

Consolidated Financial Statements

Fortune Minerals Limited

Unaudited

June 30, 2006

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, 2006 and the consolidated statements of loss and deficit and cash flows for the three and six months ended June 30, 2006. 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, 2006	December 31, 2005
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	21,241,584	23,199,434
Short-term investments	268,086	267,872
Accounts receivable	781,599	844,463
Prepaid expenses	23,057	21,669
	22,314,326	24,333,438
Reclamation bonds <i>[note 2]</i>	558,439	478,093
Other deferred or prepaid expenses <i>[note 3]</i>	1,108,678	99,686
Investment in and advances to affiliated company	329,938	331,462
Capital assets, net <i>[note 4]</i>	929,932	306,725
Interests in mining properties	3,153,280	3,153,280
Deferred exploration expenditures <i>[note 5]</i>	28,235,547	19,149,212
	56,630,140	47,851,896
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	2,164,867	691,709
Taxes payable	24,333	24,333
Total current liabilities	2,189,200	716,042
Future income taxes <i>[note 7]</i>	5,380,000	4,880,000
Total liabilities	7,569,200	5,596,042
SHAREHOLDERS' EQUITY		
Share capital <i>[note 6]</i>	48,931,308	42,549,139
Contributed surplus <i>[note 6 [b] and [c]]</i>	2,618,059	1,947,090
Deficit	(2,488,427)	(2,240,375)
	49,060,940	42,255,854
	56,630,140	47,851,896

See accompanying notes

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,	
	2006	2005	2006	2005
	\$	\$	\$	\$
REVENUE				
Interest and other income	128,793	177,035	268,295	291,567
EXPENSES				
Administrative expenses	88,399	124,780	179,828	249,585
Public relations	50,775	99,092	82,157	121,220
Stock-based compensation expense [note 6[c]]	88,000	140,325	248,000	140,325
Amortization	3,465	1,658	5,752	2,839
	230,639	365,855	515,737	513,969
Loss before other items	(101,846)	(188,820)	(247,442)	(222,402)
Share in loss of equity investee	540	-	610	-
Net loss for the period	(102,386)	(188,820)	(248,052)	(222,402)
Deficit, beginning of period	(2,386,041)	(1,871,239)	(2,240,375)	(1,837,657)
Deficit, end of period	(2,488,427)	(2,060,059)	(2,488,427)	(2,060,059)
Basic and diluted loss per share [note 6[d]]	-	(0.01)	(0.01)	(0.01)

See accompanying notes

**CONSOLIDATED STATEMENTS OF
 CASH FLOWS**

	Unaudited			
	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net loss for the period	(102,386)	(188,820)	(248,052)	(222,402)
Add items not involving cash				
Amortization	3,465	1,658	5,752	2,839
Stock-based compensation	88,000	140,325	248,000	140,325
Share in loss in equity investee	540	-	610	-
	(10,381)	(46,837)	6,310	(79,238)
Changes in non-cash working capital balances to operations				
Accounts receivable	219,395	41,170	62,864	(66,633)
Prepaid expenses	(14,390)	(20,045)	(1,388)	(29,806)
Accounts payable and accrued liabilities	1,459,919	768,636	1,473,158	570,538
Cash provided by operating activities	1,654,543	742,924	1,540,944	394,861
INVESTING ACTIVITIES				
Payments from (advances to) affiliated	1,114	(8,844)	914	(10,362)
Net decrease (increase) in short-term investments	274	(2,011,669)	(214)	(2,012,264)
Other deferred or prepaid expenses	-	-	(1,008,992)	-
Purchase of capital assets	(79,086)	(6,539)	(718,372)	(206,139)
Posting of security for reclamation bonds	(9,995)	(197,100)	(80,346)	(197,100)
Increase in deferred exploration expenditures	(5,488,243)	(1,558,863)	(8,996,922)	(2,368,142)
Cash used in investing activities	(5,575,936)	(3,783,015)	(10,803,932)	(4,794,007)
FINANCING ACTIVITY				
Proceeds on issuance of shares, net	7,032,835	1,952,667	7,305,138	4,014,437
Increase (decrease) in cash and cash equivalents	3,111,442	(1,087,424)	(1,957,850)	(384,709)
Cash and cash equivalents, beginning of	18,130,142	25,345,489	23,199,434	24,642,774
Cash and cash equivalents, end of period	21,241,584	24,258,065	21,241,584	24,258,065
<i>[note 8[a]]</i>				

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

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, 2005.

2. RECLAMATION BONDS

During the period, the Company increased its reclamation bond with the Mackenzie Valley Land and Water Board with respect to NICO by \$70,000. The Company's reclamation bonds are in the form of letters of credit. The Company has \$223,443 and \$334,996 recorded at cost, held in various investments as security for the letters of credit, for NICO and Mount Klappan, respectively.

3. OTHER DEFERRED OR PREPAID EXPENES

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 31, 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 was deferred. Fortune's joint venture partner was responsible for its share of the costs. As a result, \$23,247 was included in receivables. This amount was paid subsequent to year end. Fortune completed its due diligence and made the second payment of \$990,000 on January 18, 2006. This amount together with other related expenditures has been deferred.

4. CAPITAL ASSETS

Capital assets consist of the following:

	<u>June 30, 2006</u>		<u>December 31, 2005</u>	
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Cost</u>	<u>Accumulated amortization</u>
	\$	\$	\$	\$
Surface Facilities	687,278	44,818	—	—
Mobile equipment	233,001	88,406	225,524	63,769
Camp Structures	112,775	30,599	112,775	16,097
Furniture and fixtures	49,115	14,120	28,572	10,259
Computer equipment	27,145	10,893	24,071	6,157
Leasehold Improvements	9,351	2,867	9,351	1,246
Software	4,752	1,782	4,752	792
Organization costs	1,109	1,109	1,109	1,109
	1,124,526	194,594	406,154	99,429
Less accumulated amortization	194,594		99,429	
Net book value	929,932		306,725	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

5. DEFERRED EXPLORATION EXPENDITURES

Deferred exploration expenditures are as follows:

	Balance December 31, 2005 \$	2006		Balance June 30, 2006 \$
		Expenditures \$	Write-offs \$	
NICO	10,401,079	7,309,009	—	17,710,088
Mount Klappan	6,709,639	1,738,872	—	8,448,511
Sue-Dianne	1,965,513	15,241	—	1,980,754
Other	72,981	23,213	—	96,194
	19,149,212	9,086,335	—	28,235,547

6. SHARE CAPITAL

[a] Issued and outstanding common shares:

	June 30, 2006		December 31, 2005	
	#	\$	#	\$
Common shares				
Beginning of period	34,870,907	41,932,787	32,161,573	35,153,507
Issued as a result of:				
Public offering of shares	—	—	470,600	2,000,050
Private placement of shares	2,095,000	6,815,485	833,334	3,000,002
Exercise of warrants	30,800	121,660	1,405,400	2,599,091
Exercise of options	553,700	561,376	—	—
Share issuance costs, net of tax	—	—	—	(189,863)
Future tax impact of renunciation of development costs expended [note 7]	—	(500,000)	—	(630,000)
End of period	37,550,407	48,931,308	34,870,907	41,932,787
Warrants				
Beginning of period	341,396	616,352	1,718,560	1,026,321
Issued in lieu of fees	—	—	28,236	54,072
Exercised	(30,800)	(21,560)	(1,405,400)	(464,041)
Expired	(310,596)	(594,792)	—	—
End of period	—	—	341,396	616,352
		48,931,308		42,549,139

[b] On June 23, 2006, all remaining warrants expired. The recorded value of the warrants of \$594,792 was eliminated from share capital and recorded as contributed surplus.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

[c] Stock compensation expense of \$248,000 has been recorded for the estimated fair value of 200,000 options granted and vested during the six month period ending June 30, 2006. Contributed surplus was increased by \$248,000, representing the fair value compensation recorded. During the same period, 553,700 options were exercised with \$561,376 record in share capital. Included in this amount were total cash proceeds of \$389,553 and \$171,823 representing the fair value compensation previously recorded in contributed surplus.

The options granted during 2006 were granted on two separate dates. The fair value of the options granted were estimated at the dates of grant using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 3.75% and 4.25%, expected dividend yield of 0%, expected volatility of 0.63 and 0.49 and expected option life of five and two years, respectively. The weighted-average fair value of the options granted during the year is \$1.60 and \$0.88, 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 June 30, 2006 and December 31, 2005, and changes during the periods ending on those dates is presented below:

	<u>June 30, 2006</u>		<u>December 31, 2005</u>	
	Number of shares	Weighted-average exercise price (\$)	Number of shares	Weighted-average exercise price (\$)
Options outstanding, beginning of period	1,932,400	2.07	1,607,400	1.55
Granted	200,000	2.87	325,000	4.62
Exercised	(553,700)	.70	—	—
Options outstanding, end, of period	1,578,700	2.65	1,932,400	2.07

The following summarizes information about the options outstanding at June 30, 2006:

Exercise prices	Options outstanding and exercisable	
	Number outstanding	Weighted-average remaining contractual life [years]
\$0.75	553,700	1.6
\$2.84	100,000	4.7
\$2.90	100,000	1.8
\$3.30	200,000	3.3
\$3.45	300,000	2.7
\$3.86	100,000	4.2
\$4.95	225,000	3.8
	1,578,700	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

- [d] For the six months ending June 30, 2006, the weighted average number of common shares outstanding was 35,200,515.

During the period, options to purchase 1,025,000 common shares were not included in the computation of diluted loss per share because the exercise prices of these options were greater than the average market price of the common shares. Also, options to purchase 553,700 common shares were not included in the computation of diluted loss per share because including them in the calculation would have been anti-dilutive.

7. INCOME TAXES

Future tax liabilities of \$500,000 were recorded related to the tax effect of certain flow through expenditures renounced during the period ended March 31, 2006. Share capital was reduced by a corresponding amount.

8. 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, 2006	December 31, 2005
	\$	\$
Cash on hand and balances with banks	1,359,116	2,254,516
Short-term fixed income deposits	19,882,468	20,944,918
	21,241,584	23,199,434

- [b] Supplemental cash flow information

	June 30, 2006	December 31, 2005
	\$	\$
Taxes received	—	16,097
Interest received	69,180	521,593

9. RELATED PARTY TRANSACTIONS

- [a] During the period, the Company paid the managing director \$100,000 for third party geological consulting and for administrative consulting services on behalf of the Company.
- [b] During the period, the Company paid an officer \$85,680 for financial, management and administrative consulting services on behalf of the Company.
- [c] At December 31, 2005, a company controlled by a director owned an 18.91% interest in the NICO claims in the Mazenod Lake Area, Northwest Territories. At December 31, 2005, accounts receivable includes \$525,513 for expenditures incurred on behalf of this company. During the period ended June 30, 2006, the joint venture partner paid this amount and advised the Company they would not participate in the planned expenditures during 2006. As a result their interest will be diluted in accordance with the joint venture agreement. Based on the expenditures to June 30, 2006, the Company has calculated that the joint venture partner has been diluted to approximately 11%. This calculation is subject to confirmation by the partner.

Fortune Minerals Limited

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

Six months ended June 30, 2006

This discussion and analysis of financial condition and results of operations of Fortune Minerals Limited is prepared as at July 31, 2006, and should be read in conjunction with the unaudited consolidated financial statements of Fortune Minerals Limited and the notes thereto for the six months ended June 30, 2006 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, 2005. 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 currently developing both of its principal projects, being the Mount Klappan coal project, which has a 2.8 billion tonne resource base with both energy and metallurgical applications, and the NICO gold-cobalt-bismuth project. Fortune's strategy and major long-term objective is to create value for shareholders through the transition from an exploration company to a mine owner with significant interests in profitable, long-life operating mines. The Company's priority in the near term is to achieve the major development milestones of completing quality detailed feasibility studies, environmental assessments and permitting. These activities are carried out directly and indirectly through subsidiaries and through joint ventures with other companies, typically with Fortune as the operator. .

Fortune incurred a net loss of \$102,386 or \$nil per share and \$248,052 or \$0.01 per share for the three and six month periods ended June 30, 2006, respectively. For the corresponding periods in 2005, the net loss was \$188,820 or \$0.01 per share and \$222,402 or \$0.01 per share, respectively. The Company's activities are currently focused on the completion of the NICO underground bulk sample program, feasibility study and environmental studies and the Mount Klappan environmental assessment. As a result, the Company has incurred and deferred cash exploration expenditures in line with budgeted costs for the three and six months ended June 30, 2006 of \$5,488,243 and \$8,996,922, respectively. During the second quarter ended June 30, 2006, pursuant to a flow-through private placement, the Company raised net cash proceeds of \$6,815,485 from the issuance of 2,095,000 common shares. This private placement together with the exercise of options and warrants resulted in Fortune raising total net cash proceeds of \$7,305,138 for the six month period ended June 30, 2006. These results reflect Fortune's ability to operate and carry out exploration and development programs in a fiscally responsible manner.

Fortune Minerals Limited

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

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

	2006		2005				2004	
	Jun-30	Mar-31	Dec-31	Sep-30	Jun-30	Mar-31	Dec-31	Sep-30
Revenues	\$ 128,793	\$ 139,502	\$155,846	\$132,275	\$177,035	\$114,532	\$ 13,671	\$ 1,938
Net income (loss)	(102,386)	(145,666)	(181,419)	1,103	(188,820)	(33,582)	(631,706)	(121,200)
Loss per share ⁽¹⁾	—	—	—	—	(0.01)	—	(0.02)	(0.01)

(1) - Loss per share by quarter may not add to year-to-date loss per share due to rounding.

Balance Sheet Data

	June 30, 2006	December 31, 2005
Cumulative deferred exploration expenditures	\$28,235,547	\$19,149,212
Working capital	20,125,126	23,617,396
Total Assets	56,630,140	47,851,896

RESULTS OF OPERATIONS

Revenues

Fortune's primary source of revenue is interest income. Interest and other income was \$128,793 for the three months ended June 30, 2006 compared to \$177,035 for the corresponding period in 2005. For the six month period ended June 30, 2006, interest and other income was \$268,295 compared to \$291,567 for the same period in the prior year. The reduction is the result of declining cash balances.

Expenses

Expenses for the three months ended June 30, 2006 were \$230,638, down from \$365,855 in the corresponding period in 2005. For the six months ended June 30, 2006 and 2005, expenses were \$515,747 and \$513,969, respectively. Administrative and public relations were marginally lower but generally comparable during these periods. During 2006, two separate stock option grants occurred. Stock-based compensation expense was recorded in the amount of \$160,000 in the first quarter and \$88,000 in the second quarter. During the six month period ended June 30, 2005, one option grant occurred in the second quarter and the related stock-based compensation expense recorded was \$140,325.

Cash Flow

Cash provided by operating activities for the three and six months ended June 30, 2006 was \$1,654,543 and \$1,540,944 respectively. For the same periods in 2005, cash provided by operating activities was \$742,924 and \$394,861, respectively. The increase is primarily the result of changes in non-cash working capital balances. Due to the higher exploration and capital related expenditures in 2006 versus 2005, accounts payable has increased substantially as the Company makes use of normal payment terms. Cash used in operating activities before non-cash working

Fortune Minerals Limited

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

capital items is nominal reflecting cautious management of administrative and public relations expenditures.

Cash used in investing activities was \$5,575,936 and \$10,803,932 for the three and six month periods ended June 30, 2006, respectively. This use of funds was primarily for the substantial exploration and development activities undertaken as part of the process to transform the Company into a producer.

At the NICO project, the activities included: geological and engineering activities to advance the feasibility study near to completion; commencement of studies to refine and further enhance project economics; mobilization of equipment and supplies and commencement of the underground bulk sample; completion of nearly 300 metres of ramp development, representing approximately 30% of total planned underground development for 2006; drilling of three additional exploration holes in the deposit to improve exploration coverage; and conducting numerous environmental studies to prepare for filing an application for a Class 'A' Water License required for project permitting.

At the Mount Klappan project, the activities included commencement of field programs for environmental base line studies primarily for the proposed short-cut haul road from the project site to Hwy#37, engineering work required to determine the final design and layout of the road route and extensive consultation efforts with local communities and First Nations.

The Company, on or before August 31, 2006, will close its acquisition of the Hemlo Mill in Northern Ontario. On closing, an additional payment of \$2,210,000 is required to the vendor. Following the completion of such acquisition, Fortune will also begin to incur certain maintenance and security costs related to these assets.

Including the Hemlo Mill purchase, the underground bulk sample, feasibility study, and environmental studies for the NICO Project and the environmental assessment and permitting activities for the Mount Klappan Project, the Company's management anticipates that for the second half of 2006 the cash used in investing activities will remain at the average expenditure rate of approximately \$1.8 million per month incurred during the first six months.. In the first six months of 2005, the average monthly expenditures were approximately \$800,000.

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2006, Fortune had cash and cash equivalents of \$21,241,584, short-term investments of \$268,086 and working capital of \$20,125,126, compared with \$23,199,434, \$267,872 and \$23,617,396, respectively, as at December 31, 2005.

TRANSACTIONS WITH RELATED PARTIES

During the quarter ended June 30, 2006, Fortune's joint venture partner on the NICO project paid the balance owing at December 31, 2005 of \$525,513 and advised the Company its intention not to participate in the activities planned for 2006. As a result, Fortune will fund all of the planned expenditures for 2006 and the joint venture partner's share in the project will be diluted in accordance with the joint venture agreement. Based on the expenditures to June 30, 2006, the Company has calculated that the joint venture partner has been diluted to approximately 11%. This calculation is subject to confirmation by the partner.

Fortune Minerals Limited

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

OUTLOOK

The Company currently has sufficient cash resources to fund the NICO underground bulk sample, NICO feasibility and environmental studies, the Mount Klappan environmental studies and permitting as well as the completion of the acquisition of the Hemlo Mill. The 2006 budgeted development and capital expenditures totalled \$21.5 million. All of the programs are proceeding as planned except for some additional unbudgeted costs. At the NICO project in the Northwest Territories, an unusually warm winter resulted in load restrictions during mobilization of equipment over the winter ice road. Due to these load restrictions additional trucking and manpower costs totalling approximately \$500,000 were incurred. In addition, a number of scope changes to the NICO feasibility study, including the purchase of the Hemlo mill, have increased the expected engineering costs. At the Mount Klappan project in British Columbia, the Company is increasing its community consultation efforts and scope of certain environmental studies to build on and improve the relationships being developed for the project permitting. The Company's working capital is sufficient to cover the increase in costs estimated to total approximately \$1 million for 2006 and was further enhanced by the completion of the flow through financing in June. As a result, Fortune is well positioned to complete its short-term objectives and milestones for the development of its projects. Additional financing will be required by the Company in order to pursue mine construction at its major projects or acquire additional projects.

SHARE DATA

As at the date hereof, the Company has 35,550,407 common shares issued and outstanding, as well as options to purchase an aggregate of 1,578,700 common shares expiring at various dates between January 24, 2008 and March 27, 2011 and exercisable at various prices between \$0.75 and \$4.95 per share.

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.