

Interim Condensed Consolidated Financial Statements

Fortune Minerals Limited

Unaudited

September 30, 2011

Fortune Minerals Limited
 Incorporated under the laws of Ontario

**CONSOLIDATED STATEMENT OF
 FINANCIAL POSITION**

[note 2]

As at	Unaudited	
	September 30, 2011 Cad \$	December 31, 2010 Cad \$
ASSETS		
Current assets		
Cash and cash equivalents <i>[note 12[a]]</i>	30,341,681	9,143,974
Accounts receivable	382,204	466,976
Prepaid expenses	137,277	108,727
Total current assets	30,861,162	9,719,677
Other assets <i>[note 7i[c]]</i>	—	391,766
Reclamation security deposits <i>[note 7iii]</i>	620,716	618,507
Capital assets, net <i>[note 6]</i>	101,139	113,675
Mining properties <i>[note 7]</i>	119,659,154	117,832,066
	151,242,171	128,675,691
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	1,105,626	1,376,882
Interest payable	22,500	90,000
Income taxes payable	48,462	23,894
Flow-through share premium deferred gain <i>[note 9[c]]</i>	697,350	674,316
Current debt <i>[note 10]</i>	2,961,698	—
Total current liabilities	4,835,636	2,165,092
Long-term debt <i>[note 10]</i>	—	2,917,749
Capital contribution liability <i>[note 7ii]</i>	11,077,617	—
Provision for environmental rehabilitation <i>[note 8]</i>	85,188	87,562
Deferred income tax liabilities, net <i>[note 11]</i>	8,047,000	5,458,500
Total liabilities	24,045,441	10,628,903
Commitments and contingencies <i>[note 14]</i>		
SHAREHOLDERS' EQUITY		
Share capital <i>[note 9]</i>	122,781,071	118,764,873
Other reserves	7,727,402	7,734,653
Deficit	(3,311,743)	(8,452,738)
Total shareholders' equity	127,196,730	118,046,788
	151,242,171	128,675,691

See accompanying notes

Fortune Minerals Limited

Incorporated under the laws of Ontario

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

[note 2]

Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2011 Cad \$	2010 Cad \$	2011 Cad \$	2010 Cad \$
EXPENSES				
Administrative	362,376	288,645	971,741	978,959
Investor relations and regulatory fees	151,417	36,726	355,553	141,370
Stock-based compensation [note 9[b]]	203,150	—	221,100	239,500
Capital taxes	—	—	—	294,508
Corporate advisory costs [note 7i[c]]	391,766	100,523	391,766	139,414
Interest expense [note 10]	38,011	7,784	72,393	26,034
Accretion [note 7ii and 8]	222,640	1,807	226,580	5,421
Amortization	4,264	4,512	11,927	12,507
Loss before other items	(1,373,624)	(439,997)	(2,251,060)	(1,837,713)
Interest and other income	10,930	5,397	23,160	18,816
Gain on Mount Klappan transaction, net [note 7ii]	9,439,295	—	9,201,186	—
Gain on flow-through share premium	—	—	674,316	374,600
Foreign exchange gain (loss) [note 4]	106,708	(48,428)	66,893	(36,324)
Income (loss) before income taxes	8,183,309	(483,028)	7,714,495	(1,480,621)
Recovery of (provision for) income taxes [note 11]				
Current income taxes	—	—	15,000	(9,775)
Deferred income taxes	(2,042,000)	242,000	(2,588,500)	757,000
Net income (loss) and comprehensive income (loss) for the period	6,141,309	(241,028)	5,140,995	(733,396)
Deficit, beginning of period	(9,453,052)	(7,600,887)	(8,452,738)	(7,108,519)
Modification of warrants	—	(64,210)	—	(64,210)
Deficit, end of period	(3,311,743)	(7,906,125)	(3,311,743)	(7,906,125)
Basic income (loss) per share [note 9[a]]	0.06	—	0.05	(0.01)
Fully diluted income (loss) per share [note 9[a]]	0.05	—	0.04	(0.01)

See accompanying notes

Fortune Minerals Limited

Incorporated under the laws of Ontario

**CONSOLIDATED STATEMENTS OF
CASH FLOWS**

[note 2]

	Unaudited	
	Nine months ended September 30,	
	2011	2010
	Cad \$	Cad \$
OPERATING ACTIVITIES		
Net income (loss) and comprehensive income (loss) for the period	5,140,995	(733,396)
Add (deduct) items not involving cash		
Accretion of liabilities	226,580	5,421
Amortization of capital assets	11,927	12,507
Deferred income taxes	2,588,500	(757,000)
Gain on flow-through share premium	(674,316)	(374,600)
Stock-based compensation expense	221,100	239,500
Non-cash portion of interest expense	43,949	46,954
Gain on Mount Klappan transaction [note 7 ii]	(10,936,842)	—
	(3,378,107)	(1,560,614)
Changes in non-cash working capital balances related to operations		
Accounts receivable	84,772	444,499
Prepaid expenses	(28,550)	(68,568)
Accounts payable and accrued liabilities	(271,256)	(266,899)
Interest payable	(67,500)	(67,500)
Taxes payable/ receivable	24,568	(89,764)
Cash used in operating activities	(3,636,073)	(1,608,846)
INVESTING ACTIVITIES		
Increase in exploration and evaluation expenditures	(5,269,327)	(7,358,052)
Purchase of plant and equipment and capital assets	(683,547)	(6,066,174)
Decrease (increase) in other assets, net of non-cash items	391,766	(3,180)
Posting of security for reclamation security deposits	(2,209)	(871)
Proceeds on disposal of capital assets in mining properties	2,600	—
Proceeds on disposal of Mount Klappan assets	10,000,000	—
Cash provided by (used in) investing activities	4,439,283	(13,428,277)
FINANCING ACTIVITIES		
Proceeds on issuance of shares [note 9[c]]	3,003,000	1,917,000
Proceeds on exercise of options, warrants and compensation units [note 9[d]]	1,391,497	3,841,084
Increase in cash from joint operation cash contributions	16,000,000	—
Cash provided by financing activities	20,394,497	5,758,084
Increase (decrease) in cash and cash equivalents during the period	21,197,707	(9,279,039)
Cash and cash equivalents, beginning of period	9,143,974	18,328,148
Cash and cash equivalents, end of period [note 12]	30,341,681	9,049,109

See accompanying notes

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
[note 2]

Unaudited

	Common shares		Warrants		Subtotal		Other reserves		Deficit		Total shareholders' equity	
	#	Cad \$	#	Cad \$	Cad \$	Cad \$	Cad \$	Cad \$	Cad \$	Cad \$	Cad \$	Cad \$
January 1, 2010 [note 15]	94,779,407	108,380,210	20,890,275	2,204,029	110,584,239	7,432,025	(7,108,519)	110,907,745				
Issued as a result of:												
Private offerings	2,535,000	1,977,300	—	—	1,977,300	—	—	1,977,300				
Flow-through share premium deferred gain	—	(380,250)	—	—	(380,250)	—	—	(380,250)				
Share issuance costs, net tax	—	(43,398)	—	—	(43,398)	—	—	(43,398)				
Exercise of warrants	6,401,806	4,709,484	(6,401,806)	(868,400)	3,841,084	—	—	3,841,084				
Warrant issuance costs	—	—	—	(902)	(902)	—	—	(902)				
Modification of warrants	—	—	—	64,210	64,210	—	—	64,210				
In lieu of fees	—	—	—	149,810	149,810	—	—	149,810				
Expiration of warrants	—	—	—	(3,205)	(3,205)	—	—	(3,205)				
Stock options granted	—	—	—	—	—	3,205	—	3,205				
Net loss for the period	—	—	—	—	—	417,000	—	417,000				
September 30, 2010 [note 15]	103,716,213	114,643,346	14,488,469	1,545,542	116,188,888	7,852,230	(7,906,125)	116,134,993				
December 31, 2010 [note 15]	106,928,227	117,247,650	14,094,275	1,517,223	118,764,873	7,734,653	(8,452,738)	118,046,788				
Issued as a result of:												
Private offerings [note 9[c]]	2,145,000	3,003,000	—	—	3,003,000	—	—	3,003,000				
Flow-through share premium deferred gain [note 9[c]]	—	(697,350)	—	—	(697,350)	—	—	(697,350)				
Exercise of warrants [note 9[d]]	802,431	713,308	(802,431)	(71,363)	641,945	—	—	641,945				
Exercise of compensation units [note 9[d]]	1,035,003	893,606	517,500	58,597	952,203	(279,451)	—	672,752				
Exercise of stock options [note 9[d]]	120,000	116,400	—	—	116,400	(39,600)	—	76,800				
Stock options granted [note 9[b]]	—	—	—	—	—	319,600	—	319,600				
Stock options forfeited [note 9[b]]	—	—	—	—	—	(7,800)	—	(7,800)				
Net income for the period	—	—	—	—	—	5,140,995	—	5,140,995				
September 30, 2011	111,030,661	121,276,614	13,809,344	1,504,457	122,781,071	7,727,402	(3,311,743)	127,196,730				

See accompanying notes

Fortune Minerals Limited

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

September 30, 2011

1. CORPORATE INFORMATION

The interim condensed consolidated financial statements of Fortune Minerals Limited [“the Company”] for the period ended September 30, 2011 were authorized for issue in accordance with a resolution of the directors on November 4, 2011. Fortune Minerals Limited is a limited company incorporated under the laws of Ontario and domiciled in London, Ontario, Canada whose shares are publicly traded on the Toronto Stock Exchange.

2. BASIS OF PRESENTATION

The Company is a natural resource company with mineral deposits in Canada and is focused on the exploration, assembly and development of natural resource projects. The recoverability of amounts shown for mineral properties and related exploration and evaluation expenditures is dependent upon the economic viability of recoverable reserves, the ability of the Company to obtain the necessary permits and 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.

Effective January 1, 2011, the accounting framework under which financial statements are prepared in Canada for all publicly accountable enterprises changed to International Financial Reporting Standards [“IFRS”]. These interim condensed consolidated financial statements including comparative amounts have been prepared in accordance with *International Accounting Standard* [“IAS”] 34, *Interim Financial Reporting* [“IAS 34”] and *IFRS 1, First-Time Adoption of International Financial Reporting Standards* [“IFRS 1”]. The disclosures concerning the transition from Canadian generally accepted accounting principles [“GAAP”] to IFRS are included in Note 15.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The same accounting policies and methods of computation were followed in the preparation of these interim condensed consolidated financial statements that were followed for the three month period ended March 31, 2011. In addition, the interim consolidated financial statements for the three-month period ended March 31, 2011 contain certain incremental IFRS disclosures not included in the annual consolidated financial statements for the year ended December 31, 2010 prepared in accordance with previous Canadian GAAP. Accordingly, these interim condensed consolidated financial statements for the three- and nine-month periods ended September 30, 2011 should be read together with the annual consolidated financial statements for the year ended December 31, 2010 prepared in accordance with previous Canadian GAAP as well as the interim consolidated financial statements for the three-month period ended March 31, 2011.

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 disclosures are determined using management’s best estimates based on assumptions that reflect the most probable set of economic conditions and

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[unaudited]

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planned courses of action. Actual results, however, may differ from the estimates used in the interim condensed consolidated financial statements. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRS that have a significant effect on the interim condensed consolidated financial statements and estimates with a significant risk of material adjustment in the current and following fiscal years are discussed in Notes 3[d] to 3[i], 3[n], and 11 of the Company's March 31, 2011 interim consolidated financial statements.

[a] Application of new and revised International Financial Reporting Standards

IFRS 9 Financial Instruments ["IFRS 9"] was issued by the IASB on November 12, 2009 and will replace *IAS 39, Financial Instruments: Recognition and Measurement* ["IAS 39"]. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company is currently evaluating the impact of IFRS 9 on its financial instruments; however, the impact, if any, is not expected to be significant.

IFRS 10 Consolidated Financial Statements ["IFRS 10"] was issued by the IASB on May 12, 2011. The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 is effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of this standard or determined whether it will adopt this standard early.

IFRS 11 Joint Arrangements ["IFRS 11"] was issued by the IASB on May 12, 2011 and will replace *IAS 31, Interests in Joint Ventures* ["IAS 31"]. IFRS 11 established principles for financial reporting by parties to a joint venture and elaborates on IAS 31 by requiring a party to a joint venture to determine the type of joint arrangement(s) in which it is involved by assessing the rights and obligations arising from the arrangement.

IFRS 12 Disclosure of Interests in Other Entities ["IFRS 12"] was issued by the IASB on May 12, 2011. IFRS 12 requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

IFRS 13 Fair Value Measurement ["IFRS 13"] was issued by the IASB on May 12, 2011. IFRS 13 provides a single framework for measuring fair value while requiring enhanced disclosures when fair value is applied.

IAS 27 Separate Financial Statements ["IAS 27"] was amended on May 12, 2011 as a consequence of the issuance of IFRS 10, 11 and 12. IAS 27 sets the standards for investments in

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subsidiaries, jointly controlled entities, and associates when an entity elects, or is required, to present separate non-consolidated financial statements.

IAS 28 Investments in Associates and Joint Ventures ["IAS 28"] was amended on May 12, 2011 as a consequence of the issuance of IFRS 10, 11 and 12. IAS 28 provides additional guidance for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This standard will be applied by the Company if there is joint control or significant influence over an investee.

IFRS 11, IFRS 12, IFRS 13 and the amendments to IAS 27 and IAS 28 were early adopted by the Company during the quarter.

4. FINANCIAL INSTRUMENTS

The Company has designated cash and cash equivalents, short-term investments, and reclamation bonds as financial assets at fair value through profit and loss. Financial assets at fair value through profit and loss are revalued on the reporting date based on relevant market information about the financial instrument. Accounts receivable are financial assets designated as receivables, measured initially at fair value and subsequently on the basis of amortized cost using the effective interest rate method. Current debt, capital contribution liability, accounts payable and accrued liabilities, interest payable and taxes payable are designated as financial liabilities measured initially at fair value and subsequently on the basis of amortized cost using the effective interest rate method. These valuations are estimates and changes in assumptions could significantly affect the estimates.

[a] Credit risk is the risk of an unexpected loss if a customer or counter party to a financial instrument fails to meet its contractual obligations. Cash and cash equivalents 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 recurring receivables consist primarily of Goods and Services Tax ["GST"] and Harmonized Sales Tax ["HST"] 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 security held for the 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.

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- ii.* Currency risk arises because of changes in foreign exchange rates. Nearly all of the Company's current activities are priced in Canadian dollars ["\$CDN"]. 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 ["\$US"]. The Company has an operating account in \$US to pay United States vendors and to receive \$US payments as well as to manage the timing of conversion of \$CDN to \$US, or vice versa. At September 30, 2011, the \$US balance in cash and cash equivalents was \$1,265,670.
 - 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 earnings 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 due on August 31, 2012.

5. 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.

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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 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 for 2011. However, significant additional capital will be required to complete the development of the Company's NICO and Mount Klappan projects.

6. CAPITAL ASSETS

Capital assets consist of the following:

	Computer equipment \$	Furniture and fixtures \$	Leasehold improvements \$	Software \$	Total \$
Cost					
As at December 31, 2010	140,868	80,914	9,602	47,819	279,203
Additions	7,860	—	—	1,140	9,000
Disposals	—	(3,127)	—	—	(3,127)
As at September 30, 2011	148,728	77,787	9,602	48,959	285,076
Accumulated amortization					
As at December 31, 2010	90,870	42,520	9,164	22,974	165,528
Amortization for the period	11,785	5,759	164	3,828	21,536
Disposals	—	(3,127)	—	—	(3,127)
As at September 30, 2011	102,655	45,152	9,328	26,802	183,937
Net book value					
As at December 31, 2010	49,998	38,394	438	24,845	113,675
As at September 30, 2011	46,073	32,635	274	22,157	101,139

7. MINING PROPERTIES

The Company's mining properties are categorized in the exploration and evaluation stage since the necessary mining permits have not yet been obtained and a construction decision has not yet been approved by the Board of Directors. For management purposes, the group is organized into

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business units based on the significant mining properties that the Company is currently exploring and evaluating. Management monitors the monthly expenditures of its operating segments separately for the purpose of making decisions about resource allocation and financing requirements. There is only one geographic segment, Canada.

Interests in mining properties consist of the following:

	September 30, 2011			
	Capital assets \$	Property costs \$	Exploration and evaluation expenditures \$	Total - mining properties \$
NICO Project [i]	26,140,096	3,593,049	70,722,605	100,455,750
Mount Klappan Project [ii]	16,223	2,515,293	14,579,296	17,110,812
Sue-Dianne Project	—	9,164	2,042,973	2,052,137
Other properties	—	—	40,455	40,455
	26,156,319	6,117,506	87,385,329	119,659,154

	December 31, 2010			
	Capital assets \$	Property costs \$	Exploration and evaluation expenditures \$	Total - mining properties \$
NICO Project [i]	25,590,045	3,593,049	65,911,079	95,094,173
Mount Klappan Project [ii]	21,872	3,144,116	17,485,117	20,651,105
Sue-Dianne Project	—	9,164	2,038,798	2,047,962
Other properties	—	—	38,826	38,826
	25,611,917	6,746,329	85,473,820	117,832,066

During the nine-month period ended September 30, 2011, the change in exploration and evaluation expenditures balance is a result of additions only and there were no disposals, write-offs or amortization with the exception of the Mount Klappan property (“Klappan”). On July 13, 2011, 20% of the interest in Klappan was sold to Posco Klappan Coal Ltd. [“POSCAN”] resulting in the disposal of \$4,071 in capital assets, \$628,823 in property costs, and \$3,581,601 in exploration and evaluation expenditures [see note 7ii].

During the nine-month period ended September 30, 2011, \$522,130 [September 30, 2010 - \$447,304] of directly attributable administrative expenses, \$146,597 [September 30, 2010 - \$186,782] of amortization, \$148,552 [September 30, 2010 - \$119,108] of borrowing costs and \$74,010 [September 30, 2010 - \$109,000] of stock-based compensation were capitalized to exploration and evaluation expenditures within mining properties. During the nine months ended September 30, 2011, \$1,000 [September 30, 2010 - \$nil] was removed from the cost of surface facilities under construction as a result of non-vested stock options forfeited.

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Capital assets in mining properties consist of the following:

	Surface facilities under construction	Surface facilities	Camp structures	Mobile equipment	Site furniture and equipment	Land acquisition costs	Asset retirement obligation	Total
Cost	\$	\$	\$	\$	\$	\$	\$	\$
As at December 31, 2010	24,450,548	1,469,007	600,124	822,783	31,280	64,987	43,945	27,482,674
Additions	727,269	—	—	—	—	—	—	727,269
Disposals	—	—	(1,280)	(9,518)	(8,800)	—	(3,895)	(23,493)
As at September 30, 2011	25,177,817	1,469,007	598,844	813,265	22,480	64,987	40,050	28,186,450
Accumulated amortization								
As at December 31, 2010	—	779,113	499,942	568,400	23,302	—	—	1,870,757
Amortization for the period	—	93,177	22,525	56,965	1,116	—	—	173,783
Disposals	—	—	(1,103)	(8,192)	(5,114)	—	—	(14,409)
As at September 30, 2011	—	872,290	521,364	617,173	19,304	—	—	2,030,131
Net book value								
As at December 31, 2010	24,450,548	689,894	100,182	254,383	7,978	64,987	43,945	25,611,917
As at September 30, 2011	25,177,817	596,717	77,480	196,092	3,176	64,987	40,050	26,156,319

During the nine-month period ended September 30, 2011, \$37,235 [September 30, 2010 - \$134,864] of directly attributable corporate employee compensation and benefits, \$24,027 [September 30, 2010 - \$103,021] of borrowing costs, \$36,672 [September 30, 2010 - \$52,429] of amortization and \$16,050 [September 30, 2010 - \$68,500] of stock-based compensation were capitalized to surface facilities under construction. During the nine-month period ended September 30, 2011, \$6,250 [September 30, 2010 - \$nil] was removed from the cost of surface facilities under construction as a result of non-vested stock options forfeited.

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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.

[a] Golden Giant Mine Assets

The Company previously acquired certain mill, related surface facilities and processing equipment for future use at the NICO Project. The Company undertook a project designed to dismantle and remove these assets, which was completed during 2010.

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. The assets are currently stored in strategic staging locations in Canada. 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.

[b] Saskatchewan Metals Processing Plant [“SMPP”]

During 2009, a decision was made to locate the hydrometallurgical processing plant of the NICO project from the mine site in the Northwest Territories to a site in southern Canada. The Company entered into an agreement to purchase lands near Saskatoon, Saskatchewan on which it proposes to construct the NICO Project refinery and incorporated Fortune Minerals Saskatchewan Inc. [“FMSI”], a wholly owned subsidiary. A deposit of \$50,000 was paid with the balance of \$825,000 due upon closing, subject to certain conditions being satisfied or waived by FMSI prior to but no later than December 31, 2012. Costs of purchasing the land are being capitalized as Land acquisition costs until the purchase closes. The net costs of design, development, construction and related costs incurred for the SMPP 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.

[c] Project Financing

Subsequent to the quarter end, the Company has formally engaged a financial advisor to assist in securing strategic partners to support the development of both Klappan and NICO, including the potential of helping to arrange or providing some or all of the required project financing. As a result, transaction costs of \$391,766 recorded in other assets for a previous engagement with an additional financial advisor were written off.

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ii. Mount Klappan Project, British Columbia

Klappan, located in northwest British Columbia, and the related coal licenses, prior to July 13, 2011, were wholly owned by the Company through its wholly owned subsidiary, FCL.

On July 13, 2011, The Company and Fortune Coal Limited ["FCL"], a wholly-owned subsidiary of the Company, entered into an agreement (the "Agreement") with POSCO Canada Ltd. and POSCAN, a wholly owned subsidiary of POSCO Canada Ltd. to Klappan to production through an unincorporated joint venture, the Klappan Coal Joint Venture ["Klappan JV"]. FCL and POSCAN have contributed their 80% and 20% share of their interests in Klappan, respectively, to the Klappan JV.

The Klappan JV is a joint operation between FCL and POSCAN that is being accounted for using proportionate consolidation. Pursuant to the Agreement, POSCAN acquired from FCL a 20% interest in Klappan in exchange for: [i] proceeds of \$10 million paid to FCL upon execution of the Agreement; [ii] a contribution of up-front capital of \$20 million to the Klappan JV; and, [iii] future proceeds of \$17.2 million to be paid in five equal annual installments of \$3.44 million beginning one year after the commencement of commercial production. At September 30, 2011, the cash balance in the Klappan JV was \$19,976,155, of which 80% was proportionately consolidated by FCL.

Pursuant to the Agreement, FCL is obligated to a future capital contribution of \$80 million to the Klappan JV, to be contributed when a production program has been approved by the Klappan JV management committee and when financing has been obtained. Should these criteria not be met by December 31, 2015, POSCAN can, in its sole discretion, require FCL to make a \$16 million payment directly to POSCAN in lieu of the \$80 million capital contribution.

FCL has recorded a total gain of \$10,936,842 related to the transactions noted above. Of this amount, \$5,793,615 arose on the sale of its 20% interest in Klappan based on proceeds received to date of \$10 million. No gain was recognized at this time for the \$17.2 million in future proceeds. The balance of the gain of \$5,143,227 arose from the Company's recognition of a \$16 million future capital contribution liability. FCL's capital contribution liability has been recorded at its estimated present value of \$10,856,773 using a discount rate of 9% and a contribution date approximately 4.5 years from the closing of the transaction. As the future capital contribution liability accretes to \$16 million by December 31, 2015, FCL will recognize the accretion expense through profit or loss. For the period ended September 30, 2011 accretion of \$220,844 was recognized. Corporate advisory and other costs of \$1,497,547 and \$1,735,656 were incurred for the three and nine months ended September 30, 2011, respectively, on the sale of the interest in Klappan and have been reflected in the net gain on the Klappan transaction.

Upon commercial production, the Company has a royalty agreement entitling a third party to \$1 per tonne of coal delivered to the point of usage or sale. Pursuant to the Agreement, the obligation will be paid by the Klappan JV.

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iii. Reclamation Security Deposits

The Company has provided reclamation security deposits in the form of a letter of credit in favour of the Receiver General for Canada and Government of British Columbia for NICO and Klappan, respectively.

Reclamation deposits consist of the following:

	September 30, 2011		December 31, 2010	
	Deposit amount	Security held [FMV/ <i>i</i>]	Deposit amount	Security held [FMV/ <i>i</i>]
	\$	\$	\$	\$
NICO Project	211,000	245,141	211,000	244,273
Mount Klappan Project	307,000	375,575	307,000	374,234
Net Book Value	518,000	620,716	518,000	618,507

i/FMV= Fair market value

The security held for the reclamation security deposits consists of cash balances and short-term fixed income deposits with original maturity dates shorter than three months in investment accounts with a large Canadian financial institution.

The Company is currently in the process of having the reclamation security deposit for Klappan transferred to the Klappan JV, and it is expected that this transfer will occur prior to year end. Once the security deposit has been transferred into an account held by the Klappan JV, the Company will recognize its proportionate share of the reclamation security deposit.

8. PROVISION FOR ENVIRONMENTAL REHABILITATION

Although the ultimate amount of the environment rehabilitation provision is uncertain, the fair value of these obligations is based on information currently available, including the most recently estimated mine life and applicable regulatory requirements. Significant closure activities include primarily land rehabilitation for impacts to date.

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The provision for the environmental rehabilitation and key assumptions are as follows:

	September 30, 2011	December 31, 2010
NICO Project		
Provision for environmental rehabilitation	\$52,048	\$48,756
Estimated remaining life	20 years	21 years
Discount rate	9%	9%
Mount Klappan Project [i]		
Provision for environmental rehabilitation	\$33,140	\$38,806
Estimated remaining life	25 years	26 years
Discount rate	9%	9%
Total provision for environmental rehabilitation	\$85,188	\$87,562

[i] At September 30, 2011, the provision for environmental rehabilitation in the Klappan JV was \$41,426, of which 80% was proportionately consolidated by FCL. The 20% interest in Klappan sold to POSCAN, described in note 7ii, included the provision for the environmental rehabilitation for the Mount Klappan Project. The provision for environmental rehabilitation was reduced by \$8,110, representing the portion that was sold to POSCAN.

9. SHARE CAPITAL

[a] The Company is authorized to issue an unlimited number of common shares without par value. The weighted average number of common shares outstanding was 108,718,408 and 108,102,330 for the three- and nine-month periods ended September 30, 2011, respectively [December 31, 2010 – 98,058,973]. For calculating fully diluted income (loss) per share, for the three- and nine-month periods ended September 30, 2011, there were 2,508,065 and 2,838,432 weighted average options outstanding, respectively, 13,709,344 warrants and 79,616 compensation units (compensation units consist of 79,616 common share purchase options and 39,808 warrants) with an exercise price less than the average market price for the period. Subsequent to September 30, 2011, 1,285,000 stock options were issued pursuant to the Company's stock option plan.

[b] The estimated fair value of 535,000 options granted during the nine-month period ended September 30, 2011 has been allocated to stock-based compensation expense, exploration and evaluation expenditures and capital assets in the amounts of \$221,650, \$75,010 and \$22,300, respectively. Included in the total fair value of the options allocated to exploration and evaluation expenditures in the Klappan JV is \$640 which represents POSCAN's 20% share and is recovered. The other reserves balance was increased by \$319,600 representing the fair value of the share-based payments. All of the options granted during the nine months ended September 30, 2011 have a maximum term of five years, 452,500 vest immediately and 82,500 vest after one year of service. The estimated volatility was calculated using historical

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volatility. The fair value of the non-vested options forfeited during the nine months ended September 30, 2011 was \$7,800, which decreased the other reserves balance for the period and was recorded against stock-based compensation expense, exploration and evaluation expenditures and capital assets in the amounts of \$550, \$1,000 and \$6,250, respectively. The fair value of 1,155,000 stock options granted during the nine-month period ended September 30, 2010 was \$417,000.

The fair value of options granted during the nine-month period ended September 30, 2011 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] #	
25,000	2.54	0	63	4.4	0.86
45,000	2.65	0	63	4.4	0.82
125,000	2.18	0	63	4.4	0.83
340,000	1.58	0	63	4.4	0.61

A summary of the status of the Company's stock option plan as at September 30, 2011 and December 31, 2010, and changes during the periods ending on those dates are presented below:

	September 30, 2011		December 31, 2010	
	Number of shares #	Weighted- average exercise price \$	Number of shares #	Weighted- average exercise price \$
Options outstanding, beginning of period	4,245,000	1.22	3,300,000	1.61
Granted	535,000	1.35	1,195,000	0.69
Expired	(210,000)	2.73	(230,000)	4.24
Forfeited	(20,000)	0.74	—	—
Exercised	(120,000)	0.64	(20,000)	0.74
Options outstanding, end of period	4,430,000	1.18	4,245,000	1.22
Options vested and outstanding, end of period	4,347,500	1.17	4,205,000	1.22

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The following summarizes information about the options outstanding at September 30, 2011:

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	2,220,000	2,220,000	0.64	3.1
1.00 – 1.49	490,000	470,000	1.23	4.0
1.50 – 1.99	1,080,000	1,017,500	1.59	2.0
2.00 – 2.49	640,000	640,000	2.29	0.3
	4,430,000	4,347,500		

[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.

[c] On September 14 and September 23, 2011, the Company issued 1,785,000 and 360,000, common shares, respectively, on a flow through basis at a price of \$1.40 per share for aggregate gross proceeds of \$3,003,000. The flow-through share premium deferred gain recognized during the quarter was \$697,350, calculated as the difference between the market price of the Company's shares on the day the flow-through financing closed and the price that the investor paid for the shares. The gain is recognized in income at the time the related expenditures are renounced.

[d] During the nine-months ended September 30, 2011 the following transactions occurred:

- 482,800 warrants with a book value of \$35,171 were exercised for aggregate gross proceeds of \$386,240;
- 1,035,003 compensation units were exercised resulting in the issuance of 1,035,003 common shares with a book value of \$262,254 and 517,500 warrants with a book value of \$17,197 for aggregate gross proceeds of \$672,752 allocated between the common shares and warrants at \$631,352 and \$41,400, respectively;
- 319,631 warrants issued from the compensation units with a book value of \$36,192 were also exercised during the quarter for aggregate gross proceeds of \$255,705;
- 120,000 stock options with a book value of \$39,600 were exercised for aggregate gross proceeds of \$76,800;

10. CURRENT 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

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in lieu of fees 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. For the nine-month period ended September 30, 2011, \$43,949 [September 30, 2010 - \$46,954] of transaction costs and loan discount were amortized using the effective interest rate method and interest of \$172,579 [September 30, 2010 - \$222,129] was capitalized to exploration and evaluation expenditures and surface facilities under construction within mining properties during the period.

During the second quarter of 2011, the loan agreement was amended to extend the initial three-year term by an additional six months from March 2, 2012 to August 31, 2012.

11. INCOME TAXES

The Company has non-capital loss carryforwards totalling \$10,910,000 which begin to expire in 2014, undeducted share issuance costs of \$1,052,000 and unused investment tax credits on pre-production mining costs of \$1,781,000 which begin to expire in 2028. The Company has completed feasibility studies for both of its principal projects and undertaken related permitting and financing activities. Management has determined it is probable that the Company will achieve production and will realize the benefit of certain non-capital losses, undeducted share issuance costs and unused investment tax credits. The benefit of these amounts has been recorded in the interim condensed 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 deferred income tax assets and liabilities are as follows:

	September 30, 2011	December 31, 2010
	\$	\$
Deferred tax assets		
Net operating loss carryforwards	2,913,000	2,887,000
Undeducted share issuance costs <i>[i]</i>	281,000	455,000
Unused investment tax credits on pre-production costs	1,781,000	1,430,000
	4,975,000	4,772,000
Less valuation allowance related to operating losses, share issuance costs and corporate minimum tax	(405,000)	(509,000)
Deferred tax assets	4,570,000	4,263,000
Book value of exploration and evaluation expenditures and capital assets in excess of tax value	(12,142,000)	(9,339,500)
Deferred tax liability on future investment tax credits utilized	(475,000)	(382,000)
Net deferred tax liabilities	(8,047,000)	(5,458,500)

[i] The aggregate deferred tax impact of share issuance costs is charged to share capital.

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The reconciliation of income taxes computed at the statutory income tax rates to the provision for (recovery of) income taxes for the nine-month period is as follows:

	September 30, 2011 \$	September 30, 2010 \$
Combined federal and provincial income tax rate	28.27%	30.80%
Corporate income tax at statutory rate	2,181,000	(456,000)
Increase (decrease) in income taxes resulting from:		
Non-deductible stock compensation and other expenses	76,000	74,000
Renunciation of flow-through expenses	1,044,000	47,000
Rate difference	(115,000)	(70,000)
Non-taxable flow-through share premium	(191,000)	(115,000)
Investment tax credits on pre-production mining costs, net of tax	(260,000)	(318,000)
Other	(161,500)	90,775
	2,573,500	(747,225)

12. CONSOLIDATED STATEMENT OF CASH FLOWS

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

	September 30, 2011 \$	December 31, 2010 \$
Cash on hand with banks	28,829,193	8,377,150
Short-term fixed income deposits	1,512,488	766,824
	30,341,681	9,143,974

[b] Supplemental cash flow information for the nine months ended:

	September 30, 2011 \$	September 30, 2010 \$
Interest and investment income received	14,283	18,815
Interest paid	270,000	270,000

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13. RELATED PARTY TRANSACTIONS

For the nine-month period ended September 30, 2011, the Company paid key management personnel, including officers, directors, or their related entities for consulting services and/or management services.

Compensation paid to key management personnel for services provided during the nine-month periods ended:

	September 30, 2011 \$	September 30, 2010 \$
Salaries and benefits	204,541	196,813
Consulting services	472,443	448,078
Directors' fees	151,125	174,036
Legal services	181,131	55,293
	1,009,240	874,220

At September 30, 2011, \$88,376 [September 30, 2010 – \$76,200] was owing to key management personnel for services provided during the period.

14. COMMITMENTS AND 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.

15. INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company has adopted International Financial Reporting Standards ["IFRS"] beginning January 1, 2010 and, as a result, the 2010 comparative information has been adjusted and presented in accordance with IFRS. However, the January 1, 2010 and December 31, 2010 comparative consolidated statements of financial position for the year ending December 31, 2011 may differ from herein if there are changes to IFRS standards requiring retroactive adjustment.

i. First-time adoption of IFRS

Under IFRS 1, IFRS has been applied retrospectively at the transition consolidated statement of financial position date with all adjustments to assets and liabilities as stated under Canadian GAAP taken to retained earnings except where certain exemptions and elections were applied.

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The primary exemptions and elections that were applied by the Company are:

Business combinations

IFRS 1 indicates that a first-time adopter may elect not to apply *IFRS 3 Business Combinations* ["IFRS 3"] retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has taken this election and applied IFRS 3 only to business combinations that occurred on or after January 1, 2010.

Share-based payment transactions

IFRS 1 allows first-time adopters to apply *IFRS 2 Share-based Payments* ["IFRS 2"] to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010.

Borrowing costs

A first-time adopter may choose to apply *IAS 23 Borrowing Costs* ["IAS 23"] retrospectively or as at the transition date. IAS 23 requires borrowing costs directly attributable to acquisition, construction or production of an asset to be capitalized. An entity shall recognize other borrowing costs as an expense in the period incurred. The Company has elected to begin applying IAS 23 as at the transition date, January 1, 2010.

Provision for environmental rehabilitation

A company may elect under IFRS 1 not to assess the inputs to the present value calculation of the decommissioning liability recognized under *IAS 37 Provisions, contingent liabilities and contingent assets* ["IAS 37"] at each reporting date prior to the transition date. The Company has elected to take this exemption, and has measured the provision for environmental rehabilitation as at the transition date, January 1, 2010.

Property, plant and equipment

In valuing capital assets under *IAS 16 Property, plant and equipment* ["IAS 16"], a company may elect to use cost in accordance with IFRS; use fair value at the date of transition as deemed cost; or, use a revaluation carried out at a previous date as deemed cost, subject to certain conditions. The election may be applied to any individual item of property, plant and equipment. The Company has elected to use cost in accordance with IFRS at the date of transition.

Estimates

In accordance with IFRS 1, estimates made under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's estimates as of January 1, 2010 under IFRS are consistent with its Canadian GAAP estimates for the same date.

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ii. Adjustments recorded on transition and for comparative periods

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While adoption of IFRS has not changed the Company's actual cash flows, it has resulted in changes to the Company's reported financial position and results of operations. In order to allow the users of the interim condensed consolidated financial statements to better understand these changes, the Company's Canadian GAAP consolidated statement of financial position at September 30, 2010 and the consolidated statements of loss, comprehensive loss and deficit and the consolidated statements of cash flows for the three- and nine-month periods ended September 30, 2010 have been reconciled to IFRS, with the resulting significant differences explained below.

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The September 30, 2010 Canadian GAAP consolidated statement of financial position has been reconciled to IFRS as follows:

	Notes	September 30, 2010		
		Canadian GAAP \$	Effect of transition to IFRS \$	IFRS \$
ASSETS				
Current assets				
Cash and cash equivalents		9,049,109	—	9,049,109
Restricted cash		2,698,561	—	2,698,561
Accounts receivable		197,138	—	197,138
Prepaid expenses		131,425	—	131,425
Total current assets		12,076,233	—	12,076,233
Other assets	[a]	381,816	9,950	391,766
Security deposit		300,000	—	300,000
Reclamation security deposits		618,121	—	618,121
Capital assets, net		118,673	—	118,673
Mining properties	[b, c, e, g]	114,066,565	864,411	114,930,976
		127,561,408	874,361	128,435,769
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities		3,314,651	—	3,314,651
Interest payable		22,500	—	22,500
Income taxes payable		23,895	—	23,895
Total current liabilities		3,361,046	—	3,361,046
Long-term debt		2,901,726	—	2,901,726
Provision for environmental rehabilitation	[b]	—	85,754	85,754
Deferred income tax liability, net	[d, i]	7,050,000	(1,478,000)	5,572,000
Flow-through premium deferred gain	[h]	—	380,250	380,250
Total liabilities		13,312,772	(1,011,996)	12,300,776
SHAREHOLDERS' EQUITY				
Share capital	[a, d, f, h]	111,116,974	5,071,914	116,188,888
Other reserves	[d]	7,248,230	604,000	7,852,230
Deficit		(4,116,568)	519,723	(3,596,845)
Adjustment to opening deficit for IFRS*		—	(4,309,280)	(4,309,280)
Total shareholders' equity		114,248,636	1,886,357	116,134,993
		127,561,408	874,361	128,435,769

*Refer to the March 31, 2011 interim consolidated financial statements for a reconciliation of the deficit from Canadian GAAP to IFRS at January 1, 2010, the Company's transition date to IFRS.

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The Canadian GAAP consolidated statement of loss, comprehensive loss and deficit for the three months ended September 30, 2010 have been reconciled to IFRS as follows:

	Notes	3 months ended September 30, 2010		
		Canadian GAAP \$	Effect of transition to IFRS \$	IFRS \$
EXPENSES				
Administrative	[c]	229,943	58,702	288,645
Investor relations and regulatory fees		36,726	—	36,726
Corporate advisory costs		100,523	—	100,523
Interest expense	[g]	41,761	(33,977)	7,784
Accretion	[b]	—	1,807	1,807
Amortization		4,512	—	4,512
Loss before other items		(413,465)	(26,532)	(439,997)
Interest and other income		5,397	—	5,397
Foreign exchange gain		(48,428)	—	(48,428)
Loss before income taxes		(456,496)	(26,532)	(483,028)
Recovery of income taxes				
Deferred income tax recovery	[e, i]	12,000	230,000	242,000
Net loss and comprehensive loss for the period		(444,496)	203,468	(241,028)
Deficit, beginning of period*		(3,607,862)	(3,993,025)	(7,600,887)
Modification of warrants		(64,210)	—	(64,210)
Deficit, end of period		(4,116,568)	(3,789,557)	(7,906,125)
Basic and diluted loss per share		—	—	—

*Refer to the March 31, 2011 interim consolidated financial statements for a reconciliation of the deficit from Canadian GAAP to IFRS at March 31, 2010.

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The Canadian GAAP consolidated statement of loss, comprehensive loss and deficit for the nine months ended September 30, 2010 have been reconciled to IFRS as follows:

9 months ended September 30, 2010				
		Canadian	Effect of	
	Notes	GAAP	transition to	IFRS
		\$	IFRS	\$
			\$	\$
EXPENSES				
Administrative	[c]	717,811	261,148	978,959
Investor relations and regulatory fees		141,370	—	141,370
Stock-based compensation		239,500	—	239,500
Capital taxes		294,508	—	294,508
Corporate advisory costs		139,414	—	139,414
Interest expense	[g]	124,726	(98,692)	26,034
Accretion	[b]	—	5,421	5,421
Amortization		12,507	—	12,507
Loss before other items		(1,669,836)	(167,877)	(1,837,713)
Interest and other income		18,816	—	18,816
Gain on flow-through share premium	[h]	—	374,600	374,600
Foreign exchange gain		(36,324)	—	(36,324)
Loss before income taxes		(1,687,344)	206,723	(1,480,621)
Recovery of (provision for) income taxes				
Current income tax provision		(9,775)	—	(9,775)
Deferred income tax recovery	[e, h, i]	444,000	313,000	757,000
Net loss and comprehensive loss for the period		(1,253,119)	519,723	(733,396)
Deficit, beginning of period		(2,799,239)	(4,309,280)	(7,108,519)
Change in accounting policy		(64,210)	—	(64,210)
Deficit, end of period		(4,116,568)	(3,789,557)	(7,906,125)
Basic and diluted loss per share		(0.01)	—	(0.01)

**Refer to the March 31, 2011 interim consolidated financial statements for a reconciliation of the deficit from Canadian GAAP to IFRS at January 1, 2010, the Company's transition date to IFRS.*

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The Canadian GAAP consolidated statement of cash flows for the nine months ended September 30, 2010 has been reconciled to IFRS as follows:

	Notes	9 months ended September 30, 2010		
		Canadian GAAP \$	Effect of transition to IFRS \$	IFRS \$
OPERATING ACTIVITIES				
Net loss and comprehensive loss for the period		(1,253,119)	519,723	(733,396)
Add (deduct) items not involving cash				
Accretion of liabilities	[b]	—	5,421	5,421
Amortization of capital assets		12,507	—	12,507
Deferred income taxes	[e, h, i]	(444,000)	(313,000)	(757,000)
Gain on flow-through share premium	[h]	—	(374,600)	(374,600)
Stock-based compensation expense		239,500	—	239,500
Non-cash portion of interest expense		46,954	—	46,954
		(1,398,158)	(162,456)	(1,560,614)
Changes in non-cash working capital balances related to operations				
Accounts receivable		444,499	—	444,499
Prepaid expenses		(68,568)	—	(68,568)
Accounts payable and accrued liabilities		(266,899)	—	(266,899)
Interest payable		(67,500)	—	(67,500)
Income taxes payable		(89,764)	—	(89,764)
Cash used in operating activities		(1,446,390)	(162,456)	(1,608,846)
INVESTING ACTIVITIES				
Increase in exploration and evaluation expenditures	[g]	(7,304,977)	(53,075)	(7,358,052)
Purchase of plant and equipment and capital assets	[c, g]	(6,281,705)	215,531	(6,066,174)
Increase in other assets, net of non-cash items		(3,180)	—	(3,180)
Posting of security for reclamation security deposits		(871)	—	(871)
Cash used in investing activities		(13,590,733)	162,456	(13,428,277)
FINANCING ACTIVITIES				
Proceeds on exercise of warrants		3,841,084	—	3,841,084
Proceeds on issuance of shares, net		1,917,000	—	1,917,000
Cash provided by financing activities		5,758,084	—	5,758,084
Net decrease in cash and cash equivalents during the period		(9,279,039)	—	(9,279,039)
Cash and cash equivalents, beginning of period		18,328,148	—	18,328,148
Cash and cash equivalents, end of period		9,049,109	—	9,049,109

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The disclosure below summarizes the adjustments to the opening statement of financial position on the transition date, January 1, 2010, as well as the adjustments to the statement of financial position and statement of loss, comprehensive loss and deficit for the nine months ended September 30, 2010 ["YTD"] and the three months ended September 30, 2010 ["QTD"].

[a] Share-based payments

Share-based payments that were outstanding but not fully vested subsequent to January 1, 2010 have been assessed for the differences between Canadian GAAP and IFRS. IFRS 2 requires the fair value of share-based payments issued to a non-employee in exchange for services to be measured at the date the service was rendered, and recognized over the life of the share-based payment. The Company had such share-based payments at the date of transition to IFRS related to warrants issued to a financial institution for services performed for the NICO project financing initiatives. Under Canadian GAAP, the Company re-measured the fair value of these share-based payments at each reporting date and at the vesting dates. The re-measurement of the fair value has been reversed under IFRS, resulting in the following adjustments:

	Other assets Dr/ (Cr) \$	Share capital (warrants) Dr/ (Cr) \$
<i>Adjustment to opening balance</i>	25,157	(25,157)
<i>September 30, 2010 YTD</i>	(15,207)	15,207
<i>Cumulative to September 30, 2010</i>	9,950	(9,950)
<i>September 30, 2010 QTD</i>	(10,317)	10,317

[b] Provision for environmental rehabilitation

IAS 37 requires a company to recognize an asset retirement obligation if a legal or constructive obligation exists upon commencement of the project when and if it can be reliably measured. IAS 37 provides guidance that differs from Canadian GAAP related to measurement of such asset retirement obligations and requires certain assumptions to be made. The amount recorded is reassessed each reporting period based on new estimates and assumptions. IAS 16 requires the cost of property, plant and equipment to include the estimated cost of dismantling and removing the asset and restoring the site. Under Canadian GAAP a company is required to recognize an asset retirement obligation if a legal obligation exists and a reasonable estimate for that obligation can be made. An asset retirement obligation has been recorded under IFRS, resulting in the following adjustments:

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	Mining properties Dr/ (Cr) \$	Environmental rehabilitation provision Dr/ (Cr) \$	Deficit Dr/(Cr) \$	Accretion expense Dr/(Cr) \$
<i>Adjustment to opening balance</i>	43,945	(80,333)	36,388	—
<i>September 30, 2010 YTD</i>	—	(5,421)	—	5,421
<i>Cumulative to September 30, 2010</i>	43,945	(85,754)	36,388	5,421
<i>September 30, 2010 QTD</i>	—	(1,807)	—	1,807

[c] Property, plant and equipment

Under IAS 16 administrative and general overhead expenditures are not considered to be a cost of an item of property, plant and equipment. Under Canadian GAAP the Company included these expenditures in the cost of property, plant and equipment to the extent that the expenditures were directly attributable. Administrative and general overhead costs previously capitalized in property, plant and equipment have been expensed under IFRS resulting in the following adjustments:

	Mining properties Dr/(Cr) \$	Deficit Dr/(Cr) \$	Administrative expense Dr/(Cr) \$
<i>Adjustment to opening balance</i>	(535,078)	535,078	—
<i>September 30, 2010 YTD</i>	(261,148)	—	261,148
<i>Cumulative to September 30, 2010</i>	(796,226)	535,078	261,148
<i>September 30, 2010 QTD</i>	(58,702)	—	58,702

[d] Initial recognition exemption of deferred taxes

Under *IAS 12 Income Taxes* ["IAS 12"], a company should not recognize the deferred tax on the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction does not impact accounting or taxable income at the time of initial recognition. Canadian GAAP contains no such exemption. Deferred tax assets and liabilities previously recorded under Canadian GAAP that meet the initial recognition exemption requirements under IFRS have been reversed. This includes deferred tax liabilities previously recorded on the acquisition of the minority interest of NICO, capitalized stock options, and warrant value included in transaction costs. The resulting adjustments recorded are as follows:

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Acquisition of minority interest in NICO:

	Deferred tax asset/liability	Share capital	Deficit
	Dr/(Cr)	Dr/(Cr)	Dr/(Cr)
	\$	\$	\$
<i>Adjustment to opening balance</i>	958,000	(1,095,500)	137,500
<i>September 30, 2010 YTD</i>	—	—	—
<i>Cumulative to September 30, 2010</i>	958,000	(1,095,500)	137,500
<i>September 30, 2010 QTD</i>	—	—	—

Capitalized stock options:

	Deferred tax asset/liability	Other reserves	Deficit
	Dr/(Cr)	Dr/(Cr)	Dr/(Cr)
	\$	\$	\$
<i>Adjustment to opening balance</i>	566,000	(557,000)	(9,000)
<i>September 30, 2010 YTD</i>	47,000	(47,000)	—
<i>Cumulative to September 30, 2010</i>	613,000	(604,000)	(9,000)
<i>September 30, 2010 QTD</i>	—	—	—

Capitalized warrants:

	Share capital (warrants)	Deferred tax asset / liability
	Dr/ (Cr)	Dr/ (Cr)
	\$	\$
<i>Adjustment to opening balance</i>	(76,000)	76,000
<i>September 30, 2010 YTD</i>	(44,000)	44,000
<i>Cumulative to September 30, 2010</i>	(120,000)	120,000
<i>September 30, 2010 QTD</i>	—	—

[e] Pre-production mining investment tax credits

Under IFRS, investment tax credits [“ITCs”] are not explicitly addressed and are excluded from the scope of IAS 12 and *IAS 20 Accounting for Government Grants* [“IAS 20”]. However, the “GAAP Hierarchy” discussed in *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors* [“IAS 8”] suggests that the Company is not prohibited in applying these standards. The Company assesses IAS 12 as the most appropriate standard currently for accounting for deferred taxes on the pre-production mining ITCs. As a result, the ITCs are recorded through net income (loss) for the period. Under Canadian GAAP, the Company has recorded the non refundable ITCs as a reduction of the related asset, through the deferred exploration expenditures in mining properties. As a result of the differences between IFRS and Canadian GAAP, the ITCs previously recorded against deferred exploration expenditures have been recorded through opening retained earnings as follows:

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	Mining properties Dr/(Cr) \$	Deficit Dr/(Cr) \$	Tax provision Dr/(Cr) \$
<i>Adjustment to opening balance</i>	1,085,000	(1,085,000)	—
<i>September 30, 2010 YTD</i>	433,000	—	(433,000)
<i>Cumulative to September 30, 2010</i>	1,518,000	(1,085,000)	(433,000)
<i>September 30, 2010 QTD</i>	305,000	—	(305,000)

[f] Backwards tracing of deferred taxes

Under IFRS, current and deferred taxes that arise from an item recorded directly in equity should also be recorded through equity, and not through net income (loss) as per IAS 12. Any re-measurement of an item recorded directly in equity that originally triggered the recognition of the current or deferred taxes are also recorded through the equity account and not through net income (loss); this concept is referred to as “backwards tracing”. Canadian GAAP does not allow backwards tracing on items recorded directly in equity. In 2007, the Company recorded a deferred tax asset for certain un-deducted share issuance costs that were previously assessed as less likely than not to be realized in the future. As a result of the difference between Canadian GAAP and IFRS related to backwards tracing, a transitional adjustment to move future taxes recorded on share issuance costs from net income to the share capital account in the consolidated statement of changes in financial position has been recorded through opening retained earnings as follows:

	Share capital Dr/ (Cr) \$	Share capital (warrants) Dr/ (Cr) \$	Deficit Dr/ (Cr) \$
<i>Adjustment to opening balance</i>	(656,000)	(34,000)	690,000
<i>September 30, 2010 YTD</i>	—	—	—
<i>Cumulative to September 30, 2010</i>	(656,000)	(34,000)	690,000
<i>September 30, 2010 QTD</i>	—	—	—

[g] Borrowing costs

Under IFRS, IAS 23 requires that an entity capitalize borrowing costs, including interest, which is directly attributable to the acquisition, construction or production of a qualifying asset. Canadian GAAP does not contain comprehensive guidance on the method for capitalization of borrowing costs. As a result of applying IAS 23 to 2010 borrowing costs, the Company has recorded an adjustment to reduce the interest expense in net income (loss), and increase the amount of interest being capitalized to mining properties as follows:

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	Mining properties Dr/ (Cr)* \$	Interest expense Dr/ (Cr) \$
<i>Adjustment to opening balance</i>	—	—
<i>September 30, 2010 YTD</i>	98,692	(98,692)
<i>Cumulative to September 30, 2010</i>	98,692	(98,692)
<i>September 30, 2010 QTD</i>	33,977	(33,977)

*The adjustment includes capital assets within mining properties and exploration and evaluation expenditures within mining properties in amounts of \$12,079 and \$21,898, respectively for September 30, 2010 QTD and \$45,617 and \$53,075, respectively, for September 30, 2010 YTD.

[h] Flow-through shares

Under IFRS, flow-through shares issued are recognized in share capital based on the quoted market price of the Company's shares on the date of issue. Any premium between the amount recognized in common shares and the amount the investor pays for the shares is recognized as a deferred gain which is recognized in earnings as gain on flow-through share premium when the eligible expenditures have been renounced. An income tax expense and deferred tax liability are recorded on renunciation. Previously, under Canadian GAAP, flow-through shares were recorded at their face value, net of related issuance costs and when the eligible expenditures were renounced, a future tax liability was recognized as a cost of issuing the shares by reducing the share capital amount recorded. As a result of this difference, a retrospective adjustment has been made to bifurcate and account for the premium amount paid by investors historically as a liability, and to record the deferred tax on renunciation of flow-through shares through earnings rather than share capital, and adjustments have been made to the 2010 comparative balances. These adjustments are summarized below:

	Flow-through share premium deferred gain Dr/(Cr) \$	Share capital Dr/ (Cr) \$	Deficit Dr/(Cr) \$	Gain on flow-through share premium Dr/ (Cr) \$	Tax provision Dr/ (Cr) \$
<i>Adjustment to opening balance</i>	(374,600)	(3,489,714)	3,864,314	—	—
<i>September 30, 2010 YTD</i>	(5,650)	333,250	—	(374,600)	47,000
<i>Cumulative to September 30, 2010</i>	(380,250)	(3,156,464)	3,864,314	(374,600)	47,000
<i>September 30, 2010 QTD</i>	—	—	—	—	—

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[i] Other adjustments to deferred taxes

For certain differences between Canadian GAAP and IFRS that result in adjustments being recognized in the interim condensed consolidated financial statements as described above there are corresponding adjustments required to recognize changes in the deferred income tax assets and liabilities due to changes between book and tax values.

The impact on deferred taxes as a result of the recognition of the environmental rehabilitation provision [refer to [b] above], the reduction in administrative and general overhead costs capitalized to property, plant and equipment [refer to [c] above] and the capitalization of borrowing costs [refer to [g] above] is as follows:

	Deferred tax asset/ liability Dr/ (Cr) \$	Deficit Dr/ (Cr) \$	Tax provision Dr/ (Cr) \$
<i>Adjustment to opening balance</i>	150,000	(150,000)	—
<i>September 30, 2010 YTD</i>	42,000	—	(42,000)
<i>Cumulative to September 30, 2010</i>	192,000	(150,000)	(42,000)
<i>September 30, 2010 QTD</i>	6,000	—	(6,000)

Deferred tax liability related to pre-production mining tax credits adjustment [refer to [e] above]:

	Deferred tax asset/ liability Dr/ (Cr) \$	Deficit Dr/ (Cr) \$	Tax provision Dr/ (Cr) \$
<i>Adjustment to opening balance</i>	(290,000)	290,000	—
<i>September 30, 2010 YTD</i>	(115,000)	—	115,000
<i>Cumulative to September 30, 2010</i>	(405,000)	290,000	115,000
<i>September 30, 2010 QTD</i>	(81,000)	—	81,000

16. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified from statements previously presented to conform to the presentation of the September 30, 2011 interim condensed consolidated financial statements.