

Consolidated Financial Statements

Fortune Minerals Limited

Unaudited

June 30, 2007

Fortune Minerals Limited
 Incorporated under the laws of Ontario

CONSOLIDATED BALANCE SHEETS

As at

	June 30, 2007	December 31, 2006
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents <i>[note 8[a]]</i>	4,640,265	11,942,358
Short-term investments	—	267,872
Accounts receivable	327,263	1,398,971
Prepaid expenses	3,000	29,557
Total current assets	4,970,528	13,638,758
Security deposit <i>[note 5]</i>	157,471	—
Reclamation bonds <i>[note 5]</i>	573,826	563,785
Investment in and advances to affiliated company <i>[note 10[a]]</i>	331,019	331,389
Capital assets, net <i>[note 4]</i>	23,745	28,128
Mining properties <i>[note 5]</i>	55,412,741	45,674,725
	61,469,330	60,236,785
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	2,209,056	1,090,180
Income taxes payable	22,853	24,333
Total current liabilities	2,231,909	1,114,513
Future income taxes <i>[note 7]</i>	8,364,000	7,230,000
Total liabilities	10,595,909	8,344,513
SHAREHOLDERS' EQUITY		
Share capital <i>[note 6]</i>	49,860,365	50,753,793
Contributed surplus	3,439,237	3,418,059
Deficit	(2,426,181)	(2,279,580)
Total shareholders' equity	50,873,421	51,892,272
	61,469,330	60,236,785

See accompanying notes

Fortune Minerals Limited
 Incorporated under the laws of Ontario

**CONSOLIDATED STATEMENTS OF LOSS
 AND DEFICIT**

	Three months ended		Six months ended	
	June 30,		June 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
REVENUE				
Interest and other income	91,495	128,793	200,835	268,295
EXPENSES				
Administrative	118,664	88,399	214,464	179,828
Investor relations	71,677	50,775	113,678	82,157
Stock-based compensation [note 6[c]]	11,250	88,000	11,250	248,000
Amortization	1,504	3,465	3,193	5,752
	203,095	230,639	342,585	515,737
Loss before other items	(111,600)	(101,846)	(141,750)	(247,442)
Share in loss of equity investee	896	540	370	610
Net loss for the period	(112,496)	(102,386)	(142,120)	(248,052)
Deficit, as previously reported			(2,279,580)	
Change in accounting policy [note 3]			(4,481)	
Deficit, beginning of period	(2,313,685)	(2,386,041)	(2,284,061)	(2,240,375)
Deficit, end of period	(2,426,181)	(2,488,427)	(2,426,181)	(2,488,427)
Basic and diluted loss per share [note 6[b]]	-	-	-	(0.01)

See accompanying notes

Fortune Minerals Limited
 Incorporated under the laws of Ontario

**CONSOLIDATED STATEMENTS OF
 CASH FLOWS**

	Three months ended		Six months ended	
	June 30,		June 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net loss for the period	(112,496)	(102,386)	(142,120)	(248,052)
Add items not involving cash				
Amortization	1,504	3,465	3,193	5,752
Stock-based compensation	11,250	88,000	11,250	248,000
Share in loss in equity investee	896	540	370	610
	(98,846)	(10,381)	(127,307)	6,310
Changes in non-cash working capital balances to operations				
Accounts receivable	(171,222)	219,395	1,071,708	62,864
Prepaid expenses	1,192	(14,390)	26,557	(1,388)
Accounts payable and accrued liabilities	1,682,325	1,459,919	1,118,876	1,473,158
Income taxes payable	(1,480)	-	(1,480)	-
Cash provided by operating activities	1,411,969	1,654,543	2,088,354	1,540,944
INVESTING ACTIVITIES				
Payments from affiliated company	—	1,114	—	914
Net decrease (increase) in short-term investments	—	274	268,325	(214)
Other deferred or prepaid expenses	—	—	—	(1,008,992)
Increase in security deposit	(157,471)	—	(157,471)	—
Purchase of plant and equipment and capital assets	120,166	(79,086)	7,333	(718,372)
Posting of security for reclamation bonds	(13,329)	(9,995)	(14,975)	(80,346)
Increase in deferred exploration expenditures	(6,173,571)	(5,488,243)	(9,631,659)	(8,996,922)
Cash used in investing activities	(6,224,205)	(5,575,936)	(9,528,447)	(10,803,932)
FINANCING ACTIVITY				
Proceeds on issuance of shares, net	138,000	7,032,835	138,000	7,305,138
Increase (decrease) in cash and cash equivalents	(4,674,236)	3,111,442	(7,302,093)	(1,957,850)
Cash and cash equivalents, beginning of period	9,314,501	18,130,142	11,942,358	23,199,434
Cash and cash equivalents, end of period <i>[note 8[a]]</i>	4,640,265	21,241,584	4,640,265	21,241,584

See accompanying notes

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

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. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements have been prepared by Fortune Minerals Limited in accordance with Canadian generally accepted accounting principles. These unaudited condensed notes to the interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report for the fiscal year ended December 31, 2006.

Certain comparative amounts have been reclassified to conform to the current period presentation.

3. ADOPTION OF NEW ACCOUNTING STANDARDS

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Sections 1530 Comprehensive Income, Section 3855 Financial Instruments - Recognition and Measurement including the related Section 3860 Financial Instruments – Hedging and Section 3861 Financial Instruments – Financial Instrument Disclosure and Presentation and Section 3865 Hedges. The adoption of these new standards resulted in changes in the accounting for financial instruments, as well as the recognition of certain transition adjustments. The comparative interim consolidated financial statements have not been restated. The principal changes in the accounting for financial instruments due to the adoption of these accounting standards are described below.

The adoption of these Sections has been completed retroactively without restatement of the consolidated financial statements of prior periods. As at January 1, 2007, the effect of adopting these standards was to increase short-term investments by \$453, decrease reclamation bonds by \$4,934 and increase deficit by \$4,481.

[a] Section 1530 Comprehensive Income

This section describes the reporting and disclosure standards with respect to comprehensive income and its components. Comprehensive income is composed of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on available for sale financial assets, translation gains and losses on self-sustaining foreign operations and accounting for derivative instruments and hedging activities. The components of

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

comprehensive income are disclosed in the consolidated statements of comprehensive income (loss). As at June 30, 2007, the Company has no other comprehensive income (loss) to report therefore its net loss is equal to the comprehensive loss.

[b] Section 3855 Financial Instruments

This section sets out the standards for the recognition and measurement of financial assets and financial liabilities. The standard prescribes when an entity should recognize a financial instrument on the balance sheet and the amount at which financial instruments should be recorded. Depending on their balance sheet designation, fair value or cost-based measures are used. This standard also prescribes the basis of presentation for gains and losses on financial instruments. Based on financial statement designation, gains and losses on financial instruments are recognized in net income or other comprehensive income.

The Company has made the following designations:

- Cash and cash equivalents are designated as “assets held for trading” and are measured at fair value. Gains and losses resulting from the periodic revaluation of these items are recorded in net income.
- Short-term investments are designated as “assets held for trading” and are measured at fair value. Gains and losses resulting from the periodic revaluation of these items are recorded in net income
- Accounts receivable is designated as “receivables” and are recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurement of accounts receivable is on the basis of amortized cost using the effective interest rate method.
- Reclamation bonds are designated as “assets held for trading” and are measured at fair value. Gains and losses resulting from the periodic revaluation of these items are recorded in net income
- Accounts payable and accrued liabilities are designated as “other liabilities” and are recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurement of these liabilities is on the basis of amortized cost using the effective interest rate method.

[c] Section 3865 Financial Instruments – Hedging

This Section establishes standards for when and how hedge accounting may be applied. It defines hedge accounting as being optional and requires certain criteria to be met in order to use hedge accounting. Hedging is an activity designed to modify an entity’s exposure to one or more risks, by creating an offset between changes in the fair value of, or the cash flows attributable to, the hedged item and the hedging item (or changes resulting from a particular risk exposure relating to those items).

The purpose of hedge accounting is to ensure that counterbalancing gains, losses, revenues and expenses (including the effects of counterbalancing changes in cash flows) are recognized in net income in the same period or periods. Hedge accounting is applied only when gains, losses, revenues and expenses on a hedging item would otherwise be recognized in income in a different period than gains, losses, revenues and expenses on the hedged item. Where gains, losses, revenues and expenses on the hedging item and counterbalancing gains, losses, revenues and

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

expenses on the hedged item are recognized in income in the same period, hedge accounting is both considered not necessary and not permitted by the Standards.

As at June 30, 2007, the Company was not a party to any forward foreign exchange or metal pricing contracts, but may use such instruments in the future.

4. CAPITAL ASSETS

Capital assets consist of the following:

	<u>June 30, 2007</u>		<u>December 31, 2006</u>	
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Cost</u>	<u>Accumulated amortization</u>
	\$	\$	\$	\$
Computer equipment	27,145	18,891	27,145	16,140
Furniture and fixtures	23,461	13,290	21,457	11,108
Leasehold improvements	9,282	5,447	9,282	4,488
Software	4,752	3,267	4,752	2,772
	64,640	40,895	62,636	34,508
Less accumulated amortization	40,895		34,508	
Net book value	23,745		28,128	

5. MINING PROPERTIES

Interests in mining properties consist of the following:

	<u>June 30, 2007</u>			
	<u>Plant and Equipment</u>	<u>Property Costs</u>	<u>Deferred Expenditures</u>	<u>Total - Mining Properties</u>
	\$	\$	\$	\$
NICO Project (i)	4,733,091	—	31,333,742	35,984,822
Mount Klappan Project (ii)	37,607	3,144,116	14,019,807	17,283,541
Sue-Dianne Project	—	9,164	1,993,894	2,003,058
Other Properties	—	—	141,320	141,320
	4,770,698	3,153,280	47,488,763	55,412,741

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

	December 31, 2006			
	Plant and Equipment \$	Property Costs \$	Deferred Expenditures \$	Total - Mining Properties \$
NICO Project (i)	4,828,781	—	22,894,560	27,723,341
Mount Klappan Project (ii)	44,958	3,144,116	12,664,683	15,853,757
Sue-Dianne Project	—	9,164	1,981,066	1,990,230
Other Properties	—	—	107,397	107,397
	4,873,739	3,153,280	37,647,706	45,674,725

During the six-month period ended June 30, 2007, \$222,394 of administrative and general expenses, \$171,898 of amortization and \$37,500 of stock compensation were charged to deferred exploration expenditures.

Plant and Equipment consist of the following:

	<u>June 30, 2007</u>		<u>December 31, 2006</u>	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$	\$	\$
Surface facilities under construction	3,576,189	—	3,555,538	—
Surface facilities	756,614	202,901	735,976	141,760
Camp structures	632,898	179,558	632,898	99,142
Mobile equipment	319,001	149,002	291,001	119,590
Site furniture and equipment	28,495	11,038	25,764	6,946
	5,313,197	542,499	5,241,177	367,438
Less accumulated amortization	542,499		367,438	
Net book value	4,770,698		4,873,739	

During the six-month period ended June 30, 2007, \$6,357 of amortization and \$75,000 of stock compensation were charged to surface facilities under construction.

i. NICO Project, Northwest Territories

The NICO project and the related claims in the Mazenod Lake Area, Northwest Territories are subject to a joint venture agreement. A company controlled by a director owns a joint venture interest in the NICO project. At December 31, 2006, the joint venture partner owned a 9.99% interest. On July 6, 2007, the Company entered into an agreement with the joint venture partner to purchase its minority interest in the NICO project. Refer to note 10[a]. As the joint venture partner has not participated in the planned expenditures during 2007, their interest was diluted in accordance with the joint venture agreement. Based on the expenditures to June 30, 2007, the Company has calculated that the joint venture partner has been diluted to 7.98%.

The Company records its proportionate share of costs relating to the joint venture under the NICO deferred explorations expenditures. The Company arranges the reclamation bond for NICO and

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

provides the security required for the bond. As such, the Company has provided a reclamation bond of \$211,000 with the Wek'èezhì Land and Water Board with respect to the bulk sample programs carried out in 2006 and planned for 2007. The bond is in the form of a letter of credit in favour of the Receiver General for Canada. The Company has \$228,922, recorded at fair value, held in various investments as security for the letter of credit.

On August 31, 2006, the Company acquired certain mill, related surface facilities and processing equipment for future use at the NICO project. All costs of purchase, including previously deferred amounts and ongoing maintenance, security and other related costs, have been capitalized. No amortization has been charged against these assets as they are recorded as surface facilities under construction and are not available for use.

Pursuant to this agreement, the Company has an obligation to the vendor to dismantle and remove the assets from the site by August 31, 2009. The Company recently received a third party feasibility study and will commence detailed engineering and planning related to the use of these assets at NICO but a construction decision has not been taken. As a result, the course of action with reference to using the assets is still not known.

In addition, the Company is required to post a maximum of \$1 million in financial assurance or a performance bond in favour of the vendor. The posting of this financial assurance is required upon removal of assets in amounts equal to the appraised market value of assets being removed. Assets not required at the NICO site will be sold or disposed of to fulfill the Company's obligation. As at June 30, 2007, the Company has received \$158,160 in net proceeds from the disposal of surplus assets. In accordance with the agreement, \$157,471 has been posted as financial assurance and recorded as other deferred or prepaid expenses. Upon completion of the Company's obligation to remove the assets from the site, the financial assurance will be released to the Company.

The net cost of the deconstruction, removal, and reconstruction of the assets will be accumulated as surface facilities under constructions until such time as the physical assets are completed and available for use at which time they will be classified as appropriate.

***ii.* Mount Klappan Project, British Columbia**

At June 30, 2007, the reclamation bond was \$307,000 with respect to this property. The bond is in the form of a letter of credit in favour of the Government of British Columbia. The Company's wholly owned subsidiary, Fortune Coal Limited, has \$344,904, recorded at fair value, held in various investments as security for the letter of credit.

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

6. SHARE CAPITAL

[a] Issued and outstanding common shares:

	<u>June 30, 2007</u>		<u>December 31, 2006</u>	
	#	\$	#	\$
Common shares				
Beginning of period	38,936,407	50,753,793	34,870,907	41,932,787
Issued as a result of:				
Private placement of shares	—	—	3,481,000	11,732,250
Exercise of warrants	—	—	30,800	121,660
Exercise of options	60,000	206,572	553,700	561,376
Share issuance costs, net of tax	—	—	—	(674,280)
Future tax impact of renunciation of development costs expended	—	(1,100,000)	—	(2,920,000)
End of period [b]	38,996,407	49,860,365	38,936,407	50,753,793
Warrants				
Beginning of period	—	—	341,396	616,352
Exercised	—	—	(30,800)	(21,560)
Expired	—	—	(310,596)	(594,792)
End of period	—	—	—	—
		49,860,365		50,753,793

[b] At June 30, 2007, the weighted average number of common shares outstanding was 38,954,308. During the period, options to purchase 1,100,000 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 1,193,700 common shares were not included in the computation of diluted loss per share because including them in the calculation would have been anti-dilutive.

[c] Stock-based compensation expense of \$11,250 has been recorded, \$37,500 has been capitalized to deferred exploration expenditures and \$75,000 has been capitalized to capital assets for the estimated fair value of 75,000 options granted during the period and vested immediately. Share capital was increased and contributed surplus decreased by \$68,572 representing the fair value compensation recorded for options exercised during the period, and contributed surplus was increased by \$123,750 representing the fair value compensation recorded less \$34,000 related to the tax effect of amount capitalized.

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

The fair value of the options granted was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

Number of options granted	Assumptions				Estimated fair value per option
	Risk free interest rate	Expected dividend yield	Expected volatility	Expected option life	
75,000	4.25	0%	.62	5	\$1.65

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, 2006 and June 30, 2007, and changes during the periods ending on those dates are presented below:

	June 30, 2007		December 31, 2006	
	Number of shares	Weighted-average exercise price	Number of shares	Weighted-average exercise price
Options outstanding, beginning of period	2,278,700	2.54	1,932,400	2.07
Granted	75,000	2.96	900,000	2.42
Exercised	60,000	2.30	553,700	0.70
Options outstanding, end of period	2,293,700	2.56	2,278,700	2.54

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

The following summarizes information about the options outstanding at June 30, 2007:

Exercise prices \$	<u>Options outstanding and exercisable</u>	
	Number outstanding at June 30, 2007 #	Weighted average remaining contractual life [years] #
0.75	553,700	0.6
2.30	640,000	4.5
2.84	100,000	3.7
2.90	100,000	0.8
2.96	75,000	4.9
3.30	200,000	2.3
3.45	300,000	1.7
3.86	100,000	1.7
4.95	225,000	1.9
	2,293,700	

7. INCOME TAXES

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

	June 30, 2007	December 31, 2006
Net future tax liabilities		
Book value of deferred exploration expenditures and capital assets in excess of tax value	(8,364,000)	(7,230,000)

8. CONSOLIDATED STATEMENT OF CASH FLOWS

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

	June 30, 2007	December 31, 2006
	\$	\$
Cash on hand and balances with banks	1,881,091	4,302,904
Short-term fixed income deposits	2,759,174	7,639,454
	4,640,265	11,942,358

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

[b] Supplemental cash flow information:

	June 30, 2007	December 31, 2006
	\$	\$
Income taxes paid	1,480	—
Interest and investment income received	178,022	403,465

9. RELATED PARTY TRANSACTIONS

In addition to any related party transactions noted elsewhere, the following related party transactions have been recorded at their exchange amount:

- [a] During the period, the Company paid an officer and director \$119,230 for third-party geological consulting and for administrative consulting services on behalf of the Company.
- [b] During the period, the Company paid an officer \$99,696 for financial, management and administrative consulting services on behalf of the Company.
- [c] During the period, \$41,506 was paid to the Company's law firm for various legal services. An officer and director of the Company is a partner of that firm.

10. SUBSEQUENT EVENTS

- [a] On July 6, 2007, the Company entered into a purchase agreement with the NICO project joint venture partner, a related party, whereby the Company will acquire their minority interest in NICO in exchange for 1,000,000 common shares of the Company, 100,000 common share purchase warrants of the Company, Fortune's 30% ownership interest in Formosa, and the receivable due to the Company from Formosa. Each warrant will entitle the holder to purchase one common share for \$3.00 on or before five years from the date of closing the transaction. The acquisition of the minority interest will be recorded as property costs within mining properties at the fair market value of the consideration paid of \$3,508,000. This transaction closed on August 8, 2007
- [b] On July 11, 2007, the Company entered into an agency agreement with CIBC World Markets Inc., Desjardins Securities Inc. and Canaccord Capital Corporation (collectively the "Agents"). On July 26, 2007, pursuant to this agency agreement, the Company sold, including the exercise of the Agent's over-allotment option, 9,550,000 units at \$3.00 per unit for gross proceeds of \$28,650,000. Each unit consisted of one common share and one half common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company for \$3.75 on or before July 26, 2009. The Agents were paid a cash commission equal to 6% of the total gross proceeds raised together with compensation options equal to 6% of the total number of units sold. Each compensation option entitles the Agents to purchase one common share for \$3.00 on or before July 26, 2009.

Fortune Minerals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007