Fortune Bay Corp.

Consolidated Financial Statements
December 31, 2017
(expressed in Canadian dollars)

February 28, 2018

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of **Fortune Bay Corp.** (the "Company") have been prepared by the Company's management. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and contain estimates based on management's judgment. Internal control systems are maintained by management to provide reasonable assurances that assets are safeguarded and financial information is reliable.

The Board of Directors of the Company is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements and the accompanying management discussion and analysis. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors and a majority of its members are independent directors. It meets with the Company's management and auditors and reviews internal control and financial reporting matters to ensure that management is properly discharging its responsibilities before submitting the consolidated financial statements to the Board of Directors for approval.

PricewaterhouseCoopers LLP, appointed as the Company's auditors by the shareholders, has examined these consolidated financial statements and their report follows.

(signed) "*Wade K. Dawe*"
Chief Executive Officer
Halifax, Nova Scotia

(signed) *"Sarah L. Oliver"*
Chief Financial Officer
Halifax, Nova Scotia

February 28, 2018

Independent Auditor's Report

To the Shareholders of
Fortune Bay Corp.

We have audited the accompanying consolidated financial statements of **Fortune Bay Corp.** (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries as at December 31, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 1 of the consolidated financial statements which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

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Fortune Bay Corp.

Consolidated Statements of Financial Position

As at December 31, 2017 and 2016

(expressed in Canadian dollars)

	2017 $	2016 $
Assets		
Current assets		
Cash	53,043	491,402
Accounts receivable (note 6)	2,407	112,452
Prepaid expenses and deposits	29,284	34,611
	84,734	638,465
Reclamation deposit	37,969	37,856
Property and equipment (note 8)	170,799	180,910
Exploration and evaluation assets (note 9)	14,854,532	14,666,959
	15,148,034	15,524,190
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 10)	267,714	191,888
Loan payable (note 11)	75,426	–
	343,140	191,888
Equity		
Shareholders' Equity	14,804,894	15,332,302
	15,148,034	15,524,190

Nature of operations and going concern (note 1)

Commitments and contingencies (note 19)

Approved on behalf of the Board of Directors

(signed) *"Michael Gross"*, Director

(signed) *"Wade K. Dawe"*, Director

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

Fortune Bay Corp.

Consolidated Statements of Loss and Comprehensive Loss

For the years ended December 31, 2017 and 2016

(expressed in Canadian dollars)

	2017 $	2016 $
Operating expenses		
Office, travel and promotion	90,530	76,676
Depreciation	2,826	5,408
Professional fees	53,741	145,540
Salaries and benefits	322,284	243,501
Management services	12,000	28,500
Securities and regulatory	39,614	77,166
Share-based compensation	133,302	91,626
Foreign exchange loss	423	16,895
	654,720	685,312
Other income (expenses)		
Interest and other	225	1,441
Write-down of capital assets	(6,215)	–
Gain on sale of investments	–	180,962
	(5,990)	182,403
Net loss and comprehensive loss for the year	(660,710)	(502,909)
Loss per share – Basic and diluted	(0.04)	(0.03)
Weighted-average number of common shares outstanding (note 12)	18,578,200	18,578,200

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

Fortune Bay Corp.

Consolidated Statements of Changes in Equity

For the years ended December 31, 2017 and 2016

(expressed in Canadian dollars)

	Number of Common shares	Common shares $	Net investment from kneat.com $ (note 2)	Warrants $	Contributed surplus $	Accumulated other comprehensive income (loss) $	Retained earnings (deficit) $	Total Shareholders' equity $
Balance – January 1, 2016	–	–	14,958,133	–	–	–	–	14,958,133
Net loss for the period	–	–	(175,321)	–	–	–	(327,588)	(502,909)
Other comprehensive income (loss) for the period	–	–	79,720	–	–	–	(79,720)	–
Comprehensive loss for the period	–	–	(95,601)	–	–	–	(407,308)	(502,909)
Net contributions and advances from parent	–	–	785,452	–	–	–	–	785,452
Shares and warrants issued pursuant to the transaction (note 12)	18,578,200	3,468,515	(15,647,984)	5,763	–	–	12,173,706	–
Share-based compensation	–	–	–	–	91,626	–	–	91,626
Balance – December 31, 2016	18,578,200	3,468,515	–	5,763	91,626	–	11,766,398	15,332,302
Balance – January 1, 2017	18,578,200	3,468,515	–	5,763	91,626	–	11,766,398	15,332,302
Net loss for the period	–	–	–	–	–	–	(660,710)	(660,710)
Comprehensive loss for the period	–	–	–	–	–	–	(660,710)	(660,710)
Expiry of warrants (note 12)	–	–	–	(5,763)	5,763	–	–	–
Share-based compensation expense	–	–	–	–	133,302	–	–	133,302
Balance – December 31, 2017	18,578,200	3,468,515	–	–	230,691	–	11,105,688	14,804,894

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

Fortune Bay Corp.

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(expressed in Canadian dollars)

	2017 $	2016 $
Operating activities		
Net loss for the years	(660,710)	(502,909)
Non-cash items:		
Depreciation	2,826	5,408
Gain on sale of investments	–	(180,962)
Write-down of capital assets	6,215	–
Share-based compensation	133,302	91,626
Net change in non-cash operating working capital (note 14)	190,709	200,143
	(327,658)	(386,694)
Investing activities		
Additions to exploration and evaluation assets	(185,701)	(303,899)
Proceeds from sale of investments	–	423,452
	(185,701)	119,553
Financing activities		
Loan received from related party (note 11)	75,000	–
Net contributions and advances from kneat.com	–	680,160
	75,000	680,160
Increase (decrease) in cash during the years	(438,359)	413,019
Cash – Beginning of year	491,402	78,383
Cash – End of year	53,043	491,402

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

(expressed in Canadian dollars)

1 Nature of operations and going concern

Nature of operations

Fortune Bay Corp. (the "Company" or "Fortune Bay" or "Spinco") was incorporated on February 4, 2016 as 9617337 Canada Limited under the laws of the Canada Business Corporations Act as part of the transaction (the "transaction") between kneat.com, inc. (formerly Fortune Bay Corp.) ("kneat.com"), Kneat Solutions Limited and the Company (refer to note 2 for details), which was completed on June 27, 2016. The Company commenced trading on the TSX Venture Exchange on July 4, 2016 under the symbol FOR.

The Company's principal activity is the acquisition, exploration and development of mineral interests. To date, the Company has not generated any revenues from operations and is considered to be in the exploration stage. The Company is incorporated and domiciled in Canada, and its head office is located at 1969 Upper Water Street, Suite 2001, Halifax, Nova Scotia.

The Company is in the process of exploring and evaluating its mineral properties in Canada and Mexico. The recoverability of amounts spent for the acquisition, exploration and development of the mineral properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties, and upon future profitable production or proceeds from disposition of the properties. The operations of the Company will require various licenses and permits from various governmental authorities which are or may be granted subject to various conditions and may be subject to renewal from time to time. There can be no assurance that the Company will be able to comply with such conditions and obtain or retain all necessary licenses and permits that may be required to carry out exploration, development and mining operations at its projects. Failure to comply with these conditions may render the licenses liable to forfeiture.

Going concern

These consolidated financial statements have been prepared on a going-concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. For the year ended December 31, 2017, the Company incurred a loss of $0.7 million (year ended December 31, 2016 - $0.5 million). The Company has no income or cash inflows from operations. In addition to its working capital requirements, the Company must secure sufficient funding to maintain legal title to its resource properties, to fund its exploration and development activities and to fund its general and administrative costs. Such circumstances lend significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. Management is evaluating alternatives to secure additional financing, including the private placement as outlined in note 20, so that the Company can continue to operate as a going concern. Nevertheless, there can be no assurance that these initiatives will be successful or sufficient.

The Company's ability to continue as a going concern is dependent upon its ability to fund its working capital and exploration requirements and eventually to generate positive cash flows, either from operations or sale of its properties. These consolidated financial statements do not reflect the adjustments to the carrying value of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

(expressed in Canadian dollars)

2 Transaction with Kneat Solutions Limited and basis of presentation

On June 27, 2016, Spinco completed a transaction with Kneat Solutions Limited and kneat.com, pursuant to which kneat.com's resource properties and other net assets were spun-out to Spinco by way of a court-approved plan of arrangement in Ontario (the "Arrangement").

Pursuant to the Arrangement, shareholders of kneat.com as at the close of business on June 24, 2016 received one and one half (1.5) common shares of Spinco (a "Spinco Share") in exchange for each three (3) common shares of kneat.com held by them. Upon closing of the transaction on June 27, 2016, shareholders of kneat.com as at the close of business on June 24, 2016 held 100% of the issued and outstanding Spinco Shares. The assets spun-out to Spinco consisted mainly of the interests in the Goldfields project in Saskatchewan and the Ixhuatán Project and Huizopa net smelter royalty in Mexico (collectively, "The Exploration Properties Business of Fortune Bay", formerly "The Exploration Properties Business of 9617337 Canada Limited").

The carrying value of the net assets contributed to the Company pursuant to the Arrangement consisted of the following:

	June 27, 2016 $
Assets	
Cash	791,262
Accounts receivable	137,968
Prepaid expenses and deposits	29,324
Investments	41,795
Reclamation deposit	37,742
Property and equipment	184,480
Exploration and evaluation assets	14,586,153
	15,808,724
Liabilities	
Accounts payable and accrued liabilities	160,740
Carrying value	15,647,984

(expressed in Canadian dollars)

2 Transaction with Kneat Solutions Limited and basis of presentation (continued)

Basis of presentation

These consolidated financial statements are presented in Canadian dollars and have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value.

The combination of Spinco and the carve-out of The Exploration Properties Business of Fortune Bay is a combination of entities between entities under common control. However, the transaction does not meet the definition of a business combination under IFRS 3 due to the fact that Spinco does not meet the definition of a business. The Arrangement has thus been accounted for as a capital re-organization of the carve-out of The Exploration Properties Business of Fortune Bay. This results in the Company reporting the carrying amounts of the assets and liabilities from the current and prior periods of the carve-out of The Exploration Properties Business of Fortune Bay.

Prior to the date of the spin-out, these consolidated financial statements reflect the assets, liabilities, operations and cash flows of The Exploration Properties Business of Fortune Bay on a 'carve-out' basis from the financial statements and accounting records of kneat.com. The income and expenses, where possible, have been allocated on a pro-rata basis based on the level of exploration and evaluation activities for the period up to June 27, 2016, which was the basis for allocation in the carve-out financial statements of The Exploration Properties Business of Fortune Bay. Up to the date of the transaction, these amounts were reflected as net investment from kneat.com in the consolidated statements of changes in equity.

The net investment from kneat.com represents the retained earnings up to the close of the Arrangement and the carrying values of the net assets contributed and recorded under the continuity of interest accounting. The difference between the net investment from kneat.com up to closing of the Arrangement and the estimated fair value of common shares and warrants issued in connection with the closing of the Arrangement of $12,173,706 is recorded as a credit to retained earnings.

3 Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except as discussed below:

a) Statement of compliance and basis of consolidation

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada as set out in the Chartered Professional Accountants of Canada Handbook – Accounting – Part I which incorporates IFRS as issued by the International Accounting Standards Board. The Board of Directors of Fortune Bay approved these consolidated financial statements on February 28, 2018.

(expressed in Canadian dollars)

3 Summary of significant accounting policies (continued)

a) Statement of compliance and basis of consolidation (continued)

These consolidated financial statements include certain assets, liabilities and results of operations directly attributable to the Company, including the following subsidiaries of the Company:

Subsidiary	Principal Activity	Country of Incorporation
Brigus Gold ULC	Administrative services	Canada
7153945 Canada Inc.	Exploration	Canada
Linear Gold Holdings Corp.	Holding company	Canada
Linear Gold Mexico, S.A. de C.V.	Exploration	Mexico
Linear Gold Mineraçao Ltda.	Exploration	Brazil
Servicios Ixhuatán, S.A. de C.V.	Exploration	Mexico

The financial results of the subsidiaries above, which are controlled by Fortune Bay, are included in the consolidated financial statements from the date that control commences until the date whereby control ceases. Control exists when an investor has power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the returns. All subsidiaries have the same year end. All intercompany balances, revenue and expense transactions are eliminated upon consolidation.

The 2016 consolidated financial statements also include the allocation of certain kneat.com expenditures incurred prior to the transaction that are directly attributable to the Company.

b) Foreign currency translation

The Canadian dollar is the functional and presentation currency of the Company and its subsidiaries, as this is the principal currency of the economic environment in which the Company operates.

Foreign currency transactions are translated as follows: (i) monetary assets and liabilities denominated in currencies other than the Canadian dollar are translated into Canadian dollars at the exchange rate prevailing at the consolidated statements of financial position date; and (ii) non-monetary assets and liabilities denominated in foreign currencies and measured in terms of historic costs are translated using rates of exchange at the transaction dates.

(expressed in Canadian dollars)

3 Summary of significant accounting policies (continued)

c) Employee benefits

The Company accrues liabilities for employee benefits such as wages, salaries, bonuses, and other benefits at their nominal amounts as these are the amounts expected to be paid when the liabilities are settled.

d) Income taxes

Current income taxes

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in the consolidated statements of changes in equity and not in the consolidated statements of loss and comprehensive loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate. The Company recognizes interest and penalties, if any, related to uncertain tax positions in income tax expense.

Deferred income taxes

Deferred income taxes are calculated using the liability method on temporary differences between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

(expressed in Canadian dollars)

3 Summary of significant accounting policies (continued)

d) Income taxes (continued)

Deferred income taxes (continued)

Deferred tax assets are recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses, can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside of profit or loss is recognized outside of profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

e) Long lived assets

Property and equipment

Property and equipment, excluding land, are recorded at cost less accumulated depreciation and accumulated impairment losses. Land is recorded at cost less accumulated impairment losses and is not depreciated. The initial cost of an asset is comprised of its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the reclamation obligation and, for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

(expressed in Canadian dollars)

3 Summary of significant accounting policies (continued)

e) Long lived assets (continued)

Property and equipment (continued)

The Company depreciates the cost of property and equipment over their estimated useful lives at the following annual rates using the declining-balance method:

Computer and office equipment	30% declining-balance
Field equipment	25-30% declining-balance

Subsequent costs are included in the asset's carrying amount when it is probable that future economic benefits associated with the asset will flow to the Company and the costs can be measured reliably. This would include costs related to the refurbishment or replacement of major parts of an asset. Costs relating to the refurbishment of a major part are capitalized since the refurbishment will typically result in a significant extension in the physical life of that part. All other repairs and maintenance costs are charged to the consolidated statements of loss and comprehensive loss during the period in which they are incurred.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Exploration and evaluation expenditures

Exploration and evaluation expenditures include costs such as exploratory drilling, sample testing and the costs of pre-feasibility studies. These costs are capitalized on a project-by-project basis pending determination of the technical feasibility and commercial viability of the project. The technical feasibility and commercial viability of a project is considered to be determinable when the proposed efficiency and viability of a project is assessed and the costs are expected to be recovered in full through the successful development and exploration of the identified property. All capitalized exploration and evaluation expenditures are monitored for indications of impairment, to ensure that commercial quantities of reserves exist or that exploration activities related to the property are continuing or planned for the future. If an exploration property does not prove viable, all unrecoverable costs associated with the project are expensed.

Exploration and evaluation assets are not depreciated. These amounts are reclassified from exploration and evaluation assets to mine development costs once the work completed to date supports the future development of the property and such development receives the appropriate approval. All subsequent expenditures to ready the property for production are capitalized within mine development costs, other than those costs related to the construction of property and equipment. Once technical feasibility and commercial viability is demonstrated all assets included in mine development costs are reclassified to mining properties.

Exploration and evaluation expenditures incurred prior to the Company obtaining the right to explore are recorded as expense in the period in which they are incurred.

(expressed in Canadian dollars)

3 Summary of significant accounting policies (continued)

e) Long lived assets (continued)

Mineral rights

Mineral rights include the cost of obtaining unpatented and patented mining claims and the cost of acquisition of properties. Significant payments related to the acquisition of land and mineral rights are capitalized. If a mineable ore body is discovered, such costs are amortized when saleable minerals are produced from the ore body using the unit-of-production method based on proven and probable reserves. If no mineable ore body is discovered or such rights are otherwise determined to have no value, such costs are expensed in the period in which it is determined the property has no future economic value.

f) Impairment of long lived assets

At the end of each reporting period, the Company reviews the carrying amounts of its long lived assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU's, or otherwise they are allocated to the smallest group of CGU's for which a reasonable and consistent allocation basis can be identified.

The recoverable amount of an asset is the higher of fair value less costs to dispose and value in use. Value in use is determined by discounting the estimated future cash flows to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statements of loss and comprehensive loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU) is increased to the revised estimate of its recoverable amount, however the revised carrying amount cannot exceed the asset's (or CGU's) original cost before impairment calculated as if no impairment loss had been previously recognized. A reversal of an impairment loss is recognized immediately in the consolidated statements of loss and comprehensive loss.

During the years ended December 31, 2017 and 2016, there were no indicators of impairment or impairment reversals on the Company's long lived assets.

(expressed in Canadian dollars)

3 Summary of significant accounting policies (continued)

g) Cash

Cash consists of current operating bank accounts, term deposits and fixed income securities that are cashable without penalty.

h) Leases

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

i) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of a financial instrument. Financial assets and financial liabilities are initially measured at fair value. Financial assets are classified into one of the following specified categories: fair value through profit or loss ("FVTPL"), held-to-maturity, available-for-sale ("AFS") and loans and receivables. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities classified as FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified as FVTPL are recognized immediately in the consolidated statements of loss and comprehensive loss.

The Company's financial instruments are classified and subsequently measured as follows:

Asset / Liability	Classification	Subsequent measurement
Cash	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Investments	Available-for-sale	Fair value through other comprehensive income

(expressed in Canadian dollars)

3 Summary of significant accounting policies (continued)

i) Financial instruments (continued)

Financial assets

Subsequent to initial recognition, loans and receivables are measured at amortized cost and AFS instruments are measured at fair value with unrealized gains and losses recognized in the consolidated statements of loss and comprehensive loss.

The investments are traded in active markets, therefore the fair value is based on quoted market prices at the date of the consolidated statements of financial position. The quoted market price used for financial assets held by the Company is the current bid price.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be 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 fair value of the financial asset has declined.

Financial liabilities

Financial liabilities are classified as other financial liabilities and are measured at amortized cost subsequent to initial measurement at fair value.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported on the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

j) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. There were no material provisions recorded within the consolidated financial statements as at December 31, 2017 and 2016.

(expressed in Canadian dollars)

3 Summary of significant accounting policies (continued)

k) Loss per share

Loss per share is calculated based on the weighted average number of shares outstanding during the year. Outstanding shares that are subject to cancellation under an escrow agreement are not treated as outstanding and are excluded from the calculation of loss per share until the date the shares are no longer subject to cancellation. The Company follows the treasury method of calculating diluted earnings per share. This method assumes that any proceeds from the exercise of stock options and other dilutive instruments would be used to purchase common shares at the average market price during the year. Diluted loss per share for the periods presented is the same as basic loss per share, as the Company has incurred losses and the exercise of options and warrants would be anti-dilutive.

l) Share-based payments

The Company has a share-based compensation plan. Awards of options under this plan are expensed based on the estimated fair value of the options at the grant date, with a corresponding credit to contributed surplus in shareholders' equity. Fair value is estimated using the Black-Scholes pricing model. If the options are subject to a vesting period, the estimated fair value is recognized over this period on a graded vesting basis, based on the Company's estimate of the shares that will eventually vest. Option pricing models require the input of highly subjective assumptions, including the expected volatility. Changes in the assumptions can materially affect the fair value estimate, and therefore, may not necessarily provide a reliable estimate of the fair value of the related stock options. The Company uses historical price data of comparable entities in the estimate of future volatilities. Cash consideration received on exercise of options is credited to share capital together with the amounts originally recorded as share-based compensation related to the exercised options.

4 Significant accounting judgments and key sources of estimation uncertainty

The preparation of the consolidated financial statements requires that the Company's management make estimates and judgments about future events that affect the amounts reported in the consolidated financial statements and related notes to the consolidated financial statements. Actual results may differ from those estimates. Estimates and judgments are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates are accounted for prospectively.

(expressed in Canadian dollars)

4 Significant accounting judgments and key sources of estimation uncertainty (continued)

The significant assumptions about the future and other major sources of estimation uncertainty as at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of the Company assets and liabilities are as follows:

a) Recoverability of exploration and evaluation costs

At the end of each reporting period, the Company assesses each of its exploration and evaluation assets to determine whether any indication of impairment or indicators of a reversal of a previously recorded impairment exists. Judgment is required in determining whether indicators of impairment exist, including factors such as the period for which the Company has the right to explore, expected renewals of exploration rights, whether substantive expenditures on further exploration and evaluation of resource properties are budgeted and results of exploration and evaluation activities on the exploration and evaluation assets.

Where an indicator of impairment or an indicator of a reversal of a previously recorded impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. The impairment analysis requires the use of estimates and assumptions, such as long-term commodity prices, foreign exchange rates, discount rates, future capital requirements, exploration potential and operating performance. Fair value of mineral assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. If the Company does not have sufficient information about a particular mineral resource property to meaningfully estimate future cash flows, the fair value is estimated by management through the use of, where available, comparison to similar market assets and, where available, industry benchmarks. Actual results may differ materially from these estimates.

b) Contingencies

Due to the nature of the Company's operations, various legal and tax matters are outstanding from time to time. In the event that management's estimate of the future resolution of these matters changes, the Company will recognize the effects of the changes in its consolidated financial statements on the date that such changes occur.

(expressed in Canadian dollars)

4 Significant accounting judgments and key sources of estimation uncertainty (continued)

c) Allocation of operating expenses

The consolidated statement of loss and comprehensive loss for the year ended December 31, 2016 reflects all expenses and other income directly attributable to the Company and an allocation of kneat.com's general and administrative expenses incurred in that year, as these expenditures were shared by the Company and kneat.com.

The allocation of general and administrative expenses in the consolidated statement of loss and comprehensive loss was estimated based on specific work assignments and focus during the related period. An increase of 10% in the allocation of general and administrative expenses would increase the expenses included in the consolidated statement of loss and comprehensive loss for the year ended December 31, 2016 by $77,000.

The Company consists of several wholly-owned subsidiaries, each of which is a separate legal entity. As such, each legal entity has filed separate tax returns for the periods presented. Income taxes have been calculated and reflected based on the returns filed for each of the entities within the Company. The Company's opening equity at January 1, 2016 has been calculated by applying the same allocation principles outlined above to the cumulative transactions related to the transferred mineral properties from the date of acquisition of the properties by Fortune Bay.

5 New accounting standards issued but not yet effective

IFRS 9, Financial Instruments

IFRS 9, Financial Instruments ("IFRS 9") introduces new requirements for the classification and measurement of financial assets. IFRS 9 requires all recognized financial assets that are within the scope of IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39") to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition. Specifically, financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets, including equity investments, are measured at their fair values at the end of subsequent accounting periods.

Requirements for classification and measurement of financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

(expressed in Canadian dollars)

5 New accounting standards issued but not yet effective (continued)

IFRS 9, Financial Instruments (continued)

IFRS 9 was amended in November 2013 to: (i) include guidance on hedge accounting; and (ii) allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk, from financial liabilities designated under the fair value option, in other comprehensive loss, without having to adopt the remainder of IFRS 9. The final version of IFRS 9 was issued in July 2014 and includes: (i) a third measurement category for financial assets-fair value through other comprehensive income; (ii) a single forward-looking expected loss impairment model; and (iii) a mandatory effective date for IFRS 9 of annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on the consolidated financial statements.

IFRS 16, *Leases*

IFRS 16, Leases ("IFRS 16") a new standard on lease accounting, was issued on January 13, 2016 and replaces the current guidance in IAS 17. The new standard results in substantially all lessee leases being recorded on the consolidated statements of financial position. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The Company is currently evaluating the impact of this new standard on the Company's financial statement measurements and disclosures. The Company does not anticipate early adoption of this standard.

6 Accounts receivable

	2017 $	2016 $
Due from related parties	135	90,054
Sales tax and other	2,272	22,398
	2,407	112,452

7 Investments

During the year ended December 31, 2016, the Company had a realized gain of $180,962 upon the sale of available-for-sale investments. There were no sales of available-for-sale investments during the year ended December 31, 2017.

(expressed in Canadian dollars)

8 Property and equipment

	Land and building $	Computer and office equipment $	Field equipment $	Total $
Cost				
As at January 1, 2016	164,233	101,298	91,543	357,074
Additions	–	2,092	–	2,092
As at December 31, 2016	164,233	103,390	91,543	359,166
Write-down of capital assets	–	(64,791)	–	(64,791)
As at December 31, 2017	164,233	38,599	91,543	294,375
Accumulated depreciation				
As at January 1, 2016	–	83,848	86,435	170,283
Depreciation	–	6,441	1,532	7,973
As at December 31, 2016	–	90,289	87,967	178,256
Depreciation	–	2,826	1,070	3,896
Write-down of capital assets	–	(58,576)	–	(58,576)
As at December 31, 2017	–	34,539	89,037	123,576
Carrying amounts				
Balance as at December 31, 2016	164,233	13,101	3,576	180,910
Balance as at December 31, 2017	164,233	4,060	2,506	170,799

(expressed in Canadian dollars)

9 Exploration and evaluation assets

	Goldfields $	Ixhuatán $	Total $
As at January 1, 2016	12,201,239	2,309,914	14,511,153
Additions	41,434	114,372	155,806
As at December 31, 2016	12,242,673	2,424,286	14,666,959
Additions	70,693	116,880	187,573
As at December 31, 2017	12,313,366	2,541,166	14,854,532

Goldfields

As at December 31, 2017, the Company holds a 100% interest in the Goldfields property located near Uranium City, Saskatchewan, which includes the Box Deposit, the Athona Deposit and several exploration targets.

Ixhuatán

As at December 31, 2017, the Company has a 100% interest in the Ixhuatán Project, which is located in the state of Chiapas, Mexico.

Huizopa

The Company has a 2% net smelter royalty over future production from the Huizopa Project, located in Mexico. The Company also has the right to a production bonus of US$4.0 million payable over two years from the date commercial production commences at Huizopa, as well as the right to 20% of the proceeds of disposal of Huizopa if it is disposed of prior to reaching commercial production. During 2013, the Company recorded a loss on disposal of $650,893. No proceeds have been recognized on the disposal of the property as the consideration is contingent on the future development and success of the property and the Company considers the fair value of the consideration to be $nil.

10 Accounts payable and accrued liabilities

	2017 $	2016 $
Trade accounts payable and accrued liabilities	130,697	145,467
Amounts payable to related parties, including director fees	137,017	46,421
	267,714	191,888

(expressed in Canadian dollars)

11 Loan payable

During the year ended December 31, 2017, the Company signed a loan agreement with a company owned by a director of Fortune Bay. The loan is for up to $150,000, is due on demand and has a cumulative interest rate of 1% per month. As at December 31, 2017, the Company has an outstanding balance due of $75,000 plus accrued interest payable of $426.

12 Share capital

a) Common shares

Authorized share capital of the Company consists of an unlimited number of fully paid common shares without par value.

	Number of shares	Amount $
Outstanding, January 1, 2016	–	–
Shares issued pursuant to the transaction	18,578,200	3,468,515
Outstanding, December 31, 2016 and 2017	18,578,200	3,468,515

Pursuant to the transaction, the Company issued 18,578,200 common shares in exchange for the net assets received from kneat.com (note 2). The balance of share capital immediately following the close of the transaction was $3,468,515. The amount was estimated based on the trading price of kneat.com just prior to the transaction net of the value of the assets left behind after the spin-out from kneat.com.

Loss per share information in these consolidated financial statements has been presented as if the 18,578,200 common shares issued in connection with the closing of the transaction had been issued and outstanding from the start of all years presented.

b) Warrants

Pursuant to the transaction with kneat.com on June 27, 2016, 401,786 warrants were issued, valued at $5,763 and exercisable at $0.60 into common shares of the Company. The weighted-average assumptions used in the pricing model for the year ended December 31, 2016 were as follows:

Rise-free interest rate	0.53%
Expected life	0.76 years
Expected volatility	67.46%
Expected dividend per share	$0.00
Weighted-average fair value per warrant	$0.014

All warrants expired unexercised on April 1, 2017. As at December 31, 2017, there were no common share purchase warrants outstanding.

(expressed in Canadian dollars)

12 Share capital (continued)

c) Share-based compensation plan

The Company has adopted a share-based compensation plan, providing the Board of Directors with the discretion to issue an equivalent number of options of up to 10% of the issued and outstanding share capital of the Company. Stock options are granted with an exercise price of not less than the closing share price the date preceding the date of grant.

The estimated fair value of options recognized has been estimated at the grant date using the Black-Scholes option pricing model. Option pricing models require the input of highly subjective assumptions, including the expected volatility. Changes in the assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable estimate of the fair value of the Company's stock options.

No options were granted during the year ended December 31, 2017 (year ended December 31, 2016 - 1,000,000 stock options granted). Weighted-average assumptions used in the pricing model for the year ended December 31, 2016 were as follows:

Rise-free interest rate	0.51%
Expected life	4.5 years
Expected volatility	100%
Expected dividend per share	$0.00
Weighted-average fair value per stock option	$0.30

The following table reconciles the stock option activity during the year ended December 31, 2017 and the year ended December 31, 2016:

	Number of options #	Weighted-average exercise price $
Balance - January 1, 2016	–	–
Granted	1,000,000	0.40
Balance - December 31, 2016 and 2017	1,000,000	0.40

(expressed in Canadian dollars)

12 Share capital (continued)

c) Share-based compensation plan (continued)

The following table summarizes information related to outstanding and exercisable stock options as at December 31, 2017:

Expiry date	Weighted-average remaining contractual life (in years)	Number of options outstanding	Number of options exercisable	Weighted-average exercise price $
July 11, 2021	3.5	1,000,000	333,333	0.40

For the year ended December 31, 2017, the estimated value of options earned during the year and recorded in the consolidated statements of loss and comprehensive loss was $133,302 (year ended December 31, 2016 - $91,626). As at December 31, 2017, 857,820 options were available for granting under the share-based compensation plan.

13 Income taxes

The provision for income taxes reported differs from the amounts computed by applying the cumulative Canadian federal and provincial income tax rates to the net income before tax provision due to the following:

	2017 $	2016 $
Loss before income taxes	660,710	502,909
Statutory rate	31%	31%
Tax recovery at statutory rate	204,820	155,902
Recovery for losses and deductible temporary differences not recognized in current and prior years	(162,275)	(122,999)
Other	(42,545)	(32,903)
Income tax recovery	–	–

(expressed in Canadian dollars)

13 Income taxes (continued)

The tax effects of temporary differences that would give rise to significant portion of the deferred tax assets and liabilities at December 31, 2017 and 2016 as follows:

	2017 $	2016 $
Deferred tax assets		
Net operating losses carried forward	761,908	726,844
Deferred tax liabilities		
Exploration and development	761,908	726,844
Net deferred tax liability	–	–

At December 31, 2017, the Company has unused non-capital losses of $10.4 million (December 31, 2016 - $15.0 million) available for carryforward purposes, which expire from 2018 to 2037. The Company also has non-capital loss carryforwards of $1.6 million (December 31, 2016 - $1.7 million) that have no expiration date, however, the use of these carryforwards is restricted to 30% of annual taxable income. The Company has capital loss carryforwards of $5.7 million (December 31, 2016 - $5.7 million), which may be carried forward indefinitely for use against capital gains. Deferred tax assets have been recognized in respect of non-capital losses and deductible temporary differences to the extent of taxable temporary differences that reverse within the carryforward period of these attributes. The Company has unrecognized deferred tax assets of $20.8 million (December 31, 2016 - $25.5 million) in respect of loss carryforwards, deductible temporary differences and unused tax credits.

At December 31, 2017, the Company has no unrecognized deferred tax liabilities (December 31, 2016 - $nil) for taxes that would be payable on unremitted earnings.

14 Supplemental cash flow information

Net changes in non-cash operating working capital items are as follows:

	2017 $	2016 $
Accounts receivable	110,045	71,522
Prepaid expenses and deposits	5,214	(3,949)
Accounts payable and accrued liabilities	75,450	132,570
	190,709	200,143

(expressed in Canadian dollars)

14 Supplemental cash flow information (continued)

Non-cash transactions not reflected in the consolidated statements of cash flows are as follows:

	2017 $	2016 $
Capitalized depreciation	1,070	1,532

15 Related party transactions

Amounts payable to officers, directors and companies owned thereby were $212,443 at December 31, 2017 (December 31, 2016 - $46,421), including a loan payable of $75,426 to a company owned by a director of Fortune Bay (note 11). During the year ended December 31, 2017, the Company incurred costs for management services from a related party, Numus Financial Inc. ("Numus"), a company controlled by a director of Fortune Bay, in the amount of $12,000 (December 31, 2016 - $28,500), incurred net rent and office costs from Numus in the amount of $45,865 (December 31, 2016 - $11,071), and recognized other cost reimbursements from Numus of $51,073 (December 31, 2016 - $47,895). As at December 31, 2017, the net amount payable by the Company to Numus was $1,410 (December 31, 2016 – receivable from Numus of $84,407).

16 Compensation of key management

Key management of the Company includes the Chairman and Chief Executive Officer, the Chief Financial Officer and the directors of Fortune Bay. Compensation awarded to key management, which is the portion included in the results of the consolidated financial statements, is summarized as follows:

	2017 $	2016 $
Salaries and accrued compensation, directors' fees earned, and other benefits	246,607	174,769
Share-based compensation	119,970	82,464
	366,577	257,233

(expressed in Canadian dollars)

17 Fair value financial instruments and risk management

a) Capital management

The primary objective of managing the Company's capital is to ensure that there is sufficient available capital to support the long-term growth strategy of the Company in a way that optimizes the cost of capital and ensures the Company remains in sound financial position.

The capital of the Company consists of items included in equity, net of cash as follows:

	2017 $	2016 $
Equity	14,804,894	15,332,302
Less: Cash	(53,043)	(491,402)
	14,751,851	14,840,900

The Company manages its capital structure and makes adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may issue equity or return capital to shareholders. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2017 or 2016.

b) Fair values of financial instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The carrying amounts reported in the consolidated statements of financial position for cash and accounts payable, accrued liabilities and loans payable approximate fair values based on the immediate or short-term maturities of these financial instruments.

(expressed in Canadian dollars)

17 Fair value financial instruments and risk management (continued)

c) Financial risk management objectives

The Company examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include market risk, credit risk, liquidity risk, currency risk, interest rate risk, and commodity price risk. Where material, these risks are reviewed and monitored.

d) Market risk

Gold prices are affected by various forces including global supply and demand, interest rates, exchange rates, inflation or deflation and worldwide political and economic conditions. The viability of the Company is directly related to the market price of gold.

There has been no change to the Company's exposure to market risks or the manner in which these risks are managed and measured.

e) Credit risk

Credit risk on financial instruments arises from the potential for counterparties to default on their obligations to the Company.

The Company's maximum exposure to credit risk is represented by the carrying amount of the Company's cash and accounts receivable. Cash is placed with high-credit quality financial institutions. The balance of accounts receivable owed to the Company in the ordinary course of business is not significant. The fair value of accounts receivable approximates carrying value due to their relatively short periods to maturity. There are no material financial assets that the Company considers to be past due.

At each reporting date, the Company assesses whether there has been an impairment of financial assets. The Company has not recorded an impairment on any financial assets during the years ended December 31, 2017 and 2016.

(expressed in Canadian dollars)

17 Fair value financial instruments and risk management (continued)

f) Liquidity risk

Liquidity risk is the risk that the Company will not meet its financial obligations as they become due. The Company has a planning and budgeting process to monitor operating cash requirements including amounts projected for the existing capital expenditure program and plans for expansion, which are adjusted as input variables change. These variables include, but are not limited to, funding requirements of exploration and evaluation assets, general and administrative requirements of the Company and the availability of capital markets. As these variables change, liquidity risks may necessitate the need for the Company to issue equity or obtain debt financing. Refer to note 1 for further details.

Accounts payables and accrued liabilities are paid in the normal course of business generally according to their terms.

In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments. The following table summarizes the remaining contractual maturities of the Company's financial liabilities. The amounts included in this table may or may not result in an actual obligation of the Company as the requirement for the Company to settle certain of these amounts may, in some cases, be contingent on the occurrence of certain events that may or may not transpire:

	Within 1 year $	2-3 years $	4-5 years $	Over 5 years $	Total $
Accounts payable and accrued liabilities	267,714	–	–	–	267,714

g) Currency risk

The Company is exposed to currency risk on its United States dollar and Mexican peso cash, accounts receivable and accounts payable and accrued liabilities, in addition to some of its operating costs. For the year ended December 31, 2017, changes in the exchange rate between the aforementioned currencies and the Canadian dollar would not have impacted the Company's net loss by a material amount as the balance of funds held, receivable, or owing in these currencies was not material. The currency risk is minimal, therefore the Company does not hedge its currency risk.

(expressed in Canadian dollars)

17 Fair value financial instruments and risk management (continued)

h) Fair value measurements recognized in the consolidated statements of financial position

The Company has certain financial assets and liabilities that are held at fair value. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

No investments were held by the Company as at December 31, 2017 or 2016.

18 Segment information

The Company has one operating and reportable segment which is the acquisition, exploration and development of mineral interests. The geographical information regarding the assets is as follows:

	Canada $	Mexico $	Total $
As at December 31, 2017			
Property and equipment	170,799	–	170,799
Exploration and evaluation	12,313,366	2,541,166	14,854,532
	12,484,165	2,541,166	15,025,331

	Canada $	Mexico $	Total $
As at December 31, 2016			
Property and equipment	180,910	–	180,910
Evaluation and exploration assets	12,242,673	2,424,286	14,666,959
	12,423,583	2,424,286	14,847,869

(expressed in Canadian dollars)

19 Commitments and contingencies

The Company's exploration activities are subject to various federal, provincial and state laws and regulations governing the protection of the environment. The Company conducts its operations so as to protect public health and the environment and it believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

The Company is from time to time involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Company does not believe that adverse decisions in any pending or threatened proceedings related to any matter, or any amount which it may be required to pay by reason thereof, will have a material effect on the financial conditions or future results of operations of the Company.

Certain of the Company's exploration and evaluation properties are subject to royalty obligations based on mineral production from the properties. Royalty obligations for the Goldfields Project may arise once the property enters production. The royalty obligations are a 2.0% net smelter royalty for the Box and Athona deposits. The Box area is also subject to a 1.5% net smelter royalty on all production beneath 50 metres below the mean sea level on the original mining claims. This does not apply to the current Box mine plan since it is above the minus 50 metres below sea level elevations.

As at December 31, 2017, the Company has a management services agreement with Numus, a related party, for the provision of management services, rent and other office costs at a fee of $32,700 per year, continuing until both parties mutually agree to terminate.

The Company has employment arrangements with the Chief Executive Officer and Chief Financial Officer of the Company which provide that, should a change in control event occur, the Chief Executive Office and Chief Financial Officer will receive lump sum payments equal to 36 months and 12 months, respectively, of their then current base salary.

20 Subsequent event

On February 22, 2018, the Company completed a non-brokered private placement for aggregate gross proceeds of $915,000 (the "Offering"). The Company issued 2,287,500 units at an issue price of $0.40 per unit, with each unit comprised of one common share and one common share purchase warrant. Each warrant will be exercisable into one common share of the Company at an exercise price of $0.60 per share for a period of three years. Directors of the Company subscribed for an aggregate of 512,500 units. The Offering was led by Numus Capital Corp. ("Numus Capital"), a company controlled by a director of Fortune Bay. In connection with the Offering, the Company paid a finder's fee comprised of common shares equal to seven and one-half percent of the gross proceeds received by Fortune Bay from the sale of units to Numus Capital investors, plus warrants entitling Numus Capital to purchase the number of shares in the Company that is equal to seven and one-half percent of the units sold by Numus Capital as part of the Offering. This resulted in the issuance of 171,563 common shares and 171,563 warrants to Numus Capital.