



**FORTRESS**  
**MINERALS CORP.**

**FIRST QUARTER REPORT**

March 31, 2012

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# **FORTRESS MINERALS CORP.**

Management's Discussion and Analysis  
Three Months Ended March 31, 2012  
(Expressed in Canadian Dollars, Unless Otherwise Noted)

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## **INTRODUCTION**

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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, 2012 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 28, 2012 and should be read in conjunction with the Company's condensed consolidated interim financial statements and related notes thereto for the three months ended March 31, 2012 and the Company's audited annual consolidated financial statements and related notes thereto and the MD&A for the fiscal year ended December 31, 2011. References to the "2012 period" and "2011 period" relate to the three months ended March 31, 2012 and March 31, 2011, respectively.

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](http://www.sedar.com).

## **OVERVIEW**

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Fortress was originally incorporated in British Columbia and continued under the Canada Business Corporations Act in 2002. The common shares of Fortress are listed for trading on the TSX Venture Exchange ("TSX-V") under the trading symbol "FST".

In April 2012, the Company received notice from the TSX-V that the Company has a Tier 2 Continued Listing Requirements Deficiency in relation to its assets and operations for a company classified as a Mining Issuer. The TSX-V has placed the Company on notice with a deadline of October 16, 2012 by which the Company is required to provide a submission to the TSX-V evidencing that it meets Tier 2 Continued Listing Requirements. In this regard, the Company is well financed and is continuing to review a number of projects in the resource sector for possible acquisition.

Pursuant to a special 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 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 assets.

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.

As at March 31, 2012, the Company had cash on hand of \$23.0 million and 14,831,758 common shares issued and outstanding.

## **LIQUIDITY AND CAPITAL RESOURCES**

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As at March 31, 2012, the Company had cash and a working capital surplus of \$23.0 million as compared to cash and a working capital surplus of \$23.1 million at December 31, 2011.

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 while evaluating strategic alternatives in the natural resource sector.

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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, 2012, there were 14,831,758 common shares issued and outstanding and stock options outstanding to purchase a total of 130,450 common shares for a total of 14,962,208 common shares outstanding on a fully-diluted basis.

As at the date of this MD&A, there were 14,831,758 common shares issued and outstanding and stock options outstanding to purchase a total of 75,950 common shares for a total of 14,907,708 common shares outstanding on a fully-diluted basis.

## SUMMARY OF QUARTERLY FINANCIAL RESULTS

	2012 Q1	2011 Q4	2011 Q3	2011 Q2
Total revenues	\$ -	\$ -	\$ -	\$ -
Total exploration and operating expenses	127,790	113,702	187,171	269,031
Gain on disposition of subsidiaries	-	(21,365)	(2,569)	(16,385)
Net loss for the period	127,790	92,337	184,602	252,646
Basic and diluted loss per share	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.02
Weighted-average number of common shares outstanding	14,831,758	14,831,758	14,831,758	14,831,758
Total assets	\$ 23,072,663	\$ 23,154,139	\$ 23,235,731	\$ 23,519,392
Working capital surplus	\$ 23,011,174	\$ 23,124,139	\$ 23,189,639	\$ 23,363,863

  

	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 (deficit)	\$ 23,717,912	\$ 9,172,081	\$ 7,137,170	\$ (224,362)

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The Company historically has only operated in the exploration phase and therefore, has never generated any production revenue. 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 including when compared to the first quarter of 2011 as a result of a reduction in corporate activities, the suspension of exploration activities and the disposition of all mineral properties. The loss for the quarter was comprised primarily of office and general expenses and professional fees. Included in the office and general expense is office rent paid to a related party in the amount of \$78,000.

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## **DESCRIPTION OF MINERAL PROPERTIES**

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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.

At March 31, 2012, the Company had no mineral property interests.

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## **OUTLOOK**

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The Company continues to evaluate strategic alternatives in the natural resource sector.

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## **TRANSACTIONS WITH RELATED PARTIES**

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During the 2012 period, the Company paid \$78,000 (2011 - \$70,000) 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.

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## **OFF-BALANCE SHEET ARRANGEMENTS**

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During the three months ended March 31, 2012 and the year ended December 31, 2011 there were no off-balance sheet transactions. The Company has not entered into any specialized financial arrangements to minimize its currency risk.

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## **CHANGES IN ACCOUNTING POLICIES**

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

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Company has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

- i. IFRS 9, *Financial Instruments*, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in International Accounting Standards ("IAS") 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

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- Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.
- ii. IFRS 10, *Consolidated Financial Statements*, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, *Consolidation—Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*.
  - iii. IFRS 11, *Joint Arrangements*, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers*.
  - iv. IFRS 12, *Disclosure of Interests in Other Entities*, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities.
  - v. IFRS 13, *Fair Value Measurement*, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.
  - vi. There have been amendments to existing standards, including IAS 27, *Separate Financial Statements* (IAS 27), and IAS 28, *Investments in Associates and Joint Ventures* (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.
  - vii. IAS 19, *Employee Benefits*, has been amended to make significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and to enhance the disclosure of all employee benefits. The amended standard requires immediate recognition of actuarial gains and losses in other comprehensive income as they arise, without subsequent recycling to net income. Past service cost (which will now include curtailment gains and losses) will no longer be recognized over a service period but instead will be recognized immediately in the period of a plan amendment. Pension benefit cost will be split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service cost, settlements and curtailments); and (ii) finance expense or income. The finance expense or income component will be calculated based on the net defined benefit asset or liability. A number of other amendments have been made to recognition, measurement and classification including redefining short-term and other long-term benefits, guidance on the treatment taxes related to benefit plans, guidance on risk/cost sharing features, and expanded disclosures.
  - viii. IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.

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(Expressed in Canadian Dollars, Unless Otherwise Noted)

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## **CRITICAL ACCOUNTING ESTIMATES**

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The adoption of certain accounting policies requires the Company to make estimates that affect both the amount and timing of the recording of assets, liabilities, revenues and expenses. Some of these estimates require judgments about matters that are inherently uncertain. For a complete discussion of accounting estimates deemed most crucial by the Company, refer to the Company's annual 2011 Management's Discussion and Analysis.

## **FINANCIAL INSTRUMENTS**

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The Company's financial instruments consist of cash, receivables and accounts payable and accrued liabilities. 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. 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. The Company's receivables are made up of interest recoverable from large Canadian financial institutions and harmonized sales tax recoverable from the provincial government of British Columbia, Canada.

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 anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

v. Price risk

The future profitability of the Company are directly related to the market price of commodities. The Company monitors commodity prices to determine the appropriate course of action to be taken by the Company.

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# **FORTRESS MINERALS CORP.**

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## **RISKS AND UNCERTAINTIES**

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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.

The risk factors which should be taken into account in assessing the Company's activities, include, but are not necessarily limited to, those set out in the Management's Discussion and Analysis for the year ended December 31, 2011.

## **FORWARD LOOKING STATEMENTS**

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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.

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# **FORTRESS MINERALS CORP.**

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(Expressed in Canadian Dollars, Unless Otherwise Noted)

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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.

# FORTRESS MINERALS CORP.

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

	Note	March 31, 2012	December 31, 2011
<b>ASSETS</b>			
<b>Current assets</b>			
Cash	3	\$ 23,029,119	\$ 23,109,638
Receivables		35,269	32,188
Prepaid expenses and advances		8,275	12,313
		\$ 23,072,663	\$ 23,154,139
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	4	\$ 61,489	\$ 30,000
<b>EQUITY</b>			
Share capital	5	97,948,333	97,948,333
Equity-settled share-based payment reserve	7	2,045,653	2,032,904
Foreign currency translation reserve	8	8,623	6,547
Deficit		(76,991,435)	(76,863,645)
		23,011,174	23,124,139
		\$ 23,072,663	\$ 23,154,139

Nature and continuance of operations (Note 1)

Subsequent event (Note 10)

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 interim financial statements.

# FORTRESS MINERALS CORP.

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

	Note	Three months ended March 31,	
		2012	2011
<b>EXPENSES</b>			
Office and general		\$ 90,204	\$ 86,227
Professional fees		39,550	54,234
Salaries and benefits		16,945	314,661
Regulatory and transfer agent		13,793	9,999
Stock-based compensation	7	12,749	3,244
Investor relations		228	1,005
Loss before other items		173,469	469,370
<b>OTHER ITEMS</b>			
Loss on foreign exchange		17,158	69,381
Interest and other income		(62,837)	(55,007)
Net loss for the period		127,790	483,744
<b>OTHER COMPREHENSIVE INCOME</b>			
Currency translation adjustment	8	(2,076)	(64,581)
Comprehensive loss for the period		\$ 125,714	\$ 419,163
Basic and diluted loss per common share		\$ 0.01	\$ 0.04
Weighted-average number of common shares outstanding		14,831,758	13,720,647

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

# FORTRESS MINERALS CORP.

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, 2011		9,831,758	\$ 82,986,583	\$ 1,938,437	\$ 97,377	\$ (75,850,316)	\$ 9,172,081
Private placements		5,000,000	15,000,000	-	-	-	15,000,000
Share issue costs for private placements		-	(38,250)	-	-	-	(38,250)
Stock-based compensation		-	-	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
Balance, December 31, 2011		14,831,758	\$ 97,948,333	\$ 2,032,904	\$ 6,547	\$ (76,863,645)	\$ 23,124,139
Stock-based compensation		-	-	12,749	-	-	12,749
Currency translation adjustment	8	-	-	-	2,076	-	2,076
Net loss for the period		-	-	-	-	(127,790)	(127,790)
Balance March 31, 2012		14,831,758	\$ 97,948,333	\$ 2,045,653	\$ 8,623	\$ (76,991,435)	\$ 23,011,174

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

# FORTRESS MINERALS CORP.

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

	Three months ended March 31,	
	2012	2011
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (127,790)	\$ (483,744)
Items not affecting cash:		
Stock-based compensation	12,749	3,244
	(115,041)	(480,500)
Changes in non-cash working capital items:		
Receivables	(3,081)	(14,451)
Prepaid expenses and advances	4,038	10,942
Accounts payable and accrued liabilities	31,489	(21,598)
Net cash used for operating activities	(82,595)	(505,607)
<b>INVESTING ACTIVITIES</b>		
Net cash provided by investing activities	-	-
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of common shares	-	15,000,000
Share issuance costs	-	(38,250)
Net cash provided by financing activities	-	14,961,750
Effect of foreign exchange rate differences on cash	2,076	64,581
Net increase (decrease) in cash	(80,519)	14,520,724
Cash, beginning of period	23,109,638	9,226,691
Cash, end of period	\$ 23,029,119	\$ 23,747,415
<b>Supplemental information</b>		
Interest received	\$ 62,895	\$ 41,619

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

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# FORTRESS MINERALS CORP.

Notes to the condensed consolidated interim financial statements as at March 31, 2012

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars, unless otherwise noted)

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## 1. Nature and continuance of operations

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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 evaluating strategic alternatives in the natural resource sector. The Company’s common shares are listed on the TSX Venture Exchange (“TSX-V”) under the trading symbol “FST”. The Company is located in Suite 2000, 885 W. Georgia Street, Vancouver, BC.

The Company estimates it has sufficient working capital to continue operations for the upcoming year.

## 2. Basis of preparation and consolidation

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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*. As a result, they do not conform in all respects with the disclosure requirements for annual financial statements under IFRS, and should be read in conjunction with the Company’s audited consolidated financial statements for the fiscal year ended December 31, 2011.

These unaudited condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company’s functional currency.

In preparing these unaudited condensed consolidated interim financial statements, the Company applied the same accounting policies and key sources of estimation uncertainty as those that were applied to the Company’s audited consolidated financial statements for the fiscal year ended December 31, 2011.

These unaudited condensed consolidated interim 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 during fiscal 2010, the accounts of PDK were consolidated with those of the Company.

Certain comparative figures have been reclassified to conform to the presentation adopted for the current period.

These financial statements were approved for issue by the Audit Committee and Board of Directors on May 28, 2012

## 3. Cash

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

Currency	March 31, 2012	December 31, 2011
Canadian dollars	\$ 22,282,082	\$ 22,325,907
US dollars	747,037	783,731
	\$ 23,029,119	\$ 23,109,638

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# FORTRESS MINERALS CORP.

Notes to the condensed consolidated interim financial statements as at March 31, 2012  
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## 4. Accounts payable and accrued liabilities

The Company's accounts payable and accrued liabilities are composed of:

	March 31, 2012	December 31, 2011
Accounts payable	\$ 25,179	\$ -
Accrued liabilities	36,310	30,000
	\$ 61,489	\$ 30,000

## 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.

## 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 ten years and the exercise price may not be less than the market price of the Company's common shares at the time of grant.

Current outstanding options have an expiry date of three years and vest over a period of 18 months.

During the three months ended March 31, 2012, no options were granted.

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

	Three months ended March 31, 2012		Year ended December 31, 2011	
	Number of Common Shares	Weighted exercise price	Number of Common Shares	Weighted exercise price
Balance, beginning of period	133,625	\$ 6.02	138,875	\$ 10.43
Granted	-	-	65,500	5.21
Cancelled / Expired	(3,175)	5.53	(70,750)	13.92
Balance outstanding, end of period	130,450	\$ 6.03	133,625	\$ 6.02
Balance exercisable, end of period	99,100	\$ 6.29	100,875	\$ 6.28

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# FORTRESS MINERALS CORP.

Notes to the condensed consolidated interim financial statements as at March 31, 2012  
(Unaudited – Prepared by Management)  
(Expressed in Canadian Dollars, unless otherwise noted)

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## 6. Stock options (continued)

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The following table summarizes information concerning outstanding and exercisable options at March 31, 2012:

Expiry date	Exercise price	Options outstanding	Options exercisable	Remaining contractual life (years)
April 24, 2012	\$ 6.40	54,500	54,500	0.07
November 27, 2012	\$ 8.40	13,250	13,250	0.65
June 9, 2014	\$ 5.15	54,200	27,100	2.16
June 21, 2014	\$ 5.60	8,500	4,250	2.19
		130,450	99,100	

The fair value based method of accounting was applied to stock options granted to employees, including directors, and non-employees on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2012	2011
Risk-free interest rate	-	1.45%
Expected stock price volatility	-	64.04%
Expected life	-	2 years
Expected dividend yield	-	-
Weighted-average fair value per option granted	-	\$1.87

## 7. Equity-settled share-based payment reserve

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

During the three months ended March 31, 2012, the Company recorded stock-based compensation expense of \$12,749 (2011 – \$3,244) relating to the vesting of options with a corresponding increase in the equity-settled share-based payment reserve.

## 8. Foreign currency translation reserve

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

During the three months ended March 31, 2012, the Company recorded a currency translation adjustment relating to foreign exchange differences on foreign operations of \$2,076 (2011 – \$64,581).

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# FORTRESS MINERALS CORP.

Notes to the condensed consolidated interim financial statements as at March 31, 2012  
(Unaudited – Prepared by Management)  
(Expressed in Canadian Dollars, unless otherwise noted)

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## 9. Related party transactions

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(a) Related party expenses

During the three months ended March 31, 2012 and March 31, 2011, the Company incurred the following:

Payee	Nature	Note	March 31, 2012	March 31 2011
Namdo	Management fees	i	\$ 78,000	\$ 70,000

- 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.

(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, 2012	March 31, 2011
Salaries and benefits	\$ 14,400	\$ 49,474
Stock-based compensation	1,444	413
Severance	-	237,500
	\$ 15,844	\$ 287,387

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. Subsequent event

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In April 2012, the Company received notice from the TSX-V that the Company has a Tier 2 Continued Listing Requirements Deficiency in relation to its assets and operations for a company classified as a Mining Issuer. The TSX-V has placed the Company on notice with a deadline of October 16, 2012 by which the Company is required to provide a submission to the TSX-V evidencing that it meets Tier 2 Continued Listing Requirements.

In this regard, the Company is well financed and is continuing to review a number of projects in the resource sector for possible acquisition.

**FORTRESS MINERALS CORP.  
CORPORATE DIRECTORY  
March 31, 2012**

**OFFICERS**

Ron Hochstein  
Chairman  
Lukas Lundin  
President and Chief Executive Officer  
Glenn Kondo  
Chief Financial Officer  
Toni Vodola  
Corporate Secretary

**DIRECTORS**

Ron F. Hochstein  
Audit Committee  
Compensation Committee  
Corporate Governance and Nominating Committee  
Ian W. Gibbs  
Audit Committee  
Compensation Committee  
Corporate Governance and Nominating Committee  
James K. Cambon  
Audit Committee  
Compensation Committee  
Lukas H. Lundin  
Adam I. Lundin  
Corporate Governance and Nominating Committee

**AUDITORS**

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Vancouver, British Columbia  
Canada

**BANKERS**

Canadian Imperial Bank of Commerce  
Vancouver, British Columbia  
Canada

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Canada

Cassels Brock & Blackwell LLP  
Toronto, Ontario  
Canada

**REGISTRAR AND TRANSFER AGENT**

Computershare Investor Services Inc.  
Vancouver, British Columbia  
Canada

**SHARE CAPITAL**

Issued and Outstanding: 14,831,758 common shares

**SHARE LISTING**

TSX-Venture Exchange: FST