the 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 exemption may be applied to any individual item of property, plant and equipment.

- The Company will elect to use cost in accordance with IFRS.

In addition to the optional exceptions from retrospective application, the Company reviewed the four mandatory IFRS exceptions and determined the following to be applicable:

Estimates

IFRS 1 prohibits the use of hindsight to correct estimates made under previous GAAP unless there is objective evidence of error. A company should only adjust the estimates made under previous GAAP when the previous estimate calculation does not comply with IFRS standards. If a new estimate is required under IFRS, the Company will need to estimate based on the conditions that existed at the date of transition to IFRSs. The Company's IFRS estimates as of January 1, 2010 are consistent with its Canadian GAAP estimates on that date.

Exceptions from retrospective application relating to De-recognition of Financial Assets and Liabilities, Hedge Accounting, and Non-controlling Interests were determined not to be applicable to the Company at this time.

Preparation of Opening IFRS Statement of Financial Position

The January 1, 2010 Canadian GAAP statement of financial position has been reconciled to IFRS based on the application of IFRS 1. Refer to the discussion below for additional information on the adjustments on transition reflected in the pro forma statement of financial position on January 1, 2010. The reconciliation below for preparing the opening IFRS statement of financial position has not been audited but is the result of management's current analysis of the adjustments on transition as of the date hereof, therefore these adjustments are subject to change and additional adjustments are possible.

Fortune Minerals Limited

Incorporated under the laws of Ontario

PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at	Canadian GAAP December 31, 2009	A	B	C	D	E	F	Pro forma IFRS January 1, 2010
		Transitional Adjustments						
	\$	IFRS 2	IAS 37	IAS 12	IAS 12	IAS 12	IAS 16	\$
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	213,619	25,157	-	-	-	-	-	238,776
Security deposit	300,000	-	-	-	-	-	-	300,000
Reclamation bonds	617,250	-	-	-	-	-	-	617,250
Capital assets, net	104,135	-	-	-	-	-	-	104,135
Mining properties	100,762,428	-	43,945	-	-	1,085,000	TBD	101,891,373
	123,728,635	25,157	43,945	-	-	1,085,000	-	124,882,737
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
Total current liabilities	3,785,209	-	-	-	-	-	-	3,785,209
Long-term debt	2,854,772	-	-	-	-	-	-	2,854,772
Future income taxes	7,805,000	-	-	(984,000)	-	-	-	6,821,000
Asset Retirement Obligation	-	-	80,333	-	-	-	-	80,333
Total liabilities	14,444,981	-	80,333	(984,000)	-	-	-	13,541,314
SHAREHOLDERS' EQUITY								
Share capital	105,207,868	25,157	-	984,000	690,000	-	-	106,907,025
Contributed surplus	6,875,025	-	-	-	-	-	-	6,875,025
Deficit	(2,799,239)	-	-	-	-	-	-	(2,799,239)
Adjustments to Opening RE	-	-	(36,388)	-	(690,000)	1,085,000	TBD	358,612
Total shareholders' equity	109,283,654	25,157	(36,388)	984,000	-	1,085,000	-	111,341,423
	123,728,635	25,157	43,945	-	-	1,085,000	-	124,882,737

(A) IFRS 2 Share-based payments

Share based payments that were outstanding but not fully vested were assessed for any 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 BNP Paribas for services performed for 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. As a result of this difference, the financial statements will reflect an adjustment of \$25,157 to increase share capital and transaction costs recorded in other assets.

(B) IAS 37 - Provisions, contingent liabilities and contingent assets ("IAS 37") - Asset Retirement Obligations

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. As discussed in the Critical Accounting Estimates section above, due to uncertainty around the date of settlement of potential asset retirement obligations for the Company's projects, an asset retirement obligation has not been recorded under Canadian GAAP. The Company has quantified its obligation for restoring the NICO and Klappan project sites under IAS 37, and will recognize an adjustment on transition to IFRS to record the asset retirement obligation (\$80,333), the related asset in mining properties (\$43,945), and retrospective adjustment for accretion through opening retained earnings (\$36,388).

(C) IAS 12- Income Taxes ("IAS 12") - Initial recognition exemption

Under IFRS, 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. In 2007, the Company purchased a minority interest in NICO, which does not meet the definition of a business combination under IFRS, and recorded a future tax liability of \$984,000 in relation to the transaction. As a result of the IFRS and Canadian GAAP difference, the future tax liability recorded in 2007 is reversed on transition to IFRS.

(D) IAS 12 - Income Taxes ("IAS 12") - Backwards tracing

Under IFRS, current and deferred taxes that arise from an item recorded directly in equity should also be recorded through equity, and not through the income statement. 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 the income statement; this concept is referred to as "backwards tracing". Canadian GAAP does not allow backwards tracing on items recorded directly in equity. The Company recorded \$690,000 in 2007 as a deferred tax asset for certain un-deducted share issuance costs that were previously assessed as more 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 the income statement to the share capital account in the balance sheet will be recorded as a retrospective adjustment through opening retained earnings.

(E) IAS 12- Income Taxes - 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. Under each IAS 12 and IAS 20 the ITC should be recorded in the income statement. Under Canadian GAAP, the Company has recorded ITCs as a reduction of the related asset, through the deferred exploration expenditure account in mining properties. As a result of this difference, the ITCs recorded against deferred exploration expenditures at the transition date of \$1,085,000 will be adjusted for and recorded through opening retained earnings.

(F) IAS 16- Property, Plant and Equipment

The Company is anticipating that there will be adjustments under IAS 16 as a result of differences between Canadian GAAP and IFRS, however the quantification of such adjustments is in process.

Identification of Key Differences between Canadian GAAP and IFRS

The Company has conducted an analysis to compare current financial statement balances and disclosures based on Canadian GAAP compared to applicable IFRS. The following are selected key areas of accounting differences

where changes in accounting policies on conversion to IFRS will impact the Company's consolidated financial statements under IFRS going forward, but will not require an adjustment to the financial statements on transition to IFRS. The list and comments should not be construed as a comprehensive list of all changes that will result from transition to IFRS but rather highlights those areas of accounting differences the Company currently believes to be most significant.

Mining Properties - Evaluation and Exploration Expenditures

- *Current accounting policy:* The Company capitalizes acquisition costs and exploration and development expenditures relating to mining properties until the properties are brought into commercial production, disposed, or the mineral property is no longer economically viable or there is a permanent impairment in value, at which time the carrying value will be written down to its estimated fair value. Unlike IFRS, Canadian GAAP indicates that exploration costs may initially be capitalized if the Company considers that such costs have the characteristics of property, plant and equipment.
- *IFRS 6- Mineral property interests, exploration and evaluation costs ("IFRS 6"):* Under IFRS 6, the Company is required to develop an accounting policy to identify which expenditures are considered exploration and evaluation activities, and recorded as assets, and to identify the cut-off point between the exploration and evaluation phase and development phase. Expenses incurred in the development phase are to be recorded separately as intangible assets under IAS 38 *Intangible assets*. Exploration and evaluation assets shall be classified as either tangible or intangible according to the nature of the assets acquired.

The Company has determined it will continue to capitalize expenditures incurred 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. Expenditures capitalized as exploration and evaluation costs will be 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, including from the Board of Directors, as well as external approvals, including obtaining the necessary permits from regulatory bodies. IFRS is expected to impact the extent of disclosure in the notes to the financial statements; however, no adjustments to the Company's balance sheet or income statement on transition to IFRS have been assessed to date.

Impairment of Assets

- *Current accounting policy:* Impairment testing of long-term assets is based on a two-step approach under current Canadian GAAP. Currently, under Canadian GAAP, long-lived assets are tested for impairment whenever circumstances indicate that the carrying value may not be recoverable. When events or circumstances indicate that the carrying amount of long-lived assets, other than indefinite life intangibles, are not recoverable, the long-lived assets are first tested for impairment by comparing the estimate of future expected cash flows to the carrying amount of the assets or groups of assets. If the carrying value is not recoverable from future expected cash flows, secondly, any loss is measured as the amount by which the asset's carrying value exceeds fair value and is recorded in the period. Recoverability is assessed relative to undiscounted cash flows from the direct use and disposition of the asset or group of assets. Indefinite life intangible assets are subjected to impairment tests on an annual basis or when events or circumstances indicate a potential impairment. If the carrying value of such assets exceeds the fair values, the assets are written down to fair value.
- *IAS 36 Impairment of Assets ("IAS 36"):* Under IAS 36 impairment testing is based on a one-step test, comparing the carrying amount of an asset to its recoverable amount. If there is an indication that an asset may be impaired the recoverable amount of the asset will need to be calculated, this is the greater of the assets value in use or fair value less costs to sell. The assets value in use is computed using discounted future cash flows. IAS 36 requires, under certain circumstances, the reversal of impairment losses, which is not allowed under current Canadian GAAP.

The Company's financial statements will not be impacted on the on the changeover to IFRS based on the analysis of impairment indicators on transition. Nevertheless, in subsequent years, IFRS could generate more impairment than Canadian GAAP would since it uses a one-step test. The extent of assets requiring an impairment test under IAS 36

will depend on whether any previous mining property expenditures are later defined as being development phase assets in addition to existing plant and equipment assessed for impairment on transition.

Property, Plant and Equipment

- *Current accounting policy:* Capital assets are stated at cost less accumulated amortization. Amortization of capital assets is recorded using the declining balance method.
- *IAS 16 Property, plant, and equipment ("IAS 16"):* IAS 16 provides companies with an option on transition to IFRS to use a cost model or a revaluation model to value their capital assets. The cost model is consistent with the valuation requirements under Canadian GAAP and the revaluation model uses the fair value of an asset at the reporting date to measure the value. IAS 16 requires that the depreciable amount of an asset be allocated on a systematic basis over its useful life and that the method of depreciation be reviewed at least each reporting period end to determine if there has been a significant change in the pattern of consumption of the assets benefits.

The Company has determined that it will continue using the cost model to value its assets after transition to IFRS. Management is continuing to work through the other differences between IAS 16 and Canadian GAAP in order to determine the adjustment(s) required on transition since IAS 16 analysis is still in process due to a recent decision to elect to use cost in accordance with IFRS on transition under IFRS 1.

Leases

- *Current accounting policy:* Currently the Company accounts for leases as either operating or capital. Lease classification depends on whether substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred from the lessor to the lessee, and is made at inception of the lease. Currently, under Canadian GAAP, a number of indicators are used to assist in lease classification including quantitative thresholds.
- *IAS 17 Leases ("IAS 17"):* A lease is classified as either a finance lease or an operating lease. Lease classification depends on whether substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred from the lessor to the lessee, and is made at inception of the lease. A number of indicators are used to assist in lease classification; however, quantitative thresholds are not offered as an indicator as they are under current Canadian GAAP.

The Company has determined that there will be no impact on its financial statements on transition to IFRS, or throughout 2010 as a result of the differences between IAS 17 and Canadian GAAP for leases.

Provisions, contingent liabilities and contingent assets

- *Current accounting policy:* Currently, under Canadian GAAP, the Company recognizes contingent liabilities if they can be reliably measured and if the outcome is likely.
- *IAS 37 Provisions, contingent liabilities and contingent assets ("IAS 37"):* Under IFRS, a provision should be recognized when: there is a present obligation (legal or constructive) as a result of a past transaction or event; it is probable that an outflow of resources will be required to settle the obligation; and, a reliable estimate can be made of the obligation. "Probable" in this context means more likely than not. Under Canadian GAAP, the criterion for recognition in the financial statements is "likely", which is a higher threshold than "probable". Other differences between IFRS and Canadian GAAP exist in relation to the measurement of provisions, such as the methodology for determining the best estimate where there is a range of equally possible outcomes (IFRS uses the mid-point of the range, whereas Canadian GAAP uses the low-end of the range), and the requirement under IFRS for provisions to be discounted where material.

The Company has determined that the only impact as a result of applying IAS 37 is the recognition of an asset retirement obligation, as discussed previously in the "Preparation of an Opening Statement of Financial Position" section. In years subsequent to adoption of IFRS, it is possible that there may be some additional provisions or contingent liabilities which would meet the recognition criteria under IFRS that would not have been recognized under Canadian GAAP.

Share-Based Payments

- *Current accounting policy:* Under Canadian GAAP, the Company assesses inputs to the fair value calculation for share-based payments using the best estimate in a range, and accounts for forfeitures as they occur.
- *IFRS 2 Share based payments:* IFRS 2 requires the Company to estimate the forfeiture rate, with respect to share options, at the grant date instead of recognizing the entire compensation expense and only record actual forfeitures as they occur. For graded-vesting features, IFRS requires each instalment to be treated as a separate share option grant, because each instalment has a different vesting period and hence the fair value of each instalment will differ. Under IFRS 2, the awards should not be re-measured at each reporting date.

The Company has assessed the fair value calculation inputs and forfeiture estimates under IFRS and determined that there will be no impact on the financial statements. For additional discussion on the adjustments required on transition to IFRS and subsequent to transition related to the BNP Paribas warrants refer to the "Preparation of Opening IFRS Statement of Financial Position" section and "Apply IFRS Accounting Policies to Comparative Financial Statements" sections respectively.

Other

Other areas that have been initially identified as having a potential significant impact in the future, but not on transition, as the Company transforms from exploration to operations include:

- Inventory
- Revenue Recognition
- Business Combinations
- Functional Currency
- Derivatives and Hedging
- Segment Reporting

Apply IFRS Accounting Policies to Comparative Financial Statements

For the Company, the first published interim financial statements under IFRS will be for the three-month period ending March 31, 2011. However, comparative financial statements will need to be provided for the three-month period ending March 31, 2010 and each three-month period for the remainder of 2010. Therefore, IFRS 1 will be applied to the opening balances for the period beginning January 1, 2010. The Company is in the process of finalizing account balances in accordance with IFRS in order to have comparative financial statements on full implementation of IFRS in 2011. The following discussion provides details on areas assessed where comparative balances for 2010 will be adjusted due to the differences between Canadian GAAP and IFRS. Note that the adjustments are unaudited.

IFRS 2

IFRS 2 requires the fair value of the share-based payments issued to a non-employee in exchange for a service to be measured at the date the service was rendered, and recognized over the life of the share-based payments. Under Canadian GAAP, the Company re-measured the fair value of certain warrants issued to BNP Paribas relating to transaction costs at each reporting date and at the vesting dates. As a result of this difference, the financial statements will reflect an adjustment to the equity (warrants) and transaction cost (other assets) accounts for 2010 comparatives as follows:

Period	Equity (Warrants) Dr (Cr)	Transaction Costs (Other assets) Dr (Cr)
March 31, 2010	\$43,325	(\$43,325)
June 30, 2010	\$17,801	(\$17,801)
September 30, 2010	\$10,317	(\$10,317)
December 31, 2010	\$0	\$0

IAS 12

Under IFRS, investment tax credits ("ITC") are not explicitly addressed, and are excluded from the scope of IAS 12 and IAS 20. However, the "GAAP Hierarchy" discussed in IAS 8 suggests that the Company is not prohibited in applying these standards. Under both IAS 12 and IAS 20 the ITC should be recorded in the income statement. Under Canadian GAAP, the Company has recorded ITCs as a reduction of the related asset, through the deferred exploration expenditure account. As a result of this difference, the ITCs recorded against deferred exploration expenditures through 2010 will be adjusted for comparative purposes in the 2011 financial statements. The following adjustments will be recorded through the tax provision and NICO deferred exploration expenditure ("DEE") accounts for 2010 comparatives as follows:

Period	DEE - NICO Dr (Cr)	Provision for taxes Dr (Cr)
March 31, 2010	\$191,500	(\$191,500)
June 30, 2010	(\$63,500)	\$63,500
September 30, 2010	\$305,000	(\$305,000)
December 31, 2010	(\$88,000)	\$88,000

IAS 23

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 will need to record an adjustment to reduce the interest expense on the income statement, and increase the amount of interest being capitalized by making the following adjustments for 2010 comparatives:

Period	DEE / Capital Assets Dr (Cr)	Interest expense Dr (Cr)
March 31, 2010	\$32,338	(\$32,338)
June 30, 2010	\$32,377	(\$32,377)
September 30, 2010	\$33,977	(\$33,977)
December 31, 2010	\$25,766	(\$25,766)

IAS 37

Under IAS 37, the Company will be required to record an asset retirement obligation; for additional discussion on the adjustments required on transition to IFRS and subsequent to transition related to the BNP Paribas warrants refer to the "Preparation of Opening IFRS Statement of Financial Position" section. The accretion expense and respective increase in the liability recognized in the 2010 comparative balances will be \$1,807 per quarter.

Additional Areas Addressed in the Conversion to IFRS

Assess Process, Internal Control, System and Business Changes

The impact on process and internal controls will be minimal on transition to IFRS. The areas of IFRS identified above which have the most significant impact on the financial statement, will not require the Company to make significant changes to processes or internal controls. As the Company's projects evolve from pre-production to operations, it is anticipated that the impact of IFRS will become more pervasive on the Company's processes and controls. The Company reviewed the short-term system needs required to support future operations under IFRS with the intent to implement any required changes prior to IFRS conversion. As a result, the Company implemented fixed assets inventory and accounting software with increased functionality and reporting which will assist with applying IFRS accounting policies selected for property, plant and equipment.

Major business activities will not be impacted by the transition to IFRS since they are not impacted by GAAP measures currently (i.e. no debt covenants, capital requirements, or compensation arrangements impacted by GAAP measures at this time). However, the Company will consider the impact on business activities for any future

arrangements entered into that may be impacted by IFRS accounting policies as well as any arrangements entered into currently that are not impacted on transition, but may be impacted in the future.

Communication and Disclosure

The Company has assessed, and will continue to assess and monitor the impact of adopting IFRS. Leading up to the first set of financial statements issued under IFRS, for the period ending March 31, 2011, in addition to regulatory disclosure requirements, the Company will assess the nature and extent of investor relations activity required, if any, to communicate to shareholders changes in accounting policies and account balances due to IFRS.

Training and Financial Expertise

Fortune's Corporate Controller and Chief Financial Officer have attended training programs specific to IFRS. During the third quarter of 2010, the Company added financial expertise to the team through the hiring of an Accounting Manager with an initial emphasis on IFRS implementation responsibilities. The Chief Financial Officer, Corporate Controller and Accounting Manager have also completed a significant amount of self-study related to the standards under IFRS. The Company continues to build IFRS knowledge through senior management and Audit Committee training and communication. IFRS was on the agenda and relevant implementation activities discussed for each 2010 Audit Committee meeting and specific IFRS meetings have been held to develop policies and select choices where available under IFRS, including IFRS 1 considerations. Additional meetings will be scheduled as required between the date hereof and full IFRS implementation. In addition, the Company has engaged the external auditors to assist with certain activities related to the implementation of IFRS and has consulted on technical matters when required.

ENVIRONMENT

Fortune is committed to a program of environmental protection at its development projects and exploration sites. Fortune was in compliance with government regulations in 2010. The Company has provided secured letters of credit in the aggregate amount of \$518,000 to be held against future environmental obligations with respect to Klappan and NICO. Security held is well in excess of the aggregate amount.

RISK AND UNCERTAINTIES

The operations of the Company are speculative due to the high-risk nature of its business, which is the acquisition, financing, exploration and development of mining properties. The risks below are not the only ones facing the Company. Additional risks not currently known to the Company, or that the Company currently deems immaterial, may also impair the Company's operations. If any of the following risks actually occur, the Company's business, financial condition and operating results could be adversely affected.

Nature of Mineral Exploration and Mining

At the present time, the Company does not hold any interest in a mining property in production. The Company's viability and potential success is based on its ability to develop, exploit and generate revenue from mineral deposits. The exploration and development of mineral deposits involve significant financial risk over a significant period of time, which even a combination of careful evaluation, experience and knowledge may not eliminate. To date, the Company has spent approximately \$94 million and \$21million on exploration and development of NICO and Klappan, respectively, on activities to move the projects forward. In order to continue developing the projects towards operation and commercial production, the Company will be required to make substantial additional capital investments. It is impossible to ensure that the past or proposed exploration and development programs on the properties in which the Company has an interest will result in a profitable commercial mining operation.

The operations of the Company are subject to all of the hazards and risks normally incident to exploration and development of mineral properties, any of which could result in damage to life and property, the environment and possible legal liability. The activities of the Company may be subject to prolonged disruptions due to weather

conditions as a result of the Company's properties being located in northern Canada. Specifically, at NICO, the Company is subject to increased risk relating to the dependence on ice road travel to supply and equip its work programs and at Klappan the Company is subject to increased risk relating to the potential damage to the access roads resulting from drainage or snow accumulations in mountainous terrain. While the Company has obtained insurance against certain risks in such amounts as it considers adequate, the nature of these risks are such that liabilities could exceed policy limits or could be excluded from coverage. There are also risks against which the Company cannot insure or against which it may elect not to insure. For example, the Company has not obtained environmental insurance at its project sites to date and has limited its insured values of its assets to stated amounts approximating the estimated cash invested in its capital assets to date. The potential costs which could be associated with any liabilities not covered by insurance or in excess of insurance coverage or associated with compliance with applicable laws and regulations may cause substantial delays and require significant capital outlays, adversely affecting the future earnings and competitive position of the Company.

Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are the particular attributes of the deposit, such as size and grade, proximity to infrastructure, financing costs and governmental regulations, including regulations relating to prices, taxes, royalties, infrastructure, land use, importing and exporting and environmental protection. The Company has undertaken activities to reduce certain risks related to its major projects through: completion of extensive exploration and drilling programs; completion of numerous environmental baseline studies; pilot plant test work and process optimization and verification; and, investing in significant engineering studies for the mine planning, mine site buildings and equipment, infrastructure and processing facility.

Limited Financial Resources

The existing financial resources of the Company are not sufficient to bring any of its properties into commercial production. The Company is in the process of updating capital cost estimates for NICO from the 2007 feasibility study to reflect a number of changes including relocating the hydrometallurgical facility to Saskatchewan, process enhancements designed to maximize recovery of metals and plans to produce finished metals, and expects estimated capital costs for NICO and the SMPP will exceed \$400 million. At Klappan, based on the updated feasibility study using the rail transportation option and depending on an increase in production profile, estimated capital costs exceed \$760 million. The Company will need to obtain additional financing from external sources and/or find suitable joint venture partners in order to fund the development of Klappan, NICO and the SMPP. There is no assurance that the Company will be able to obtain such financing or joint venture partners on favourable terms, or at all. Failure to obtain financing or joint venture partners could result in delay or indefinite postponement of further exploration and development of the Company's properties.

Dependence on Key Personnel and Limited Management Team

Fortune is dependent on the services of its senior executives including the President and Chief Executive Officer, Vice President Finance and Chief Financial Officer and Vice President Operations, and approximately 10 full time equivalent skilled and experienced employees and consultants. The loss of any such individuals could have a material adverse effect on Fortune's operations. In addition, Fortune will need to supplement its existing management team in order to bring any of its projects into production.

Fluctuating Prices

Factors beyond the control of the Company may affect the marketability of coal, cobalt, bismuth, gold, copper or any other minerals discovered. The range in market prices, over the last five years, for the commodities at NICO are as follows: annual average gold prices have ranged from a low of US\$603/oz in 2006 and have increased annually, on average, to a high of US\$1,225/oz in 2010; cobalt annual average prices have ranged from a low of US\$17.67/lb (2009) to a high of US\$40.22/lb (2008), with the annual average price in 2010 being US\$21.29/lb; copper annual average prices have ranged from a low of US\$2.32/lb (2009) to a high of US\$3.37/lb (2010); bismuth annual average prices have ranged from a low of US\$4.89/lb (2006) to a high of US\$13.76/lb (2007), with the annual average price in 2010 being US\$9.38/lb. For anthracite coal at Klappan, market prices of metallurgical coal of this quality are less readily available. However, based on spot prices and trend setting contracts entered into by certain metallurgical coal producers, it is believed that over the last five years Ultra-low volatile pulverized coal injection

("ULV PCI") coal prices have ranged from approximately US\$80/tonne to US\$275/tonne and coking coal prices have ranged from approximately US\$100/tonne to US\$300/tonne. The commodity prices have fluctuated widely and are affected by numerous factors beyond the Company's control such as the economic downturn observed in 2008 and 2009, commodity supply shortages, weather events such as recent flooding in Australia, political instability, and changes in exchange and interest rates. The effect of these factors cannot accurately be predicted.

Permits and Licenses

The operations of the Company require licenses and permits from various governmental authorities. The Company believes that it presently holds all necessary licenses and permits required to carry out the activities which it is currently conducting under applicable laws and regulations and the Company believes it is presently complying in all material respects with the terms of such licenses and permits. However, such licenses and permits are subject to change in regulations and in various operating circumstances. The Company has submitted requisite applications for land use and water licenses in order to construct and operate a mine at its NICO project and plans to submit its Developer's Assessment Report as part of the environmental assessment process early in 2011. However, the Company has not yet received the permits and licenses required for operations. As a result of submitting the aforementioned applications, an environmental assessment of the project is underway and the applications are subject to review and approval by certain regulatory bodies and First Nations. The Company has also entered the environmental assessment process for the SMPP in Saskatchewan in order to obtain the necessary permits required for operating the facility. These applications are also subject for review by certain regulatory authorities. In addition, the Company will be required to complete the environmental assessment process related to Klappan. Subject to receiving environmental certificates and approvals, the Company will be required to apply and obtain mining permits in order to build and operate a mine. There can be no assurance that the Company will be able to obtain all necessary licenses and permits required to carry out future exploration, development and mining operations at its projects.

Competition

The mineral exploration and mining business is competitive in all its phases. The Company competes with numerous other companies and individuals, including other resource companies with greater financial, technical and other resources than the Company, in the search for and the acquisition of attractive mineral properties, the acquisition of mining equipment and related supplies and the attraction and retention of qualified personnel. The Company will be constrained in its ability to manage the cost of salaries at NICO and the SMPP during construction and operations as Fortune may be competing for labour with the much larger diamond mining companies operating in the Northwest Territories and potash companies operating in Saskatchewan, respectively. Similar competition may exist in British Columbia during construction and operations of Klappan since there are other mines progressing in the region. The current estimate is that upwards of 1000 additional employees in aggregate will need to be hired to operate NICO, the SMPP and Klappan. There is no assurance that the Company will continue to be able to compete successfully in the acquisition of building materials, sourcing equipment or hiring people.

Environmental and Climate Change Regulation

The operations of the Company are subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner which means standards, enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and their directors, officers and employees. The Company has carried out and completed significant environmental base line studies to position the Company to successfully complete required environmental assessments; however, despite this, the Company has not been able to obtain certain environmental certificates in a timely manner due to the complexities of the regulatory requirements and process. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of future operations. The impacts of international or domestic climate agreements, carbon taxes and

other potential climate change legislation are difficult to predict and are not yet fully understood, including impacts on capital and operating costs.

Aboriginal Title and Rights Claims

Aboriginal title and rights may be claimed with respect to Crown properties or other types of tenure with respect to which mining rights have been conferred. The Company is not aware of any aboriginal land claims having been formally asserted or any legal actions relating to aboriginal issues having been instituted with respect to Klappan, NICO or the SMPP properties other than certain treaty rights established by the Tahltan and Gitksan for Klappan and by the Tlicho for NICO. The lands that surround NICO are owned by the Tlicho Government pursuant to the agreement between the Government of Canada, the Northwest Territories and the Tlicho Government. The Company is aware of certain First Nations that claim certain title and rights with respect to Crown properties related to the Company's projects that may or may not be formally asserted with the Crown in order to seek comprehensive land claim settlements. In 2005, the Company's Klappan property was the subject of a blockade by a group of individuals, most being aboriginals, which required the Company to obtain a court injunction to remove the blockade. For NICO, while the Company has a right of access to the NICO mine site under the Tlicho Agreement with the Crown, an access agreement will be required between the Tlicho and the Company for the use of the access roads to be built through Tlicho territory to the site. The Company is aware of the mutual benefits afforded by cooperative relationships with indigenous people in conducting exploration and development activity and is supportive of measures established to achieve such cooperation including preferential hiring practices, local business development activities, involvement in environmental stewardship and other forms of accommodation. Certain challenges with respect to timely decision making may be encountered when working with First Nation governments as a result of capacity restraints due to the limited number of key individuals in demanding leadership positions, turnover of leadership personnel and delays while elections are held. It will also be necessary for the Company to negotiate and enter into appropriate participation agreements with relevant First Nations in order to bring its projects into production and there is no assurance that the Company will be able to negotiate such agreements on favourable terms or at all. In addition, other parties may dispute the Company's title to the properties and the properties may be subject to prior unregistered agreements or transfers or land claims by aboriginal peoples, and title may be affected by undetected encumbrances or defects or government actions.

Estimates of Mineral Reserves and Resources May Not be Realized

The mineral reserve and resource estimates published from time to time by the Company with respect to its properties are estimates only and no assurance can be given that any particular level of recovery of minerals will in fact be realized or that an identified resource will ever qualify as a commercially mineable (or viable) deposit which can be legally and economically exploited. Material changes in resources, grades, stripping ratios or recovery rates may affect the economic viability of projects. However, through extensive investment in exploration drilling, test mining, bulk sampling, engineering planning and pilot plant testing, the Company has substantially mitigated and reduced these risks. There is a risk that minerals recovered in small-scale laboratory and large scale pilot plant tests will be materially different under on-site conditions or in production scale operations. Short-term factors, such as the need for orderly development of deposits or the processing of new or different grades, may have an adverse effect on mining operations or the results of operations.

The Company has engaged expert independent technical consultants to advise it with respect to mineral reserves and resources and project engineering, among other things. The Company believes that those experts are competent and that they have carried out their work in accordance with all internationally recognized industry standards. However, if the work conducted by those experts is ultimately found to be incorrect or inadequate in any material respect, the Company may experience delays and increased costs in developing its properties.

Health and Safety Matters

The Company's development and exploration projects are affected by various laws and regulations, including those which cover health and safety matters. Existing legislation and regulations are subject to change, the impacts of which are difficult to measure. It is the policy of the Company to maintain safe working conditions at all its work sites, comply with health and safety legislation, maintain equipment and premises in safe condition and ensure that

all employees are trained and comply with safety procedures. The Company has successfully implemented policies and procedures relating to health and safety matters at its project sites and has a good safety record to date.

FINANCIAL INSTRUMENTS

As at the date hereof, the Company's financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, reclamation bonds, accounts payable and accrued liabilities, long-term debt, interest payable and income taxes payable. These financial instruments are recorded at their fair values except for accounts receivable, accounts payable and accrued liabilities, long-term debt, interest payable and income taxes payable which are recorded at amortized cost. It is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The Company mitigates its risk by holding its short-term investments in instruments low in risk and highly rated with large reputable financial institutions.

ADDITIONAL INFORMATION

Additional information relating to the Company, including its current and previous year's annual information forms are available on SEDAR at www.sedar.com.

SHARE DATA

As at the date hereof, the Company has 107,219,427 common shares issued and outstanding, as well as: (i) warrants to purchase an aggregate of 14,040,752 common shares expiring at various dates between December 3, 2011 and April 16, 2013 and exercisable at various prices between \$0.72 and \$3.00 per share; (ii) stock options to purchase an aggregate of 4,250,000 common shares expiring at various dates between March 27, 2011 and January 13, 2016 and exercisable at various prices between \$0.60 and \$2.96 per share; and, (iii) compensation options to purchase an aggregate of 956,167 units for \$0.65 on or before December 3, 2011. Each unit consists of one common share and one-half common share purchase warrant and each whole warrant entitles the holder to purchase one common share of the Company for \$0.80 on or before December 3, 2011. All warrants and compensation options are fully vested as at the date hereof. All stock options have vested as at the date hereof, except for 20,000 which are exercisable at \$0.92 and vest on September 20, 2011.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this management's discussion and analysis, management of the Company, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this MD&A, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under National Instrument 52-109— *Certification of Disclosure in Issuers' Annual and Interim Filings* of the Canadian Securities Administrators) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Company, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements in compliance with Canadian generally accepted accounting principles (GAAP). Any system of internal control over financial reporting (ICFR), no matter how well-designed, has inherent limitations. Therefore, even well-designed systems of internal control can provide only reasonable assurance with respect to financial statement preparation and presentation.

As at the end of the period covered by this management's discussion and analysis, management of the Company, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the design and effectiveness of the Company's internal controls over financial reporting as required by Canadian securities laws. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this MD&A, ICFR were effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The control framework used to design and assess the effectiveness of the Company's ICFR is the *Internal Control - Integrated Framework* (COSO Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO). Further, the Company uses *Internal Control over Financial Reporting - Guidance for Smaller Public Companies* published by COSO, which provides guidance to smaller public companies on the implementation of the COSO Framework.

The Company assesses internal controls over financial reporting on an ongoing basis and where determined appropriate, proactively implements enhancements to the design of controls required to support anticipated changes to and growth of the business. Due to operational, financial and administrative changes planned to occur as the Company transforms from an exploration company to a producer together with the adoption of IFRS, changes will be required to the Company's internal controls over financial reporting in order to maintain reasonable assurance regarding the reliability of the Company financial reporting and preparation of financial statements. As such, there were enhancements made to the Company's internal controls over financial reporting during the year ended December 31, 2010. Enhancements include increased segregation of duties through the addition of an Accounting Manager and Procurement and Logistics Manager; increased policies and procedures implemented on project sites, including sign-offs from employees; better defined delegation of decision making authority; implementation of additional fixed assets accounting software functionality; additional oversight and centralization of purchasing process and controls by the addition of a Procurement and Logistics Manager; additional controls implemented around the budgeting process; and, streamlining of certain payroll and accounting processes.

This discussion contains certain forward-looking information. This forward-looking information includes, or may be based upon, estimates, forecasts, and statements as to management's expectations with respect to, among other things, the size and quality of the Company's mineral resources, progress in development of mineral properties, timing and cost for placing the Company's mineral projects into production, costs of production, amount and quality of metal products recoverable from the Company's mineral resources, demand and market outlook for metals and coal, future metal and coal prices. Forward-looking information is based on the opinions and estimates of management at the date the information is given, and is subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking information. These factors include the inherent risks involved in the exploration and development of mineral properties, uncertainties with respect to the receipt or timing of required permits and regulatory approvals, the uncertainties involved in interpreting drilling results and other geological data, fluctuating metal and coal prices, the possibility of project cost overruns or unanticipated costs and expenses, uncertainties relating to the availability and costs of financing needed in the future, uncertainties related to metal recoveries, uncertainty in the outcome of litigation and other factors. Readers are cautioned to not place undue reliance on forward-looking information because it is possible that predictions, forecasts, projections and other forms of forward-looking information will not be achieved by the Company. These forward-looking statements are made as of the date hereof and the Company assumes no responsibility to update them or revise them to reflect new events or circumstances, except as required by law.