

Consolidated Financial Statements

**Fortune Minerals Limited**

Unaudited

September 30, 2008

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

**CONSOLIDATED BALANCE SHEETS**

As at	Unaudited	
	September 30, 2008	December 31, 2007
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents <i>[note 8[a] and 12]</i>	12,219,390	23,218,869
Accounts receivable	937,547	728,243
Prepaid expenses and other assets	87,987	49,119
<b>Total current assets</b>	<b>13,244,924</b>	<b>23,996,231</b>
Other assets <i>[note 11[a]]</i>	798,237	—
Security deposit <i>[note 5[i]]</i>	468,048	342,127
Reclamation bonds <i>[note 5[iii]]</i>	601,840	585,546
Capital assets, net <i>[note 4]</i>	118,375	26,718
Mining properties <i>[note 5]</i>	79,911,471	65,403,096
	<b>95,142,895</b>	<b>90,353,718</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	2,897,550	1,292,814
Income taxes payable	—	24,333
<b>Total current liabilities</b>	<b>2,897,550</b>	<b>1,317,147</b>
Future income taxes <i>[note 7]</i>	6,981,000	6,902,000
<b>Total liabilities</b>	<b>9,878,550</b>	<b>8,219,147</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital <i>[note 6]</i>	82,073,063	78,616,328
Contributed surplus	4,261,320	3,606,237
Deficit	(1,070,038)	(87,994)
<b>Total shareholders' equity</b>	<b>85,264,345</b>	<b>82,134,571</b>
	<b>95,142,895</b>	<b>90,353,718</b>

*See accompanying notes*

**Fortune Minerals Limited**

Incorporated under the laws of Ontario

**CONSOLIDATED STATEMENTS OF LOSS  
AND DEFICIT**

	Unaudited			
	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>REVENUE</b>				
Interest and other income	<b>98,461</b>	203,966	<b>431,940</b>	404,801
<b>EXPENSES</b>				
Administrative	<b>260,456</b>	125,256	<b>670,664</b>	339,720
Investor relations	<b>69,284</b>	62,655	<b>258,963</b>	176,333
Stock-based compensation <i>[note 6[d]]</i>	<b>319,500</b>	92,000	<b>469,500</b>	103,250
Amortization	<b>4,803</b>	1,659	<b>15,834</b>	4,852
	<b>654,043</b>	281,570	<b>1,414,961</b>	624,155
<b>Loss before other items</b>	<b>(555,582)</b>	(77,604)	<b>(983,021)</b>	(219,354)
Corporate transaction costs <i>[note 5[ii]]</i>	<b>(167,023)</b>	—	<b>(167,023)</b>	—
Share in loss of equity investee	—	(474)	—	(844)
Gain on disposal of equity investee	—	2,665	—	2,665
Write-off of interest in mining properties	—	(44,288)	—	(44,288)
Loss before income taxes	<b>(722,605)</b>	(119,701)	<b>(1,150,044)</b>	(261,821)
Recovery of future income taxes <i>[note 7]</i>	<b>30,000</b>	—	<b>168,000</b>	—
<b>Net loss for the period</b>	<b>(692,605)</b>	(119,701)	<b>(982,044)</b>	(261,821)
Deficit, as previously reported			<b>(87,994)</b>	(2,279,580)
Change in accounting policy			—	(4,481)
Deficit, beginning of period, as restated	<b>(377,433)</b>	(2,426,181)	<b>(87,994)</b>	(2,284,061)
<b>Deficit, end of period</b>	<b>(1,070,038)</b>	(2,545,882)	<b>(1,070,038)</b>	(2,545,882)
<b>Basic and diluted loss per share <i>[note 6[b]]</i></b>	<b>(0.01)</b>	—	<b>(0.02)</b>	(0.01)

*See accompanying notes*

**CONSOLIDATED STATEMENTS OF  
 CASH FLOWS**

	Unaudited			
	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	(692,605)	(119,701)	(982,044)	(261,821)
Add (deduct) items not involving cash				
Amortization	4,803	1,659	15,834	4,852
Future income taxes	(30,000)	—	(168,000)	—
Stock-based compensation	319,500	92,000	469,500	103,250
Share in loss in equity investee	—	474	—	844
Gain on disposal of equity investee	—	(2,665)	—	(2,665)
Write-off of interest in mining operations	—	44,288	—	44,288
	(398,302)	16,055	(664,710)	(111,252)
Changes in non-cash working capital balances related to operations				
Prepaid expenses	(69,124)	(77,109)	(38,868)	(50,552)
Accounts receivable	7,003	(23,394)	(209,304)	1,048,314
Accounts payable and accrued liabilities	1,896,195	(545,214)	1,604,736	573,662
Income taxes payable	(11,672)	(20,115)	(24,333)	(21,595)
<b>Cash provided by (used in) operating activities</b>	<b>1,424,100</b>	<b>(649,777)</b>	<b>667,521</b>	<b>1,438,577</b>
<b>INVESTING ACTIVITIES</b>				
Proceeds on disposal of short-term investments	—	—	—	268,325
Increase in other assets	(798,237)	—	(798,237)	—
Increase in security deposit	(125,953)	(179,676)	(125,921)	(337,147)
Purchase of plant and equipment and capital assets	(2,393,353)	4,657	(4,251,445)	11,990
Posting of security for reclamation bonds	(3,730)	(3,815)	(16,294)	(18,790)
Purchase of mining properties	—	(85,049)	—	(85,049)
Increase in deferred exploration and development expenditures	(3,034,218)	(4,422,183)	(9,816,321)	(14,053,842)
<b>Cash used in investing activities</b>	<b>(6,355,491)</b>	<b>(4,686,066)</b>	<b>(15,008,218)</b>	<b>(14,214,513)</b>
<b>FINANCING ACTIVITY</b>				
Proceeds on issuance of shares, net	2,925,943	26,546,713	3,341,218	26,684,713
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(2,005,448)</b>	21,210,870	<b>(10,999,479)</b>	13,908,777
Cash and cash equivalents, beginning of period	14,224,838	4,640,265	23,218,869	11,942,358
<b>Cash and cash equivalents, end of period [note 8]</b>	<b>12,219,390</b>	25,851,135	<b>12,219,390</b>	25,851,135

*See accompanying notes*

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

September 30, 2008

#### 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, 2007.

#### 2. ADOPTION OF 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.

##### [a] 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.

##### [b] 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.

##### ***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 scheduled 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 is planned for creation during fiscal 2008 with disclosure of a more detailed plan in 2009.

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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 and accounts payable and accrued liabilities are designated as other liabilities. These financial instruments initial measurement is 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 and 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 and amounts due, pursuant to a formal contract, from a reputable contractor operating in the Canadian mining industry.

**[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

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

September 30, 2008

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 operation. 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.

#### 4. CAPITAL ASSETS

Capital assets consist of the following:

	<u>September 30, 2008</u>		<u>December 31, 2007</u>	
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Cost</u>	<u>Accumulated amortization</u>
	\$	\$	\$	\$
Computer equipment	111,622	47,063	35,740	22,693
Furniture and fixtures	70,212	20,952	24,778	15,282
Leasehold improvements	9,602	7,451	9,602	6,417
Software	6,761	4,356	4,752	3,762
	<b>198,197</b>	<b>79,822</b>	74,872	48,154
Less accumulated amortization	<b>79,822</b>		48,154	
<b>Net book value</b>	<b>118,375</b>		<b>26,718</b>	

#### 5. MINING PROPERTIES

Interests in mining properties consist of the following:

	<u>September 30, 2008</u>			
	<u>Plant and equipment</u>	<u>Property costs</u>	<u>Deferred exploration and development expenditures</u>	<u>Total - mining properties</u>
	\$	\$	\$	\$
NICO Project [i]	9,084,064	3,593,049	45,174,099	57,851,212
Mount Klappan Project [ii]	21,920	3,144,116	16,720,100	19,886,136
Sue-Dianne Project	—	9,164	2,028,432	2,037,596
Other properties	—	—	136,527	136,527
	<b>9,105,984</b>	<b>6,746,329</b>	<b>64,059,158</b>	<b>79,911,471</b>

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

September 30, 2008

	December 31, 2007			
	Plant and equipment \$	Property costs \$	Deferred exploration and development expenditures \$	Total - mining properties \$
NICO Project <i>[i]</i>	5,079,841	3,593,049	36,446,106	45,118,996
Mount Klappan Project <i>[ii]</i>	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
	<b>5,110,098</b>	<b>6,746,329</b>	<b>53,546,669</b>	<b>65,403,096</b>

During the nine-month period ended September 30, 2008, \$194,496 of administrative expenses, \$315,668 of amortization and \$380,500 of stock-based compensation were charged to deferred exploration and development expenditures within mining properties.

Plant and equipment consist of the following:

	<u>September 30, 2008</u>		<u>December 31, 2007</u>	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$	\$	\$
Surface facilities under construction	<b>7,371,649</b>	—	3,990,136	—
Surface facilities	<b>1,345,538</b>	<b>397,174</b>	841,857	269,227
Camp structures	<b>632,898</b>	<b>378,951</b>	632,898	259,974
Mobile equipment	<b>798,616</b>	<b>286,279</b>	342,505	181,416
Site furniture and equipment	<b>41,715</b>	<b>22,028</b>	28,495	15,176
	<b>10,190,416</b>	<b>1,084,432</b>	5,835,891	725,793
Less accumulated amortization	<b>1,084,432</b>		725,793	
<b>Net book value</b>	<b>9,105,984</b>		5,110,098	

During the nine-month period ended September 30, 2008, \$98,200 of administrative expenses, \$58,804 of amortization and \$167,600 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

## **Fortune Minerals Limited**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

[unaudited]

September 30, 2008

amounts and ongoing maintenance, security and other related costs, have been capitalized. No amortization has been charged against these assets as they are recorded as surface facilities under construction and are not available for use.

Pursuant to the purchase agreement of these facilities, the Company has an obligation to the vendor to dismantle and remove the assets from the site by August 31, 2009. The Company has entered into an additional agreement with the land owner, whereby these assets only need to be removed from the site by April 30, 2010. 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 September 30, 2008, the Company has received \$500,007 in net proceeds from the disposal of surplus assets. In accordance with the agreement, \$468,048 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 \$167,023 incurred in connection with the proposed transaction have been expensed and are recorded as Corporate transaction costs for the nine-month period ended September 30, 2008.

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

September 30, 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. At September 30, 2008, reclamation bonds consist of the following:

	Bond amount \$	Security held at fair market value \$
NICO Project	211,000	240,283
Mount Klappan Project	307,000	361,557
	<b>518,000</b>	<b>601,840</b>

## 6. SHARE CAPITAL

[a] Issued and outstanding common shares:

	<u>September 30, 2008</u>		<u>December 31, 2007</u>	
	#	\$	#	\$
<b>Common shares</b>				
<b>Beginning of period</b>	49,546,407	76,630,268	38,936,407	50,753,793
Issued as a result of:				
Public offering	—	—	9,550,000	27,026,500
Purchase of property interest	—	—	1,000,000	3,000,000
Private offering [c]	1,100,000	3,080,000	—	—
Exercise of options [d]	553,700	642,292	60,000	206,572
Share issuance costs, net of tax	—	(265,557)	—	(2,326,597)
Future tax impact of renunciation of development costs expended and reduction in tax basis of mining properties acquired	—	—	—	(2,030,000)
<b>End of period [b]</b>	<b>51,200,107</b>	<b>80,087,003</b>	49,546,407	76,630,268
<b>Warrants</b>				
<b>Beginning of period</b>	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)
<b>End of period</b>	<b>5,448,000</b>	<b>1,986,060</b>	5,448,000	1,986,060
		<b>82,073,063</b>		78,616,328

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

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- [b]** At September 30, 2008, the weighted average number of common shares outstanding was 50,353,747. During the period, options to purchase 2,905,000 common shares and warrants to purchase 5,448,000 common shares were not included in the computation of diluted loss per share because the exercise prices of these options and warrants were greater than the average market price of the common shares.
- [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]** The estimated fair value of 1,250,000 options granted during the nine-month period ended September 30, 2008 has been allocated to stock-based compensation expense, deferred exploration and development expenditures and capital assets in the amounts of \$469,500, \$380,500 and \$167,600, respectively. Share capital was increased and contributed surplus decreased by \$227,017 representing the fair value compensation recorded for options exercised during the period, and contributed surplus was increased by \$1,017,600 representing the fair value compensation recorded less \$135,500 related to the tax effect of the amount capitalized.

The fair value of the options granted during the nine-month period ended September 30, 2008 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] #	
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.

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A summary of the status of the Company's stock option plan as at December 31, 2007 and September 30, 2008, and changes during the periods ending on those dates are presented below:

	<u>September 30, 2008</u>		<u>December 31, 2007</u>	
	Number	Weighted-	Number	Weighted-
	of shares	average	of shares	average
	#	exercise	#	exercise
		price		price
		\$		\$
<b>Options outstanding, beginning of period</b>	<b>2,308,700</b>	<b>2.49</b>	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	100,000	2.90	135,000	4.35
<b>Options outstanding, end of period</b>	<b>2,905,000</b>	<b>2.42</b>	2,308,700	2.49
<b>Options exercisable, end of period</b>	<b>2,800,000</b>	<b>2.46</b>	2,308,700	2.49

The following summarizes information about the options outstanding at September 30, 2008:

	Number	Number	Weighted	Weighted
	outstanding at	vested and	average	average
	September 30,	outstanding at	exercise	remaining
	September 30,	September 30,	price	contractual life
	2008	2008	September 30,	September 30,
Range of	2008	2008	2008 [i]	2008 [i]
Exercise prices	#	#	\$	[years]
\$				
1.00 – 1.49	180,000	75,000	1.30	4.4
1.50 – 1.99	1,015,000	1,015,000	1.61	4.1
2.00 – 2.49	685,000	685,000	2.28	3.3
2.50 – 2.99	225,000	225,000	2.87	2.4
3.00 – 3.49	600,000	600,000	3.36	0.7
3.50 – 3.99	50,000	50,000	3.86	2.0
> 4.00	150,000	150,000	4.95	1.5
	2,905,000	2,800,000		

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

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

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#### 7. INCOME TAXES

The Company has non-capital loss carryforwards totalling \$5,000,000 which begin to expire in 2009 and un-deducted share issuance costs of \$1,950,000. In addition, the Company has Ontario corporate minimum tax credits of \$34,000 which expire in 2009. The Company, by 2007, 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:

	September 30, 2008 \$	December 31, 2007 \$
<b>Future tax assets</b>		
Net operating loss carryforwards	1,300,000	1,003,000
Un-deducted share issuance costs	510,000	689,000
Ontario corporate minimum tax	34,000	34,000
	<b>1,844,000</b>	1,726,000
Less valuation allowance related to operating losses, share issuance costs and corporate minimum tax	<b>(530,000)</b>	(530,000)
<b>Future tax assets</b>	<b>1,314,000</b>	1,196,000
<b>Future tax liabilities</b>		
Book value of deferred exploration and development expenditures and capital assets in excess of tax value	<b>(8,295,000)</b>	(8,098,000)
<b>Net future tax liabilities</b>	<b>(6,981,000)</b>	(6,902,000)

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

	September 30, 2008 \$	December 31, 2007 \$
<b>Combined federal and provincial income tax rate</b>	<b>33.29%</b>	36.12%
Corporate income tax at statutory rate	<b>(382,900)</b>	(90,300)
Increase (decrease) in income taxes resulting from:		
Non-deductible stock compensation expenses	<b>156,300</b>	37,300
Other	<b>58,600</b>	53,000
Benefit of recognizing future tax assets	—	(1,196,000)
Benefit of reduction of substantively enacted tax rates	—	(1,250,000)
	<b>(168,000)</b>	(2,446,000)

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

September 30, 2008

#### 8. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	<b>September 30, 2008</b>	December 31, 2007
	\$	\$
Cash on hand and balances with banks	<b>858,476</b>	955,914
Short-term fixed income deposits	<b>11,360,914</b>	22,262,955
	<b>12,219,390</b>	23,218,869

[b] Supplemental cash flow information:

	<b>September 30, 2008</b>	December 31, 2007
	\$	\$
Interest and investment income received	<b>470,073</b>	640,680

#### 9. 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 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 of 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.

## **Fortune Minerals Limited**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

[unaudited]

September 30, 2008

The Company expects its current capital resources will be sufficient to carry out its exploration and development plans and operations into 2009 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.

#### **10. RELATED PARTY TRANSACTIONS**

During the nine-month period ending September 30, 2008, the Company paid certain officers or directors an aggregate of \$605,278 for third party consulting services on behalf of the Company. These transactions have been recorded at their exchange amount.

#### **11. COMMITMENTS**

**[a]** The Company has entered into an agreement with a major engineering firm, to undertake the initial engineering and design work for the Company's proposed NICO mine. The estimated cost of the contract is approximately \$4.5 million and is anticipated to be completed in early 2009. As at September 30, 2008, the Company has paid approximately \$2.8 million pursuant to this agreement. These payments include approximately \$2.0 million for work completed as at September 30, 2008 and a \$798,237 advance on account recorded as Other assets. The expenditures are recorded as deferred 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 that were purchased for future use at the NICO project. The Company will be 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 5(i). For the fiscal years ended December 31, 2008 and 2009, the Company has estimated the total net costs to meet its obligations to be approximately \$15.0 million. As at September 30, 2008, the Company has incurred \$3,381,513 related to these commitments. This amount is recorded in Surface facilities under construction within Mining properties.

#### **12. SUBSEQUENT EVENT**

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.