

Consolidated Financial Statements

Fortune Minerals Limited

Unaudited

June 30, 2009

Fortune Minerals Limited
 Incorporated under the laws of Ontario

CONSOLIDATED BALANCE SHEETS

As at	Unaudited	
	June 30, 2009	December 31, 2008
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents <i>[note 10[a]]</i>	7,313,608	8,935,193
Accounts receivable	244,763	353,335
Prepaid expenses	114,630	46,215
Total current assets	7,673,001	9,334,743
Other assets	—	582,907
Security deposit <i>[note 6[i]]</i>	476,979	477,015
Reclamation bonds <i>[note 6[iii]]</i>	616,762	601,867
Capital assets, net <i>[note 5]</i>	119,769	139,182
Mining properties <i>[note 6]</i>	97,413,313	88,150,492
	106,299,824	99,286,206
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	2,666,277	2,809,354
Interest payable	90,000	—
Income taxes payable	129,021	33,148
Total current liabilities	2,885,298	2,842,502
Long-term debt <i>[note 8]</i>	2,826,073	—
Future income taxes <i>[note 9]</i>	8,798,000	8,310,000
Total liabilities	14,509,371	11,152,502
SHAREHOLDERS' EQUITY		
Share capital <i>[note 7]</i>	89,393,280	85,339,171
Contributed surplus	4,579,820	4,261,320
Deficit	(2,182,647)	(1,466,787)
Total shareholders' equity	91,790,453	88,133,704
	106,299,824	99,286,206

See accompanying notes

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**CONSOLIDATED STATEMENTS OF LOSS
AND DEFICIT**

	Unaudited			
	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
REVENUE				
Interest and other income	21,180	137,026	40,666	333,479
EXPENSES				
Administrative	183,509	227,023	368,486	410,208
Investor relations	61,564	96,946	116,452	189,679
Stock-based compensation [note 7[g]]	216,500	—	216,500	150,000
Interest expense [note 8]	81,850	—	109,133	—
Amortization	4,878	6,073	9,755	11,031
	548,301	330,042	820,326	760,918
Loss before income taxes	(527,121)	(193,016)	(779,660)	(427,439)
Recovery of future income taxes [note 9]	3,800	75,500	63,800	138,000
Net loss for the period	(523,321)	(117,516)	(715,860)	(289,439)
Deficit, beginning of period	(1,659,326)	(259,917)	(1,466,787)	(87,994)
Deficit, end of period	(2,182,647)	(377,433)	(2,182,647)	(377,433)
Basic and diluted loss per share [note 7[b]]	(0.01)	—	(0.01)	—

See accompanying notes

Fortune Minerals Limited
Incorporated under the laws of Ontario

**CONSOLIDATED STATEMENTS OF
CASH FLOWS**

	Unaudited			
	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net loss for the period	(523,321)	(117,516)	(715,860)	(289,439)
Add (deduct) items not involving cash				
Amortization	4,878	6,073	9,755	11,031
Future income taxes	(92,000)	(75,500)	(152,000)	(138,000)
Stock-based compensation expense	216,500	—	216,500	150,000
Non-cash portion of interest expense	14,350	—	19,133	—
Loss on disposal of capital assets	2,829	—	2,829	—
	(376,764)	(186,943)	(619,643)	(266,408)
Changes in non-cash working capital balances related to operations				
Prepaid expenses	(73,699)	8,419	(68,415)	30,256
Accounts receivable	72,385	(232,808)	108,572	(216,307)
Accounts payable and accrued liabilities	(2,386,829)	(741,225)	(143,077)	(291,459)
Interest payable	67,500	—	90,000	—
Income taxes payable	89,373	(12,661)	95,873	(12,661)
Cash used in operating activities	(2,608,034)	(1,165,218)	(536,690)	(756,579)
INVESTING ACTIVITIES				
Decrease in security deposit	18	17	36	32
Decrease in other assets	—	—	582,907	—
Purchase of plant and equipment and capital assets	(951,740)	(799,569)	(5,165,489)	(1,858,092)
Posting of security for reclamation bonds	(11,606)	(5,326)	(14,895)	(12,564)
Increase in exploration and development expenditures	(1,130,211)	(4,541,273)	(3,951,503)	(6,782,103)
Cash used in investing activities	(2,093,539)	(5,346,151)	(8,548,944)	(8,652,727)
FINANCING ACTIVITY				
Proceeds on issuance of debt, net	—	—	2,900,690	—
Proceeds on issuance of shares, net	4,563,359	—	4,563,359	415,275
Cash provided by financing activities	4,563,359	—	7,464,049	415,275
Decrease in cash and cash equivalents	(138,214)	(6,511,369)	(1,621,585)	(8,994,031)
Cash and cash equivalents, beginning of period	7,451,822	20,736,207	8,935,193	23,218,869
Cash and cash equivalents, end of period [note 10]	7,313,608	14,224,838	7,313,608	14,224,838

See accompanying notes

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

June 30, 2009

1. BASIS OF PRESENTATION

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

The accompanying unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles. These unaudited condensed notes to the interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report for the fiscal year ended December 31, 2008.

2. ADOPTION OF NEW ACCOUNTING STANDARDS

Effective January 1, 2011, the accounting framework under which financial statements are prepared in Canada for all publicly accountable enterprises is scheduled to change to International Financial Reporting Standards ("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 is being developed with disclosure of more detailed plans throughout 2009. Commencing in fiscal 2010, the Company will need to prepare accounts in accordance with Canadian GAAP and IFRS in order to have comparative financial statements on full implementation of IFRS in 2011. The impact of this transition on the Company's consolidated financial statements has not yet been determined.

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, long-term debt is classified as loans, and accounts payable, interest payable, taxes payable and accrued liabilities are designated as other liabilities. These financial instruments are initially measured at fair value. Receivables, accounts payable, accrued liabilities and long-term debt 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

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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. The interest rate on the Company's long-term debt is fixed and is not subject to interest rate risk.

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. The Company's long-term debt is in good standing and does not require any principal repayments until March 2012.

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.

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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. 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:

	<u>June 30, 2009</u>		<u>December 31, 2008</u>	
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Cost</u>	<u>Accumulated amortization</u>
	\$	\$	\$	\$
Computer equipment	115,278	62,546	115,278	53,240
Furniture and fixtures	71,092	28,797	71,092	24,098
Leasehold improvements	9,602	8,288	9,602	7,850
Software	33,906	10,478	33,906	5,508
	229,878	110,109	229,878	90,696
Less accumulated amortization	110,109		90,696	
Net book value	119,769		139,182	

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6. MINING PROPERTIES

Interests in mining properties consist of the following:

	June 30, 2009			
	Plant and equipment \$	Property costs \$	Exploration and development expenditures \$	Total - mining properties \$
NICO Project <i>[i]</i>	18,665,713	3,593,049	52,700,891	74,959,653
Mount Klappan Project <i>[ii]</i>	4,157	3,144,116	17,069,242	20,217,515
Sue-Dianne Project	—	9,164	2,031,966	2,041,130
Other properties	—	—	195,015	195,015
	18,669,870	6,746,329	71,997,114	97,413,313

	December 31, 2008			
	Plant and equipment \$	Property costs \$	Exploration and development expenditures \$	Total - mining properties \$
NICO Project <i>[i]</i>	13,608,076	3,593,049	48,760,637	65,961,762
Mount Klappan Project <i>[ii]</i>	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

During the six-month period ended June 30, 2009, \$240,111 of administrative expenses, \$155,698 of amortization and \$103,500 of stock-based compensation were charged to exploration and development expenditures within mining properties.

Plant and equipment consist of the following:

	June 30, 2009		December 31, 2008	
	Cost \$	Accumulated amortization \$	Cost \$	Accumulated amortization \$
Surface facilities under construction	17,180,807	—	11,954,312	—
Surface facilities	1,447,088	542,339	1,427,008	450,998
Camp structures	600,124	426,340	600,124	395,672
Mobile equipment	798,616	402,476	798,616	332,569
Site furniture and equipment	32,531	18,141	32,531	15,602
	20,059,166	1,389,296	14,812,591	1,194,841
Less accumulated amortization	1,389,296	—	1,194,841	—
Net book value	18,669,870	—	13,617,750	—

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During the six-month period ended June 30, 2009, \$255,441 of administrative expenses, \$49,470 of amortization and \$35,500 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, from an equipment dealer (the "Vendor"), certain mill, related surface facilities and processing equipment for future use at the NICO project. Pursuant to the purchase agreement with the Vendor, the Company had an obligation to the Vendor to dismantle and remove the assets from the site of the land owner (the "Land Owner") by August 31, 2009 and to post financial assurance up to \$1 million as certain assets were sold or removed. Accordingly, the Company undertook a program designed to dismantle and remove these assets. As at June 30, 2009, the Company had received \$810,541 in net proceeds from the disposal of surplus assets. In accordance with the purchase agreement with the Vendor, \$476,979 was posted as financial assurance and recorded as Security deposit.

In 2008, the Company entered into an agreement with the Land Owner, whereby certain additional assets were acquired and the dismantling and removal of the assets to be used at NICO would not be required until April 2010. Amendments to the purchase agreement with the Vendor were entered into reflecting the revised date. Subsequent to June 30, 2009, the agreements with the Vendor have been terminated and \$476,979 posted as financial assurance was returned.

Pursuant to an amending agreement with the Land Owner subsequent to June 30, 2009, the Company has posted \$300,000 in financial assurance in favour of the Land Owner. The posting of this financial assurance is required in relation to the Company's remaining obligations with the Land Owner to dismantle a warehouse and remove the assets salvaged prior to April 2011. Upon completion of the Company's obligation, the financial assurance will be released to the Company.

The net cost of purchase, including previously deferred amounts, deconstruction, removal, reconstruction of the assets and ongoing maintenance, security and other related costs, have been accumulated and capitalized 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. No amortization has been charged against these assets as they are not available for use. 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.

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.

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[unaudited]

June 30, 2009

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:

	<u>June 30, 2009</u>		<u>December 31, 2008</u>	
	<u>Bond Amount</u>	<u>Security held (fair market value)</u>	<u>Bond amount</u>	<u>Security held (fair market value)</u>
	\$	\$	\$	\$
NICO Project	211,000	243,655	211,000	240,294
Mount Klappan Project	307,000	373,107	307,000	361,573
Net book value	518,000	616,762	518,000	601,867

7. SHARE CAPITAL

[a] Issued and outstanding common shares:

	<u>June 30, 2009</u>		<u>December 31, 2008</u>	
	<u>#</u>	<u>\$</u>	<u>#</u>	<u>\$</u>
Common shares				
Beginning of period	55,550,107	83,353,111	49,546,407	76,630,268
Issued as a result of:				
Private offerings [c]	9,340,750	3,986,095	5,450,000	8,082,500
Exercise of options	—	—	553,700	642,292
Share issuance costs, net of tax	—	(88,383)	—	(501,949)
Future tax impact of renunciation of development costs expended and reduction in tax basis of mining properties acquired	—	(625,000)	—	(1,500,000)
End of period [b]	64,890,857	86,625,823	55,550,107	83,353,111
Warrants				
Beginning of period	5,448,000	1,986,060	5,448,000	1,986,060
Private offerings [c,e]	4,546,000	734,030	—	—
Warrant issuance costs, net of tax	—	(20,383)	—	—
In lieu of fees [d,e]	1,875,000	67,750	—	—
End of period	11,869,000	2,767,457	5,448,000	1,986,060
		89,393,280		85,339,171

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- [b]** At June 30, 2009, the weighted average number of common shares outstanding was 57,604,056. Options to purchase 3,510,000 common shares and warrants to purchase 11,869,000 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. Subsequent to June 30, 2009, 5,348,000 warrants and 10,000 stock options expired unexercised.
- [c]** On May 20, 2009 and June 2, 2009, the Company closed tranches of non-brokered private placements that resulted in the issuance of 9,092,000 units at \$0.50 per unit for gross proceeds of \$3,811,970 and 248,750 flow-through shares at \$0.70 per share for gross proceeds of \$174,125. Each unit consists 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 \$0.80 on or before September 2, 2010. The estimated fair market value of the warrants was \$734,030 (refer to [e]).
- [d]** On March 2, 2009, the Company issued 1,875,000 warrants in connection with the loan agreement recorded in Long-term debt (refer to Note 8). The warrants have an exercise price of \$0.80 per share and expire September 2, 2010. The estimated fair market value of the warrants was \$93,750 (refer to [e]) and was recorded, net of its income tax effect of \$26,000, as a transaction cost of the loan agreement which is offset against the net proceeds of the loan.
- [e]** The fair value of warrants granted was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

Number of warrants granted #	Assumptions				Estimated fair value per warrant \$
	Risk free interest rate %	Expected dividend yield %	Expected volatility %	Expected warrant life [years] #	
1,875,000	1.00	—	73	1.5	0.05
4,212,500	0.50	—	73	1.3	0.16
333,500	0.50	—	73	1.3	0.18

The Black-Scholes model, used by the Company to calculate warrant values, as well as other accepted valuation models, was developed to estimate fair value of freely tradable, fully transferable warrants. These models 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 warrants.

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[f] A summary of the status of the Company's stock option plan as at June 30, 2009 and December 31, 2008, and changes during the periods ending on those dates are presented below:

	<u>June 30, 2009</u>		<u>December 31, 2008</u>	
	Number of shares #	Weighted-average exercise price \$	Number of shares #	Weighted-average exercise price \$
Options outstanding, beginning of period	2,785,000	2.45	2,308,700	2.49
Granted [g]	1,185,000	0.60	1,250,000	1.59
Exercised	—	—	553,700	0.75
Expired	460,000	3.30	220,000	2.27
Options outstanding, end of period	3,510,000	1.71	2,785,000	2.45
Options exercisable, end of period	3,510,000	1.71	2,680,000	2.54

The following summarizes information about the options outstanding at June 30, 2009:

Range of Exercise prices \$	Number outstanding #	Number vested and outstanding #	Weighted average exercise price [i] \$	Weighted average remaining contract life [i] [years]
0.50 – 0.99	1,185,000	1,185,000	0.60	4.9
1.00 – 1.49	180,000	180,000	1.30	3.6
1.50 – 1.99	895,000	895,000	1.59	3.9
2.00 – 2.49	675,000	675,000	2.28	2.6
2.50 – 2.99	175,000	175,000	2.89	2.2
3.00 – 3.49	200,000	200,000	3.30	0.3
3.50 – 3.99	50,000	50,000	3.86	1.2
> 4.00	150,000	150,000	4.95	0.8
	3,510,000	3,510,000		

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

[g] The estimated fair value of 1,185,000 options granted during the period ended June 30, 2009 has been allocated to stock-based compensation expense, exploration and development expenditures and capital assets in the amounts of \$216,500, \$103,500 and \$35,500,

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respectively. Contributed surplus was increased by \$355,500 representing the fair value compensation recorded less \$37,000 related to the tax effect of the amount capitalized.

The fair value of the options granted during the six-month period ended June 30, 2009 was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

Number of options granted #	Assumptions				Estimated fair value per option \$
	Risk free interest rate %	Expected dividend yield %	Expected volatility %	Expected option life [years] #	
1,185,000	0.44	—	58	5	0.30

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.

8. LONG-TERM DEBT

On March 2, 2009, the Company raised net proceeds excluding transaction costs 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%. Cash interest payments of \$135,000 are due on the last business day of August and February of each year during the term agreement. Transaction costs totalling \$118,060 consist of \$93,750 for warrants issued in lieu of fees (refer to Note 7 [d]) and \$24,310 for listing and legal fees incurred. Transaction costs are recorded as a reduction to net proceeds of the loan on initial recognition and are amortized to interest expense using the effective interest rate method over the life of the loan. As at June 30, 2009, \$19,133 of transaction costs and loan discount was amortized using the effective interest method and recorded as interest expense.

9. INCOME TAXES

The Company has non-capital loss carryforwards totalling \$6,600,000 which begin to expire in 2010 and un-deducted share issuance costs of \$1,800,000. 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

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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:

	June 30, 2009	December 31, 2008
	\$	\$
Future tax assets		
Net operating loss carryforwards	1,716,000	1,483,000
Un-deducted share and debt issuance costs	478,000	528,000
Ontario corporate minimum tax	—	34,000
	2,194,000	2,045,000
Less valuation allowance related to operating losses, share issuance costs and corporate minimum tax	(530,000)	(530,000)
Future tax assets	1,664,000	1,515,000
Future tax liabilities		
Book value of exploration and development expenditures and capital assets in excess of tax value	(10,462,000)	(9,825,000)
Net future tax liabilities	(8,798,000)	(8,310,000)

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

	June 30, 2009	December 31, 2008
	\$	\$
Combined federal and provincial income tax rate	32.79%	33.29%
Corporate income tax at statutory rate	(255,600)	(525,200)
Increase (decrease) in income taxes resulting from:		
Non-deductible stock compensation and other expenses	71,000	180,000
Unclaimed corporate transaction costs	(12,000)	28,000
Provincial Tax harmonization costs	123,900	—
Rate difference	34,400	63,000
Other	(25,500)	55,200
	(63,800)	(199,000)

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10. CONSOLIDATED STATEMENT OF CASH FLOWS

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

	June 30, 2009	December 31, 2008
	\$	\$
Cash on hand and balances with banks	6,050,630	3,801,482
Short-term fixed income deposits	1,262,978	5,133,711
	7,313,608	8,935,193

[b] Supplemental cash flow information:

	June 30, 2009	December 31, 2008
	\$	\$
Interest and investment income received	52,355	520,678

11. RELATED PARTY TRANSACTIONS

For the period ending June 30, 2009, the Company paid certain officers or directors an aggregate of \$362,414 for third party consulting services on behalf of the Company. These transactions have been recorded at their exchange amount.

12. CONTINGENCIES

The Company is from time to time involved in claims and litigation arising in the normal course of business. Claims are made by third parties against the Company and by the Company against third parties with respect to costs incurred and/or amounts charged under applicable contract provisions. Although management makes an estimate and provides for the final resolution of these claims in the financial statements, it is possible that the final resolution of these matters may require the Company to make expenditures in excess of estimates. Management believes that none of these claims will have a material impact on the Company's financial position.



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

Six months ended June 30, 2009

This discussion and analysis of financial condition and results of operations of Fortune Minerals Limited is prepared as at August 11, 2009, and should be read in conjunction with the unaudited consolidated financial statements of Fortune Minerals Limited and the notes thereto for the six months ended June 30, 2009 and with the audited consolidated financial statements of Fortune Minerals Limited and the notes thereto and management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2008. In this discussion, unless the context otherwise dictates, a reference to Fortune or the Company refers to Fortune Minerals Limited and its subsidiaries. Additional information relating to the Company, including the Company's annual information form, is available on SEDAR at www.sedar.com. All dollar amounts are presented in Canadian dollars.

SUMMARY OF QUARTERLY RESULTS

The following tables provide selected consolidated financial information that is derived from the unaudited interim consolidated financial statements and audited consolidated financial statements of the Company.

	2009		2008				2007	
	Jun-30	Mar-31	Dec-31	Sep-30	Jun-30	Mar-31	Dec-31	Sep-30
Revenues	\$21,180	\$19,486	\$74,981	\$98,461	\$137,026	\$196,453	\$294,749	\$256,385
Net income (loss)	(523,321)	(192,539)	(396,749)	(692,605)	(117,516)	(171,923)	2,457,888	189,991
Basic and fully diluted income (loss) per common share	(0.01)	—	(0.01)	(0.02)	—	—	0.05	—

OVERVIEW

Fortune's core objective is to transform itself into a producer to unlock the inherent value of its mining assets. The Company's most significant assets are the Mount Klappan anthracite coal project in northwest British Columbia and the NICO gold-cobalt-bismuth-copper project in the Northwest Territories, both of which are in the advanced development phase. 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. Fortune plans to develop its NICO project independently and is seeking a joint venture partner to develop the Mount Klappan project on a larger, more profitable scale than Fortune originally contemplated.

Although the recessionary environment has affected Fortune like it has most companies in all business sectors, there are encouraging signs in the commodity markets most directly affecting Fortune.

The demand for cobalt is growing and expected to continue to grow as a result of the proliferation of the manufactures of electric and hybrid-electric automobiles. This increase in planned production is evident with announcements of new models, major contracts being let for the manufacture of rechargeable batteries and shortages of high quality cobalt metal. Further, the growth in cobalt supply has been limited as it has been announced that several potentially large copper-cobalt and nickel-cobalt mines are not proceeding due to technical, political and/or economic realities. For these reasons, the price for cobalt (99.8% metal) has recovered to approximately US\$20 per pound. With the London Metals Exchange proceeding with the creation of an open market for cobalt sales, additional liquidity and transparency will be brought to the cobalt market.

Demand for high quality coal used in steel manufacturing and power generation is on the rise again, particularly in India and China. Spot prices have increased over the last few months to US\$160 per tonne for hard coking coal and higher prices of US\$200 per tonne for 2010 are being predicted by analysts as a result of increasing demand, transportation bottlenecks with Australian producers and the closure of small Chinese mines due to safety concerns.

The gold price has continued to be strong during 2009 with a high-low-average gold price based on the London PM Fix of US\$981.75-US\$810.00-US\$919.01, respectively. This compares to US\$1011.25-US\$712.50-US\$871.96 for 2008.

Key to the implementation of Fortune's 2009 business plan is our focus on the permitting of the NICO project while minimizing the expenditures required to complete its Front End Engineering and Design ("FEED") program, large scale pilot plant testing, and dismantling and deconstruction of the Hemlo Golden Giant Mine milling and process assets ("Hemlo") acquired by Fortune in 2006.

For many mining companies, the ability to raise new capital during 2009 has been 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. Despite these challenges, Fortune has been able to raise funds as needed to fund reasonable development programs.

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 take advantage of such opportunities.

Development expenditures incurred by Fortune on its properties during the three- and six-month periods ending June 30, 2009 were \$1,130,211 and \$3,951,503, respectively. The expenditures related to the following projects:

	Three months ended June 30, 2009	Six months ended June 30, 2009
NICO	\$ 1,090,156	\$ 3,708,554
Mount Klappan	34,657	220,964
All other projects	5,398	21,985
Total cash exploration and development expenditures	\$ 1,130,211	\$ 3,951,503

For comparison, exploration and development expenditures incurred by Fortune on its properties during the three- and six-month periods ending June 30, 2008 were \$4,541,273 and \$6,782,103, respectively. The expenditures related to the following projects:

	Three months ended June 30, 2008	Six months ended June 30, 2008
NICO	\$ 3,951,256	\$ 5,284,718
Mount Klappan	574,662	1,454,089
All other projects	15,355	43,296
Total cash exploration and development expenditures	\$ 4,541,273	\$ 6,782,103

The 2009 amounts are reflective of the budgeted expenditures and the Company's focus. In addition, the Company spent \$951,740 and \$5,165,489 in the three- and six-month periods ended June 30, 2009, primarily related to the dismantling and salvage of assets at the Company's Hemlo project.

The Company's net loss for the three-month period ended June 30, 2009 was \$523,321 or \$0.01 per share compared to \$117,516 or \$nil per share for the same period in the prior year. The net loss for the six-month period ended June 30, 2009 was \$715,860 or \$0.02 per share compared to \$289,439 or \$nil per share for the same period in the prior year. The current year's losses are higher primarily due to a decline in the Company's interest and other income due to lower cash balances and interest rates, incurring interest expense on long-term debt and marginally higher stock-based compensation expenses.

RESULTS OF OPERATIONS

Revenues

Interest and other income was \$21,180 and \$40,666 for the three- and six-month periods ending June 30, 2009, respectively, compared to \$137,026 and \$333,479 for the same periods in 2008. Interest and other income is lower in 2009 compared to the previous year due to decreased cash and investments balances and very low yield rates available on low-risk investments.

Expenses

The Company's administrative and investor relations expenses for the second quarter of 2009 compared to 2008 decreased to \$245,073 from \$323,969. When comparing second quarter to first quarter results for both years, these costs have declined or remained stable. The Company reduced staff levels and investor relations activity to manage costs given the current economic conditions. Administrative and investor relations expenses are anticipated to increase again to match the Company's operations growth and changes in the regulatory environment subject to availability of funding. Near term regulatory changes include the adoption of International Financial Reporting Standards ("IFRS") and ongoing evaluation and testing of internal controls related to NI 52-109. Included in administrative expenses is \$216,500 for the recording of stock compensation expense in the second quarter of 2009 compared to \$150,000 of stock-compensation expense recorded in the first quarter of 2008. Interest expense arises on the long-term debt facility entered into by the Company on March 2, 2009.

Cash Flow

Cash used in operating activities was \$2,608,034 and \$536,690 for the three- and six-months ended June 30, 2009, respectively, compared to \$1,165,218 and \$756,579 for the same periods in 2008. The changes are largely the result of changes in non-cash working capital balances. During 2008 and 2009, accounts payable and accrued liabilities have fluctuated due to the magnitude and timing of operational activities and whether seasonally based projects are commencing or winding down. Cash used in operating activities before changes in non-cash working capital balances is a small percentage of overall expenditures; however, investment income no longer covers a substantial portion of the administrative and investor relations expenditures as in the past.

Cash used in investing activities was \$2,093,539 and \$5,346,151 for the three-month periods ended June 30, 2009 and 2008, respectively. For the six-months ended June 30, 2009 and 2008, the cash used in investing activities was \$8,548,944 and \$8,652,103, respectively. The Company's investing activities remain substantial as the Company continues to invest in its two main projects, NICO and Mount Klappan, with a particular focus on NICO. The difference in total investing activities and the allocation amongst asset classes are due to changes in the development programs. During 2008, the focus at NICO was on the Front End Engineering and Design ("FEED") study and the metallurgical pilot plant study. At Mount Klappan the focus was on completing and updating environmental and engineering studies to be able to complete the project's environmental assessment. During 2009, the focus has been primarily on NICO and its permitting activities. The Company is continuing to seek a joint venture partner to help develop Mount Klappan. Recent trends in the coal markets have heightened interest in pursuing a development partner.

The Company has also worked diligently to complete its obligations with respect to its Hemlo assets. Included in the expenditures for the purchase of plant and equipment and capital assets of \$951,740 and \$5,165,489 for the three- and six-month periods ended June 30, 2009, respectively, are the dismantling and demolition activities related to the Company's Hemlo assets in preparation to move them to the NICO site. Fortune has generated cash proceeds from: (i) the sale of gold recovered from approximately 135 tonnes of residues and other materials collected during cleanup of the assets that have been processed or, are awaiting settlement at refineries in Canada and the United States; (ii) the sale of approximately 8,200 tonnes of recyclable scrap steel, copper and other metals from the mill, head frame and other buildings that were demolished; and (iii) the sale of surplus equipment and buildings, including a jaw crusher, the paste fill plant and building, cold storage buildings, furnaces, office and other small equipment that were not required at NICO. The proceeds raised have been netted against the costs of dismantling and demolishing the assets.

The primary contractor for the dismantling and demolition of the Hemlo assets was Tri-Venture FE&C Canada Ltd. ("Tri-Venture"). The scope of work was reduced as allowable under the contract after it was determined that certain assets would no longer be required at NICO, including portions of the mill building that was demolished, and the paste fill plant, which was sold. The Company and Tri-Venture have had disagreements over amounts chargeable under the contract. The Company has received a Statement of Claim with respect to an action commenced by Tri-Venture against Fortune Minerals and Newmont. Tri-Venture alleges that it is still owed approximately \$2.9 million

for services provided under its contract with Fortune Minerals. The Company believes that such claim is not supported by the facts and is considerably in excess of the amount actually owed. Fortune Minerals intends to vigorously defend the claim.

The Company issued 9,340,750 shares and 4,546,000 warrants during the second quarter of 2009 and 1,875,000 warrants during the first quarter of 2009 pursuant to private placements of units and debt. Cash proceeds totaled \$4,563,359 and \$2,900,690, respectively.

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2009, Fortune had cash and cash equivalents of \$7,313,608 and working capital of \$4,787,703. Although the Company has sufficient cash to undertake its planned 2009 activities, Fortune will be seeking additional funding in 2009 and 2010 to undertake additional activities that ultimately will be required prior to arranging and drawing on some form of project debt financing required to fund mine construction. Obtaining a joint venture partner for Mount Klappan is a potential source of funding for the necessary development programs while managing the potential dilution from the issuance of additional shares. It is anticipated that investment income will remain low. The Company will continue to pursue financing alternatives, including seeking out suitable joint venture partners.

OUTLOOK

Management believes the economy and commodity markets are showing signs of improving. Due to the Company's leverage to certain essential commodities required within the world markets, Fortune is committed and will be unrelenting in its efforts to execute its strategy. Fortune has focused its efforts on permitting and financing activities for the NICO project. The Company will most likely raise additional financing prior to the end of 2009.

The Company's principal objective is to achieve successful commercial production at its principal projects. The Company's activities in pursuit of this objective are subject to many risks as discussed under the heading "Risks and Uncertainties" in the Company's MD&A for the period ended December 31, 2008 and in the Company's annual information form for the year ended December 31, 2008, both of which are available on SEDAR at www.sedar.com. The most significant risks to meeting its objective in the targeted time frame continue to be related to 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.

TRANSACTIONS WITH RELATED PARTIES

In addition to any related party transactions noted elsewhere, the Company paid certain officers or directors an aggregate of \$362,414 for third party consulting services on behalf of the Company during the six-month period ended June 30, 2009. These transactions have been recorded at their exchange amount.

NEW ACCOUNTING STANDARDS

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"). 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 throughout 2009. During 2008, the Company began a preliminary 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 Financial 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 and engaging advisors.

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.

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 64,890,857 common shares issued and outstanding, as well as: (i) warrants to purchase an aggregate of 6,521,000 common shares, of which, all but 100,000 expire on September 2, 2010 and exercisable at \$0.80 with the balance expiring on August 9, 2012 and exercisable at \$3.00 per share; and (ii) options to purchase an aggregate of 3,500,000 common shares expiring at various dates between October 15, 2009 and May 11, 2014 and exercisable at various prices between \$0.60 and \$4.95 per share.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements in compliance with Canadian generally accepted accounting principles ("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 June 30, 2009 no material weaknesses in the Company's ICFR have been identified and for the period commencing on January 1, 2009 and ending June 30, 2009, there were no changes or enhancements made to the Company's ICFR considered to have materially affected, or are reasonably likely to materially affect, its ICFR.

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, future metal and coal prices and the outcome of the legal action commenced by Tri-Venture. 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, uncertainty in the outcome of litigation 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.