

Consolidated Financial Statements

Fortune Minerals Limited

Unaudited

June 30, 2005

Notice to Reader

Management has compiled the unaudited interim financial information of Fortune Minerals Limited consisting of the interim consolidated balance sheet as at June 30, 2005 and the consolidated statements of loss and deficit and cash flows for the three and six months ended June 30, 2005. All amounts are stated in Canadian dollars. An accounting firm has not reviewed or audited this interim financial information.

Fortune Minerals Limited		
Incorporated under the laws of Ontario		
CONSOLIDATED BALANCE SHEETS		
As at	Unaudited	
	June 30,	December 31,
	2005	2004
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	24,258,065	24,642,774
Short-term investments	2,281,136	268,872
Accounts receivable	513,262	446,629
Prepaid expenses	47,671	17,865
	27,100,134	25,376,140
Reclamation bond	423,000	225,900
Investment in and advances to affiliated company	389,802	379,440
Capital assets, net <i>[note 2]</i>	192,069	19,355
Interests in mining properties	3,153,280	3,153,280
Deferred exploration expenditures <i>[note 3]</i>	14,187,189	11,296,536
	45,445,474	40,450,651
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	1,330,178	759,640
Total current liabilities	1,330,178	759,640
Future income taxes	4,000,000	4,000,000
Total liabilities	5,330,178	4,759,640
SHAREHOLDERS' EQUITY		
Share capital <i>[note 4]</i>	40,194,265	36,179,828
Contributed surplus <i>[note 4 [d]]</i>	1,981,090	1,348,840
Deficit	(2,060,059)	(1,837,657)
	40,115,296	35,691,011
	45,445,474	40,450,651
<i>See accompanying notes</i>		

Fortune Minerals Limited				
Incorporated under the laws of Ontario				
CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT				
	Unaudited			
	Three months ended		Six months ended	
	June 30,		June 30,	
	2005	2004	2005	2004
	\$	\$	\$	\$
REVENUE				
Interest and other income	177,035	67,544	291,567	96,842
EXPENSES				
Administrative expenses	124,780	100,453	249,585	155,252
Public relations	99,092	46,791	121,220	76,508
Stock compensation expense <i>[note 4[d]]</i>	140,325	-	140,325	450,000
Amortization	1,658	522	2,839	1,044
	365,855	147,766	513,969	682,804
Net loss for the period	(188,820)	(80,222)	(222,402)	(585,962)
Deficit, beginning of period	(1,871,239)	(1,004,529)	(1,837,657)	(498,789)
Deficit, end of period	(2,060,059)	(1,084,751)	(2,060,059)	(1,084,751)
Basic and diluted loss per share <i>[note 4[e]]</i>	(0.01)	-	(0.01)	(0.02)
<i>See accompanying notes</i>				

Fortune Minerals Limited				
Incorporated under the laws of Ontario				
CONSOLIDATED STATEMENTS OF CASH FLOWS				
	Unaudited			
	Three months ended		Six months ended	
	June 30,		June 30,	
	2005	2004	2005	2004
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net loss for the period	(188,820)	(80,222)	(222,402)	(585,962)
Add items not involving cash				
Amortization	1,658	522	2,839	1,044
Stock-based compensation	140,325	-	140,325	450,000
	(46,837)	(79,700)	(79,238)	(134,918)
Changes in non-cash working capital balances to operations				
Accounts receivable	41,170	(57,009)	(66,633)	(51,047)
Prepaid expenses	(20,045)	(23,895)	(29,806)	(15,930)
Accounts payable and accrued liabilities	768,636	(46,238)	570,538	(101,242)
Cash provided by (used in) operating activities	742,924	(206,842)	394,861	(303,137)
INVESTING ACTIVITIES				
Advances to affiliated company	(8,844)	(2,658)	(10,362)	(4,640)
Net decrease (increase) in short-term investments	(2,011,669)	-	(2,012,264)	-
Purchase of capital assets	(6,539)	-	(206,139)	-
Posting of reclamation bond	(197,100)	-	(197,100)	-
Increase in deferred exploration expenditures	(1,558,863)	(185,282)	(2,368,142)	(322,228)
Cash used in investing activities	(3,783,015)	(187,940)	(4,794,007)	(326,868)
FINANCING ACTIVITY				
Proceeds on issuance of shares and warrants, net	1,952,667	344,245	4,014,437	451,873
Decrease in cash and cash equivalents	(1,087,424)	(50,537)	(384,709)	(178,132)
Cash and cash equivalents, beginning of period	25,345,489	3,220,789	24,642,774	3,348,384
Cash and cash equivalents, end of period [note 5[a]]	24,258,065	3,170,252	24,258,065	3,170,252
<i>See accompanying notes</i>				

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2005

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared by Fortune Mineral Limited [the "Company"] in accordance with Canadian generally accepted accounting principles. These unaudited condensed notes to the 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, 2004.

2. CAPITAL ASSETS

Capital assets consist of the following:

	<u>June 30, 2005</u>		<u>December 31, 2004</u>	
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Cost</u>	<u>Accumulated amortization</u>
	\$	\$	\$	\$
Mobile equipment	199,600	29,940	-	-
Office equipment	37,586	28,062	37,586	26,242
Computer equipment	50,223	37,338	43,684	35,673
Organization costs	1,109	1,109	1,109	1,109
	288,518	96,449	82,379	63,024
Less accumulated amortization	96,449		63,024	
Net book value	192,069		19,355	

3. DEFERRED EXPLORATION EXPENDITURES

Deferred exploration expenditures are as follows:

	<u>2004</u>			<u>2005</u>		
	<u>Balance December 31, 2003</u>	<u>Expenditures</u>	<u>Write-offs</u>	<u>Balance December 31, 2004</u>	<u>Expenditures</u>	<u>Balance June 30, 2005</u>
	\$	\$	\$	\$	\$	\$
Mount Klappan	561,797	638,211	—	1,200,008	1,388,662	2,588,670
NICO	6,431,749	1,479,544	—	7,911,293	1,497,063	9,408,356
Sue-Dianne	1,959,754	2,989	—	1,962,743	50	1,962,793
Olym-Pic-Dam	161,922	—	—	161,922	—	161,922
Other	41,493	31,775	(12,698)	60,570	4,878	65,448
	9,156,715	2,152,519	(12,698)	11,296,536	2,890,653	14,187,189

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2005

4. SHARE CAPITAL

[a] Authorized: Unlimited number of common shares

[b] Issued and outstanding common shares:

	<u>June 30, 2005</u>		<u>December 31, 2004</u>	
	#	\$	#	\$
Common shares				
Beginning of period	32,161,573	35,153,507	25,290,748	14,058,463
Issued as a result of:				
Public offering of shares ¹	470,600	2,000,050	4,706,000	20,000,500
Private placement of shares	—	—	924,000	3,003,000
Exercise of warrants	1,405,400	2,599,090	820,825	1,201,023
Exercise of options	—	—	420,000	419,484
Share issuance costs, net of tax	—	(174,734)	—	(2,188,963)
Future tax impact of renunciation of development costs expended	—	—	—	(1,340,000)
End of period	34,037,573	39,577,913	32,161,573	35,153,507
Warrants				
Beginning of period	1,718,560	1,026,321	2,092,025	746,385
Issued as a result of:				
Exercise of units	—	—	118,800	53,460
In lieu of fees	28,236	54,072	328,560	573,060
Exercised	(1,405,400)	(464,041)	(820,825)	(346,584)
End of period	341,396	616,352	1,718,560	1,026,321
		40,194,265		36,179,828

¹ On December 23, 2004, the Company completed a public offering pursuant to a short form prospectus that resulted in the issuance of 4,706,000 common shares at a price of \$4.25 per share. Included with the offering was a 30-day option whereby the agent at its discretion could purchase an additional 470,600 common shares at a price of \$4.25 per share. The agent exercised this option in full in January 2005.

[c] The following table summarizes information about the share warrants outstanding at June 30, 2005:

Range of exercise prices	Share warrants outstanding and exercisable		
	Number outstanding at June 30, 2005	Weighted-average remaining contractual life [years]	Weighted-average exercise price
\$3.25	30,800	0.7	\$3.25
\$4.25	310,596	1.1	\$4.25
	341,396		

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2005

[d] On June 22, 2005, the Shareholder of the Company approved a rolling stock-based compensation plan subject to certain restrictions including a three year waiting period to include options previously exercised in the available option pool. Under the Plan, the Company may grant options to eligible individuals for up to 10% of the issued shares of common stock. The exercise price of each option is equal or higher than the market price of the Company's stock on the date of grant and an option's maximum term is 10 years. Options are granted and their terms determined at the discretion of the Board of Directors.

Stock compensation expense of \$140,325 has been recorded and \$491,925 has been capitalized to deferred exploration expenditures for the estimated fair value of 225,000 options granted and vested during the six month ending June 30, 2005. Contributed surplus was increased by \$632,250, representing the fair value compensation recorded.

The fair value of the options granted were estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 3.45%, expected dividend yield of 0%, expected volatility of 0.64 and expected option life of five years. The weighted-average fair value of the options granted during the year is \$2.81.

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.

A summary of the status of the Company's stock option plan as at June 30, 2005 and December 31, 2004, and changes during the years ending on those dates is presented below:

	<u>June 30, 2005</u>		<u>December 31, 2004</u>	
	Number	Weighted-		Weighted-
	of shares	average	Number	average
		exercise	of shares	exercise
		price (\$)		price (\$)
Options outstanding,				
beginning of period	1,607,400	1.55	1,527,400	0.72
Granted	225,000	4.95	500,000	3.39
Exercised	—	—	(420,000)	0.71
Options outstanding,				
end, of period	1,832,400	1.97	1,607,400	1.55

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2005

The following summarizes information about the options outstanding at June 30, 2005:

Range of exercise prices	Options outstanding and exercisable		
	Number outstanding at June 30, 2005	Weighted-average remaining contractual life [years]	Weighted-average exercise price
\$0.69	428,700	0.9	\$0.69
\$0.75	678,700	2.6	\$0.75
\$3.30	200,000	4.3	\$3.30
\$3.45	300,000	3.7	\$3.45
\$4.95	225,000	4.8	\$4.95
	1,832,400		

[e] For the six months ending June 30, 2005, the weighted average number of common shares outstanding was 32,901,387.

During the period, options to purchase 1,832,400 common shares and warrants to purchase 341,396 common shares were not included in the computation of diluted loss per share because including them in the calculation would have been anti-dilutive.

5. STATEMENT OF CASH FLOWS

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

	June 30, 2005	December 31, 2004
	\$	\$
Cash on hand and balances with banks	1,282,768	1,026,863
Short-term fixed income deposits	22,975,296	23,615,911
	24,258,064	24,642,774

[b] Supplemental cash flow information

	June 30, 2005	December 31, 2004
	\$	\$
Income taxes paid	—	57,837
Income taxes received	—	9,253
Interest received	180,273	91,527

Fortune Minerals Limited
Incorporated under the laws of Ontario

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2005

6. RELATED PARTY TRANSACTIONS

During the period, the Company paid the managing director \$99,970 for third party geological consulting and for administrative consulting services on behalf of the Company.

A company controlled by a director owns an 18.91% interest in the NICO claims in the Mazenod Lake Area, Northwest Territories. At June 30, 2005, accounts receivable includes \$290,201 [December 31, 2004- \$309,100] for expenditures incurred on behalf of this company.

Fortune Minerals Limited

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

Three and six months ended June 30, 2005

This discussion and analysis of financial condition and results of operations of Fortune Minerals Limited is prepared as at August 4, 2005, and should be read in conjunction with the unaudited consolidated financial statements of Fortune Minerals Limited and the notes thereto for the three and six months ended June 30, 2005 and with the audited consolidated financial statements of Fortune Minerals Limited and the notes thereto and management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2004. In this discussion, unless the context otherwise dictates, a reference to Fortune or the Company refers to Fortune Minerals Limited and its subsidiaries. Additional information relating to the company, including the company's annual information form, is available on SEDAR at www.sedar.com.

OVERVIEW

Fortune is engaged in the exploration and development of coal, specialty, base and precious metals, and industrial mineral properties in Canada. These activities are carried out directly and indirectly through subsidiaries and through joint ventures with other companies, typically with Fortune as the operator. Advanced projects include a 100% interest in the Mount Klappan coal deposits, an 81% interest in the NICO cobalt-gold-bismuth deposit and a 100% interest in the Sue-Dianne copper-silver deposit. The Company has a number of additional exploration projects that are less advanced. Fortune also holds a 30% interest in and manages the operations of Formosa Environmental Aggregates Ltd. ("Formosa"), which owns lands proposed for development of a high-calcium limestone deposit.

For the three and six month periods ended June 30, 2005, Fortune incurred a net loss of \$188,820 or \$0.01 per share and \$222,402 or \$0.01 per share, respectively. For the same periods in 2005, the Company incurred a net loss of \$80,222 or \$nil per share and \$585,962 or \$0.02 per share, respectively. Included in the loss in the second quarter of 2005 was \$140,325 related to the grant of stock options. In the first quarter of 2004, included in the loss was \$450,000 related to the grant of stock options. As anticipated, administration costs are higher than in the preceding year due to the Company's recent growth and increased activities related to the development of its Mount Klappan and NICO deposits with the increase in costs generally offset by greater interest income being earned on higher cash balances and investments. The balance of the 2005 fiscal year is expected to be similar to the first half.

Selected Financial Information

The following tables provide selected consolidated financial information that is derived from the unaudited interim consolidated financial statements and audited consolidated financial statements of the Company.

Financial and Operating Data

	2005		2004				2003	
	Jun-30	Mar-31	Dec-31	Sep-30	Jun-30	Mar-31	Dec-31	Sep-30
Revenues	\$ 177,035	\$ 114,532	\$ 13,671	\$ 1,938	\$ 67,544	\$ 29,298	\$ 12,485	\$ 10,504
Net loss	(188,820)	(33,582)	(631,706)	(121,200)	(80,222)	(505,740)	(63,494)	(61,002)
Loss per share	(0.01)	—	(0.02)	(0.01)	—	(0.02)	—	—

Fortune Minerals Limited

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

Balance Sheet Data

	June 30, 2005	December 31, 2004
Cumulative deferred exploration expenditures	\$14,187,189	\$11,296,536
Working capital	25,769,956	24,616,500
Total Assets	45,445,474	40,450,651

RESULTS OF OPERATIONS

Revenues

Fortune's primary source of revenue is interest income. Interest and other income was \$177,035 and \$291,567 for the three and six months ended June 30, 2005, respectively, compared to \$67,544 and \$96,842 for the corresponding periods in 2004. The overall increase resulted from higher cash balances generated by financing activity late in 2004. Due to the nature and timing of deposits and changes in interest rates in the economy, the Company experiences fluctuations in yield rates affecting the amount of interest income.

Expenses

Expenses for the three months ended June 30, 2005 were \$365,855 compared to \$147,766 in the corresponding period in 2004. Stock option benefits of \$140,325 were recorded during the period in 2005 whereas stock option benefits of \$450,000 were recorded in the first quarter of 2004. Administrative expenses were higher in the second quarter of 2005 compared to 2004 primarily due to increased professional and consulting fees. The costs however, are comparable to the first quarter of 2005.

Cash Flow

Cash used in operating activities before changes in non-cash working capital for the three months ended June 30, 2005, 2005 was \$47,837 compared to \$79,700 for the second quarter in 2004. For the six months periods, cash used was \$79,238 and \$134,918 respectively, reflecting the increased interest revenue. The Company has experienced significant fluctuations in non-cash working capital items due to the increased development activity at Mount Klappan and NICO. The increase in the source of cash from operations has resulted principally from the increase in accounts payable and accrued liabilities.

Cash used in investing activities was \$3,783,015 and \$4,794,007 for the three and six months ended June 30, 2005, respectively, compared to \$187,940 and \$326,868 in the prior year. The change reflects the costs associated with the feasibility studies underway, the purchase of certain equipment for the preparation of the NICO project site to commence an underground bulk sample in 2006, the posting of additional funds for reclamation bonds for both Mount Klappan and NICO and an increase in short-term investments with maturity dates greater than 90 days but less than one year.

Fortune Minerals Limited

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

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2005, Fortune had cash and cash equivalents of \$24,285,065, short-term investments of \$2,281,136 and working capital of \$25,769,956, compared with \$24,642,774, \$268,872 and \$24,616,500, respectively, as at December 31, 2004. In January 2005, the agent exercised the overallotment option pursuant to the financing completed in December of 2004 and together with the exercise of warrants raised net proceeds of \$2,061,770 in the first quarter. An additional \$1,952,667 in net proceeds was raised from the exercise of warrants in the second quarter of 2005. All warrants that were due to expire during the period were exercised. Fortune has only 341,396 warrants outstanding as at June 30, 2005.

OUTLOOK

The Company currently has sufficient resources to fund the Mount Klappan feasibility study expected to be completed on or about the end of August 2005, the NICO feasibility study and its other operations. The feasibility studies have taken longer to complete than originally expected due to changes in scope and additional information. There are no significant changes to the Company's operating or financial plans. Additional financing will be required by the Company in order to pursue further exploration and development of its major projects or acquire additional projects.

SHARE DATA

As at the date hereof, the Company has 34,037,573 common shares issued and outstanding, as well as: (a) warrants to purchase an aggregate of 341,396 common shares expiring on January 31, 2006, or June 23, 2006 and exercisable at \$3.25 or \$4.25 per share; and (b) options to purchase an aggregate of 1,832,400 common shares expiring at various dates between June 23, 2006 and April 4, 2010 and exercisable at various prices between \$0.69 and \$4.95 per share.

CAUTIONARY STATEMENT ON FORWARD-LOOKING INFORMATION

This discussion contains certain forward looking statements relating but not limited to the Company's operations, anticipated financial performance, business prospects and strategies. Forward-looking information typically contains statements with words such as "anticipated", "believe", "expect", "plan" or similar words suggesting future outcomes. 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. In addition, the Company undertakes no obligation to update publicly or otherwise revise any forward-looking information whether as a result of new information, future events or otherwise.