

Consolidated Financial Statements

**Fortune Minerals Limited**

Unaudited

September 30, 2007

**Fortune Minerals Limited**  
 Incorporated under the laws of Ontario

**CONSOLIDATED BALANCE SHEETS**

As at

	September 30, 2007	December 31, 2006
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents <i>[note 8[a]]</i>	25,851,135	11,942,358
Short-term investments	—	267,872
Accounts receivable	350,657	1,398,971
Prepaid expenses	80,109	29,557
<b>Total current assets</b>	<b>26,281,901</b>	<b>13,638,758</b>
Security deposit <i>[note 5[i]]</i>	337,147	—
Reclamation bonds <i>[note 5[i] and note 5[ii]]</i>	577,641	563,785
Investment in and advances to affiliated company <i>[note 5[i]]</i>	—	331,389
Capital assets, net <i>[note 4]</i>	24,418	28,128
Mining properties <i>[note 5]</i>	63,451,696	45,674,725
	<b>90,672,803</b>	<b>60,236,785</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	1,663,842	1,090,180
Income taxes payable	2,738	24,333
<b>Total current liabilities</b>	<b>1,666,580</b>	<b>1,114,513</b>
Future income taxes <i>[note 7]</i>	9,348,000	7,230,000
<b>Total liabilities</b>	<b>11,014,580</b>	<b>8,344,513</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital <i>[note 6]</i>	78,597,868	50,753,793
Contributed surplus	3,606,237	3,418,059
Deficit	(2,545,882)	(2,279,580)
<b>Total shareholders' equity</b>	<b>79,658,223</b>	<b>51,892,272</b>
	<b>90,672,803</b>	<b>60,236,785</b>

*See accompanying notes*

**Fortune Minerals Limited**  
 Incorporated under the laws of Ontario

**CONSOLIDATED STATEMENTS OF INCOME (LOSS)  
 AND DEFICIT**

	Three months ended September 30,		Nine months ended September 30,	
	2007 \$	2006 \$	2007 \$	2006 \$
<b>REVENUE</b>				
Interest and other income	<b>203,966</b>	256,385	<b>404,801</b>	524,680
<b>EXPENSES</b>				
Administrative	<b>125,256</b>	81,137	<b>339,720</b>	260,965
Investor relations	<b>62,655</b>	15,559	<b>176,333</b>	97,716
Stock-based compensation <i>[note 6[d]]</i>	<b>92,000</b>	—	<b>103,250</b>	248,000
Amortization	<b>1,659</b>	1,411	<b>4,852</b>	7,163
	<b>281,570</b>	98,107	<b>624,155</b>	613,844
<b>Income (loss) before other items</b>	<b>(77,604)</b>	158,278	<b>(219,354)</b>	(89,164)
Share in income (loss) of equity investee	<b>(474)</b>	84	<b>(844)</b>	(526)
Gain on disposal of capital asset or equity investee	<b>2,665</b>	31,629	<b>2,665</b>	31,629
Write-off of interest in mining properties	<b>(44,288)</b>	—	<b>(44,288)</b>	—
<b>Net income (loss) for the period</b>	<b>(119,701)</b>	189,991	<b>(261,821)</b>	(58,061)
Deficit, as previously reported			<b>(2,279,580)</b>	
Change in accounting policy <i>[note 3]</i>			<b>(4,481)</b>	
Deficit, beginning of period, as restated	<b>(2,426,181)</b>	(2,488,427)	<b>(2,284,061)</b>	(2,240,375)
<b>Deficit, end of period</b>	<b>(2,545,882)</b>	(2,298,436)	<b>(2,545,882)</b>	(2,298,436)
<b>Basic and diluted loss per share <i>[note 6[b]]</i></b>	<b>—</b>	—	<b>(0.01)</b>	(0.01)

*See accompanying notes*

**CONSOLIDATED STATEMENTS OF  
 CASH FLOWS**

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>				
Net income (loss) for the period	(119,701)	189,991	(261,821)	(58,061)
Add (deduct) items not involving cash				
Amortization	1,659	1,411	4,852	7,163
Stock-based compensation	92,000	—	103,250	248,000
Share in (income) loss of equity investee	474	(84)	844	526
Gain on disposal of capital asset or equity investee	(2,665)	(31,629)	(2,665)	(31,629)
Write-off of interest in mining operations	44,288	—	44,288	—
	16,055	159,689	(111,252)	165,999
Changes in non-cash working capital balances related to operations				
Accounts receivable	(23,394)	(999,501)	1,048,314	(936,637)
Prepaid expenses	(77,109)	(31,866)	(50,552)	(33,254)
Accounts payable and accrued liabilities	(545,214)	963,368	573,662	2,436,526
Income taxes payable	(20,115)	—	(21,595)	—
<b>Cash provided by (used in) operating activities</b>	<b>(649,777)</b>	<b>91,690</b>	<b>1,438,577</b>	<b>1,632,634</b>
<b>INVESTING ACTIVITIES</b>				
Payments from affiliated company	—	610	—	1,524
Net decrease (increase) in short-term investments	—	(508)	268,325	(722)
Increase in security deposit	(179,676)	—	(337,147)	—
Purchase of plant and equipment and capital assets	4,657	(2,926,580)	11,990	(4,653,944)
Proceeds on disposal of capital asset	—	86,250	—	86,250
Posting of security for reclamation bonds	(3,815)	(929)	(18,790)	(81,275)
Purchase of mining properties	(85,049)	—	(85,049)	—
Increase in deferred exploration expenditures	(4,422,183)	(7,452,920)	(14,053,842)	(16,449,842)
<b>Cash used in investing activities</b>	<b>(4,686,066)</b>	<b>(10,294,077)</b>	<b>(14,214,513)</b>	<b>(21,098,009)</b>
<b>FINANCING ACTIVITY</b>				
Proceeds on issuance of shares, net	26,546,713	(1,429)	26,684,713	7,303,709
<b>Increase (decrease) in cash and cash equivalents during the period, net</b>	<b>21,210,870</b>	<b>(10,203,816)</b>	<b>13,908,777</b>	<b>(12,161,666)</b>
Cash and cash equivalents, beginning of period	4,640,265	21,241,584	11,942,358	23,199,434
<b>Cash and cash equivalents, end of period</b> <i>[note 8[a]]</i>	<b>25,851,135</b>	<b>11,037,768</b>	<b>25,851,135</b>	<b>11,037,768</b>

*See accompanying notes*

## Fortune Minerals Limited

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 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

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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comprehensive income, if any, are disclosed in consolidated statements of comprehensive income (loss). As at September 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 are 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 – Hedges*

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

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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 September 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>September 30, 2007</u>		<u>December 31, 2006</u>	
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Cost</u>	<u>Accumulated amortization</u>
	\$	\$	\$	\$
Computer equipment	29,818	20,490	27,145	16,140
Furniture and fixtures	24,778	14,281	21,457	11,108
Leasehold improvements	9,282	5,926	9,282	4,488
Software	4,752	3,515	4,752	2,772
	<b>68,630</b>	<b>44,212</b>	62,636	34,508
Less accumulated amortization	<b>44,212</b>		34,508	
<b>Net book value</b>	<b>24,418</b>		28,128	

#### 5. MINING PROPERTIES

Interests in mining properties consist of the following:

	<u>September 30, 2007</u>			
	<u>Plant and equipment</u>	<u>Property costs</u>	<u>Deferred expenditures</u>	<u>Total - Mining properties</u>
	\$	\$	\$	\$
NICO Project [i]	4,717,551	3,593,049	35,524,029	43,834,629
Mount Klappan Project [ii]	33,932	3,144,116	14,325,154	17,503,202
Sue-Dianne Project	—	9,164	1,994,099	2,003,263
Other properties	—	—	110,602	110,602
	<b>4,751,483</b>	<b>6,746,329</b>	<b>51,953,884</b>	<b>63,451,696</b>

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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	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
	<b>4,873,739</b>	<b>3,153,280</b>	<b>37,647,706</b>	<b>45,674,725</b>

During the nine-month period ended September 30, 2007, \$325,132 of administrative expenses, \$259,124 of amortization and \$37,500 of stock-based compensation were charged to deferred expenditures within mining properties.

Plant and equipment consist of the following:

	<u>September 30, 2007</u>		<u>December 31, 2006</u>	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$	\$	\$
Surface facilities under construction	<b>3,600,412</b>	—	3,555,538	—
Surface facilities	<b>783,203</b>	<b>234,478</b>	735,976	141,760
Camp structures	<b>632,898</b>	<b>219,766</b>	632,898	99,142
Mobile equipment	<b>338,707</b>	<b>164,881</b>	291,001	119,590
Site furniture and equipment	<b>28,495</b>	<b>13,107</b>	25,764	6,946
	<b>5,383,715</b>	<b>632,232</b>	5,241,177	367,438
Less accumulated amortization	<b>632,232</b>		367,438	
<b>Net book value</b>	<b>4,751,483</b>		4,873,739	

During the nine-month period ended September 30, 2007, \$10,522 of amortization and \$150,000 of stock-based 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, effective August 8, 2007, wholly owned by the Company. Prior to that date, the project was subject to a joint venture agreement and a company controlled by a director owned a minority interest in the NICO project and the Company recorded its proportionate share of costs relating to the joint venture under the NICO deferred explorations expenditures. At December 31, 2006, the joint venture partner owned a 9.99% interest. As the joint venture partner has not participated in the planned expenditures during 2007, its interest was diluted in accordance with the joint venture agreement. Based on the expenditures to June 30, 2007, the Company had calculated that the joint venture partner had been diluted to 7.98%. On July 6, 2007, the Company entered into an agreement with the joint venture partner to purchase its minority interest in the NICO project. On August 8, 2007, the Company completed a purchase agreement with the NICO project joint

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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venture partner whereby the Company acquired its 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 Environmental Aggregates Limited ["Formosa"], and the receivable due to the Company from Formosa. Each warrant entitles the holder to purchase one common share for \$3.00 on or before August 8, 2012. The acquisition of the minority interest was recorded as property costs within mining properties at the fair market value of the consideration paid as follows:

	\$
Common shares issued	3,000,000
Warrants issued	174,790
Sale of shares in Formosa	93,000
Sale of receivable due from Formosa	240,210
Transaction costs	85,049
	<u>3,593,049</u>

Related to the purchase of the NICO minority interest, the elected tax value of the Company's acquisition cost of property was reduced by an amount equal to the fair market value of the common shares and warrants issued. This gives rise to a future tax liability of \$954,000 and the recorded common shares and warrant values were reduced by \$930,000 and \$54,000, respectively.

The Company has provided a reclamation bond of \$211,000 with the Wek'èzhì Land and Water Board with respect to the bulk sample programs carried out in 2006 and 2007. The bond is in the form of a letter of credit in favour of the Receiver General for Canada. The Company has \$229,982, 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 the purchase agreement of these facilities, the Company has an obligation to the vendor to dismantle and remove the assets from the site by August 31, 2009. The Company has received a third party feasibility study and has commenced 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 September 30, 2007, the Company has received \$337,912 in net proceeds from the disposal of surplus assets. In accordance with the agreement, \$337,147 has been posted as financial assurance and recorded as security deposit. Upon completion of the Company's obligation to remove the assets from the site, the financial assurance will be released to the Company.

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The net cost of the deconstruction, removal, and reconstruction of the assets will be accumulated as surface facilities under construction 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 September 30, 2007, a reclamation bond of \$307,000 has been posted 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 \$347,659, recorded at fair value, held in various investments as security for the letter of credit.

#### 6. SHARE CAPITAL

[a] Issued and outstanding common shares:

	<u>September 30, 2007</u>		<u>December 31, 2006</u>	
	#	\$	#	\$
<b>Common shares</b>				
<b>Beginning of period</b>	<b>38,936,407</b>	<b>50,753,793</b>	34,870,907	41,932,787
Issued as a result of:				
Public offering [c]	<b>9,550,000</b>	<b>27,026,500</b>	—	—
Purchase of property interest [note 5[i]]	<b>1,000,000</b>	<b>3,000,000</b>	—	—
Private placement of shares	—	—	3,481,000	11,732,250
Exercise of warrants	—	—	30,800	121,660
Exercise of options	<b>60,000</b>	<b>206,572</b>	553,700	561,376
Share issuance costs, net of tax [c]	—	<b>(2,345,067)</b>	—	(674,280)
Future tax impact of renunciation of development costs expended and reduction in tax basis mining of properties acquired	—	<b>(2,030,000)</b>	—	(2,920,000)
<b>End of period [b]</b>	<b>49,546,407</b>	<b>76,611,798</b>	38,936,407	50,753,793
<b>Warrants</b>				
<b>Beginning of period</b>	—	—	341,396	616,352
Public offering [c]	<b>4,775,000</b>	<b>1,623,500</b>	—	—
In lieu of fees [c]	<b>573,000</b>	<b>389,649</b>	—	—
Purchase of property interest [note 5[i]]	<b>100,000</b>	<b>174,790</b>	—	—
Warrant issuance costs, net of tax [c]	—	<b>(147,869)</b>	—	—
Future tax impact of reduction in tax basis of mining properties acquired	—	<b>(54,000)</b>	—	—
Exercised	—	—	(30,800)	(21,560)
Expired	—	—	(310,596)	(594,792)
<b>End of period</b>	<b>5,448,000</b>	<b>1,986,070</b>	—	—
		<b>78,597,868</b>		50,753,793

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- [b]** At September 30, 2007, the weighted average number of common shares outstanding was 41,471,425. During the period, options to purchase 1,125,000 common shares and warrants to purchase 5,448,000 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 1,183,700 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]** On July 26, 2007, the Company issued 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.
- [d]** The estimated fair value of 225,000 options granted and vested during the nine-month period ended September 30, 2007 has been allocated to stock-based compensation expense, deferred exploration expenditures and capital assets in the amounts of \$103,250, \$37,500 and \$150,000, respectively. 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 \$290,750 representing the fair value compensation recorded less \$34,000 related to the tax effect of the amount capitalized.

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 [years] #	
75,000	4.25	—	62	5	1.65
100,000	4.25	—	47	2	0.92
50,000	4.60	—	61	5	1.50

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.

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A summary of the status of the Company's stock option plan as at December 31, 2006 and September 30, 2007, and changes during the periods ending on those dates are presented below:

	<u>September 30, 2007</u>		<u>December 31, 2006</u>	
	<b>Number of shares #</b>	<b>Weighted- average exercise price \$</b>	<b>Number of shares #</b>	<b>Weighted- average exercise price \$</b>
<b>Options outstanding, beginning of period</b>	<b>2,278,700</b>	<b>2.54</b>	1,932,400	2.07
Granted	<b>225,000</b>	<b>3.02</b>	900,000	2.42
Exercised	<b>60,000</b>	<b>2.30</b>	553,700	0.70
Expired	<b>135,000</b>	<b>4.35</b>	—	—
<b>Options outstanding, end of period</b>	<b>2,308,700</b>	<b>2.49</b>	2,278,700	2.54

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

<b>Exercise prices \$</b>	<u>Options outstanding and exercisable</u>	
	<b>Number outstanding at September 30, 2007 #</b>	<b>Weighted average remaining contractual life [years] #</b>
0.75	553,700	0.3
2.30	630,000	4.2
2.80	50,000	5.0
2.84	100,000	3.5
2.90	100,000	0.5
2.96	75,000	4.6
3.18	100,000	1.7
3.30	200,000	2.0
3.45	300,000	1.5
3.86	50,000	3.0
4.95	150,000	2.5
	<b>2,308,700</b>	

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#### 7. INCOME TAXES

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

	<b>September 30, 2007</b>	December 31, 2006
	\$	\$
<b>Net future tax liabilities</b>		
Book value of deferred exploration expenditures and capital assets in excess of tax value	<b>(9,348,000)</b>	(7,230,000)

#### 8. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	<b>September 30, 2007</b>	December 31, 2006
	\$	\$
Cash on hand and balances with banks	<b>6,728,841</b>	4,302,904
Short-term fixed income deposits	<b>19,122,294</b>	7,639,454
	<b>25,851,135</b>	11,942,358

[b] Supplemental cash flow information:

	<b>September 30, 2007</b>	December 31, 2006
	\$	\$
Income taxes paid	<b>20,115</b>	—
Interest and investment income received	<b>369,010</b>	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 \$174,615 for third-party geological consulting and for administrative consulting services on behalf of the Company.

[b] During the period, the Company paid an officer \$147,132 for financial, management and administrative consulting services on behalf of the Company.

[c] During the period, \$158,706 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.



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

### Nine months ended September 30, 2007

*This discussion and analysis of financial condition and results of operations of Fortune Minerals Limited is prepared as at November 8, 2007, and should be read in conjunction with the unaudited consolidated financial statements of Fortune Minerals Limited and the notes thereto for the nine months ended September 30, 2007 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, 2006. 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](http://www.sedar.com). All dollar amounts are presented in Canadian dollars.*

#### SUMMARY OF QUARTERLY RESULTS

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.

	2007			2006			2005	
	Sep-30	Jun-30	Mar-31	Dec-31	Sep-30	Jun-30	Mar-31	Dec-31
<b>Revenues</b>	\$203,966	\$91,495	\$109,340	\$71,354	\$256,385	\$128,793	\$139,502	\$155,846
<b>Net income (loss)</b>	(119,701)	(112,496)	(29,624)	18,856	189,991	(102,386)	(145,666)	(181,419)
<b>Income (loss) per share</b>	—	—	—	—	—	—	—	—

#### 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 and precious metals, primarily in British Columbia and Northwest Territories. Fortune's most significant properties are the Mount Klappan anthracite coal project and the NICO gold-cobalt-bismuth project.

The Company is focused on bringing both of its principal projects into production. During 2007, the Company continued the activities undertaken during the first six months and accomplished the following in the third quarter:

- completed a public offering for \$28.65 million in gross proceeds to fund the Company's development activities;
- completed Phase II of the NICO underground bulk sample program;
- completed the purchase of the minority interest in the NICO project and disposed of the Company's interest in Formosa;
- engaged O&M Partners, LLC to assist with investor relations activities;
- commenced a pilot plant program at SGS Lakefield Research Limited to test the bulk sample collected from the NICO project; and,
- commenced a pipeline trade-off study for the Mount Klappan project.

The Company's additional accomplishments during 2007 are as follows:

- released the results of its positive feasibility study for its NICO Project;
- continued to navigate the environmental assessment process completing certain activities related to the preparation of environmental applications for submission for both of its principal projects to advance to the next stages of the process;
- investigated potential technical and strategic alternatives to enhance the value of its projects and overall shareholder value; and
- completed metallurgical testwork demonstrating the ability to upgrade the bismuth concentrates contemplated to be produced in the feasibility study to a metal product which may materially improve the economics of the NICO project.

Exploration and development expenditures incurred by Fortune on its properties during the three and nine month periods ending September 30, 2007 were \$4,422,183 and \$14,053,842, respectively.

	<b>Three months ended September 30, 2007</b>	<b>Nine months ended September 30, 2007</b>
<b>NICO</b>	\$ 4,106,742	\$ 12,343,654
<b>Mount Klappan</b>	301,671	1,649,678
<b>All other projects</b>	13,770	60,510
<b>Total cash exploration and development expenditures</b>	<b>\$ 4,422,183</b>	<b>\$ 14,053,842</b>

These amounts, although lower than for the same period in 2006, are reflective of the budgeted expenditures and are focused on the Company's NICO and Mount Klappan projects.

The Company's net loss for the three and nine months periods ended September 30, 2007 was \$119,701 or \$nil per share and \$261,821 or \$0.01 per share, respectively compared to the net income of \$189,991 or \$nil per share and a net loss of \$58,061 or \$0.01 per share for the same periods in the prior year. The current year's losses are higher when compared to the prior year for both the three and nine month periods due to lower investment income and higher administrative, investor relations and write-offs of certain mining properties. Stock compensation expense for the three and nine month period ended September 30, 2007 was \$92,000 and \$103,250, respectively compared to \$nil and \$248,000 for the same periods in 2006.

## **RESULTS OF OPERATIONS**

### **Revenues**

Fortune's primary source of revenue is investment income. Interest and other income was \$203,966 for the three month period ending September 30, 2007 compared to \$256,385 for the same period in 2006. Interest and other income increased compared to the previous two quarters in 2007 due to increased cash and investments balances related to the completion of a public offering for gross proceeds of \$28.65 million.

### **Expenses**

The Company's administrative and investor relations expenses increased compared to the prior year for both the three and nine month periods ended September 30, 2007. These costs have increased as the Company has hired additional staff and increased its investor and public relations efforts. The Company's expenses are anticipated to increase further as the it grows.

### **Cash Flow**

Cash provided by operating activities was \$1,438,577 for the nine months ended September 30, 2007 compared to \$1,632,634 for the same period in 2006. Cash used in operating activities was \$649,777 for the three months ended September 30, 2007 compared to cash provided by operating activities of \$91,690 for the same period in 2006. The differences are principally the result of different investment income levels and changes in non-cash working capital balances related to the timing of major development programs.

Cash used in investing activities was \$4,686,066 and \$14,214,513 for the three and nine month periods ended September 30, 2007, respectively and is generally comparable with the same periods in the prior year except for the acquisition costs of mill and other assets purchase in the prior year located near Hemlo, Ontario. In carrying out the

planned and ongoing development activities, the Company will continue to invest significantly in its two main projects, NICO and Mount Klappan.

The Company issued 60,000 shares during the second quarter of 2007 pursuant to the exercise of stock options. The company, on July 26, 2007 raised gross proceeds of \$28.65 million (net cash proceeds of \$26,546,713) to fund its activities.

## **LIQUIDITY AND CAPITAL RESOURCES**

As at September 30, 2007, Fortune had cash and cash equivalents of \$25,851,135 and working capital of \$24,615,321, with no debt. Both cash and cash equivalents and working capital were substantially improved during the third quarter due to the financing. The Company's principal operational objectives for 2007 remain unchanged and, for the fourth quarter will focus on the environmental assessment process and obtaining permits for its two projects, continuing with the metallurgical testing of the bulk sample for the NICO project and the engineering and planning to deconstruct and move the Golden Giant buildings, milling equipment, surface facilities and inventory. Additional financing will be required by the Company in order to commence mine construction. The Company will continue to pursue financing alternatives, including seeking out suitable joint venture partners, and endeavor to execute a financing plan to fund mine construction at the Lost Fox and NICO deposits.

## **OUTLOOK**

Certain economic factors are having an important beneficial effect on the Company's projects, principally the strengthening trend in metal and coal prices. Cobalt, gold and bismuth average metal prices for 2005 and 2006, as used in the Company's feasibility study, were US\$16.50 per pound, US\$525 per ounce and US\$4.50 per pound, respectively. Currently, these metals are trading for approximately US\$30 per pound, US\$785 per ounce and US\$20 per pound, respectively, and have traded in ranges around these prices for most of 2007. The benchmark coking coal prices have been strengthening as well. However, anthracite prices have increased dramatically for certain products such as sinter and ultra low volatile PCI coal. The benefit of these higher resource prices are offset by the strengthening Canadian-US dollar exchange rate. The value of the Canadian dollar has increased approximately 26% over the last year to approximately CDN\$1.07 to US\$1.00.

These pricing trends are generally the result of increasing demand for these resources combined with shortages in supply. China, India, Vietnam and other Asian countries continue to grow and are increasing consumption of coal for power generation and metals for the manufacture of goods. The increasing demand for resources is compounded for bismuth and cobalt as a result of world wide trends to find replacements for lead due to lead toxicity issues and increasing use of rechargeable batteries in consumer and automotive goods. Supply of resources in general has been affected by higher operating costs, including for labour, equipment, fuel, constrained transportation systems and increased stripping ratios or increased mining depths for underground mines.

Based on these trends, the Company believes there has been a meaningful increase in the value of the NICO and Mount Klappan projects. As a result, the Company is committed to executing its business strategy of bringing its projects to production.

The timing of completing elements of the Company's strategy cannot always be predicted due to the reliance on and influence of forces outside of Company's control. The Company's management seeks strategies to manage and minimize the risks associated with such external factors and continuously monitors progress of each activity. The Company has simplified and focused its corporate structure as exemplified by the acquisition of the minority interest in NICO and is carrying out detailed engineering and test work to refine and improve project economics. The Company has also added significantly to the depth of its management and operating team and will continue to hire the additional talented people required to be successful.

## **TRANSACTIONS WITH RELATED PARTIES**

During first nine months of 2007, the Company paid Robin Goad, the President and Chief Executive Officer, \$174,615 for geological consulting and management consulting services on behalf of the Company, Kemp Management Services, a sole proprietorship of Julian Kemp, the Vice President Finance and Chief Financial Officer, \$147,132 for financial, management and administrative consulting services on behalf of the Company and Macleod Dixon LLP, a partnership of which David Knight, the Secretary and a director, is a partner, \$158,706 for legal services.

On August 8, 2007, the Company purchased the minority interest in the NICO project held by Candou Industries Inc. (“Candou”), a private company controlled by the Company’s Chairman, George Doumet. The Company acquired Candou’s interest 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 August 9, 2012. This transaction was approved by the independent directors of Fortune, subject to receipt of an opinion from Desjardins Securities Inc., that the transaction is fair, from a financial point of view, to Fortune.

## **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 comprehensive income are disclosed in the consolidated statements of comprehensive income (loss). As at September 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 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 September 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.

### **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](http://www.sedar.com).

### **SHARE DATA**

As at the date hereof, the Company has 49,546,407 common shares issued and outstanding, as well as: (i) warrants to purchase an aggregate of 5,448,000 common shares expiring either on July 26, 2009 or August 9, 2012 and exercisable at either \$3.00 or \$3.75 per share; and (ii) options to purchase an aggregate of 2,308,700 common shares expiring at various dates between January 24, 2008 and September 19, 2012 and exercisable at various prices between \$0.75 and \$4.95 per share.

### **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements in compliance with Canadian generally accepted accounting principles.

There were no changes to the Company's internal controls over financial reporting during the nine month period ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

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