FORTUNE MINERALS LIMITED

2008 ANNUAL FINANCIAL REPORT
MANAGEMENT DISCUSSION AND ANALYSIS AND CONSOLIDATED FINANCIAL STATEMENTS

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

Year Ended December 31, 2008

This Management's Discussion and Analysis of Fortune Minerals Limited ("Fortune" or the "Company") is dated March 6, 2009 and should be read in conjunction with the Company's Annual Audited Consolidated Financial Statements for the year ended December 31, 2008 prepared in accordance with Canadian generally accepted accounting principles. This discussion contains certain forward-looking information and is expressly qualified by this cautionary statement at the end of this Discussion. All dollar amounts are presented in Canadian dollars.

SELECTED ANNUAL INFORMATION

	2008	2007	2006
Total revenues	**$506,921**	$699,550	$596,034
Net (loss) income	**(1,378,793)**	2,196,067	(39,205)
Basic and fully diluted (loss) income per common share	**(0.03)**	0.05	–
Total assets	**99,286,206**	90,353,718	60,236,785
Total long term financial liabilities	**–**	–	–

SUMMARY OF QUARTERLY RESULTS

				2008
	Dec-31	**Sep-30**	**Jun-30**	**Mar-31**
Revenues	**$74,981**	**$98,461**	**$137,026**	**$196,453**
Net income (loss)	**(396,749)**	**(692,605)**	**(117,516)**	**(171,923)**
Basic and fully diluted income (loss) per common share	**(0.01)**	**(0.02)**	**–**	**–**

				2007
	Dec-31	Sep-30	Jun-30	Mar-31
Revenues	$294,749	$256,385	$128,793	$139,502
Net income (loss)	2,457,888	189,991	(102,386)	(145,666)
Basic and fully diluted income (loss) per common share	0.05	–	–	–

OVERVIEW

During 2008 and early 2009, very few enterprises have escaped the global economic turmoil. The recessionary environment has affected companies in all business sectors. The impacts are severe as we witness business closures, bankruptcies and government bailouts on a virtually unprecedented scale. News reports suggest world-wide stock market losses are in the trillions of dollars over the last 18 months. The S&P/TSX Composite index was down approximately 35% in 2008 and has declined a further 20% in the first two months of 2009.

For many mining companies, the ability to raise new capital in this market environment is limited. This is particularly critical for junior exploration and development companies like Fortune that do not have production revenues and are dependent on public markets to finance their ongoing operations.

However, there are certain businesses and business sectors that are able to take advantage of difficult economic times. Currently, gold producers are one of a few popular sectors as many have recently been able to raise substantial sums of capital. These financings demonstrate that capital is available. Further, as the economy recovers, there will be opportunities for companies well positioned to take advantage of them.

Fortune has conservatively managed its business affairs and believes it is positioned to weather the current economic storm and take advantage of new opportunities. The advantages Fortune offers include: diversified assets; our projects are located in Canada, a mining friendly politically stable country; our development projects provide participation in commodities of critical importance in the world economy including gold, cobalt, bismuth, copper, and coal; and a near-term production plan that offers less risk than grass roots exploration companies.

The Company's most significant assets are the Mount Klappan anthracite coal project in northwest British Columbia and the NICO cobalt-gold-bismuth-copper project in the Northwest Territories, both of which are in the advanced development phase. The Company`s transition to becoming a producer has been facilitated by the successful completion of positive feasibility studies on both projects as well as test mining and pilot plant processing. Both projects offer substantial resources and reserves that will support long-life mines. They have also been subject to rigorous environmental studies providing the requisite base line data to successfully navigate the environmental assessment and permitting processes. Operational alternatives are being evaluated to enhance the economics of each project, including various construction, processing and transportation options.

The Company has been seeking a joint venture partner to develop the Mount Klappan project on a larger, more profitable scale than Fortune originally contemplated. Although the pace of this process has been affected by the economy, the Company is actively engaged in discussions with interested parties. At the same time, Fortune has continued to build a relationship with the Tahltan First Nation evidenced by the signing of an Environmental Assessment Cooperation Agreement.

Fortune plans to develop its NICO project independently. The Company is nearing completion of its Front End Engineering and Design program, large scale pilot plant testing, and dismantling and deconstruction of the Hemlo Golden Giant Mine milling and process assets it acquired in 2006.

In addition, the Company has augmented its board and management team while maintaining a solid financial position with the raising of more than $8 million of new capital during 2008. Despite the economic environment, Fortune has continued to advance its projects and is building significant momentum in the Environment Assessment process, particularly in the Northwest Territories.

Management continues to seek proactive ways to manage the inherent risks of the mining industry and the current global economic challenges, with specific attention to prudent cash flow and expenditure management. As a result, Fortune continues to have a positive working capital and low administrative costs.

It is worth noting that Fortune offers its investors exposure to a unique combination of commodities with attractive long term fundamentals. For its feasibility studies, the Company used price assumptions with sensitivities that show its principal projects to be capable of generating positive rates of return even at commodity prices below those currently prevailing in the marketplace.

Management believes the demand for the commodities Fortune's projects would produce will increase over the long term and not just due to an economic recovery. The demand for coal in general, and anthracite specifically, is anticipated to increase due to supply constraints for good quality metallurgical coals and growth in power needs and steel production. The demand for cobalt is anticipated to increase due to its use in high performance rechargeable batteries, high strength steel alloys and catalysts. Bismuth consumption is expected to increase principally as a replacement for lead due to its inert properties and concerns for lead-toxicity. Gold continues to demonstrate its value as a store of wealth. Globally, the supplies of these commodities are impacted by rising production costs, increasing regulatory costs, resource nationalism, and depletion of near-surface higher grade deposits.

Fortune's total cash expenditures for exploration and development activities over the last three years were: 2008 - $13,425,793; 2007 – $15,622,043; and 2006 – $17,912,606. Most of these expenditures were on the Company's Mount Klappan and NICO projects. Total capitalized exploration and development expenditures were $67,786,413 as at December 31, 2008, compared to $53,546,669 as at December 31, 2007.

The Company's 2008 project-related expenditures for NICO focused on pilot plant metallurgical test work, initial detailed engineering, environmental studies, community consultation activities, and salvage and dismantling activities at the Golden Giant Mine site. For Mount Klappan, expenditures were focused on examining mine and infrastructure enhancements, and community consultation activities. The actual cash exploration and development expenditures for NICO and Mount Klappan totaled $13.4 million and exceeded the forecasted expenditures by $1.4 million due to additional metallurgical test work, engineering, and project enhancement activities that were carried out in addition to originally forecasted activities.

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

Year Ended December 31, 2008

OVERVIEW *(continued)*

Fortune's net loss in 2008 increased significantly compared 2007. Although administrative and investor relations costs were higher in 2008, the most significant changes were corporate advisory costs incurred, increased stock compensation expense and reduced future income tax recovery. Of these items, only the corporate advisory costs that include financial advisory services associated with seeking out joint venture partners for Mount Klappan impacted cash. Net loss before income taxes was $1,577,793 and $249,933 for the years ended December 31, 2008 and 2007, respectively. The Company's net loss of $1,378,793 or $0.03 per share for the year ended December 31, 2008 compares to net income of $2,196,067 or $0.05 per share for the year ended December 31, 2007, reflecting the non-cash recovery of future income taxes of $199,000 and $2,446,000, respectively. The Company's net loss of $396,749 or $0.01 per share for the three months ended December 31, 2008 and the net income of $2,457,888 or $0.05 per share for the three months ended December 31, 2007 reflect the same trends.

RESULTS OF OPERATIONS

REVENUES

Fortune's investment income, its primary source of revenue, decreased to $506,921 in 2008 compared to $699,550 in 2007. The decrease is the result of lower investment yields related to declining cash balances and interest rates during 2008. The Company invests its surplus cash in low risk, liquid investments, which typically have low yields but hold their value during times of market uncertainty. Management anticipates declining cash balances and reduced revenues for 2009 compared to 2008, as the Company continues to advance its projects.

EXPENSES

Expenses increased in 2008 to $1,737,581 compared to $906,977 in 2007. The increase is primarily attributable to higher stock-based compensation, corporate advisory costs and administrative and investor relations expenses incurred during 2008 compared to 2007.

Upon the grant of stock options, management estimates the fair value of the options using the Black-Scholes model. The estimated fair value of the options is allocated to stock-based compensation expense, capital assets and deferred assets based on an approximation of the allocation of the optionee's future compensation. In the case of directors, the entire fair value of the options granted is recorded as a stock-based compensation expense.

Summary estimated fair value of stock options granted:

	2008	2007
Options granted during the year	**1,250,000**	225,000
Total estimated fair value	**$1,017,600**	$290,750
Average fair value per option	**$0.81**	$1.29
Allocated to:		
Stock-based compensation expense	**$469,500**	$103,250
Exploration and development expenditures	**$380,500**	$37,500
Capital assets	**$167,600**	$150,000

The increases in administrative and public relations expenses reflect the increase in personnel and investor relations activities related to growth of the Company.

In 2008, the Company's net loss included $9,466 write off of certain capital assets with no remaining useful life and corporate advisory costs of $337,667 including financial advisory services associated with seeking out joint venture partners for the Mount Klappan project. The Company's net income for 2007 included its share in losses in Formosa Environmental Aggregates Ltd. ("Formosa") of $844 (following the equity method of accounting for investments) up to August 8, 2007, the date Fortune disposed of its interest in Formosa. Upon disposal of its interest, the Company recognized a $2,665 gain. Also included in the Company's net income for 2007 was a write-off of $44,327 in exploration and development expenditures related to certain mineral claims Fortune has chosen not to pursue.

FUTURE TAX RECOVERY

The Company recognized a future income tax recovery and reduced the Company's future tax liability to $199,000 in 2008 compared to $2,446,000 in 2007. The current year recovery reflects the recognition of future tax benefits resulting from the current year tax loss. In 2007, the recovery was primarily the result of reductions in the substantively enacted future tax rates and recognition of the benefit of certain non-capital losses and un-deducted share issue expenses. The Company's future tax liability has arisen, principally, due to the increasing difference between the book and tax values of its assets. The increased difference between book and tax value of assets primarily reflects the renunciation of tax deductions to investors of flow through shares.

CASH FLOW

Cash provided by operating activities in 2008 was $825,611 compared to $756,446 for 2007. However, operating activities before changes in non-cash working capital used cash of $1,077,556 in 2008 compared to $97,354 in 2007. Due to growing administrative and investor relations costs, one-time costs for corporate transaction costs and declining investment income, the use of cash for operations for 2008 is significant compared to 2007. Management has anticipated this and expects the trend to continue although at a reduced rate. The source of cash from the changes in working capital balances for 2008 and 2007 primarily reflected a decrease in receivables and an increase in accounts payable and accrued liabilities consistent with the timing of business activities.

Cash used in investing activities increased to $23,076,613 in 2008 from $16,183,108 in 2007. The 2008 figure primarily includes exploration and development expenditures of $13,425,793 and the purchase of capital assets of $8,916,704. The cost of capital assets includes expenditures on the Company's Hemlo assets net of recoveries from the sale of used equipment and the recycling of scrap steel and other metals. The 2007 figure primarily consists of exploration and development expenditures of $15,622,043 and the purchase of capital assets of $375,519. For both 2007 and 2008, the expenditures on capital assets consist primarily of dismantling and deconstruction of Hemlo Golden Giant Mine assets for their future use at NICO.

The Company raised net cash proceeds of $7,967,326 from the issuance of 6,003,700 common shares in 2008. In 2007 the Company raised net cash proceeds of $26,703,173 from the issuance of 10,610,000 common shares and 5,448,000 warrants. The shares and warrants issued in 2007 include 1,000,000 shares and 100,000 warrants issued related to the purchase of the minority interest in the NICO project and 573,000 warrants issued to agents in lieu of fees. The issuance of these shares and warrants are non-cash transactions.

Reconciliation of cash and non-cash changes in share capital:

				2008
	Shares/Warrants Issued #	Cash Proceeds, Net $	Non-cash Proceeds, Net $	Total Proceeds Net $
Common shares issued during the year				
Private placements	5,450,000	7,552,051	–	7,552,051
Exercise of options	553,700	415,275	227,017	642,292
Future tax impact		–	(1,471,500)	(1,471,500)
Total common shares issued	6,003,700	7,967,326	(1,244,483)	6,722,843
Average proceeds per share		1.33	(0.21)	1.12
Change in share capital		7,967,326	(1,244,483)	6,722,843

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Reconciliation of cash and non-cash changes in share capital: *(continued)*

2007	Shares/Warrants Issued #	Cash Proceeds, Net $	Non-cash Proceeds, Net $	Total Proceeds, Net $
Common shares issued during the year				
Public offering [1]	9,550,000	25,067,463	(367,560)	24,699,903
Purchase of property interest	1,000,000	–	3,000,000	3,000,000
Exercise of options	60,000	138,000	68,572	206,572
Future tax impact		–	(2,030,000)	(2,030,000)
Total common shares issued	10,610,000	25,205,463	671,012	25,876,475
Average proceeds per share		2.38	0.06	2.44
Warrants issued during the year				
Public offering [1]	4,775,000	1,497,710	(22,080)	1,475,630
Warrants in lieu of fees	573,000	–	389,640	389,640
Purchase of property interest	100,000	–	174,790	174,790
Future tax impact		–	(54,000)	(54,000)
Total warrants issued	5,448,000	1,497,710	488,350	1,986,060
Average proceeds per warrant		0.27	0.09	0.36
Change in share capital		26,703,173	3,216,440	27,862,535

(1) Public offering consisted of 9,550,000 units for $3.00 per unit. Each unit consisted of one common share and one half of one common share purchase warrant.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2008, Fortune had cash and cash equivalents of $8,935,193 and working capital of $6,492,241, with no debt. The Company's principal operational objectives for 2009 are focused on permitting its NICO project, completion of dismantling and demolition of Hemlo Golden Giant Mine assets for use at NICO, and completing a joint venture arrangement for the Mount Klappan project. Forecasted net expenditures for 2009 at NICO and Hemlo total approximately $1 million and $4 million, respectively. The Company does not anticipate any significant project expenditures on the Mount Klappan project while it seeks a joint venture partner and focuses on community consultation activities. Subsequent to year end, Fortune entered into a loan agreement with a third party for net proceeds of $2,925,000. The loan has a face value of $3 million, is unsecured, has a term of three years and bears interest at an annual rate of 9%. In connection with the loan, Fortune issued to the lender warrants to purchase up to 1,875,000 common shares of Fortune at an exercise price of $0.80 per share until September 2, 2010. These proceeds, together with the Company's working capital and anticipated proceeds from the Hemlo Golden Giant Mine on the sale of surplus equipment, recyclable and scrap metals and the recovery of residual precious metals from the equipment and other facilities will be sufficient to fund its 2009 and early 2010 planned activities. Ultimately, additional financing will be required to construct the mine infrastructure and acquire additional equipment. The Company will continue evaluating its alternatives with a view to executing a financing plan suitable to fund its transformation into a producer.

OUTLOOK

The Company's principal objective is to achieve successful commercial production. The Company's activities in pursuit of this objective are subject to many risks as discussed below under the "Risks and Uncertainties" section. However, the most significant risks to meeting its objective in the targeted time frame are permitting and financing. These risks arise primarily from external stakeholders such as government regulators, First Nations, and investors who have significant influence over the outcome of the Company's efforts. As such, management has sought proactive ways to address risks in its business model and has developed appropriate strategies to move forward.

The Company's activities during 2007 and 2008 and its planned activities in 2009 include the following:

- The Company's regulatory and environment managers completed environmental studies, applications and filings with the support of leading environmental consulting firms and continued to strengthen our relationships with the First Nations impacted by our projects. These activities have positioned the Company to conduct negotiations for impacts and benefits agreements with applicable First Nations and navigate the environmental assessment and permitting process. Management anticipates realizing significant progress in 2009 towards receiving the required permits for its NICO project.

- The Company's engineering and technical managers guided and completed extensive engineering and geological studies culminating in the completion of independent feasibility studies. In addition, the Company has conducted pilot plant tests of its process methods and is now making refinements to enhance project economics for both of its major projects. The Company is now in a position to proceed with final detailed engineering and design work, procurement and tendering of a construction management contract for its NICO project.

- The Company's financial and senior executives have developed relationships with certain financial institutions with a view to arrange project financing facilities to fund the development and construction of the NICO project upon receipt of the required permits. Progress in this area is being made despite the current global credit crisis.

- Discussions are continuing with several groups interested in participating in the development of the Mount Klappan project.

The significant economic realities impacting the Company in the short-term also offer some opportunities for the future:

- The weakening Canadian dollar has offset some or all of the decline in commodity prices helping to maintain the underlying value of Fortune's projects.

- Competition for experienced resource industry personnel has eased as a result of closures of competitor's operations and reductions in their work forces.

- Escalation in labour and equipment costs have eased or reversed from the prior year.

- Investment trends show a movement to producers, specifically in the gold sector. Fortune has a significant gold asset in NICO and with a near term production profile has the potential to benefit from this market sentiment.

The Company, as it moves forward, will continue to focus on prudent management of capital resources while addressing the key aspects related to development of its projects.

TRANSACTIONS WITH RELATED PARTIES

During 2008, the Company paid businesses owned or controlled by or related to the President and CEO, the Vice President Finance and CFO, the Corporate Secretary and Director, and a Director, in aggregate, $790,136 for various third party consulting and legal services. In addition, fees of $141,323 were paid to non-executive Directors.

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

Year Ended December 31, 2008

CRITICAL ACCOUNTING ESTIMATES

GOING CONCERN ASSUMPTION

The recoverability of amounts shown for mineral properties and related exploration and development 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.

Currently, the Company does not have a source of revenue other than investment income and recovery of surplus assets and salvaged materials from the Hemlo Golden Giant Mine and it has relied, primarily, on equity financings to fund its activities. Given the current economic conditions, the Company may have limited access to capital at an acceptable cost to existing shareholders. However, the Company at December 31, 2008 has positive working capital and cash balances and subsequent to year end raised nearly $3 million by way of a debt facility. The available capital is sufficient to fund the Company's current planned activities for 2009.

INTERESTS IN MINING PROPERTIES AND EXPLORATION AND DEVELOPMENT EXPENDITURES

In accordance with the Company's accounting policies, acquisition costs and exploration expenditures relating to mineral properties are capitalized until the properties are brought into commercial production or disposed. Amortization will commence when a property is put into commercial production. As the Company does not currently have any properties in commercial production, no amortization has been recorded.

Mineral reserve and mineral resource estimates are not precise and also depend on statistical inferences drawn from drilling and other data, which may prove to be unreliable. Future production could differ from mineral resource estimates for the following reasons:

- Mineralization or formation could be different from those predicted by drilling, sampling and similar tests;
- The grade of mineral resources may vary from time to time and there can be no assurance that any particular level of recovery can be achieved from the mineral resources; and
- Declines in the market prices of contained minerals may render the mining of some or all of the Company's mineral resources uneconomic.

Any of these factors may result in impairment of the carrying amount of interests in mining properties or exploration and development expenditures.

FUTURE INCOME TAXES

The Company follows the liability method of tax allocation in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Assessing the recoverability of deferred tax assets requires management to make significant estimates related to expectations of future taxable income and substantively enacted tax rates. The Company, by 2008, has completed feasibility studies and certain updates for both of its principal projects and undertaken related permitting and financing activities. Management has determined it is more likely than not that the Company will achieve production and realize the benefit of certain non-capital losses and its un-deducted share issuance costs. The benefit of these amounts is estimated to be $1,515,000 and has been recorded in the consolidated financial statements to the extent that the deduction for share issuance costs and operating losses expire post-2015. A future tax liability of $9,825,000 has also been recorded in the consolidated financial statements for the book value of exploration and development expenditures and capital assets in excess of tax value.

STOCK BASED COMPENSATION

The Company recognizes an expense for option awards using the fair value method of accounting. Management estimates the fair value of stock options using the Black-Scholes model. 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. The valuation models are used to provide a reasonable estimate of fair value given the variables used.

ASSET RETIREMENT OBLIGATIONS

Legal obligations associated with site restoration on the retirement of assets are recognized when they are incurred when a reasonable estimate of fair value can be made. If a reasonable estimate of fair value cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of fair value can be made. The Company has not commenced operations on its mining properties and the principal projects are in the development stage. Due to the uncertainty around the amount and timing of potential asset retirement obligations for the Company's projects, management is not able to make a reasonable estimate of fair value at this time. Each period, Management reviews whether a reasonable estimate of fair value can be made on potential future asset retirement obligations for each project.

NEW ACCOUNTING STANDARDS

Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants ["CICA"] Handbook Sections 1535 *Capital Disclosures*, Section 3862 *Financial Instruments – Disclosures* and Section 3863 *Financial Instruments – Presentation*. Sections 3862 and 3863 replace Section 3861 *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. The principal changes in the Company's financial statements due to the adoption of these accounting standards are described below.

Section 1535 *Capital Disclosures*

This Section specifies the disclosure of: (i) an entity's objectives, policies and processes for managing capital; (ii) summary quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any externally imposed capital requirements; and (iv) if it has not complied with such requirements, the consequences of such non-compliance. These disclosures have been reflected in the 2008 financial statements.

Section 3862 *Financial Instruments – Disclosures* and 3863 *Financial Instruments – Presentation*

Section 3862 *Financial Instruments – Disclosures*: This Section places increased emphasis on disclosures that enable the user to evaluate: (i) the significance of financial instruments for the entity's financial position and performance and (ii) the nature and extent of risks arising from financial instruments the entity is exposed to during the period and at the balance sheet date, and how the entity manages those risks. These disclosures have been reflected in the 2008 financial statements.

Section 3863 *Financial Instruments – Presentation*: This section carries forward the financial instrument presentation requirements of Section 3861. Therefore, adoption of this standard did not impact the presentation of the Company's 2008 financial statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Effective January 1, 2011, the accounting framework under which financial statements are prepared in Canada for all publicly accountable enterprises is schedule to change to International Financial Reporting Standards ("IFRS"). Generally accepted accounting principles ("GAAP") in Canada will cease to apply and will be replaced by IFRS. The Accounting Standards Board plans to implement changes to Canadian generally accepted accounting principles between now and the implementation date to smooth the transition; however, it is expected that IFRS implementation will significantly impact current financial statement presentation and disclosure.

An IFRS convergence strategy and changeover plan is currently being developed with disclosure of a more detailed plan in 2009. During 2008, the Company began a cursory review of the major differences between current Canadian generally accepted accounting principles and IFRS. The Company plans a more detailed impact analysis during 2009 including initial selection of accounting policies where there are new options and choices and exemption decisions to be made under IFRS 1. As such, the impact of IFRS changeover has not yet been quantified. The Company has also begun assessing current and future business processes and related internal controls considering the impact of IFRS. A current business process review was conducted and an assessment of future process needs for NICO and Mount Klappan was initiated. In addition, the Company has initiated a process to assess system needs required to support future operations under IFRS with the intent to implement any required changes prior to IFRS conversion. Fortune`s Corporate Controller and Chief Executive Officer attended training programs specific to IFRS during 2008 and the Company will continue to build IFRS knowledge through senior management and Audit Committee training.

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INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

The Company will continue to assess and monitor the impact of adopting IFRS including monitoring of changes to IFRS standards and will update its MD&A disclosure quarterly to report on progress of its IFRS changeover plan. Commencing in fiscal 2010, the Company anticipates preparing accounts in accordance with Canadian GAAP and IFRS in order to have comparative financial statements on full implementation of IFRS in 2011.

ENVIRONMENT

Fortune is committed to a program of environmental protection at its development projects and exploration sites. Fortune was in compliance with government regulations in 2008. The Company has provided secured letters of credit in the aggregate amount of $518,000 to be held against future environmental obligations with respect to the Mount Klappan and NICO properties.

RISK AND UNCERTAINTIES

The operations of the Company are speculative due to the high-risk nature of its business, which is the acquisition, financing, exploration and development of mining properties. The risks below are not the only ones facing the Company. Additional risks not currently known to the Company, or that the Company currently deems immaterial, may also impair the Company's operations. If any of the following risks actually occur, the Company's business, financial condition and operating results could be adversely affected.

NATURE OF MINERAL EXPLORATION AND MINING

At the present time the Company does not hold any interest in a mining property in production. The Company's viability and potential success is based on its ability to develop, exploit and generate revenue from mineral deposits. The exploration and development of mineral deposits involve significant financial risk over a significant period of time, which even a combination of careful evaluation, experience and knowledge may not eliminate. While discovery of a mine may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenses may be required to establish reserves by drilling and to construct mining and processing facilities at a site. It is impossible to ensure that the current or proposed exploration and development programs on the properties in which the Company has an interest will result in a profitable commercial mining operation.

The operations of the Company are subject to all of the hazards and risks normally incident to exploration and development of mineral properties, any of which could result in damage to life and property, the environment and possible legal liability for any and all damage. The activities of the Company may be subject to prolonged disruptions due to weather conditions depending on the location of the operations in which the Company has interests. Hazards, such as unusual or unexpected geological structures, rock bursts, pressure, cave-ins, flooding or other conditions may be encountered in the drilling and removal of material. While the Company may obtain insurance against certain risks in such amounts as it considers adequate, the nature of these risks are such that liabilities could exceed policy limits or could be excluded from coverage. There are also risks against which the Company cannot insure or against which it may elect not to insure. The potential costs which could be associated with any liabilities not covered by insurance or in excess of insurance coverage or associated with compliance with applicable laws and regulations may cause substantial delays and require significant capital outlays, adversely affecting the future earnings and competitive position of the Company and, potentially, its financial position.

Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are the particular attributes of the deposit, such as size and grade, proximity to infrastructure, financing costs and governmental regulations, including regulations relating to prices, taxes, royalties, infrastructure, land use, importing and exporting and environmental protection. The effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

LIMITED FINANCIAL RESOURCES

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

DEPENDENCE ON KEY PERSONNEL AND LIMITED MANAGEMENT TEAM

Fortune is dependent on the services of its senior management, including Robin Goad, its President and Chief Executive Officer, and a small number of skilled and experienced employees and consultants. The loss of any such individuals could have a material adverse effect on Fortune's operations. In addition, Fortune may need to supplement its existing management team in order to bring any of its projects into production.

FLUCTUATING PRICES

Factors beyond the control of the Company may affect the marketability of coal, cobalt, bismuth, gold or any other minerals discovered. Commodity prices have fluctuated widely and are affected by numerous factors beyond the Company's control. The effect of these factors cannot accurately be predicted.

PERMITS AND LICENSES

The operations of the Company require licenses and permits from various governmental authorities. The Company believes that it presently holds all necessary licenses and permits required to carry out the activities which it is currently conducting under applicable laws and regulations and the Company believes it is presently complying in all material respects with the terms of such licenses and permits. However, such licenses and permits are subject to change in regulations and in various operating circumstances. The Company has submitted requisite applications for land use and water licenses in order to construct and operate a mine at its NICO project. As a result, an environmental assessment of the project has been triggered and the applications are subject to review or approval by certain regulatory bodies and First Nations. In addition, the Company is navigating the environmental assessment process related to its Mount Klappan project. Subject to receiving an environmental certificate from this process, the Company is still required to apply and obtain mining permits in order to build and operate a mine. There can be no assurance that the Company will be able to obtain all necessary licenses and permits required to carry out future exploration, development and mining operations at its projects.

COMPETITION

The mineral exploration and mining business is competitive in all its phases. The Company competes with numerous other companies and individuals, including other resource companies with greater financial, technical and other resources than the Company, in the search for and the acquisition of attractive mineral properties, the acquisition of mining equipment and related supplies and the attraction and retention of qualified personnel. The ability of the Company to acquire properties, purchase required equipment, and hire qualified personnel in the future will depend not only on its ability to develop its present properties, but also on its ability to identify, arrange, negotiate, select or acquire suitable properties or prospects for mineral exploration, source suitable equipment and hire qualified people. Based on the feasibility studies prepared for its two principal properties, the estimated capital costs for the construction of a mine and related infrastructure at NICO exceeds $200 million and at Mount Klappan, depending on the production profile, exceed $650 million. In addition, the Company would have to significantly increase its work force if either or both of its principal projects are brought into production. There is no assurance that the Company will continue to be able to compete successfully in the acquisition of building materials, sourcing equipment or hiring people.

ENVIRONMENTAL AND CLIMATE CHANGE REGULATION

The operations of the Company are subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner which means standards, enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and their directors, officers and employees. The Company has carried out and completed significant environmental base line studies to position the Company to successfully complete any required environmental assessments but there is no assurance that environmental certificates can be obtained in a timely manner. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of future operations. The impacts of the Kyoto Protocol, carbon taxes and other potential climate change legislation are difficult to predict and are not yet fully understood. Such impacts may have an adverse effect on the capital and operating cost of the Company's operations or those of its future customers that may materially affect future operations.

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

Year Ended December 31, 2008

ABORIGINAL TITLE AND RIGHTS CLAIMS

Aboriginal title and rights may be claimed with respect to Crown properties or other types of tenure with respect to which mining rights have been conferred. The Company is not aware of any aboriginal land claims having been formally asserted or any legal actions relating to aboriginal issues having been instituted with respect to the properties other than certain treaty rights established by the Nisga'a and Tlicho for the Mount Klappan and NICO projects, respectively. The Company is aware of certain First Nations that claim certain title and rights with respect to Crown properties related to the Company's projects that may or may not be formally asserted with the Crown in order to seek comprehensive land claim settlements. Further, in 2005, the Company's Mount Klappan property was the subject of a blockade by a group of individuals, most being aboriginals, which required the Company to obtain a court injunction to remove the blockade. There can be no assurance that similar events will not occur or that additional title and rights claims will not be asserted in the future in respect of the Company's properties. The Company is aware of the mutual benefits afforded by co-operative relationships with indigenous people in conducting exploration and development activity and is supportive of measures established to achieve such cooperation including preferential hiring practices, local business development activities, involvement in environmental stewardship and other forms of accommodation. It will also be necessary for the Company to negotiate and enter into appropriate impacts and benefits agreements with relevant First Nations in order to bring its projects into production and there is no assurance that the Company will be able to negotiate such agreements on favourable terms or at all. In addition, other parties may dispute the Company's title to the properties and the properties may be subject to prior unregistered agreements or transfers or land claims by aboriginal peoples, and title may be affected by undetected encumbrances or defects or government actions.

ESTIMATES OF MINERAL RESERVES AND RESOURCES MAY NOT BE REALIZED

The mineral reserve and resource estimates published from time to time by the Company with respect to its properties are estimates only and no assurance can be given that any particular level of recovery of minerals will in fact be realized or that an identified resource will ever qualify as a commercially mineable (or viable) deposit which can be legally and economically exploited. In addition, the grade of mineralization ultimately mined may differ from that indicated by drilling results and such differences could be material. Production can be affected by such factors as permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations, inaccurate or incorrect geological, metallurgical or engineering work, and work interruptions, among other things. Short-term factors, such as the need for orderly development of deposits or the processing of new or different grades, may have an adverse effect on mining operations or the results of operations. There can be no assurance that minerals recovered in small-scale laboratory tests will be duplicated in large scale tests under on-site conditions or in production scale operations. Material changes in resources, grades, stripping ratios or recovery rates may affect the economic viability of projects. The estimated resources described herein should not be interpreted as assurances of mine life or of the profitability of future operations.

The Company has engaged expert independent technical consultants to advise it with respect to mineral reserves and resources and project engineering, among other things. The Company believes that those experts are competent and that they have carried out their work in accordance with all internationally recognized industry standards. However, if the work conducted by those experts is ultimately found to be incorrect or inadequate in any material respect, the Company may experience delays and increased costs in developing its properties.

HEALTH AND SAFETY MATTERS

The Company's development and exploration projects are affected by various laws and regulations, including those which cover health and safety matters. Existing legislation and regulations are subject to change, the impacts of which are difficult to measure. It is the policy of the Company to maintain safe working conditions at all its work sites, comply with health and safety legislation, maintain equipment and premises in safe condition and ensure that all employees are trained and comply with safety procedures.

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, reclamation bonds, accounts payable and accrued liabilities and income taxes payable. These financial instruments are recorded at their fair values except for accounts receivable, accounts payable and accrued liabilities and income taxes payable which are recorded at amortized cost. It is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The Company mitigates its risk by holding its short-term investments in instruments low in risk and highly rated with large financial institutions.

ADDITIONAL INFORMATION

Additional information relating to the Company, including its current and previous year's annual information forms are available on SEDAR at www.sedar.com.

SHARE DATA

As at the date hereof, the Company has 55,550,107 common shares issued and outstanding, as well as options to purchase an aggregate of 2,725,000 common shares expiring at various dates between March 17, 2009 and September 5, 2013 and exercisable at various prices between $1.30 and $4.95 per share. Common share purchase warrants to purchase an aggregate of 5,448,000 common shares were outstanding at December 31, 2008, all of which expire on July 26, 2009, except for 100,000 warrants expiring on August 8, 2012, and all were exercisable at either $3.00 or $3.75 per share. Subsequent to year-end, warrants to purchase an additional 1,875,000 common shares were issued as part of a loan agreement. The warrants have an exercise price of $0.80 and expire on September 2, 2010.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this management's discussion and analysis, management of the Company, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this MD&A, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under National Instrument 52-109—*Certification of Disclosure in Issuers' Annual and Interim Filings* of the Canadian Securities Administrators) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Company, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

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 (GAAP). Any system of internal control over financial reporting (ICFR), no matter how well-designed, has inherent limitations. Therefore, even well-designed systems of internal control can provide only reasonable assurance with respect to financial statement preparation and presentation.

As at the end of the period covered by this management's discussion and analysis, management of the Company, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the design and effectiveness of the Company's internal controls over financial reporting as required by Canadian securities laws. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this MD&A, ICFR were effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The control framework used to design and assess the effectiveness of the Company's ICFR is the *Internal Control - Integrated Framework* (COSO Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO). Further, the Company uses *Internal Control over Financial Reporting - Guidance for Smaller Public Companies* published by COSO, which provides guidance to smaller public companies on the implementation of the COSO Framework.

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

Year Ended December 31, 2008

INTERNAL CONTROLS OVER FINANCIAL REPORTING *(continued)*

The Company assesses internal controls over financial reporting on an ongoing basis and where determined appropriate, proactively implements enhancements to the design of controls required to support anticipated changes to and growth of the business. Due to operational, financial and administrative changes planned to occur over as the Company transforms from an exploration company to a producer together with the adoption of IFRS, changes will be required to the Company's internal controls over financial reporting in order to maintain reasonable assurance regarding the reliability of the Company financial reporting and preparation of financial statements. As such the following changes to the Company's internal controls over financial reporting during the year ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting were implemented:

- Comprehensive formal policies and procedures related to expenditure controls and labour activities were updated
- Increased segregation of duties and controls over authorizing and recording of business transactions with the hiring of a Corporate Controller
- Implementation of a formal planning and budgeting process
- Certain access controls implemented on all Corporate computer hardware and network

There were other enhancements made to the Company's internal controls over financial reporting during the year ended December 31, 2008, however, no other changes are considered to 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, timing and cost for placing the Company's mineral projects into production, costs of production, amount and quality of metal products recoverable from the Company's mineral resources, demand and market outlook for metals and coal and future metal and coal 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, uncertainties with respect to the receipt or timing of required permits and regulatory approvals, the uncertainties involved in interpreting drilling results and other geological data, fluctuating metal and coal prices, the possibility of project cost overruns or unanticipated costs and expenses, uncertainties relating to the availability and costs of financing needed in the future, uncertainties related to metal recoveries 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.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements and the Management Discussion and Analysis are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis given currently available information in order to ensure that the financial statements are presented fairly, in all material respects.

The Company maintains systems of internal accounting and administrative controls in order to provide, on a reasonable basis, assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board, and its members are outside directors. The Committee meets with management as well as the external auditors to discuss auditing matters and financial reporting issues and to review the consolidated financial statements, the Management Discussion and Analysis and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or reappointment of the external auditors.

The consolidated financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with generally accepted auditing standards on behalf of shareholders. The external auditors have free access to the Audit Committee.

Robin Goad
President and
Chief Executive Officer

Julian Kemp
Vice President Finance and
Chief Financial Officer

AUDITOR'S REPORT

To the Shareholders of
Fortune Minerals Limited

We have audited the consolidated balance sheets of Fortune Minerals Limited as at December 31, 2008 and 2007 and the consolidated statements of loss (income) and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

London, Canada,
February 23, 2009.

Chartered Accountants
Licensed Public Accountants

CONSOLIDATED BALANCE SHEETS

Fortune Minerals Limited. Incorporated under the laws of Ontario.

As at December 31	2008 $	2007 $
ASSETS		
Current assets		
Cash and cash equivalents *[note 9[a]]*	8,935,193	23,218,869
Accounts receivable	353,335	728,243
Prepaid expenses	46,215	49,119
Total current assets	9,334,743	23,996,231
Other assets *[note 11[a]]*	582,907	–
Security deposit *[note 6[i]]*	477,015	342,127
Reclamation bonds *[note 6[iii]]*	601,867	585,546
Capital assets, net *[note 5]*	139,182	26,718
Mining properties *[note 6]*	88,150,492	65,403,096
	99,286,206	90,353,718
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	2,809,354	1,292,814
Income taxes payable	33,148	24,333
Total current liabilities	2,842,502	1,317,147
Future income taxes *[note 8]*	8,310,000	6,902,000
Total liabilities	11,152,502	8,219,147
SHAREHOLDERS' EQUITY		
Share capital *[note 7]*	85,339,171	78,616,328
Contributed surplus	4,261,320	3,606,237
Deficit	(1,466,787)	(87,994)
Total shareholders' equity	88,133,704	82,134,571
	99,286,206	90,353,718

See accompanying notes

On behalf of the Board:

Mahendra Naik

Robin Goad
Director

Mahendra Naik
Director

CONSOLIDATED STATEMENTS OF (LOSS) INCOME AND DEFICIT

Fortune Minerals Limited. Incorporated under the laws of Ontario.

Years ended December 31	2008 $	2007 $
REVENUE		
Interest and other income	506,921	699,550
EXPENSES		
Administrative	910,816	521,390
Investor relations	335,994	275,514
Stock-based compensation *[note 7[g]]*	469,500	103,250
Amortization	21,271	6,823
	1,737,581	906,977
Loss before other items	(1,230,660)	(207,427)
Corporate advisory costs *[note 6[ii]]*	(337,667)	–
Write-off of capital assets	(9,466)	–
Share in loss of equity investee	–	(844)
Gain on disposal equity investee	–	2,665
Write-off of interest in mining properties	–	(44,327)
Loss before income taxes	(1,577,793)	(249,933)
Recovery of future income taxes *[note 8]*	(199,000)	(2,446,000)
Net (loss) income for the year	(1,378,793)	2,196,067
Deficit, as previously reported	(87,994)	(2,279,580)
Change in accounting policy	–	(4,481)
Deficit, beginning of year, as restated	(87,994)	(2,284,061)
Deficit, end of year	(1,466,787)	(87,994)
Basic and diluted (loss) income per share *[note 7[b]]*	(0.03)	0.05

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Fortune Minerals Limited. Incorporated under the laws of Ontario.

Years ended December 31	2008 $	2007 $
OPERATING ACTIVITIES		
Net (loss) income for the year	**(1,378,793)**	2,196,067
Add (deduct) items not involving cash		
Amortization	**21,271**	6,823
Future income taxes	**(199,000)**	(2,446,000)
Stock-based compensation	**469,500**	103,250
Share in loss of equity investee	**–**	844
Loss (gain) on disposal of capital asset or equity investee	**9,466**	(2,665)
Write-off of interest in mining operations	**–**	44,327
	(1,077,556)	(97,354)
Changes in non-cash working capital balances related to operations		
Accounts receivable	**374,908**	670,728
Prepaid expenses	**2,904**	(19,562)
Accounts payable and accrued liabilities	**1,516,540**	202,634
Income taxes payable	**8,815**	–
Cash provided by operating activities	**825,611**	756,446
INVESTING ACTIVITIES		
Proceeds from disposal of short-term investments	**–**	268,325
Increase in other assets	**(582,907)**	–
Increase in security deposit	**(134,888)**	(342,127)
Purchase of plant and equipment and capital assets	**(8,916,704)**	(375,519)
Posting of security for reclamation bonds	**(16,321)**	(26,695)
Purchase of mining properties	**–**	(85,049)
Increase in exploration and development expenditures	**(13,425,793)**	(15,622,043)
Cash used in investing activities	**(23,076,613)**	(16,183,108)
FINANCING ACTIVITY		
Proceeds on issuance of shares, net	**7,967,326**	26,703,173
(Decrease) increase in cash and cash equivalents during the year, net	**(14,283,676)**	11,276,511
Cash and cash equivalents, beginning of year	**23,218,869**	11,942,358
Cash and cash equivalents, end of year *[note 9[a]]*	**8,935,193**	23,218,869

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

1. NATURE OF OPERATIONS

Fortune Minerals Limited [the "Company"] 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 exploration and development expenditures is dependent upon the economic viability of recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

[a] Principles of consolidation

The consolidated financial statements reflect the financial position and results of operations of the Company and its wholly-owned subsidiaries Fortune Minerals NWT Inc. and Fortune Coal Limited ["Fortune Coal"]. All intercompany transactions and balances have been eliminated.

[b] Comprehensive income

Comprehensive income is composed of net income (loss) 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 certain derivative instruments and hedging activities. The components of comprehensive income, if any, are disclosed in the consolidated statements of comprehensive income (loss). For the years ended December 31, 2008 and 2007, the Company has no other comprehensive income (loss) to report therefore its net income (loss) is equal to the comprehensive income (loss).

[c] Cash and cash equivalents

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

[d] Short-term investments

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

[e] Capital assets

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

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

[f] Capital disclosures

Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants ["CICA"] Handbook Sections 1535 *Capital Disclosures*. This Section specifies the disclosure of: (i) an entity's objectives, policies and processes for managing capital; (ii) summary quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any externally imposed capital requirements; and (iv) if it has not complied with such requirements, the consequences of such non-compliance. The adoption of this standard is reflected in note 4.

[g] Mineral properties and exploration and development expenditures

The Company capitalizes acquisition costs and exploration and development expenditures relating to mineral properties until the properties are brought into commercial production, disposed, or the mineral property is no longer economically viable or there is a permanent impairment in value, at which time the carrying value will be written down to its estimated fair value. Payments received for exploration rights on the Company's mineral properties are treated as cost recoveries and reduce the cost of deferred exploration expenditures related to the mineral claims.

[h] Income taxes

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

[i] Administrative expenses

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

[j] Stock-based compensation plans

The Company has a fixed stock-based compensation plan approved by the shareholders at the Company's annual meeting held on June 22, 2005. The plan was re-approved including certain amendments at the Company's annual meeting held on May 29, 2007. Under the plan, the Company may grant options to eligible individuals for up to 10% of the issued and outstanding common shares subject to certain conditions. As at December 31, 2008, the Company has 1,602,611 [2007 – 2,032,241] options available for grant in addition to any options issued and outstanding. The exercise price of each option is equal to or higher than the market price of the Company's stock on the date of grant. The plan does not provide for a maximum term. Options are granted and their terms determined at the discretion of the Board of Directors.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

[j] Stock-based compensation plans *(continued)*

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

[k] Financial instruments

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.

Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants ["CICA"] Handbook. Section 3862 *Financial Instruments – Disclosures* and Section 3863 *Financial Instruments – Presentation*. Sections 3862 and 3863 replace Section 3861 *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. Section 3862 *Financial Instruments – Disclosures* places increased emphasis on disclosures that enable the user to evaluate: (i) the significance of financial instruments for the entity's financial position and performance and (ii) the nature and extent of risks arising from financial instruments the entity is exposed to during the period and at the balance sheet date, and how the entity manages those risks. The adoption of this standard is reflected in note 3.

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 counter-balancing 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 December 31, 2008, the Company was not a party to any forward foreign exchange or metal pricing contracts, but may use such instruments in the future.

[l] Income (loss) per common share

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

3. FINANCIAL INSTRUMENTS

The Company has designated cash and cash equivalents, short-term investments, and reclamation bonds as assets held for trading. Accounts receivable are designated as receivables and accounts payable and accrued liabilities are designated as other liabilities. These financial instruments are initially measured at fair value. Receivables and accounts payable and accrued liabilities are subsequently measured on the basis of amortized cost using the effective interest rate method. Assets held for trading are revalued on the reporting date based on relevant market information about the financial instrument. These valuations are estimates and changes in assumptions could significantly affect the estimate.

[a] Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Cash and cash equivalents, short-term investments and reclamation bonds are composed of financial instruments issued by large Canadian financial institutions with high investment-grade ratings maturing over various dates. Further, the Company limits its credit risk to any individual counterparty. The Company's receivables consist primarily of Goods and Services Tax ("GST") due from the Federal Government of Canada.

[b] Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market prices and is comprised of three types of risk: interest rate risk; currency risk; and other price risk.

i. Interest rate risk arises because of changes in market interest rates. The Company's cash and cash equivalents, short-term investments and reclamation bonds are subject to minimal risk of changes in value, have an original maturity of 90 days or less from the date of purchase and are readily convertible into cash.

ii. Currency risk arises because of changes in foreign exchange rates. Nearly all of the Company's current activities are priced in Canadian dollars. However, the Company expects certain of its future capital and operating costs as well as its future revenue streams will be priced in United States dollars.

iii. Other price risk arises because of changes in market prices other than those due to interest rates and currency changes. The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is the potential adverse impact on the Company's ability to raise new capital and generate earnings due to movement in the Company's equity price or general movement in the level of the stock market. Commodity price risk is the potential adverse impact on earning and economic value due to commodity price movements and volatilities. The Company monitors commodity prices of anthracite coal, cobalt, gold and bismuth in addition to other metal markets, individual equity movements and the stock market to determine appropriate courses of action to be taken by the Company.

[c] Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities as they come due. The Company's investment policy is to invest its excess cash in high-grade investment securities with varying terms to maturity, selected with regard to the expected timing of expenditures for continuing operations. Accounts payable and accrued liabilities are all current. The Company's letters of credit are fully secured by deposits that conform to the Company's investment policy.

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4. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are: (i) to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and provide returns for shareholders, and (ii) to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk.

The Company includes the components of shareholders' equity, long-term debt, cash and cash equivalents and short-term investments, if any, in the management of capital.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents and short-term investments.

To facilitate the management of its capital requirements, the Company prepares forecasts or expenditure budgets for its activities that are used to monitor performance. Variances to plan will result in adjustments to capital deployment subject to various factors and industry conditions. The Company's activities and the associated forecasts or budgets are approved by the Board of Directors.

The Company is not subject to any externally imposed capital requirements limiting or restricting the use of its capital. In order to maximize ongoing development efforts, the Company does not pay out dividends at this time.

The Company's investment policy is to invest its cash in highly liquid, short-term, interest-bearing investments with maturities of less than a year from the original date of acquisition, selected with regards to the expected timing of expenditure from operations.

The Company expects its current capital resources will be sufficient to carry out its exploration and development plans and operations into 2010 and meet its commitments (Refer to note 11). However, significant additional capital will be required to complete the development of the Company's NICO and Mount Klappan projects.

5. CAPITAL ASSETS

Capital assets consist of the following:

	Cost	2008 Accumulated amortization	Cost	2007 Accumulated amortization
	$	$	$	$
Computer equipment	**115,278**	**53,240**	35,740	22,693
Furniture and fixtures	**71,092**	**24,098**	24,778	15,282
Leasehold improvements	**9,602**	**7,850**	9,602	6,417
Software	**33,906**	**5,508**	4,752	3,762
	229,878	**90,696**	74,872	48,154
Less accumulated amortization	**90,696**		48,154	
Net book value	**139,182**		26,718	

6. MINING PROPERTIES

Interests in mining properties consist of the following:

				2008
	Plant and equipment $	Property costs $	Exploration and development expenditures $	Total - mining properties $
NICO Project *[i]*	**13,608,076**	**3,593,049**	**48,760,637**	**65,961,762**
Mount Klappan Project *[ii]*	**9,674**	**3,144,116**	**16,820,801**	**19,974,591**
Sue-Dianne Project	**–**	**9,164**	**2,028,555**	**2,037,719**
Other properties	**–**	**–**	**176,420**	**176,420**
	13,617,750	**6,746,329**	**67,786,413**	**88,150,492**

				2007
	Plant and equipment $	Property costs $	Exploration and development expenditures $	Total - mining properties $
NICO Project *[i]*	5,079,841	3,593,049	36,446,106	45,118,996
Mount Klappan Project *[ii]*	30,257	3,144,116	14,984,987	18,159,360
Sue-Dianne Project	–	9,164	1,996,810	2,005,974
Other properties	–	–	118,766	118,766
	5,110,098	6,746,329	53,546,669	65,403,096

During the year ended December 31, 2008, $220,665 [2007 - $454,182] of administrative expenses, $433,451 [2007 - $283,748] of amortization and $380,500 [2007 - $37,500] of stock-based compensation were charged to exploration and development expenditures within mining properties.

Plant and equipment consist of the following:

		2008		2007
	Cost $	Accumulated amortization $	Cost $	Accumulated amortization $
Surface facilities under construction	**11,954,312**	**–**	3,990,136	–
Surface facilities	**1,427,008**	**450,998**	841,857	269,227
Camp structures	**600,124**	**395,672**	632,898	259,974
Mobile equipment	**798,616**	**332,569**	342,505	181,416
Site furniture and equipment	**32,531**	**15,602**	28,495	15,176
	14,812,591	**1,194,841**	5,835,891	725,793
Less accumulated amortization	**1,194,841**		725,793	
Net book value	**13,617,750**		5,110,098	

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6. **MINING PROPERTIES** *(continued)*

During the year ended December 31, 2008, $350,025 [2007 - $16,425] of administrative expenses, $89,360 [2007 - $81,430] of amortization and $167,600 [2007 - $150,000] of stock-based compensation was 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 wholly owned by the Company.

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 entered into an additional agreement with the land owner, whereby these assets only need to be removed from the site by April 30, 2010. Subsequent to December 31, 2008, the Company and land owner further agreed that certain assets need not be dismantled until April 2011 and removal of assets to be used at NICO is not required until April 1, 2011. To meet its obligations under these agreements, the Company has undertaken a program designed to dismantle and remove these assets (refer to note 11[b]). 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.

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 certain 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 December 31, 2008, the Company has received $555,911 [2007 - $342,912] in net proceeds from the disposal of surplus assets. In accordance with the agreement, $477,015 [2007 - $342,127] 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.

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

The Mount Klappan Project in northwest British Columbia and related coal licenses are wholly owned by the Company through its' subsidiary, Fortune Coal Limited. Upon commercial production, the Company has a royalty agreement obligation entitling a third party to $1 per tonne of coal delivered to the point of usage or sale.

The Company is formally seeking a joint venture partner to help develop Mount Klappan and has engaged a financial advisor to assist with the process of evaluating potential strategic alternatives. Incremental costs of $337,667 [2007 – nil] incurred in connection with the proposed transaction have been expensed and are recorded as Corporate advisory costs for the year ended December 31, 2008.

iii. Reclamation Bonds

The Company has provided reclamation bonds in the form of a letter of credit in favour of the Receiver General for Canada and Government of British Columbia for NICO and Mount Klappan projects, respectively. Reclamation bonds consist of the following:

	2008 Bond amount $	2008 Security held (fair market value) $	2007 Bond amount $	2007 Security held (fair market value) $
NICO Project	**211,000**	**240,294**	211,000	232,642
Mount Klappan Project	**307,000**	**361,573**	307,000	352,904
Net book value	**518,000**	**601,867**	518,000	585,546

7. SHARE CAPITAL

[a] Issued and outstanding common shares:

	2008 #	2008 $	2007 #	2007 $
Common shares				
Beginning of period	**49,546,407**	**76,630,268**	38,936,407	50,753,793
Issued as a result of:				
Public offering *[e]*	**–**	**–**	9,550,000	27,026,500
Purchase of property interest *[f]*	**–**	**–**	1,000,000	3,000,000
Private offerings *[c and d]*	**5,450,000**	**8,082,500**	–	–
Exercise of options *[g]*	**553,700**	**642,292**	60,000	206,572
Share issuance costs, net of tax	**–**	**(501,949)**	–	(2,326,597)
Future tax impact of renunciation of development costs expended and reduction in tax basis of mining properties acquired	**–**	**(1,500,000)**	–	(2,030,000)
End of period *[b]*	**55,550,107**	**83,353,111**	49,546,407	76,630,268
Warrants				
Beginning of period	**5,448,000**	**1,986,060**	–	–
Public offering	**–**	**–**	4,775,000	1,623,500
In lieu of fees	**–**	**–**	573,000	389,640
Purchase of property interest	**–**	**–**	100,000	174,790
Warrant issuance costs, net of tax	**–**	**–**	–	(147,870)
Future tax impact of reduction in tax basis of mining properties acquired	**–**	**–**	–	(54,000)
End of period	**5,448,000**	**1,986,060**	5,448,000	1,986,060
		85,339,171		78,616,328

[b] At December 31, 2008, the weighted average number of common shares outstanding was 51,469,772 [2007 – 43,506,763]. Options to purchase 2,785,000 [2007 – 1,125,000] common shares and warrants to purchase 5,448,000 [2007 – 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. For calculating the fully diluted earnings per share at December 31, 2007, the weighted average number of common shares outstanding was 43,948,317 due to the effect of including in the computation options to purchase 1,183,700 common shares for proceeds of $1,864,275.

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December 31, 2008

7. **SHARE CAPITAL** *(continued)*

[c] On July 18, 2008, the Company issued 1,100,000 common shares on a flow through basis at a price of $2.80 per share for aggregate gross proceeds of $3,080,000.

[d] On October 16, 2008, the Company issued 4,350,000 common shares on a flow through basis at a price of $1.15 per share for aggregate gross proceeds of $5,002,500.

[e] 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.

[f] On August 8, 2007, the Company completed a purchase agreement with its NICO project joint venture partner whereby the Company acquired its 7.98% minority interest in NICO in exchange for 1,000,000 common shares of the Company, 100,000 common share purchase warrants of the Company, the Company's 30% ownership interest in another entity, 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
	3,593,049

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 $984,000 and the recorded common shares and warrant values were reduced by $930,000 and $54,000, respectively.

[g] The estimated fair value of 1,250,000 [2007 – 225,000] options granted during the year ended December 31, 2008 has been allocated to stock-based compensation expense, exploration and development expenditures and capital assets in the amounts of $469,500, $380,500 and $167,600, respectively [2007 - $103,250, $37,500, and $150,000, respectively]. Share capital was increased and contributed surplus decreased by $227,017 [2007 - $68,572] representing the fair value compensation recorded for options exercised during the year, and contributed surplus was increased by $1,017,600 [2007 - $290,750] representing the fair value compensation recorded less $135,500 [2007 - $34,000] related to the tax effect of the amount capitalized.

The fair value of the options granted during the year ended December 31, 2008 was estimated at the date of grant using the BlackScholes option pricing model with the following assumptions:

Number of options granted #	Risk free interest rate %	Expected dividend yield %	Expected volatility %	Expected option life [years] #	Estimated fair value per option $
	Assumptions				
335,000	3.25	–	59	5	0.85
250,000	2.50	–	59	5	0.84
55,000	2.95	–	59	5	1.12
430,000	2.68	–	59	5	0.79
150,000	2.64	–	63	5	0.72
30,000	2.64	–	58	2	0.44

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, 2007 and 2008, and changes during the years ending on those dates are presented below:

	2008		2007	
	Number of shares #	Weighted-average exercise price $	Number of shares #	Weighted-average exercise price $
Options outstanding, beginning of period	**2,308,700**	**2.49**	2,278,700	2.54
Granted	**1,250,000**	**1.59**	225,000	3.02
Exercised	**553,700**	**0.75**	60,000	2.30
Expired	**220,000**	**2.27**	135,000	4.35
Options outstanding, end of period	**2,785,000**	**2.45**	2,308,700	2.49
Options exercisable, end of period	**2,680,000**	**2.54**	2,308,700	2.49

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7. **SHARE CAPITAL** *(continued)*

The following summarizes information about the options outstanding at December 31, 2008:

Range of exercise prices $	Number outstanding #	Number vested and outstanding #	Weighted-average exercise price [i] $	Weighted-average remaining contractual life - all options /options vested [years]
1.00 – 1.49	180,000	75,000	1.30	4.1 / 4.7
1.50 – 1.99	895,000	895,000	1.59	4.4 / 4.4
2.00 – 2.49	685,000	685,000	2.28	3.0 / 3.0
2.50 – 2.99	225,000	225,000	2.87	2.2 / 2.2
3.00 – 3.49	600,000	600,000	3.36	0.4 / 0.4
3.50 – 3.99	50,000	50,000	3.86	2.0 / 2.0
> 4.00	150,000	150,000	4.95	1.3 / 1.3
	2,785,000	2,680,000		

[i] The weighted average exercise prices are the same for both the options outstanding and the options vested and outstanding.

[h] At December 31, 2008, 900,000 [2007 - 900,000] issued common shares are being held in escrow, subject to certain production thresholds for the NICO property.

8. **INCOME TAXES**

The Company has non-capital loss carryforwards totalling $5,600,000 which begin to expire in 2009 and un-deducted share issuance costs of $1,980,000. In addition, the Company has Ontario corporate minimum tax credits of $34,000 which expire in 2009. The Company has completed feasibility studies for both of its principal projects and undertaken related permitting and financing activities. Management has determined it is more likely than not that the Company will achieve production and will realize the benefit of certain non-capital losses and its un-deducted share issuance costs. The benefit of these amounts has been recorded in the consolidated financial statements to the extent that the deduction for share issuance costs and operating losses expire post-2015.

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

Future tax assets	**2008** $	2007 $
Net operating loss carryforwards	**1,483,000**	1,003,000
Un-deducted share issuance costs	**528,000**	689,000
Ontario corporate minimum tax	**34,000**	34,000
	2,045,000	1,726,000
Less valuation allowance related to operating losses, share issuance costs and corporate minimum tax	**(530,000)**	(530,000)
Future tax assets	**1,515,000**	1,196,000

Future tax liabilities	2008 $	2007 $
Book value of exploration and development expenditures and capital assets in excess of tax value	**(9,825,000)**	(8,098,000)
Net future tax liabilities	**(8,310,000)**	(6,902,000)

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

	2008 $	2007 $
Combined federal and provincial income tax rate	**33.29%**	36.12%
Corporate income tax at statutory rate	**(525,200)**	(90,300)
Increase (decrease) in income taxes resulting from:		
Non-deductible stock compensation and other expenses	**180,000**	37,300
Unclaimed corporate transaction costs	**28,000**	–
Rate difference	**63,000**	9,000
Other	**55,200**	44,000
Benefit of recognizing future tax assets	**–**	(1,196,000)
Benefit of reduction of substantively enacted tax rates	**–**	(1,250,000)
	(199,000)	(2,446,000)

9. CONSOLIDATATED STATEMENT OF CASH FLOWS

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

	2008 $	2007 $
Cash on hand and balances with banks	**3,801,482**	955,914
Short-term fixed income deposits	**5,133,711**	22,262,955
	8,935,193	23,218,869

[b] Supplemental cash flow information:

	2008 $	2007 $
Interest and investment income received	**520,678**	640,680

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10. RELATED PARTY TRANSACTIONS

For the year ending December 31, 2008, the Company paid certain officers or directors an aggregate of $790,136 [2007 - $670,100] for third party consulting services on behalf of the Company, and paid directors' fees of $141,323 [2007 - nil]. These transactions have been recorded at their exchange amount.

11. COMMITMENTS

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

[a] During 2008, the Company entered into an agreement with a major engineering firm to undertake the initial engineering and design work for the proposed NICO mine. The estimated cost of the contract is approximately $5.5 million and is anticipated to be completed in early 2009. As at December 31, 2008, the Company has paid approximately $4.8 million pursuant to this agreement. These payments include approximately $4.2 million for work completed as at December 31, 2008 and a $582,907 advance on account recorded as Other assets. The expenditures are recorded as exploration and development expenditures of NICO.

[b] The Company has entered into an agreement with a contractor for the dismantling, equipment salvage, and demolition of the assets purchased for future use at the NICO project. The Company is billed for the cost of the work plus a contractor's fee as the work is completed. The contract is anticipated to be completed by the end of 2009. In addition to the expenditures related to this contract, the Company is incurring other costs in order to meet its commitments described in Note 6(i). For the fiscal years ended December 31, 2009 and 2010, the Company has estimated the total remaining net costs to meet its obligations to be approximately $5.0 million. As at December 31, 2008, the Company has incurred $5,747,772 related to these commitments. This amount is recorded in Surface facilities under construction within Mining properties.

12. SUBSEQUENT EVENT

Subsequent to December 31, 2008, the Company raised net proceeds of $2,925,000 pursuant to a loan agreement with a private investor. The loan has a face value of $3,000,000, is unsecured, has a term of three years and bears interest at an annual rate of 9%. In connection with the loan, the Company issued to the lender warrants to purchase up to 1,875,000 common shares of the Company at an exercise price of $0.80 per share until September 2, 2010.