

Consolidated Financial Statements

Fortune Minerals Limited

December 31, 2005

AUDITORS' REPORT

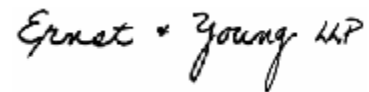
To the Shareholders of
Fortune Minerals Limited

We have audited the consolidated balance sheets of **Fortune Minerals Limited** as at December 31, 2005 and 2004 and the consolidated statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

London, Canada,
February 3, 2006.



Chartered Accountants

Fortune Minerals Limited
 Incorporated under the laws of Ontario

CONSOLIDATED BALANCE SHEETS

As at December 31

	2005	2004
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents <i>[note 10[a]]</i>	23,199,434	24,642,774
Short-term investments <i>[note 3]</i>	267,872	268,872
Accounts receivable <i>[note 11[d]]</i>	844,463	446,629
Prepaid expenses	21,669	17,865
Total current assets	24,333,438	25,376,140
Reclamation bond <i>[note 7]</i>	478,093	225,900
Other deferred or prepaid expenses <i>[note 4]</i>	99,686	—
Investment in and advances to affiliated company <i>[note 5]</i>	331,462	379,440
Capital assets, net <i>[note 6]</i>	306,725	19,355
Interests in mining properties <i>[note 7]</i>	3,153,280	3,153,280
Deferred exploration expenditures <i>[note 7]</i>	19,149,212	11,296,536
	47,851,896	40,450,651
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	691,709	676,405
Income taxes payable	24,333	83,235
Total current liabilities	716,042	759,640
Future income taxes <i>[note 9]</i>	4,880,000	4,000,000
Total liabilities	5,596,042	4,759,640
SHAREHOLDERS' EQUITY		
Share capital <i>[note 8]</i>	42,549,139	36,179,828
Contributed surplus <i>[note 8[d]]</i>	1,947,090	1,348,840
Deficit	(2,240,375)	(1,837,657)
Total shareholders' equity	42,255,854	35,691,011
	47,851,896	40,450,651

See accompanying notes

On behalf of the Board:

[Signed] Robin Goad
 Director

[Signed] William A. Breukelman
 Director

Fortune Minerals Limited

**CONSOLIDATED STATEMENTS OF LOSS
AND DEFICIT**

Years ended December 31

	2005	2004
	\$	\$
REVENUE		
Interest and other income	579,688	112,451
EXPENSES		
Administrative expenses	406,868	427,970
Public relations	161,684	207,840
Stock-based compensation expense <i>[note 8[d]]</i>	176,325	800,000
Amortization	18,507	2,811
	763,384	1,438,621
Loss before other items	(183,696)	(1,326,170)
Share in loss of equity investee	56,264	—
Write-off of deferred exploration expenditures <i>[note 7]</i>	162,758	12,698
Net loss for the year	(402,718)	(1,338,868)
Deficit, beginning of year	(1,837,657)	(498,789)
Deficit, end of year	(2,240,375)	(1,837,657)
Basic and diluted loss per share <i>[note 8[f]]</i>	(0.01)	(0.05)

See accompanying notes

Fortune Minerals Limited

**CONSOLIDATED STATEMENTS OF
CASH FLOWS**

Years ended December 31

	2005	2004
	\$	\$
OPERATING ACTIVITIES		
Net loss for the year	(402,718)	(1,338,868)
Add items not involving cash		
Amortization	18,507	2,811
Stock-based compensation expense	176,325	800,000
Share in loss in equity investee	56,264	—
Write-off of deferred exploration expenditures	162,758	12,698
	11,136	(523,359)
Changes in non-cash working capital balances related to operations		
Accounts receivable	(397,834)	(314,456)
Prepaid expenses	(3,804)	(4,590)
Accounts payable and accrued liabilities	15,304	562,486
Income taxes payable	(58,902)	22,297
Cash used in operating activities	(434,100)	(257,622)
INVESTING ACTIVITIES		
Advances to affiliated company	(8,286)	(8,779)
Net decrease in short-term investments	1,000	1,000,282
Other deferred or prepaid expenses	(99,686)	—
Purchase of capital assets	(379,325)	(14,764)
Posting of security for reclamation bonds	(252,193)	(15,900)
Increase in deferred exploration expenditures	(7,270,061)	(2,000,501)
Cash used in investing activities	(8,008,551)	(1,039,662)
FINANCING ACTIVITY		
Proceeds on issuance of shares and warrants, net	6,999,311	22,591,674
Net increase (decrease) in cash and cash equivalents	(1,443,340)	21,294,390
Cash and cash equivalents, beginning of year	24,642,774	3,348,384
Cash and cash equivalents, end of year	23,199,434	24,642,774

See accompanying notes

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

1. NATURE OF OPERATIONS

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

[a] Principles of consolidation

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the consolidated financial position and results of operations of the Company and its wholly-owned subsidiaries Fortune Minerals NWT Inc. and Fortune Coal Limited. All intercompany transactions and balances have been eliminated.

The Company owns a 30% interest in Formosa Environmental Aggregates Limited ["Formosa"] and is the managing partner. As such, its investment in Formosa is recorded using the equity method of accounting. Advances to Formosa and other affiliated companies are recorded at cost.

[b] Cash and cash equivalents

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

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

[c] Short-term investments

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

[d] Capital assets

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

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

[e] Mineral properties and deferred exploration expenditures

The Company defers acquisition costs and exploration expenditures relating to mineral 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 deferred costs will be written off. Payments received for exploration rights on the Company's mineral properties are treated as cost recoveries and reduce the cost of deferred exploration expenditures related to the mineral claims.

[f] Income taxes

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

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

[g] Administrative expenses

Included in deferred exploration expenses is a partial allocation of administrative and general expenses. The allocation is distributed among each project based on its pro rata share of direct expenditures.

[h] Stock-based compensation plans

The Company has a fixed stock-based compensation plan approved by the shareholders at the Company's annual meeting held on June 22, 2005. Under the plan, the Company may grant options to eligible individuals for up to 10% of the issued and outstanding common shares subject to certain conditions. As at December 31, 2005, 3,400,000 [2004 - 2,300,000] shares of common stock have been reserved for issuance. 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 five years. Options are granted and their terms determined at the discretion of the Board of Directors.

The Company recognizes an expense for option awards using the fair value method of accounting. The expense is capitalized or deferred to a similar extent the optionee's salary or wages are capitalized or deferred.

[i] Financial instruments

The Company's financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, investment in and advances to affiliated company, accounts payable and accrued liabilities and income taxes payable. The fair values of these financial instruments are not materially different from their carrying values unless otherwise noted. 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 with large financial institutions.

[j] Loss per common share

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

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

3. SHORT-TERM INVESTMENTS

Short-term investments consist of the following:

	2005		2004	
	Cost	Market value	Cost	Market value
	\$	\$	\$	\$
Marketable securities	267,872	268,768	268,872	268,872

At December 31, 2005, marketable securities consist of a variable rate bond which had a coupon rate of 3.1% and matures June 21, 2007.

4. OTHER DEFERRED OR PREPAID EXPENSES

On December 2, 2005, the Company entered into an agreement with a third party to acquire certain mill, related surface facilities and processing equipment for future use at the NICO project. Payments of \$100,000 upon signing of the agreement, \$990,000 upon completing due diligence and \$2,210,000 upon closing of the transaction are required under the agreement. Closing is to occur on or before August 30, 2006 subject to certain conditions including the current mine owner completing milling and decommissioning activities. By December 31, 2005, Fortune made the initial payment and incurred other costs related to the acquisition of the assets totalling \$122,933. Fortune's 81% share of these costs totalling \$99,686 has been deferred. Fortune's joint venture partner is responsible for its share of the costs. As a result, \$23,247 is included in receivables. Fortune completed its due diligence and made the second payment of \$990,000 on January 18, 2006.

5. INVESTMENT IN AND ADVANCES TO AFFILIATED COMPANY

Investment in and advances to affiliated company consist of the following:

	2005	2004
	\$	\$
Formosa Environmental Aggregates Ltd.		
Equity investment [30% interest]	93,017	149,281
Advances [non-interest bearing with no fixed terms of repayment]	238,445	230,159
	331,462	379,440

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

6. CAPITAL ASSETS

Capital assets consist of the following:

	2005		2004	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$	\$	\$
Mobile equipment	225,524	63,769		
Camp structures	112,775	16,097		
Furniture and Fixtures	28,572	10,259	37,586	26,242
Computer equipment	24,071	6,157	43,684	35,673
Leasehold improvements	9,351	1,246	—	—
Software	4,752	792	—	—
Organization costs	1,109	1,109	1,109	1,109
	406,154	99,429	82,379	63,024
Less accumulated amortization	99,429		63,024	
Net book value	306,725		19,355	

7. INTERESTS IN MINING PROPERTIES

Interest in mining properties consist of the following:

	2005	2004
	\$	\$
Mazenod Lake Area, Northwest Territories [a]	9,164	9,164
Mount Klappan Property, British Columbia [b]	3,144,116	3,144,116
	3,153,280	3,153,280

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

[a] Mazenod Lake Area, Northwest Territories

Property	Percentage ownership
Sue-Dianne	100%
Olym-Pic-Dam	100%
NICO	81%

A net smelter return of 1.5% and a net profit interest of 15% is payable to third parties from the Sue-Dianne property.

During the year, the Company posted a reclamation bond of \$141,000 [2004 - nil] with the Mackenzie Valley Land and Water Board with respect to NICO for the planned bulk sample to be carried out in 2006. The bond is in the form of a letter of credit in favour of the Receiver General for Canada. Fortune has \$150,460, recorded at cost, held in various investments as security for the letter of credit.

[b] Mount Klappan Property, British Columbia

Fortune Coal Limited ("Fortune Coal"), a wholly-owned subsidiary, acquired the Mount Klappan coal holding lease and a technical database from a third party for approximately \$3,100,000 and replacement of a \$210,000 reclamation bond for roads constructed at the site. During the year, Fortune Coal increased the reclamation bond to \$307,000 [2004 - \$225,900] with respect to this property. The bond is in the form of a letter of credit in favour of the Government of British Columbia. Fortune Coal has \$327,633, recorded at cost, held in various investments as security for the letter of credit.

The previous owner is entitled to receive from the Company a royalty of \$1 per tonne of coal produced and sold from the property.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

Deferred exploration expenditures for the above interests are as follows:

	2005			
	Balance December 31, 2004	Expenditures	Write-offs	Balance December 31, 2005
	\$			\$
Mount Klappan	1,200,008	5,509,631	—	6,709,639
NICO	7,911,293	2,489,786	—	10,401,079
Sue-Dianne	1,962,743	2,770	—	1,965,513
Olym-Pic-Dam	161,922	—	(161,922)	—
Other	60,570	13,247	(836)	72,981
	11,296,536	8,015,434	(162,758)	19,149,212

	2004			
	Balance December 31, 2003	Expenditures	Write-offs	Balance December 31, 2004
	\$			\$
Mount Klappan	561,797	638,211	—	1,200,008
NICO	6,431,749	1,479,544	—	7,911,293
Sue-Dianne	1,959,754	2,989	—	1,962,743
Olym-Pic-Dam	161,922	—	—	161,922
Other	41,493	31,775	(12,698)	60,570
	9,156,715	2,152,519	(12,698)	11,296,536

During 2005, the Company decided not to continue exploring the Olym-Pic-Dam claims and will allow the claims to lapse. As a result, the related expenditures have been written-off.

During 2005, \$227,732 [2004 - \$62,061] of administrative and general expenses and \$73,448 [2004 - \$2,018] of depreciation and amortization were charged to deferred exploration expenditures.

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

8. SHARE CAPITAL

[a] Authorized: Unlimited number of common shares

[b] Issued and outstanding common shares:

	2005		2004	
	#	\$	#	\$
Common shares				
Beginning of year	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 ²	833,334	3,000,002	924,000	3,003,000
Exercise of warrants	1,405,400	2,599,091	820,825	1,201,023
Exercise of options	—	—	420,000	419,484
Share issuance costs, net of tax	—	(189,863)	—	(2,188,963)
Future tax impact of renunciation of development costs expended	—	(630,000)	—	(1,340,000)
End of year [e]	34,870,907	41,932,787	32,161,573	35,153,507
Warrants				
Beginning of year	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 year	341,396	616,352	1,718,560	1,026,321
		42,549,139		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.

² On November 10, 2005, the Company completed a private placement that resulted in the issuance of 833,334 flow-through common shares at a price of \$3.60 per share.

On July 30, 2004, the Company completed a private placement that resulted in the issuance of 924,000 flow-through common shares at a price of \$3.25 per share.

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

[c] The following table summarizes information about the share warrants outstanding at December 31, 2005:

Share warrants outstanding and exercisable			
Range of exercise prices \$	Number outstanding at December 31, 2005 #	Weighted- average remaining contractual life [years] #	Weighted- average exercise price \$
3.25	30,800	0.1	3.25
4.25	310,596	0.5	4.25
	341,396		

At January 1, 2004, there were warrants to purchase 237,600 units at a price of \$1.25 until May 30, 2005. Each of these units consisted of one common share and one-half of one warrant to purchase a common share. Each of these full warrants to purchase a common share was exercisable at a price of \$1.50 until May 30, 2005. During 2004, all 237,600 warrants to purchase units and all 118,800 underlying warrants to purchase common shares were exercised.

During January 2006, 30,800 warrants were exercised for gross proceeds of \$100,100. Each warrant to purchase a common share was exercisable at a price of \$3.25.

[d] Stock-based compensation expense of \$176,325 [2004 - \$800,000] has been recorded and \$671,925 [2004 - \$150,000] has been capitalized to deferred exploration expenditures for the estimated fair value of 325,000 [2004 - 500,000] options granted during the year and vested immediately. Share capital was increased and contributed surplus decreased by nil [2004 - \$123,306], representing the fair value compensation recorded for options exercised during the year, and contributed surplus was increased by \$848,250 [2004 - \$950,000], representing the fair value compensation recorded less \$250,000 related to the tax effect of amount capitalized.

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

The fair value of the two sets of 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% and 3.55%, respectively, expected dividend yield of 0%, expected volatility of 0.63 and 0.64, respectively and expected option life of five years. The weighted-average fair value of the options granted during the year is \$2.81 and 2.16, respectively.

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 December 31, 2005 and 2004, and changes during the years ending on those dates are presented below:

	<u>2005</u>		<u>2004</u>	
	<u>Number</u>	<u>Weighted-</u>	<u>Number</u>	<u>Weighted-</u>
	<u>of shares</u>	<u>average</u>	<u>of shares</u>	<u>average</u>
		<u>exercise</u>		<u>exercise</u>
		<u>price</u>		<u>price</u>
Options outstanding,				
beginning of year	1,607,400	1.55	1,527,400	0.72
Granted	325,000	4.62	500,000	3.39
Exercised	—	—	(420,000)	0.71
Options outstanding,				
end of year¹	1,932,400	2.07	1,607,400	1.55

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

The following summarizes information about the options outstanding at December 31, 2005:

Range of exercise prices \$	Options outstanding and exercisable		
	Number outstanding at December 31, 2005 #	Weighted-average remaining contractual life [years] #	Weighted-average exercise price \$
0.69 ¹	428,700	0.4	0.69
0.75 ¹	678,700	2.1	0.75
3.30	200,000	3.8	3.30
3.45	300,000	3.2	3.45
3.86	100,000	4.7	3.86
4.95	225,000	4.3	4.95
	1,932,400		

¹ On January 20, 2006 and February 2, 2006, a total of 113,700 options at \$0.69 and 125,000 options at \$0.75 were exercised, respectively.

[e] At December 31, 2005, 900,000 [2004 - 900,000] issued common shares are being held in escrow, subject to certain production thresholds for the NICO property.

[f] The weighted average number of common shares outstanding was 33,590,588 [2004 - 26,335,084].

During the year, options and warrants to purchase 1,166,396 [2004 - nil] common shares were not included in the computation of diluted loss per share because the exercise prices of these options and warrants were greater than the average market price of the common shares. Also, options to purchase 1,107,400 [2004 - 1,607,400] common shares and warrants to purchase nil [2004 - 1,718,560] common shares were not included in the computation of diluted loss per share because including them in the calculation would have been anti-dilutive.

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

9. INCOME TAXES

The Company has non-capital loss carryforwards totalling \$3,425,000 which expire beginning in 2006 and un-deducted share issuance costs of \$1,746,000. In addition, the Company has Ontario corporate minimum tax credits of \$34,000 which expire in 2009. The benefit of these amounts has not been recorded in the consolidated financial statements.

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

	2005	2004
	\$	\$
Future tax assets		
Net operating loss carryforwards	700,000	500,000
Undeducted share issuance costs	630,000	787,000
Ontario corporate minimum tax	34,000	34,000
	1,364,000	1,321,000
Less valuation allowance related to operating losses, share issuance costs, and corporate minimum tax	(1,364,000)	(1,321,000)
Net future tax assets	—	—
Future tax liabilities		
Book value of deferred exploration expenditures in excess of tax value	(4,880,000)	(4,000,000)
Net future tax liabilities	(4,880,000)	(4,000,000)

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

	2005	2004
	\$	\$
Combined Federal and Provincial income tax rate	40.12%	41.12%
Corporate income tax at statutory rate	(161,600)	(550,500)
Increase in taxes resulting from:		
Benefit of losses and corporate minimum taxes for which no tax benefit has been recorded	54,000	172,500
Non-deductible stock compensation expenses	70,600	329,000
Resource allowance	37,000	49,000
	—	—

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

10. STATEMENT OF CASH FLOWS

[a] Cash and cash equivalents consist of :

	2005	2004
	\$	\$
Cash on hand and balances with banks	2,254,516	1,026,863
Short-term fixed income deposits	20,944,918	23,615,911
	23,199,434	24,642,774

[b] Supplemental cash flow information:

	2005	2004
	\$	\$
Income taxes paid	—	57,837
Income taxes received	16,097	9,253
Interest received	521,593	91,527

11. RELATED PARTY TRANSACTIONS

The following related party transactions have been recorded at their exchange amount:

- [a] During the year, the Company paid an officer and director \$200,000 [2004 - \$200,000] for third-party geological consulting and for administrative consulting services on behalf of the Company.
- [b] During the year, the Company paid a director \$187,000 [2004 - nil] for third-party engineering and project related consulting on behalf of the Company.
- [c] During the year, the Company paid an officer \$158,000 [2004 - \$34,000] for financial, management and administrative consulting services on behalf of the Company.
- [d] A company controlled by a director owns an 18.91% interest in the NICO claims in the Mazenod Lake Area, Northwest Territories. At December 31, 2005, accounts receivable includes \$525,513 [2004 - \$309,100] for expenditures incurred on behalf of this company.
- [e] During the year, \$198,500 [2004 - \$153,225] was paid to the Company's law firm for various legal services. An officer and director of the Company was an employee of that firm.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

12. COMMITMENTS

The Company has the following commitments, in addition to any commitments identified elsewhere in these consolidated financial statements:

- [a]** The Company has entered into a lease for office space. The lease term commenced in September 2005, ends in October 2010 and has a five-year renewal option. The initial term requires minimum lease payments and additional rent for operating costs and taxes of approximately \$70,000 per year.
- [b]** The Company has certain annual payments due to maintain its interests in its mineral property leases and licenses. For its Mount Klappan licenses, its NICO leases and other property leases the Company is required to make annual payments of \$127,000.

FORTUNE MINERALS LIMITED

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

Year Ended December 31, 2005

This Management's Discussion and Analysis of Fortune Minerals Limited ("Fortune" or the "Company") is dated March 23, 2006 and should be read in conjunction with the Company's Annual Audited Consolidated Financial Statements for the year ended December 31, 2005 prepared in accordance with Canadian generally accepted accounting principles. All dollar amounts are presented in Canadian dollars.

SELECTED ANNUAL INFORMATION

	2005	2004	2003
Total revenues	\$579,688	\$112,451	\$46,677
Net loss	(402,718)	(1,338,868)	(601,494)
Loss per common share	(0.01)	(0.05)	(0.03)
Total assets	47,851,896	40,450,651	17,663,062
Total long term financial liabilities	-	-	-

SUMMARY OF QUARTERLY RESULTS

	2005				2004			
	Dec-31	Sep-30	Jun-30	Mar-31	Dec-31	Sep-30	Jun-30	Mar-31
Revenues	\$155,846	\$132,275	\$177,035	\$114,532	\$ 13,671	\$ 1,938	\$ 67,544	\$ 29,298
Net loss	(181,419)	1,103	(188,820)	(33,582)	(631,706)	(121,200)	(80,222)	(505,740)
Loss per share	—	—	(0.01)	—	(0.02)	(0.01)	—	(0.02)

OVERVIEW

Fortune is a natural resource company with diversified assets, all of which are located in Canada. Fortune is involved in the exploration and development of coal, specialty metals, base metals, precious metals and industrial mineral properties, primarily in British Columbia, the Northwest Territories, and Ontario. Fortune's most significant properties are the Mount Klappan anthracite coal project and the NICO gold-cobalt-bismuth deposit. Through Formosa Environmental Aggregates Ltd. ("Formosa"), a 30%-owned industrial mineral company, Fortune is also managing, permitting and developing a high calcium limestone quarry in Ontario.

Fortune's net loss of \$402,718 or \$0.01 per share for the year ended December 31, 2005 was a substantial improvement over the net loss of \$1,338,868 or \$0.05 per share in the prior year. The fourth quarter of 2005 reflected a similar decline in the Company's net loss to \$181,419 or \$nil per share compared to \$631,706 or \$0.02 per share for the three months ended December 31, 2004. The decrease in the loss for the year and quarter are principally the result of the decreased costs for stock compensation and public relations activities and increased interest income offset by a higher write-off of deferred exploration expenditures. Exploration expenditures on Fortune's properties totalled \$8,517,901 in 2005 compared to \$2,461,620 in 2004 of which \$8,015,434 and \$2,152,519, respectively, were expended directly by Fortune. The balance was funded by joint venture companies. Total resource property expenditures reflected on the balance sheet as deferred exploration expenditures were \$19,149,212 as at December 31, 2005 as compared to \$11,296,536 as at December 31, 2004.

RESULTS OF OPERATIONS

Revenues

Fortune's primary source of revenue is interest income, which increased to \$579,688 in 2005 compared to \$112,451 in 2004. The increased revenue was the result of higher working capital balances. The Company invests its surplus cash in low risk liquid investments. These types of investments typically have low yields. Given the anticipated expenditures in 2006 for a bulk sample at NICO, environmental programs, feasibility work and additional exploration and development activities, management anticipates declining cash balances and reduced revenues for 2006 compared to 2005.

Expenses

Expenses decreased significantly in 2005 to \$763,384 compared to \$1,438,621 in 2004. Administrative expenses, which include expenses relating to the operation of the Company net of administration costs allocated to exploration was comparable between the two years. Public relations expenses declined marginally to \$161,684 in 2005 from \$207,840 in 2004. Stock-based compensation expense recorded during 2005 totalled \$176,325 compared to \$800,000 in 2004.

The Company's net loss for 2005 includes its share in losses in Formosa of \$56,264 (following the equity method of accounting for investments) and the write-off of \$162,758 in deferred exploration expenditures related to certain mineral claims it has chosen not to pursue. In 2004, the Company's share of losses in its equity investee was \$nil and \$12,698 was written-off in deferred exploration expenses.

Cash Flow

Cash used in operating activities increased slightly in 2005 to \$434,100 from \$257,622 in 2004. However, more significantly, operating activities before non-cash working capital provided a source of cash of \$11,136 compared to a use of cash in 2004 of \$523,359. This was the result of higher interest income earned in 2005 being sufficient to fund the Company's administrative and public relations costs. In 2005, the use of cash from operating activities is almost entirely the result of a \$397,834 increase in accounts receivable, whereas in 2004, non-cash working capital items reflected a source of cash due primarily to an increase in accounts payable and accrued liabilities partially offset by a smaller increase in accounts receivable.

Cash used in investing activities increased significantly to \$8,008,551 in 2005 from \$1,039,662 in 2004. The 2005 figure includes an increase in deferred exploration expenditures of \$7,270,061, an increase in security of \$252,193 posted for reclamation bonds, purchase of capital assets of \$379,325 and an increase in other deferred and prepaid expenses of \$99,686. The 2004 figure includes an increase in deferred exploration expenditures of \$2,000,501 and a net decrease in short-term investments of \$1,000,282. The significant investing activities reflect the Company's planned transition from an exploration company to a producer with increasing expenditures on feasibility studies, environmental studies and the purchase of capital assets, including certain production related equipment and facilities.

The Company raised net proceeds of \$6,999,311 in 2005 from the issuance of 2,709,334 shares. This includes 1,405,400 shares issued upon the exercise of warrants. This compares to \$22,591,674 in 2004 from the issuance of 6,870,825 shares. In 2004, the majority of the funds were raised in the fourth quarter. In 2005, 28,236 warrants were issued to selling agents as compensation compared to 328,560 in 2004.

LIQUIDITY AND CAPITAL RESOURCES AND OUTLOOK

As at December 31, 2005, Fortune had cash and cash equivalents of \$23,199,434, short-term investments of \$267,872 and working capital of \$23,617,396, with no debt. The Company's principal operational objectives for 2006 are to complete the development plan for the Mount Klappan project's Lost-Fox deposit, complete the Environmental Assessment and obtain permits for the Lost-Fox mine construction, complete a bulk sample program and a bankable feasibility study for the NICO project and close the transaction to acquire the Golden Giant buildings, milling equipment, surface facilities and inventory. Approximately \$15 million has been budgeted for 2006 to complete the bulk sample, feasibility and environmental studies, and exploration activities for NICO, \$3.0 million has been budgeted to complete the environmental and exploration activities for Mount Klappan and \$3.5 million has been budgeted to complete the acquisition and to maintain and secure the proposed purchase of the Golden Giant mill and related assets. The Company currently has sufficient resources to complete the studies and otherwise fund its operations. Additional financing will be required by the Company in order to pursue further

development of its major projects. The Company will evaluate alternatives and endeavor to execute a financing plan to fund the construction to transform the Lost-Fox and NICO deposits into producing mines.

TRANSACTIONS WITH RELATED PARTIES

During 2005 the Company paid Robin Goad, the President and CEO, \$200,000 for geological consulting and administrative consulting services on behalf of the Company; Miller Thomson LLP, the employer of David Knight, the Corporate Secretary and a director, \$198,500 for legal services; Narego Solutions Ltd., a company owned by James Excell, a director, \$187,000 for engineering and project related consulting on behalf of the Company; and Kemp Management Services, a sole proprietorship of Julian Kemp, the Vice President Finance and CFO, \$158,000 for financial, management and administrative consulting services on behalf of the Company.

Candou Industries Ltd. (“Candou”), a company controlled by George Doumet, the Chairman of the Company, owns an 18.91% interest in the NICO claims. At December 31, 2005 the Company’s accounts receivable included \$525,513 for expenditures incurred on behalf of Candou during the year. At December 31, 2004, the Company’s accounts receivable included \$309,100 for expenditures incurred on behalf of Candou. This amount was received by the Company during 2005.

CRITICAL ACCOUNTING ESTIMATES

Interests in Mining Properties and Deferred Exploration Expenditures

In accordance with the Company’s accounting policies, acquisition costs and exploration expenditures relating to mineral properties are deferred 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 deferred exploration expenditures.

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 2005. The Company has provided secured letters of credit in the aggregate amount of \$448,000 to be held against future environmental obligations with respect to the Mount Klappan and NICO properties.

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. While discovery of a mine may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenses may be required to establish reserves by drilling and to construct mining and processing facilities at a site. It is impossible to ensure that the current or proposed exploration programs on exploration 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 for any and all damage. The activities of the Company may be subject to prolonged disruptions due to weather conditions depending on the location of the operations in which the Company has interests. Hazards, such as unusual or unexpected geological structures, rock bursts, pressure, cave-ins, flooding or other conditions may be encountered in the drilling and removal of material. While the Company may obtain 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. 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 and, potentially, its financial position.

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 effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

Fluctuating Prices

Factors beyond the control of the Company may affect the marketability of coal, cobalt, bismuth, gold or any other minerals discovered. Commodity prices have fluctuated widely and are affected by numerous factors beyond the Company's control. 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. There can be no assurance that the Company will be able to obtain all necessary licenses and permits required to carry out 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 competitors 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 ability of the Company to acquire properties, purchase required equipment, and hire qualified personnel in the future will depend not only on its ability to develop its present properties, but also on its ability to identify, arrange, negotiate, select or acquire suitable properties or prospects for mineral exploration, source suitable equipment and hire qualified people. There is no assurance that the Company will continue to be able to compete successfully with its competitors in acquiring such properties or prospects, 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 stricter

standards, and 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 cost of compliance with changes in governmental regulations has the potential to reduce the profitability of future operations. The impacts of the Kyoto Protocol are difficult to predict and are not yet fully understood. Such impacts may have an adverse effect on the capital and operating cost of the Company's operations or those of its future customers that may materially affect future operations.

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 the properties. In 2005, however, the Company's Mount 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. There can be no assurance that similar events will not occur or that title and rights claims will not be asserted in the future in respect of the Company's properties. The Company is aware of the mutual benefits afforded by co-operative 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. 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 resources may not be realized

The mineral 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. In addition, the grade of mineralization ultimately mined may differ from that indicated by drilling results and such differences could be material. Production can be affected by such factors as permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations, inaccurate or incorrect geological, metallurgical or engineering work, and work interruptions, among other things. 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. There can be no assurance that minerals recovered in small-scale laboratory tests will be duplicated in large scale tests under on-site conditions or in production scale operations. Material changes in resources, grades, stripping ratios or recovery rates may affect the economic viability of projects. The estimated resources described herein should not be interpreted as assurances of mine life or of the profitability of future operations.

The Company has engaged expert independent technical consultants to advise it with respect to mineral 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.

Dependence on key personnel

Fortune is dependent on the services of its senior management, including Robin Goad, its President and Chief Executive Officer, and a small number of skilled and experienced employees and consultants. The loss of any such individuals could have a material adverse effect on Fortune's operations.

Limited financial resources

The existing financial resources of the Company are not sufficient to bring any of its properties into commercial production. The Company will need to obtain additional financing from external sources in order to fund the development of the Mount Klappan and NICO properties. There is no assurance that the Company will be able to obtain such financing on favourable terms, or at all. Failure to obtain financing could result in delay or indefinite postponement of further exploration and development of the Company's 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.

Forward-looking statements

This discussion contains certain forward-looking statements relating, but not limited, to the Company's operations, anticipated financial performance, business prospects and strategies and is based on current expectations that involve a number of business risks and uncertainties. Factors that could cause actual results to differ materially from any forward looking statement include, but are not limited to: capital and operating costs varying significantly from estimates; inflation; delays in the development of the Company's projects caused by unavailability of equipment, labour or supplies, climatic conditions or otherwise; failure to raise additional funds required to finance the development of the projects and other factors. Forward-looking statements are subject to significant risks and uncertainties and other factors that could cause actual results to differ materially from expected results. 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.

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, investment in and advances to affiliated company, accounts payable and accrued liabilities and income taxes payable. The fair values of these financial instruments are not materially different from their carrying values. 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 with large 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 35,140,407 common shares issued and outstanding, as well as: (a) warrants to purchase an aggregate of 310,596 common shares expiring June 23, 2006 and exercisable at \$4.25 per share; and (b) options to purchase an aggregate of 1,693,700 common shares expiring at various dates between May 20, 2006 and September 20, 2010 and exercisable at various prices between \$0.69 and \$4.95 per share.

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 Multilateral 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.