FORTRESS
MINERALS CORP.

FIRST QUARTER REPORT

March 31, 2011

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") of Fortress Minerals Corp. ("Fortress") and its subsidiary companies (collectively, the "Company") for the three months ended March 31, 2011 provides a detailed analysis of the Company's business, and compares its financial results with those of the same period from the previous year.

This MD&A is dated as of May 18, 2011 and should be read in conjunction with the Company's interim consolidated financial statements and related notes thereto for the three months ended March 31, 2011 and the Company's audited annual consolidated financial statements and related notes thereto and MD&A for the fiscal years ended December 31, 2010 and 2009.

These consolidated interim financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard 34 ("IAS 34") – *Interim Financial Reporting.*

Other continuous disclosure documents, including the Company's press releases and quarterly and annual reports, are available through its filings with the securities regulatory authorities in Canada at www.sedar.com.

OVERVIEW

The common shares of Fortress are listed for trading on the TSX Venture Exchange under the trading symbol "FST".

In January 2011, the Company completed a private placement of 5,000,000 common shares at a price of $3.00 per share for gross proceeds of $15,000,000. Share issue costs of $38,250 were incurred resulting in net proceeds of $14,961,750 from the private placement.

Pursuant to a resolution passed by shareholders on November 16, 2010, the Company consolidated its capital on a 20 old for 1 new basis. As a result, all references to share, option, warrant and per share data have been adjusted to reflect the share consolidation that was completed during the year ended December 31, 2010.

During the 2010 fiscal year, the Company disposed of all Russian net assets including Fortress' 100% interest in the Svetloye Gold Project as well as its interest in the Amur Properties. These transactions resulted in the disposition of all mineral property interests and related assets and signifies Fortress' exit from Russia. Fortress received net cash consideration of US$9,750,000 on the disposition of the Russian net assets.

At March 31, 2011, the Company has no mineral property interests.

The Company continues to evaluate strategic alternatives.

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2011, the Company had cash and a working capital surplus of $23.7 million as compared to cash of $9.2 million and working capital of $9.1 million at December 31, 2010.

As the Company currently has no ongoing exploration activities and its working capital requirements have been substantially reduced, it is believed that the current working capital will be sufficient to fully fund operations.

The resource industry is intensively competitive in all of its phases, and the Company competes with many companies possessing much greater financial and technical research resources. Competition is particularly intense with respect to the acquisition of desirable resource properties. The principal competitive factors in the acquisition of such resource properties include the staff and data necessary to identify, investigate and purchase such properties, and the financial resources necessary to acquire and develop such properties. To finance its future acquisition, exploration, development and operating costs, Fortress may require financing from external sources, including issuance of new shares or issuance of debt. There can be no assurance that such financing will be available to the Company or, if available, that it will be offered on terms acceptable to Fortress.

OUTSTANDING SHARE DATA

As at March 31, 2011 and May 18, 2011, there were 14,831,758 common shares issued and outstanding and stock options outstanding to purchase a total of 138,875 common shares for a total of 14,970,633 common shares outstanding on a fully-diluted basis.

SUMMARY OF QUARTERLY FINANCIAL RESULTS

	2011 Q1	2010 Q4	2010 Q3	2010 Q2
Total revenues	$ -	$ -	$ -	$ -
Total exploration and operating expenses	499,699	883,070	851,645	1,864,261
Loss (gain) on disposition of subsidiaries	(15,955)	(300,965)	3,299,269	4,018,155
Net loss for the period	483,744	582,105	4,150,914	5,882,416
Basic and diluted loss per share	$ 0.04	$ 0.06	$ 0.46	$ 0.65
Weighted-average number of common shares outstanding	13,720,647	9,152,784	9,065,875	8,985,033
Total assets	$ 23,801,015	$ 9,276,782	$ 9,970,855	$ 13,897,805
Working capital surplus	$ 23,717,912	$ 9,172,081	$ 7,137,170	$ (224,362)

	2010 Q1	(Canadian GAAP) 2009 Q4	(Canadian GAAP) 2009 Q3	(Canadian GAAP) 2009 Q2
Total revenues	$ -	$ -	$ -	$ -
Total exploration and operating expenses	2,051,645	2,387,828	3,221,412	1,509,973
Loss on disposition of subsidiaries	-	-	-	-
Net loss for the period	2,051,645	2,387,828	3,221,412	1,509,973
Basic and diluted loss per share	$ 0.23	$ 0.28	$ 0.39	$ 0.19
Weighted-average number of common shares outstanding	8,936,980	8,399,731	8,202,244	7,825,321
Total assets	$ 18,399,742	$ 19,700,043	$ 18,358,934	$ 21,208,990
Working capital surplus	$ 1,172,256	$ 2,832,033	$ 2,076,704	$ 5,114,024

To date, the Company has operated in the exploration phase and accordingly, production revenue has not been generated. The only income generated by the Company is interest income on its cash deposits.

The Company's net loss for the quarter has been reduced significantly from prior periods as a result of the suspension of exploration activities and the disposition of all mineral properties. The loss for the quarter was comprised primarily of salaries and benefits, office and general expenses and professional fees. Included in the salary and benefits expense for the quarter is a severance payment in the amount of $237,500 and included in the office and general expense is office rent paid to a related party in the amount of $70,000.

DESCRIPTION OF MINERAL PROPERTIES

During fiscal 2010, the Company entered into two sale agreements to sell certain subsidiaries that held the Company's net assets in the Svetloye Gold Project as well as its interest in the Amur Properties.

Svetloye Project

The Company had a 100% interest in the Svetloye Gold Project, located in the Khabarovsk Region in the Far East of The Russian Federation. In February 2010, the Company received an Exploration and Mining License valid until December 31, 2030 replacing an earlier Exploration License.

In August 2010, the Company disposed of its 100% interest in the Svetloye Gold Project in consideration for $9,574,675 (US$9,250,000). A loss of $6,603,677 was recognized on the disposal of mineral properties and other related net assets.

Amur Properties

In September 2009, the Company acquired a 51% interest in Phelps Dodge Khabaovsk, LLC ("PDK") from Freeport. PDK owns a 100% interest in Amur Minerals LLC ("Amur") which holds certain exploration and mining licenses in the Far East of Russia including Malmyzh and Limonite properties.

In December 2010, the Company disposed of its remaining Russian net assets in consideration for $505,643 (US$500,000). The disposition included the Amur Properties and specifically the Malmyzh Project, along with all related equipment and inventory. A loss of $435,515 was recognized on the disposal of mineral properties and other related net assets.

A summary of exploration costs for the properties sold is presented below:

	Svetloye Gold Project	Amur Properties	Total
Balance at December 31, 2009	$ 34,766,663	$ 543,711	$ 35,310,374
Exploration costs for the period	1,002,040	602,467	1,604,507
Value-Added-Tax refund	(96,479)	(164,568)	(261,047)
Balance at March 31, 2010	35,672,224	981,610	36,653,834
Exploration costs for the period	763,103	1,014,992	1,778,095
Value-Added-Tax refund	(266,320)	(103,850)	(370,170)
Costs related to properties sold	(36,169,007)	(1,892,752)	(38,061,759)
Balance at December 31, 2010	$ -	$ -	$ -

At March 31, 2011, the Company has no mineral property interests.

OUTLOOK

The Company continues to evaluate strategic alternatives.

TRANSACTIONS WITH RELATED PARTIES

During the 2011 period, the Company paid $70,000 (2010 - $66,000) to Namdo Management Services Ltd. ("Namdo"), a private corporation owned by the current President. The Company occupies office space in the Namdo offices for the Company's management, certain directors, investor relations personnel and support staff. Namdo charges a service fee and recovers out of pocket expenses related to the Company.

In March 2010, the largest shareholder of the Company, Lorito Holdings SARL ("Lorito") and Zebra Holdings and Investment SARL ("Zebra"), provided a loan to the Company in the amount of $500,000 at an interest rate of prime plus 2% for short term working capital purposes. As a condition of the loan, the lender received a bonus payment of 19,608 shares with a value of $131,372, which has been recorded as interest expense. As at March 31, 2010, accrued interest payable in the amount of $871 was recorded on the loan. The loan was repaid through the issuance of shares in December 2010.

OFF-BALANCE SHEET ARRANGEMENTS

During the period ended March 31, 2011 and the year ended December 31, 2010 there are no off-balance sheet transactions. The Company has not entered into any specialized financial arrangements to minimize its currency risk.

CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting policies are presented in Note 3 in the notes to the consolidated interim financial statements for the three months ended March 31, 2011 and Note 2 of the consolidated financial statements for the year ended December 31, 2010.

Use of Estimates

The preparation of these consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The consolidated interim financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated interim financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant assumptions about the future and other sources of estimation uncertainty at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, include, but are not limited to, the following:

i. the recoverability of amounts receivable which are included in the consolidated interim statements of financial position;
ii. the carrying value and the recoverability of mineral properties, which are included in the consolidated interim statements of financial position;
iii. the estimated useful lives of fixed assets and the related depreciation included in profit and loss;
iv. the inputs used in accounting for stock-based compensation expense in the consolidated interim statements of comprehensive loss; and
v. the future income tax asset allowance.

CRITICAL ACCOUNTING ESTIMATES (continued)

Impairment of long-lived assets

The Company reviews and evaluates the recoverability of fixed assets when events and circumstances suggest impairment. Where information is available and conditions suggest impairment, estimated future net cash flows are calculated using estimated future prices, proven and probable reserves, resources and operating and capital costs on an undiscounted basis. An impairment charge is recorded if the undiscounted future net cash flows are less than the carrying amount. Reductions in the carrying value, with a corresponding charge to operations, are recorded to the extent that the estimated future net cash flows on a discounted basis are less than the property interest carrying value.

Where estimates of future net cash flows are not available and where other conditions suggest impairment, management assesses whether the carrying value can be recovered. If an impairment is identified, the carrying value of the property interest is written down to its estimated fair value.

Future income taxes

The Company uses the liability method of accounting for future income taxes. Under this method of tax allocation, future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability is settled. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized. The effect on future tax assets and liabilities of a change in tax rates is recognized in earnings in the period in which the change is substantively enacted.

Stock-based compensation

From time to time, the Company grants stock options to directors, officers and employees. The Company uses the Black-Scholes option pricing model to estimate a value for these options. This model, and other models which are used to value options, require inputs such as expected volatility, expected life to exercise, and interest rates. Changes in any of these inputs could cause a significant change in the share-based compensation expense charged in a period.

As the Company did not issue any stock options during the current quarter, the stock-based compensation expense recognized relates to the vesting of tranches from prior year grants.

CHANGES IN ACCOUNTING POLICIES

The Accounting Standards Board ("AcSB") requires Canadian publicly accountable enterprises to adopt International Financial Reporting Standards ("IFRS") effective January 1, 2011. Although IFRS has a conceptual framework that is similar to Canadian GAAP, there are significant differences in recognition, measurement and disclosure.

The Company's first financial statements prepared under IFRS are the interim financial statements for the three months ended March 31, 2011, which includes full disclosure of its new IFRS policies in Note 3 to the consolidated interim financial statements. 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. The financial statements also include reconciliations of the previously disclosed comparative periods financial statements prepared in accordance with Canadian generally accepted accounting policies ("GAAP") to IFRS is set out in Note 10.

Significant differences between IFRS and Canadian GAAP in the Company's financial statements

i. Stock-based compensation

<u>IFRS</u>

- Each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches.
- Forfeiture estimates are recognized in the period they are estimated, and are revised for actual forfeitures in subsequent periods.

<u>Canadian GAAP</u>

- The fair value of stock-based awards with graded vesting are calculated as one grant and the resulting fair value is recognized on a straight-line basis over the vesting period.
- Forfeitures of awards are recognized as they occur.

ii. Other comprehensive profit (loss)

<u>IFRS</u>

- Exchange differences arising on the settlement or translation of monetary items are recognized in profit and loss in the period they arise unless the monetary item forms part of the reporting entity's net investment in a foreign operation.
- For monetary items that form part of the reporting entity's net investment in foreign operations the group consolidated accounts record the exchange difference in other comprehensive loss. The exchange gain or loss is only transferred to the Profit and Loss on disposal, in part or in full, of the net investment.

<u>Canadian GAAP</u>

Other comprehensive profit (loss) consists of the Cumulative Translation Adjustment ("CTA"). Due to other IFRS adjustments, the balances that are used to calculate the CTA are different in accordance with IFRS than in accordance with Canadian GAAP. As a result, CTA and other comprehensive profit (loss) are different in accordance with IFRS than in accordance with Canadian GAAP.

CHANGES IN ACCOUNTING POLICIES (continued)

Accounting Standards, Interpretations and Amendments to Existing Standards That Are Not Yet Effective

The Company has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published but are only effective for accounting periods beginning after January 1, 2011. These include:

i. IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Amendments to IFRS 1 on how an entity should resume presenting financial statements in accordance with IFRS after a period when the entity was unable to comply with IFRS because its functional currency was subject to severe hyperinflation. An entity shall apply those amendments for annual periods beginning on or after July 1, 2011.

ii. *IFRS 7 Financial Instruments: Disclosures*

The amendments are intended to allow users of financial statements to improve their understanding of transfer transactions of financial assets, including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. An entity shall apply that amendment for annual periods beginning on or after July 1, 2011.

iii. *IFRS 9 Financial Instruments*

This new section establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. An entity shall apply IFRS 9 to all items within the scope of IAS 39. An entity shall apply this IFRS for annual periods beginning on or after January 1, 2013

iv. *IAS 12 Income Taxes*

The amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. Under the exception, the measurement of deferred tax assets and liabilities is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. An entity shall apply those amendments for annual periods beginning on or after January 1, 2012.

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities and due to related party. The fair value of these financial instruments other than cash approximates their carrying values due to the short-term nature of these instruments.

Cash is measured at fair value using priority Level 1 inputs.

The Company is exposed to a variety of financial risks by virtue of its activities including currency, credit, interest rate, liquidity and commodity price risk.

i. Currency risk

The Company's parent is Canadian and its capital is raised in Canadian dollars, with no ongoing foreign operations or holdings of any foreign currencies. As such, the Company is not subject to any significant risk due to fluctuations in the exchange rates of foreign currencies. The Company does not enter into derivative financial instruments to mitigate its exposure and given that no significant foreign exchange positions were held at year end, management believes the risk is not material.

ii. Credit risk

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations.

The Company's cash is held in large Canadian financial institutions. The Company does not have any asset-backed commercial paper.

iii. Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. There is a very limited interest rate risk as the Company holds no interest bearing financial obligations or assets.

iv. Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning an approval of significant expenditures and commitments.

v. Price risk

The future profitability of the Company is directly related to the market price of commodities and the Company's ability to acquire and develop desirable mineral properties. The Company monitors commodity prices to determine the appropriate course of action to be taken by the Company.

FORWARD LOOKING STATEMENTS

Certain statements in this document are "forward-looking statements". Forward-looking statements are statements that are not historical fact and are generally identified by words such as "believes", "anticipates", "expects", "estimates", "pending", "intends", "plans" or similar words suggesting future outcomes. By their nature, forward-looking statements and information involve assumptions, inherent risks and uncertainties, many of which are difficult to predict, and are usually beyond the control of management, that could cause actual results to be materially different from those expressed by these forward-looking statements and information. Risks and uncertainties include, but are not limited to, risk with respect to general economic conditions, regulations and taxes, corporate restructuring and related costs, capital and operating expenses, pricing and availability of financing and currency exchange rate fluctuations. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements.

The Company does not undertake to update or re-issue the forward-looking statements and information that may be contained herein, whether as a result of new information, future events or otherwise.

Any statements regarding the following are forward-looking statements:

- future earnings;
- future asset acquisitions or dispositions;
- future debt levels;
- future sources of liquidity, cash flows and their uses;
- ultimate recoverability of assets;
- expected operating costs;
- future foreign currency exchange rates;
- future market interest rates; and
- changes in any of the foregoing.

The forward-looking statements are subject to known and unknown risks and uncertainties and other factors which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements. Such factors include, among others:

- market prices for commodities;
- the results of exploration and development drilling and related activities;
- foreign-currency exchange rates;
- economic conditions in the countries and regions in which we carry on business; and
- governmental actions including changes to taxes or royalties, changes in environmental and other laws and regulations.

The impact of any one risk, uncertainty or factor on a particular forward-looking statement is not determinable with certainty as these factors are interdependent, and management's future course of action would depend on our assessment of all information at that time. Although we believe that the expectations conveyed by the forward-looking statements are reasonable based on information available to us on the date such forward-looking statements were made, no assurances can be given as to future results, levels of activity and achievements.

Undue reliance should not be placed on the statements contained herein, which are made as of the date hereof and, except as required by law, we undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

RISKS AND UNCERTAINTIES

Exploration, acquisition and development of mineral properties involves a high degree of financial risk, which even a combination of careful evaluation, experience and knowledge may not eliminate. While discovery of an ore body may result in substantial rewards, few exploration properties are ultimately developed into producing mines. Major expenditures may be required to establish reserves by drilling, constructing mining and process facilities at a site, developing metallurgical processes and extracting base and precious metals from ore.

Risk factors that should be taken into account in assessing the Company's activities and any investment in the Company include, but are not limited to, those that follow this paragraph. Any one or more of these risk factors could have a material impact on the financial condition of the Company. This information, by its nature, is not all inclusive and risk factors that have not been listed could have a material impact on the future financial condition of the Company.

Limited Operating History

The Company has had a limited operating history since its common shares were listed for trading on the TSX Venture Exchange. The Company does not hold any known mineral reserves of any kind and does not generate any revenues from production. Its success will depend largely upon its ability to locate commercially productive mineral reserves. As a result of these factors, it is difficult to evaluate the Company's prospects, and its future success is more uncertain than if it had a longer or more proven history of operations.

History of Losses

The Company has incurred net losses every year since inception and as of March 31, 2011, had an accumulated deficit of $76,334,060. Since most exploration projects do not result in the discovery of commercially productive mineral reserves and are ultimately expensed in full, the Company expects to report substantial net losses for at least the foreseeable future.

No History of Dividends

Since incorporation, the Company has not paid any cash or other dividends on its common stock and does not expect to pay such dividends in the foreseeable future, as all available funds will be invested primarily to finance its mineral exploration programs. The Company will need to achieve profitability prior to any dividends being declared.

Dilution

The Company does not generate any revenues from production and may not currently have sufficient financial resources to undertake potential acquisition, exploration or development activities. The Company has limited financial resources and has financed its operations primarily through the sale of securities such as common shares. The Company may need to continue its reliance on the sale of such securities for future financing, resulting in dilution to the Company's existing shareholders. The amount of additional funds required will depend largely on future proposed transactions.

Competition

The resource industry is intensively competitive in all of its phases, and the Company competes with many companies possessing much greater financial and technical research resources. Competition is particularly intense with respect to the acquisition of desirable resource properties. The principal competitive factors in the acquisition of such resource properties include the staff and data necessary to identify, investigate and purchase such properties, and the financial resources necessary to acquire, explore and develop such properties. Competition could adversely affect the Company's ability to acquire suitable prospects for exploration in the future.

FORTRESS MINERALS CORP. "AMENDED"

Condensed Consolidated Interim Statements of Financial Position
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

	Note		March 31, 2011		December 31, 2010		January 1, 2010
ASSETS							
Current assets							
Cash	4	$	23,747,415	$	9,226,691	$	1,281,037
Receivables			41,350		26,899		69,688
Prepaid expenses and advances			12,250		23,192		279,867
Inventory			-		-		1,860,339
			23,801,015		9,276,782		3,490,931
Equipment			-		-		2,332,532
Mineral properties			-		-		13,876,580
		$	23,801,015	$	9,276,782	$	19,700,043
LIABILITIES							
Current liabilities							
Accounts payable and accrued liabilities		$	83,103	$	104,701	$	658,898
EQUITY							
Share capital	5		97,948,333		82,986,583		80,430,386
Equity-settled share-based payment reserve	7		1,941,681		1,938,437		1,793,995
Foreign currency translation reserve	8		161,958		97,377		-
Deficit			(76,334,060)		(75,850,316)		(63,183,236)
			23,717,912		9,172,081		19,041,145
		$	23,801,015	$	9,276,782	$	19,700,043

Approved by the Board of Directors

/s/ Lukas H. Lundin
Lukas H. Lundin

/s/ Ian W. Gibbs
Ian W. Gibbs

The accompanying notes are an integral part of these condensed consolidated financial statements.

FORTRESS MINERALS CORP. “AMENDED”

Condensed Consolidated Interim Statements of Comprehensive Loss
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

	Note	Three months ended March 31, 2011	March 31, 2010
EXPENSES			
Exploration costs	2	$ -	$ 1,343,460
Amortization	2	-	154,926
Investor relations		1,005	4,268
Loan interest	9	-	132,243
Office and general		86,227	166,515
Professional fees		54,234	67,456
Regulatory and transfer agent		9,999	14,458
Salaries and benefits	9	314,661	92,190
Stock-based compensation	7	3,244	67,248
Travel and accommodation		-	14,493
Loss before other items		469,370	2,057,257
OTHER ITEMS			
Loss (gain) on foreign exchange		85,336	(5,166)
Interest and other income		(55,007)	(446)
Gain on disposition of subsidiaries		(15,955)	-
Net loss for the period		$ 483,744	$ 2,051,645
OTHER COMPREHENSIVE LOSS			
Currency translation adjustment	8	(64,581)	(46,846)
Comprehensive loss for the period		$ 419,163	$ 2,004,799
Basic and diluted loss per common share		$ 0.04	$ 0.23
Weighted-average number of common shares outstanding		13,720,647	8,936,981

The accompanying notes are an integral part of these condensed consolidated financial statements.

FORTRESS MINERALS CORP. "AMENDED"

Condensed Consolidated Interim Statements of Changes in Equity
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

	Note	Number of Common Shares	Share Capital	Equity-settled Share-based Payment Reserve	Foreign Currency Translation Reserve	Deficit	Total
Balance January 1, 2010		8,933,495	$ 80,430,386	$ 1,793,995	$ -	$ (63,183,236)	$ 19,041,145
Bonus shares on loan	5,9	19,608	131,372	-	-	-	131,372
Stock-based compensation	7	-	-	67,248	-	-	67,248
Currency translation adjustment	8	-	-	-	46,846	-	46,846
Net loss for the period		-	-	-	-	(2,051,645)	(2,051,645)
Balance March 31, 2010		8,953,103	80,561,758	1,861,243	46,846	(65,234,881)	17,234,966
Bonus shares on loan, net of issue costs	5	126,057	384,254	-	-	-	384,254
Shares issued in consideration for loan	5	732,600	1,989,227	-	-	-	1,989,227
Shares issued in consideration for interest on loan	5	19,998	54,594	-	-	-	54,594
Share issue costs for share consolidation	5	-	(3,250)	-	-	-	(3,250)
Stock-based compensation		-	-	77,194	-	-	77,194
Currency translation adjustment		-	-	-	50,531	-	50,531
Net loss for the period		-	-	-	-	(10,615,435)	(10,615,435)
Balance December 31, 2010		9,831,758	82,986,583	1,938,437	97,377	(75,850,316)	9,172,081
Private placements, net of issue costs	5	5,000,000	14,961,750	-			14,961,750
Stock-based compensation	7	-	-	3,244	-	-	3,244
Currency translation adjustment	8	-	-	-	64,581	-	64,581
Net loss for the period		-	-	-	-	(483,744)	(483,744)
Balance March 31, 2011		14,831,758	$ 97,948,333	$ 1,941,681	$ 161,958	$ (76,334,060)	$ 23,717,912

Note: Pursuant to a resolution passed by shareholders on November 16, 2010, the Company consolidated its capital on a 20 old for 1 new basis. As a result, all references to share, option and per share data presented in these financial statements have been adjusted to reflect the share consolidation that was completed during the year ended December 31, 2010.

The accompanying notes are an integral part of these condensed consolidated financial statements.

FORTRESS MINERALS CORP. **"AMENDED"**

Condensed Consolidated Interim Statements of Cash Flows
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

	Three months ended March 31, 2011	Three months ended March 31, 2010
OPERATING ACTIVITIES		
Net loss for the period	$ (483,744)	$ (2,051,645)
Adjustments to net loss for non-cash items		
Amortization	-	154,926
Loan interest	-	131,372
Stock-based compensation	3,244	67,248
	(480,500)	(1,698,099)
Net changes in non-cash working capital items		
Increase in receivables	(14,451)	(51,865)
Decrease (increase) in prepaid expenses and advances	10,942	(71,271)
Decrease in inventory	-	223,176
Increase (decrease) in accounts payable	(21,598)	5,878
Net cash used for operating activities	(505,607)	(1,592,181)
INVESTING ACTIVITIES		
Purchase of equipment	-	(8,524)
Net cash used for investing activities	-	(8,524)
FINANCING ACTIVITIES		
Proceeds from issuance of common shares	15,000,000	-
Share issue costs	(38,250)	-
Proceeds received on promissory note	-	500,000
Net cash provided by financing activities	14,961,750	500,000
Effect of foreign exchange rate changes on cash balances	64,581	46,846
Net increase (decrease) in cash	14,520,724	(1,053,859)
Cash, beginning of period	9,226,691	1,281,037
Cash, end of period	$ 23,747,415	$ 227,178

1. Nature and continuance of operations

Fortress Minerals Corp. ("Fortress" or the "Company") was originally incorporated in British Columbia and continued under the Canada Business Corporations Act in 2002, and is engaged in precious and base-metal exploration. The Company's common shares are listed on the TSX Venture Exchange ("TSX-V") under the trading symbol "FST".

During the 2010 fiscal year, the Company disposed of all Russian net assets including Fortress' 100% interest in the Svetloye Gold Project as well as its interest in the Amur Properties. These transactions resulted in the disposition of all mineral property interests and related assets and signifies Fortress' exit from Russia.

Pursuant to a resolution passed by shareholders on November 16, 2010, the Company consolidated its capital on a 20 old for 1 new basis. As a result, all references to share, option, warrant and per share data have been adjusted to reflect the share consolidation that was completed during the year ended December 31, 2010.

2. Basis of preparation

These unaudited condensed consolidated interim financial statements, including comparatives, have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting.*

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These are the Company's first condensed consolidated financial statements prepared in accordance with IFRS for part of the period covered by the first IFRS annual consolidated financial statements for the year ending December 31, 2011, and IFRS 1 First Time Adoption of International Financial Reporting Standards has been applied. These condensed consolidated interim financial statements do not include all the information required for full annual financial statements.

Prior period annual and interim financial statements were prepared in accordance with Canadian generally accepted accounting standards ("Canadian GAAP") but have been restated to be presented in accordance with IFRS. An explanation of the impact of transition from Canadian GAAP to IFRS is included in Note 10.

These condensed consolidated interim financial statements were approved for issue by the Audit Committee on May 18, 2011.

Critical accounting judgements

The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgements or assessments made by management.

2. Basis of preparation (continued)

Critical accounting estimates

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 further periods if the review affects both current and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that the actual results differ from assumptions made, relate to, but are not limited to, the following:

i. the recoverability of receivables which are included in the condensed consolidated interim statements of financial position;
ii. the carrying value and the recoverability of mineral properties, which are included in the condensed consolidated interim statements of financial position;
iii. the estimated useful lives of fixed assets and the related depreciation included in profit and loss;
iv. the inputs used in accounting for stock-based compensation expense in the condensed consolidated interim statements of comprehensive loss; and
v. the future income tax asset allowance.

Sale of Subsidiaries

During fiscal 2010, the Company entered into two sale agreements to sell certain subsidiaries that held the Company's net assets in the Svetloye Gold Project as well as its interest in the Amur Properties.

Svetloye Gold Project

In August 2010, the Company disposed of its 100% interest in the Svetloye Gold Project in consideration for $9,574,675 (US$9,250,000). A loss of $6,603,677 was recognized on the disposal of mineral properties and other related net assets. A break fee of $250,000 was paid as a result of terminating a prior offer.

Amur Properties

In December 2010, the Company disposed of its remaining Russian net assets in consideration for $505,643 (US$500,000). The disposition included the Amur Properties and specifically the Malmyzh Project, along with all related equipment and inventory. A loss of $435,515 was recognized on the disposal of mineral properties and other related net assets.

The summary of the net assets for the subsidiaries sold for gross proceeds of $10,080,318 (US$9,750,000) is as follows:

Cash	$	32,928
Receivables		35,950
Prepaid expenses and advances		335,399
Inventory		1,357,938
Equipment		1,829,857
Mineral properties		13,876,580
Accounts payable and accrued liabilities		(349,142)
Net assets	$	17,119,510

The Company disposed of all equipment located in Russia in conjunction with the disposition of the Svetloye and Malmyzh projects. Prior to the sales, the Company charged $154,926 in amortization to operations during the prior period ended March 31, 2010.

2. Basis of preparation (continued)

A summary of exploration costs for the properties sold is presented below:

	Svetloye Gold Project	Amur Properties	Total
Balance at January 1, 2010	$ 34,766,663	$ 543,711	$ 35,310,374
Exploration costs for the period	905,561	437,899	1,343,460
Balance at March 31, 2010	35,672,224	981,610	36,653,834
Exploration costs for the period	496,783	911,142	1,407,925
Costs related to properties sold	(36,169,007)	(1,892,752)	(38,061,759)
Balance at December 31, 2010	$ -	$ -	$ -

The following entities are included in these condensed consolidated financial statements:

		Ownership interest		
	Country of incorporation	March 31, 2011	December 31, 2010	January 1, 2010
Fortress (Cayman) Corp.	Cayman Islands	100%	100%	100%
Fortress (Bermuda) Ltd.	Bermuda	0%	0%	100%
Fortress (Bermuda) II Ltd.	Bermuda	0%	0%	100%
Fortress Nevada Inc.	USA	0%	0%	100%
Fortress Minerals Cyprus (I) Ltd.	Republic of Cyprus	100%	100%	100%
Fortress Minerals Cyprus (II) Ltd	Republic of Cyprus	0%	0%	100%
Fortress Far East LLC	Russian Federation	0%	0%	100%
Fortress Minerals Cyprus (III) Ltd.	Republic of Cyprus	0%	0%	100%
Phelps Dodge Khabarovsk	USA	0%	0%	51%
Amur Minerals LLC.	Russian Federation	0%	0%	51%
Fortress Minerals Cyprus (IV) Ltd.	Republic of Cyprus	0%	0%	100%
Fortress Minerals Cyprus (V) Ltd.	Republic of Cyprus	0%	0%	100%
PD Rus LLC.	Russian Federation	0%	0%	100%
Fortress Minerals Cyprus (VI) Ltd.	Republic of Cyprus	0%	0%	100%
Fortress Minerals Cyprus (VII) Ltd.	Republic of Cyprus	0%	0%	100%
Fortress Minerals Cyprus (VIII) Ltd.	Republic of Cyprus	0%	0%	100%
Svetloye Gold Corporation	USA	0%	0%	100%

3. Summary of significant accounting policies

The unaudited condensed consolidated interim financial statements have been prepared under the historical cost basis, except for inventories which are carried at the lower of cost and net realizable value. The Company's principal accounting policies are outlined below:

(a) Basis of consolidation

These condensed consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (its subsidiaries, including special purpose entities). Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant intercompany transactions and balances have been eliminated.

Special Purpose Entities (''SPE's'') as defined by the International Accounting Standards Board ("IASB") in SIC Interpretation 12 *Consolidation – Special Purpose Entities* ("SIC-12") are entities which are created to accomplish a narrow and well-defined objective. SPE's are subject to consolidation when there is an indication that the other entity controls the SPE. The Company has determined that its investment in Phelps Dodge Khabarovsk, LLC. ("PDK") is a SPE that the Company controls. Prior to the date of disposition, the accounts of PDK were consolidated with those of the Company.

(b) Business combinations

Business combinations that occurred prior to January 1, 2010 were not accounted for in accordance with IFRS 3 *Business Combinations* or IAS 27 *Consolidated and Separate Financial Statements* in accordance with the IFRS 1 *First-time Adoption of International Financial Reporting Standards* exemption discussed in Note 10.

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognized at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which are recognized and measured at fair value less costs to sell.

(c) Presentation currency

The Company's presentation and functional currency is the Canadian dollar ("$") with foreign operations doing business in a number of foreign currencies. These condensed consolidated financial statements have been translated to the Canadian dollar in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*. These guidelines require that assets and liabilities be translated using the exchange rate at period end, and income, expenses and cash flow items are translated using the rate that approximates the exchange rates at the dates of the transactions (i.e. the average rate for the period). Subsequent to the adoption of IFRS, resulting exchange differences are recorded in other income, except for exchange differences on the net investment in foreign operations which is recorded in comprehensive income as Cumulative Translation Adjustment ("CTA") and accumulated in a separate component of shareholders' equity titled "Foreign Currency Translation Reserve".

(d) Foreign currency translation

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each statement of financial position date, monetary assets and liabilities are translated using the period end foreign exchange rate. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities that are stated at fair value are translated using the historical rate on the date that the fair value was determined. All gains and losses on translation of these foreign currency transactions are included in the condensed consolidated statements of comprehensive loss.

3. Summary of significant accounting policies (continued)

(e) Measurement uncertainty

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period.

Actual results could differ from those estimates. Significant accounts that require estimates as the basis for determining the stated amounts include accounting for doubtful accounts receivable and stock-based compensation.

(f) Current and non-current classification

Assets and liabilities are generally classified as current if expected to be realized or settled within twelve months following the reporting date. Receivables are included in current assets, except when maturities are greater than twelve months after the end of the reporting period, which results in classification as non-current assets.

(g) Financial assets

The Company classifies its financial assets in the following categories:

i. *Financial assets at fair value through profit or loss ("FVTPL")*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term.

ii. *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets.

The classification depends on the purpose for which the financial assets were acquired.

Recognition and measurement of financial assets

Financial assets are derecognized when the rights to receive cash flows have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include the following:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it has become probable that the borrower will enter bankruptcy or financial reorganization.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

3. Summary of significant accounting policies (continued)

(g) Financial assets (continued)

The carrying amount of all financial assets, excluding receivables, is directly reduced by the impairment loss. The carrying amount of receivables is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had impairment not been recognized.

Derecognition of financial assets

A financial asset is derecognized when:

- the contractual right to the asset's cash flows expire; or
- if the Company transfers the financial asset and all risks and rewards of ownership to another entity.

(h) Financial liabilities

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

i. Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expenses over the corresponding period. The effective interest rate is the rate that exactly discounts estimated future cash payments over the expected life of the financial liability, or, where appropriate, a shorter period.

The Company has classified trade and other payables as other financial liabilities. Due to its current nature, the fair value of these instruments approximates their carrying value.

ii. Derecognition of financial liabilities

The group derecognizes financial liabilities when, and only when, the group's obligations are discharged, cancelled or they expire.

(i) Cash

Cash includes cash on hand and deposits held at call with banks.

3. Summary of significant accounting policies (continued)

(j) Receivables

Receivables that have fixed or determinable payments that are not quoted in an active market are classified as receivables. Receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement within "office and general expenses". When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against "office and general expenses" in the statements of comprehensive loss.

(k) Inventory

All inventory was disposed of in fiscal 2010. In the prior year, inventory was comprised of goods and supplies acquired for use on the Svetloye and Malmyzh drill programs, and were measured at the lower of cost and net realizable value.

(l) Fixed assets

All equipment was disposed of in fiscal 2010. In the prior year, fixed assets were stated at cost less accumulated depreciation and impairment losses. The cost of an asset consists of its purchase price, any directly attributable costs of bringing the asset to its present working condition and location for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Depreciation of each asset is calculated using the straight-line method to allocate its cost less its residual value over its estimated useful life.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3n).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'Other items' in the income statement.

(m) Exploration expenditures and mineral properties

The Company has adopted the policy of capitalizing significant acquisition costs for property rights, including payments for exploration rights and leases and estimated fair value of exploration properties acquired as part of a business acquisition. Mineral exploration costs and maintenance payments are expensed prior to the determination that a property has economically recoverable ore reserves.

Development expenditures incurred subsequent to a determination of the feasibility of mining operations and to increase or to extend the life of existing production, are capitalized and will be amortized on the unit-of-production method based upon estimated proven and probable reserves.

3. Summary of significant accounting policies (continued)

(n) Impairment of non-financial assets

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(o) Payables

Payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Due to the current nature of trade payables, the fair value of these instruments approximates their carrying value.

(p) Share capital

Common shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

(q) Stock-based compensation

The Company grants stock options to buy common shares of the Company to directors, officers and employees. The board of directors grants such options for periods of up to three years, with a vesting period of 18 months and at prices equal to or greater than the closing market price on the day when granted.

The fair value of the options is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the period that the employees earn the options. The fair value is recognized as an expense with a corresponding increase in equity. The amount recognized as expense is adjusted to reflect the number of share options expected to vest.

(r) Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing the net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

(s) Comprehensive profit (loss)

Comprehensive profit (loss) is the change in the Company’s net assets that results from transactions, events and circumstances from sources other than the Company’s shareholders and includes items that would not normally be included in net profit such as unrealized gains or losses on available-for-sale investments and foreign currency gains or losses related to the net investment in foreign operations. The Company’s comprehensive profit (loss), components of other comprehensive income, and cumulative translation adjustments are presented in the statements of comprehensive loss and the statements of changes in equity.

3. Summary of significant accounting policies (continued)

(t) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

i. Current tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

ii. Deferred tax

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

4. Cash

	March 31, 2011	December 31, 2010	January 1, 2010
Cash in banks and on hand	$ 23,747,415	$ 9,226,691	$ 1,123,103
Short-term bank deposits	-	-	157,934
	$ 23,747,415	$ 9,226,691	$ 1,281,037

The carrying amounts of the Company’s cash is denominated in the following currencies:

Currency	March 31, 2011	December 31, 2010	January 1, 2010
Canadian dollars	$ 22,964,828	$ 8,381,661	$ 1,085,596
US dollars	782,587	845,030	37,507
Russian ruble	-	-	157,934
	$ 23,747,415	$ 9,226,691	$ 1,281,037

5. Share capital

(a) Authorized:
- Unlimited number of common shares without par value
- Unlimited number of preference shares without par value

(b) Private placement and share consolidation:

In January 2011, the Company completed a private placement of 5,000,000 common shares at a price of $3 per share for gross proceeds of $15,000,000. Share issue costs of $38,250 were incurred resulting in net proceeds of $14,961,750 from the private placement.

Pursuant to a resolution passed by shareholders on November 16, 2010, the Company consolidated its capital on a 20 old for 1 new basis. As a result, all references to share, option and per share data presented in these financial statements have been adjusted to reflect the share consolidation that was completed during the year ended December 31, 2010.

6. Stock options

The Company has a rolling stock-based compensation plan (the "Plan") allowing for the reservation of a maximum 10% of the common shares issued and outstanding at any given time for issuance under the Plan. Under the Plan, all stock options are granted at the discretion of the Company’s board of directors. The term of any option granted may not exceed five years and the exercise price may not be less than the market price of the Company’s common shares at the time of grant.

Options have an expiry date of three years and vest over a period of 18 months.

There were no share options granted during 2010 and during the three months ended March 31, 2011.

6. Stock options (continued)

A continuity summary of the stock options granted and outstanding under the Plan is presented below:

	Number of Common Shares		Weighted average exercise price
Balance outstanding at January 1, 2010	246,250	$	14.65
Cancelled	(107,375)	$	19.92
Balance outstanding at December 31, 2010 and March 31, 2011	138,875	$	10.43
Balance exercisable at December 31, 2010 and March 31, 2011	133,969	$	10.50

The following table summarizes information concerning outstanding and exercisable options at March 31, 2011:

Expiry date		Exercise price	Options Outstanding	Options exercisable	Remaining Contractual Life (Years)
June 16, 2011	$	24.20	25,000	25,000	0.2
July 28, 2011	$	20.00	5,500	5,500	0.3
April 24, 2012	$	6.40	88,750	88,750	1.1
November 27, 2012	$	8.40	19,625	14,719	1.6
			138,875	133,969	

7. Equity-settled share-based payment reserve

The equity-settled share-based payment reserve comprises the fair value of employee options as measured at grant date and spread over the period during which the employees become unconditionally entitled to the options.

As allowed by IFRS 1, the Company has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010.

The Company has recorded stock-based compensation expense of $3,244 (2010 – $67,248) relating to the vesting of options with a corresponding increase in the equity-settled share-based payment reserve.

8. Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the net investments in foreign operations.

During the period ended March 31, 2011, the Company recorded a currency translation adjustment relating to foreign exchange differences on foreign operations of $64,581 (2010 - $46,846).

9. Related Party Transactions

(a) Related party expenses

During the three months ended March 31, 2011 and March 31, 2010, the Company incurred the following:

Payee	Nature	Note		March 31, 2011		March 31, 2010
Namdo	Management fees	i	$	70,000	$	66,000
Zebra	Loan interest	Ii	$	-	$	132,243

i. Namdo Management Services Ltd. ("Namdo"), a company owned by an officer and director of the Company, provides services and office facilities to the Company pursuant to an Agreement.

ii. The Company's largest shareholders, Lorito Holdings SARL ("Lorito") and Zebra Holdings and Investment SARL ("Zebra"), who report their security holdings as joint actors, are private corporations owned by a trust whose settlor was the late Adolf H. Lundin. Together, Lorito and Zebra hold a total of 5,778,992 common shares, which represents 39% of the current outstanding common shares of the Company. On March 16, 2010, Zebra provided a loan to the Company in the amount of $500,000 at an interest rate of prime plus 2% for short term working capital purposes. As a condition of the loan, Zebra received a bonus payment of 392,156 shares with a value of $131,372, which was recorded as interest expense. The Company accrued interest relating to the loan of $871 for the 2010 period.

(b) Key management compensation

Key management includes executive officers of the Company. The compensation paid or payable to key management for employee services is shown below.

		March 31, 2011		March 31, 2010
Salaries and benefits	$	49,474	$	49,383
Stock-based compensation		413		8,884
Severance		237,500		-
	$	287,387	$	58,267

These transactions, occurring in the normal course of operations, were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

10. Transition to International Financial Reporting Standards ("IFRS")

IFRS 1 *First-time Adoption of International Financial Reporting Standards* sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional statement of financial position date with all adjustment to assets and liabilities taken to retained earnings unless certain exemptions are applied. The Company has applied the following exemptions to its opening statement of financial position dated January 1, 2010:

(a) Business Combinations

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

(b) Cumulative translation differences

IFRS 1 allows a first-time adopter to not comply with the requirements of IAS 21 *The Effects of Changes in Foreign Exchange Rates* for cumulative translation differences that existed at the date of transition to IFRS. The Company has chosen to apply this election and has eliminated the cumulative translation difference and adjusted retained earnings by the same amount at the date of transition to IFRS. If, subsequent to adoption, a foreign operation is disposed of, the translation differences that arose before the date of transition to IFRS will not affect the gain or loss on disposal.

(c) Share-based payment transactions

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 Share-based Payment 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.

IFRS 1 also outlines specific guidelines that a first-time adopter must adhere to under certain circumstances. The Company has applied the following guidelines to its opening statement of financial position dated January 1, 2010:

(d) Estimates

In accordance with IFRS 1, an entity's estimates 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 IFRS estimates as of January 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

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 financial statements to better understand these changes, the Company's Canadian GAAP statements of comprehensive loss, financial position and cash flows for the quarter ended March 31, 2010 and the year ended December 31, 2010 have been reconciled to IFRS, with the resulting differences explained.

(e) Stock-based compensation

IFRS

- Each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches.
- Forfeiture estimates are recognized in the period they are estimated, and are revised for actual forfeitures in subsequent periods.

10. Transition to IFRS (continued)

Canadian GAAP

- The fair value of stock-based awards with graded vesting are calculated as one grant and the resulting fair value is recognized on a straight-line basis over the vesting period.
- Forfeitures of awards are recognized as they occur.

(f) Other comprehensive loss

IFRS

- Exchange differences arising on the settlement or translation of monetary items are recognized in profit and loss in the period they arise unless the monetary item forms part of the reporting entity's net investment in a foreign operation.
- For monetary items that form part of the reporting entity's net investment in foreign operations the group consolidated accounts record the exchange difference in other comprehensive loss. The exchange gain or loss is only transferred to the Profit and Loss on disposal, in part or in full, of the net investment.

Canadian GAAP

- Any exchange gain or loss arising on translation or settlement of a foreign currency denominated monetary item is recognized in net income for the current period, unless the monetary item is an available for sale financial instrument.

The January 1, 2010 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

		January 1, 2010		
	Note	Canadian GAAP	Effect of Transition to IFRS	IFRS
Assets				
Current Assets				
Cash		$ 1,281,037	$ -	$ 1,281,037
Receivables		69,688	-	69,688
Prepaid expenses		279,867	-	279,867
Inventory		1,860,339	-	1,860,339
		3,490,931	-	3,490,931
Equipment		2,332,532	-	2,332,532
Mineral properties		13,876,580	-	13,876,580
		$ 19,700,043	$ -	$ 19,700,043
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		$ 658,898	$ -	$ 658,898
Equity				
Share Capital		80,430,386	-	80,430,386
Equity-settled share-based payment reserve	(e)	1,713,562	80,433	1,793,995
Deficit		(63,102,803)	(80,433)	(63,183,236)
		19,041,145	-	19,041,145
		$ 19,700,043	$ -	$ 19,700,043

10. Transition to IFRS (continued)

The Canadian GAAP statement of financial position at March 31, 2010 has been reconciled to IFRS as follows:

	Note	March 31, 2010		
		Canadian GAAP	Effect of Transition to IFRS	IFRS
Assets				
Current Assets				
Cash		$ 227,178	$ -	$ 227,178
Receivables		121,553	-	121,553
Prepaid expenses		351,138	-	351,138
Inventory		1,637,163	-	1,637,163
		2,337,032	-	2,337,032
Equipment		2,186,130	-	2,186,130
Mineral properties		13,876,580	-	13,876,580
		$ 18,399,742	$ -	$ 18,399,742
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		$ 664,776	$ -	$ 664,776
Due to related party		500,000	-	500,000
		1,164,776	-	1,164,776
Equity				
Share Capital		80,561,758	-	80,561,758
Equity-settled share-based payment reserve	(e)	1,782,494	78,749	1,861,243
Foreign currency translation reserve	(f)	-	46,846	46,846
Deficit		(65,109,286)	(125,595)	(65,234,881)
		17,234,966	-	17,234,966
		$ 18,399,742	$ -	$ 18,399,742

10. Transition to IFRS (continued)

The Canadian GAAP statement of operations for the three months ended March 31, 2010 has been reconciled to IFRS as follows:

		3 months ended March 31, 2010		
	Note	Canadian GAAP	Effect of Transition to IFRS	IFRS
Expenses				
Exploration costs		$ 1,343,460	$ -	$ 1,343,460
Amortization		154,926	-	154,926
Investor relations		4,268	-	4,268
Loan interest		132,243	-	132,243
Office and general		166,515	-	166,515
Professional fees		67,456	-	67,456
Regulatory and transfer agent		14,458	-	14,458
Salaries and benefits		92,190	-	92,190
Stock-based compensation	(c),(e)	68,932	(1,684)	67,248
Travel and accommodation		14,493	-	14,493
		2,058,941	(1,684)	2,057,257
Gain on foreign exchange	(b),(f)	(52,012)	46,846	(5,166)
Interest and other income		(446)	-	(446)
Net loss for the period		$ 2,006,483	$ 45,162	$ 2,051,645
Other comprehensive loss				
Currency translation adjustment	(b),(f)	-	(46,846)	(46,846)
Total comprehensive loss		$ 2,006,483	$ (1,684)	$ 2,004,799

10. Transition to IFRS (continued)

The Canadian GAAP statement of cash flows for the three months ended March 31, 2010 has been reconciled to IFRS as follows:

	Note	3 months ended March 31, 2010 Canadian GAAP	Effect of Transition to IFRS	IFRS
Operating activities				
Net loss for the period		$ (2,006,483)	$ (45,162)	$ (2,051,645)
Items not affecting cash:				
Amortization		154,926	-	154,926
Loan interest		131,372	-	131,372
Stock-based compensation	(c),(e)	68,932	(1,684)	67,248
		(1,651,253)	(46,846)	(1,698,099)
Changes in non-cash working capital items:				
Increase in receivables		(51,865)	-	(51,865)
Increase in prepaid expenses		(71,271)	-	(71,271)
Decrease in inventory		223,176	-	223,176
Increase in accounts payable and accrued liabilities		5,878	-	5,878
Net cash used for operating activities		(1,545,335)	-	(1,592,181)
Investing activities				
Purchase of equipment		(8,524)	-	(8,524)
Net cash used for investing activities		(8,524)	-	(8,524)
Financing activities				
Proceeds received on promissory note		500,000	-	500,000
Net cash provided by financing activities		500,000	-	500,000
Effect of foreign exchange rate changes on cash balances	(b),(f)	-	46,846	46,846
Net decrease in cash		(1,053,859)	-	(1,053,859)
Cash, beginning of period		1,281,037	-	1,281,037
Cash, end of period		$ 227,178	$ -	$ 227,178

10. Transition to IFRS (continued)

The Canadian GAAP statement of financial position at December 31, 2010 has been reconciled to IFRS as follows:

		December 31, 2010		
	Note	Canadian GAAP	Effect of Transition to IFRS	IFRS
Assets				
Current Assets				
Cash		$ 9,226,691	$ -	$ 9,226,691
Receivables		26,899	-	26,899
Prepaid expenses		23,192	-	23,192
		$ 9,276,782	$ -	$ 9,276,782
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		$ 104,701	$ -	$ 104,701
Equity				
Share Capital		82,986,583	-	82,986,583
Equity-settled share-based payment reserve	(e)	1,918,543	19,894	1,938,437
Foreign currency translation reserve	(f)	-	97,377	97,377
Deficit		(75,733,045)	(117,271)	(75,850,316)
		9,172,081	-	9,172,081
		$ 9,276,782	$ -	$ 9,276,782

10. Transition to IFRS (continued)

The Canadian GAAP statement of operations for the year ended December 31, 2010 has been reconciled to IFRS as follows:

		Year ended December 31, 2010		
	Note	Canadian GAAP	Effect of Transition to IFRS	IFRS
Expenses				
Exploration costs		$ 2,751,385	$ -	$ 2,751,385
Amortization		364,990	-	364,990
Investor relations		16,883	-	16,883
Loan interest		574,220	-	574,220
Office and general		615,099	-	615,099
Professional fees		361,935	-	361,935
Regulatory and transfer agent		43,294	-	43,294
Salaries and benefits		376,645	-	376,645
Stock-based compensation	(c),(e)	204,981	(60,539)	144,442
Travel and accommodation		25,479	-	25,479
		5,334,911	(60,539)	5,274,372
Loss on foreign exchange	(b),(f)	33,024	120,110	153,134
Interest and other income		(26,885)	-	(26,885)
Break fee		250,000	-	250,000
Loss on disposition of subsidiaries	(f)	7,039,192	(22,733)	7,016,459
Net loss for the year		$ 12,630,242	$ 36,838	$ 12,667,080
Other comprehensive loss				
Currency translation adjustment	(b),(f)	-	(97,377)	(97,377)
Total comprehensive loss		$ 12,630,242	$ (60,539)	$ 12,569,703

10. Transition to IFRS (continued)

The Canadian GAAP statement of cash flows for the year ended December 31, 2010 has been reconciled to IFRS as follows:

		Year ended December 31, 2010		
	Note	Canadian GAAP	Effect of Transition to IFRS	IFRS
Operating activities				
Net loss for the year		$ (12,630,242)	$ (36,838)	$ (12,667,080)
Items not affecting cash:				
Amortization		364,990	-	364,990
Loan interest		574,221	-	574,221
Stock-based compensation	(c),(e)	204,981	(60,539)	144,442
Loss on disposition of subsidiaries		7,039,192	(22,733)	7,016,459
		(4,446,858)	(120,110)	(4,566,968)
Changes in non-cash working capital items:				
Decrease in receivables		6,839	-	6,839
Increase in prepaid expenses		(78,724)	-	(78,724)
Decrease in inventory		502,401	-	502,401
Decrease in accounts payable and accrued liabilities		(205,055)	-	(205,055)
Net cash used for operating activities		(4,221,397)	-	(4,341,507)
Investing activities				
Proceeds on disposition of subsidiaries, net of cash sold		10,047,390	-	10,047,390
Purchase of equipment		(16,424)	-	(16,424)
Disposition of equipment		154,108	-	154,108
Net cash provided by investing activities		10,185,074	-	10,185,074
Financing activities				
Proceeds received on promissory notes		2,000,000	-	2,000,000
Share issuance costs		(18,023)	-	(18,023)
Net cash provided by financing activities		1,981,977	-	1,981,977
Effect of foreign exchange rate changes on cash balances	(b),(f)	-	120,110	120,110
Increase in cash		7,945,654	-	7,945,654
Cash, beginning of year		1,281,037	-	1,281,037
Cash, end of year		$ 9,226,691	$ -	$ 9,226,691