



**Fortune Bay Corp.**  
**Year-Ended December 31, 2017**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

*This Management's Discussion and Analysis ("MD&A") provides a review of the performance of Fortune Bay Corp. (the "Company" or "Fortune Bay" or "Spinco") and should be read in conjunction with the audited consolidated financial statements of Fortune Bay (the "Financial Statements") for the years-ended December 31, 2017 and December 31, 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").*

*The information presented in this MD&A is as of February 28, 2018. The reporting currency for the Company is the Canadian dollar. All of the financial information presented herein is expressed in Canadian dollars ("Cdn dollars" or "Cdn\$"), unless otherwise stated. United States dollars are indicated by the symbol "US\$". This MD&A contains "forward-looking statements" that are subject to risk factors set out in a cautionary note contained herein. The reader is cautioned not to place undue reliance on forward-looking statements.*

## **COMPANY OVERVIEW**

The Company 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. ("kneat.com"), Kneat Solutions Limited and the Company, which was completed on June 27, 2016. Fortune Bay began trading on the TSX Venture Exchange ("TSX-V") as a new public company on July 4, 2016 under the symbol FOR. As at December 31, 2017, 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.

On June 27, 2016, Spinco completed a transaction with kneat.com and Kneat Solutions Limited, 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 common shares of Spinco (a "Spinco Share") in exchange for each three 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 ("NSR") in Mexico (collectively, "The Exploration Properties Business of Fortune Bay").

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

|  | June 27,<br>2016           |
|--|----------------------------|
| <b>Assets</b>                            |                            |
| 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                 |
|  | <u>15,808,724</u>          |
| <b>Liabilities</b>                       |                            |
| Accounts payable and accrued liabilities | <u>160,740</u>             |
| <b>Carrying Value</b>                    | <u><b>\$15,647,984</b></u> |

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, *Business Combinations*. This is 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, the unaudited interim 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 directly from kneat.com, and all remaining income and expenses 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 Arrangement, these amounts were reflected as net investment from kneat.com in the consolidated statement 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.

## OVERVIEW OF THE PROPERTIES

### Goldfields Project, Canada

The Goldfields Project, located in northern Saskatchewan, Canada, is Fortune Bay’s most significant property. The Company may choose to finance future exploration and development through equity financing, debt or other means deemed appropriate by management. The Goldfields Project consists of two deposits, known as the Box and Athona deposits. The Goldfields Project is situated approximately 60 kilometres (“km”) south of the Saskatchewan and Northwest Territories boundary.

Franco-Nevada Corporation has a 2% NSR for the Box and Athona deposits. The royalty covers an area of 16 km. The Box area is also subject to a 1.5% NSR on all production beneath 50 metres below the mean sea level on the

original Cominco mining claims. This royalty does not apply to the current Box mine plan since it is above the minus 50 metres below sea level elevation.

During the year-ended December 31, 2017, the Company incurred resource property expenditures of \$70,693 on the Goldfields Project, primarily related to maintenance of the properties.

Information related to the most recent NI 43-101 report can be found under the Company's profile on [www.sedar.com](http://www.sedar.com).

### **Ixhuatán Project, Mexico**

Fortune Bay has a 100% ownership interest in the Ixhuatán Project, which consists of the Rio Negro concession in northern Chiapas State, Mexico. The Ixhuatán Project is located immediately southwest of the Santa Fe mine and is accessible by roads running five km east of the town of Rayon, Chiapas. Rayon is situated two hours south of Villahermosa, Tabasco. The Ixhuatán Project is an early-stage exploration project. The Company incurred \$116,880 of expenditures on this property during the year-ended December 31, 2017 related to ongoing maintenance of the Ixhuatán Project. The Company is currently evaluating its alternatives for the development and advancement of the Ixhuatán Project.

### **Huizopa Net Smelter Royalty, Mexico**

The Huizopa Project is located in the Sierra Madres in Chihuahua, Mexico. The Company has a 2% NSR over future production from the Huizopa Project. 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. All consideration is contingent on the future development of the property. The Company considers the fair value of this consideration to be \$nil. There is no value assigned to the NSR in the financial statements of the Company.

## **SELECTED ANNUAL INFORMATION**

The Company has accounted for the acquisition of The Exploration Properties Business of Fortune Bay Corp. as a capital reorganization rather than a business combination, and therefore reports the results of the operations of the Exploration Properties Business as if Fortune Bay had always operated these assets. The amounts reported for 2015 represent the results of the operations of The Exploration Properties Business of Fortune Bay taken from the accounting records of these entities, on a carve-out basis.

Expressed in thousands of Canadian dollars and prepared in accordance with IFRS:

|                                 | <b>2017</b> | <b>2016</b> | <b>2015</b> |
|---------------------------------|-------------|-------------|-------------|
|                                 | \$          | \$          | \$          |
| Net loss for the year           | (661)       | (503)       | (359)       |
| Comprehensive loss for the year | (661)       | (503)       | (419)       |
| Total assets                    | 15,148      | 15,524      | 15,147      |
| Total liabilities               | 343         | 192         | 189         |
| Cash dividends per common share | N/A         | N/A         | N/A         |

The Company expects to record losses until such time as an economic resource is developed and exploited on one or more of the Company's exploration properties. The Company's net loss could be significantly affected by any impairment, reversal of impairment or abandonment of any resource property.

## RESULTS OF OPERATIONS

### Year-ended December 31, 2017

During the year-ended December 31, 2017, the Company recorded a net loss of \$660,710. Operating expenses for the period were \$654,720, a decrease of approximately \$31,000 over the prior year. Salaries and benefits and office costs increased by approximately \$93,000 in total as a result of the Company operating as a stand-alone public company during the current year. Professional fees, as well as securities and regulatory expenses, decreased by a total of approximately \$129,000 during the current year, as a result of professional and regulatory fees required in 2016 to complete the Transaction. Results of the year-ended December 31, 2016 reflect certain costs incurred on a carve-out basis for the purposes of providing comparative results for the years presented. During the year-ended December 31, 2017, the Company incurred management service fees of \$12,000. The management services fees are charged by a related party for certain management and administrative services (see “*Related Party Transactions*”).

The Company recorded non-cash depreciation expense of \$2,826, compared to \$5,408 in 2016. Depreciation expense has decreased due to a reduction in the net book value of the assets subject to depreciation, as well as the write-down of capital assets of \$6,215 during the current year. An additional non-cash expense was the recognition of share-based compensation of \$133,302, related to the estimated fair value of the Company’s stock options earned for the year. The comparable stock option expense for the prior year was \$91,626, which reflected the expense of only the second half of the year, as no stock options were issued by the Company until July 2016.

A foreign exchange loss of \$423 was recorded for the current year, compared to a foreign exchange loss of \$16,895 recognized in the prior year. The Company expects to continue incurring foreign exchange gains and losses arising from fluctuations in the value of the United States dollar and the Mexican peso relative to the Canadian dollar.

## SUMMARY OF QUARTERLY RESULTS AND SIGNIFICANT FOURTH QUARTER EVENTS

Expressed in thousands of dollars, except per share amounts:

|                                    | Q4 2017 | Q3 2017 | Q2 2017 | Q1 2017 | Q4 2016 | Q3 2016 | Q2 2016 | Q1 2016 |
|------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
|                                    | \$      | \$      | \$      | \$      | \$      | \$      | \$      | \$      |
| Net loss for the period            | (142)   | (156)   | (183)   | (180)   | (130)   | (198)   | (141)   | (34)    |
| Basic & diluted net loss per share | (0.01)  | (0.01)  | (0.01)  | (0.01)  | (0.01)  | (0.01)  | (0.01)  | (0.00)  |
| Total assets                       | 15,148  | 15,168  | 15,268  | 15,385  | 15,524  | 15,660  | 15,813  | 15,178  |
| Total liabilities                  | 343     | 242     | 207     | 186     | 192     | 202     | 156     | 45      |
| Cash dividends per common share    | N/A     | N/A     | N/A     | N/A     | N/A     | N/A     | N/A     | N/A     |

The quarterly results of Q1 2016 and Q2 2016, have been prepared on a carve-out basis for the purposes of providing comparative results to the financial statements.

During the fourth quarter of 2017, the Company incurred operating expenses of \$142,674, consisting primarily of salaries and benefits of approximately \$76,000, professional fees and office expenditures totaling approximately \$31,000, and share-based compensation expense of approximately \$21,000. Operating expenditures in the fourth quarter of the current year decreased compared to the prior year as a result of costs required in 2016 to complete the Transaction.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity depends on existing cash reserves, supplemented as necessary by asset dispositions, equity and/or debt financings. As of December 31, 2017, the Company had cash on-hand of approximately \$53,000, compared to approximately \$491,000 as at December 31, 2016. During the year-ended December 31, 2017, the Company used cash of approximately \$328,000 to fund operating activities and \$186,000 on resource property expenditures, relating to the maintenance of the Goldfields and Ixhuatán Projects.

During the current quarter, the Company entered into 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. Proceeds of the loan are to fund operations into 2018. As at December 31, 2017, the Company had drawn \$75,000 on the loan and had accrued interest of \$426. This loan was fully repaid subsequent to the end of the year.

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.

The Company does not have sufficient financial resources to undertake the complete development of its exploration properties without further inputs of financial resources. Development of the exploration properties will therefore depend on the Company's existing cash on-hand and its ability to obtain additional financing through means such as joint ventures, debt financings, equity financings, or other means. The reader should refer to the "Going Concern" disclosure under the Risk Factors section of this MD&A and Note 1 of the audited financial statements for the year-ended December 31, 2017.

## COMMITMENTS AND CONTINGENCIES

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 not result in an actual obligation of the Company, as the requirement to settle certain of these amounts is contingent on the occurrence of certain events that may or may not transpire:

|  | Payments due by period as of December 31, 2017 |           |           |              |         |
|--|--|-----------|-----------|--------------|---------|
|  | Within 1 year                                  | 2-3 years | 4-5 years | Over 5 years | Total   |
|  | \$   | \$        | \$        | \$           | \$      |
| Accounts payable and accrued liabilities | 267,714  | -         | -         | -            | 267,714 |

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

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

## **OFF-BALANCE SHEET ARRANGEMENTS**

At December 31, 2017, the Company had no off-balance sheet arrangements such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market, or credit risk to the Company.

## **OUTSTANDING SHARE INFORMATION**

The Company has authorized an unlimited number of Common Shares without par value. As of December 31, 2017, the Company had 18,578,200 Common Shares outstanding. As of February 22, 2018, the Company had 21,037,263 Common Shares outstanding due to a private placement financing completed subsequent to year-end of 2,459,063 shares, including 171,563 shares issued as a finder's fee.

As of December 31, 2017 and February 22, 2018, the Company had 1,000,000 stock options outstanding, exercisable into common shares of the Company at an exercise price of \$0.40, expiring on July 11, 2021.

As of December 31, 2017, the Company had no warrants outstanding. As of February 22, 2018, the Company had 2,459,063 warrants outstanding, exercisable at prices ranging from \$0.40 to \$0.60 per share and expiring on February 22, 2021.

## **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. 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).

Subsequent to December 31, 2017, the Company completed a private placement of 2,287,500 units at \$0.40 per unit, for gross proceeds of \$915,000. Directors and officers subscribed for 512,500 of the units issued pursuant to this financing. The financing was led by Numus Capital, a company controlled by a director of Fortune Bay. 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 financing. This resulted in the issuance of 171,563 common shares and 171,563 warrants to Numus Capital.

The key management of the Company includes the CEO, the CFO and the Company's Directors.

## **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

### **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 fair value of accounts receivable approximates their 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 period, 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 year-ended December 31, 2017.

### **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 mineral properties, general and administrative requirements 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. Accounts payable and accrued liabilities are paid in the normal course of business generally according to their terms.

### **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 certain 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 Company does not hedge its currency risk, as the currency risk is considered minimal.

## **RISK FACTORS**

Mineral exploration companies face many and varied risks. The principal activity of the Company is mineral exploration, which is inherently risky. Exploration is also capital intensive, and the Company currently has no source of income other than interest income.

The following are the risk factors which the Company's management believes are most important in the context of the Company's business. It should be noted that this list is not exhaustive and that other risk factors may apply.

### **Limited Business History**

Fortune Bay has a short history of operations and has no history of earnings. The likelihood of success of Fortune Bay must be considered in light of the problems, expenses, difficulties, complications and delays frequently encountered in connection with the establishment of any business. Fortune Bay has limited financial resources and there is no assurance that funding will be available to it when needed. There is also no assurance that Fortune Bay can generate revenues, operate profitably, provide a return on investment, or that it will successfully implement its plans.

### **Going Concern**

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 properties. The Company will actively seek financing from time to time to finance its operations, however the ability, availability and timing of such financing is not certain. The Company's 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.

### **Unknown Environmental Risks for Past Activities**

Exploration and mining operations incur risks of releases to soil, surface water and groundwater of metals, chemicals, fuels, liquids having acidic properties and other contaminants. In recent years, regulatory requirements

and improved technology have significantly reduced those risks. However, those risks have not been eliminated, and the risk of environmental contamination from present and past exploration or mining activities exists for mining companies. Companies may be liable for environmental contamination and natural resource damages relating to properties that they currently own or operate or at which environmental contamination occurred while or before they owned or operated the properties. No assurance can be given that potential liabilities for such contamination or damages caused by past activities at Fortune Bay's exploration properties do not exist.

### **Acquisitions and Joint Ventures**

Fortune Bay will evaluate from time to time opportunities to acquire or joint venture mining assets and businesses. These acquisitions and joint ventures may be significant in size, may change the scale of Fortune Bay's business and may expose it to new geographic, political, operating, financial and geological risks. Fortune Bay's success in its acquisition and joint venture activities will depend on its ability to identify suitable acquisition and joint venture candidates and partners, acquire or joint venture them on acceptable terms and integrate their operations successfully with those of Fortune Bay. Any acquisitions or joint ventures would be accompanied by risks, such as the difficulty of assimilating the operations and personnel of any acquired companies; the potential disruption of Fortune Bay's ongoing business; the inability of management to maximize the financial and strategic position of Fortune Bay through the successful incorporation of acquired assets and businesses or joint ventures; additional expenses associated with amortization of acquired intangible assets; the maintenance of uniform standards, controls, procedures and policies; the impairment of relationships with employees, customers and contractors as a result of any integration of new management personnel; dilution of Fortune Bay's present shareholders or of its interests in its subsidiaries or assets as a result of the issuance of shares to pay for acquisitions or the decision to grant earning or other interests to a joint venture partner; and the potential unknown liabilities associated with acquired assets and businesses. There can be no assurance that Fortune Bay would be successful in overcoming these risks or any other problems encountered in connection with such acquisitions or joint ventures. There may be no right for shareholders to evaluate the merits or risks of any future acquisition or joint venture undertaken except as required by applicable laws and regulations.

### **Uncertainty of Mineral Resource Estimates**

Mineral resource figures are only estimates. Such estimates are expressions of judgment based on knowledge, mining experience, analysis of drilling results, and industry practices. While Fortune Bay believes that the mineral resource estimates included are established and reflect management's best estimates, the estimating of mineral resources is a subjective process, and the accuracy of mineral resource estimates is a function of the quantity and quality of available data, the accuracy of statistical computations, and the assumptions used and judgments made in interpreting available engineering and geological information. There is significant uncertainty in any mineral resource estimate, and the actual deposits encountered and the economic viability of a deposit may differ materially from Fortune Bay's estimates. Estimated mineral resources may have to be re-estimated based on changes in gold prices, further exploration or development activity or actual production experience. This could materially and adversely affect estimates of the volume or grade of mineralization, estimated recovery rates or other important factors that influence mineral resource estimates. Mineral resources are not mineral reserves and there is no assurance that any mineral resource estimate will ultimately be reclassified as proven or probable mineral reserves. Mineral resources which are not mineral reserves do not have demonstrated economic viability.

### **Economics of Developing Mineral Properties**

Mineral exploration and development is speculative and involves a high degree of risk. While the discovery of an ore body may result in substantial rewards, few properties which are explored are commercially mineable and ultimately developed into producing mines. There is no assurance that Fortune Bay's gold deposits are commercially mineable.

Should any mineral resources and reserves exist, substantial expenditures will be required to confirm mineral reserves which are sufficient to commercially mine and to obtain the required environmental approvals and permitting required to commence commercial operations. The decision as to whether a property contains a



commercial mineral deposit and should be brought into production will depend upon the results of exploration programs and/or feasibility studies, and the recommendations of duly qualified engineers and/or geologists, all of which involves significant expense. This decision will involve consideration and evaluation of several significant factors including, but not limited to: (a) costs of bringing a property into production, including exploration and development work, preparation of production feasibility studies and construction of production facilities; (b) availability and costs of financing; (c) ongoing costs of production; (d) gold prices, which are historically cyclical; (e) environmental compliance regulations and restraints (including potential environmental liabilities associated with historical exploration activities); and (f) political climate and/or governmental regulation and control. Development projects are also subject to the successful completion of engineering studies, issuance of necessary governmental permits, and availability of adequate financing. Development projects have no operating history upon which to base estimates of future cash flow.

The ability to sell and profit from the sale of any eventual mineral production from any property will be subject to the prevailing conditions in the minerals marketplace at the time of sale. The global minerals marketplace is subject to global economic activity and changing attitudes of consumers and other end-users' demand for mineral products. Many of these factors are beyond the control of a mining company and therefore represent a market risk which could impact the long term viability of the Company and its operations.

### **Factors Beyond the Control of Fortune Bay**

The potential profitability of mineral properties is dependent upon many factors beyond Fortune Bay's control. For instance, world prices of and markets for minerals are unpredictable, highly volatile, potentially subject to governmental fixing, pegging and/or controls and respond to changes in domestic, international, political, social and economic environments. Another factor is that rates of recovery of minerals from mined ore (assuming that such mineral deposits are known to exist) may vary from the rate experienced in tests and a reduction in the recovery rate will adversely affect profitability and, possibly, the economic viability of a property. Profitability also depends on the costs of operations, including costs of labour, equipment, electricity, environmental compliance or other production inputs. Such costs will fluctuate in ways Fortune Bay cannot predict and are beyond Fortune Bay's control, and such fluctuations will impact on profitability and may eliminate profitability altogether. Additionally, due to worldwide economic uncertainty, the availability and cost of funds for development and other costs have become increasingly difficult, if not impossible, to project. These changes and events may materially affect the financial performance of Fortune Bay.

### **Regulatory Requirements**

The current or future operations of Fortune Bay, including development activities and possible commencement of production on its properties, requires permits from various federal and local governmental authorities, and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. Companies engaged in the development and operation of mines and related facilities generally experience increased costs and delays in production and other schedules as a result of the need to comply with the applicable laws, regulations and permits. There can be no assurance that all permits which Fortune Bay may require for the development and construction of mining facilities and conduct of mining operations will be obtainable on reasonable terms or that such laws and regulations would not have an adverse effect on any mining project which Fortune Bay might undertake.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed upon them for violation of applicable laws or regulations.

Amendments or changes to current laws, regulations government policies and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on Fortune Bay and cause increases in costs or require abandonment or delays in the development of new mining properties.

The development of mines and related facilities is contingent upon governmental approvals that are complex and time consuming to obtain and which, depending upon the location of the project, involve multiple governmental agencies. The duration and success of such approvals are subject to many variables outside Fortune Bay's control. Any significant delays in obtaining or renewing such permits or licenses in the future could have a material adverse effect on Fortune Bay.

### **Insurance**

Fortune Bay's business is capital intensive and subject to a number of risks and hazards, including environmental pollution, accidents or spills, industrial and transportation accidents, labour disputes, changes in the regulatory environment, natural phenomena (such as inclement weather conditions, earthquakes, pit wall failures and cave-ins) and encountering unusual or unexpected geological conditions. Many of the foregoing risks and hazards could result in damage to, or destruction of: Fortune Bay's mineral properties or future processing facilities, personal injury or death, environmental damage, delays in or interruption of or cessation of their exploration or development activities, delay in or inability to receive regulatory approvals to transport their gold concentrates, or costs, monetary losses and potential legal liability and adverse governmental action. Fortune Bay may be subject to liability or sustain loss for certain risks and hazards against which they do not or cannot insure or which it may reasonably elect not to insure because of the cost. This lack of insurance coverage could result in material economic harm to Fortune Bay.

### **Environmental Risks and Hazards**

All phases of Fortune Bay's operations are subject to environmental regulation in the jurisdictions in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the general, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect Fortune Bay's operations. Environmental hazards may exist on the properties which are unknown to Fortune Bay at present and which have been caused by previous or existing owners or operators of the properties. Reclamation costs are uncertain and planned expenditures estimated by management may differ from the actual expenditures required.

Fortune Bay is not insured against most environmental risks. Insurance against environmental risks (including potential liability for pollution and other hazards as a result of the disposal of waste products occurring from exploration and production) has not been generally available to companies within the industry. Fortune Bay will periodically evaluate the cost and coverage of the insurance against certain environmental risks that is available to determine if it would be appropriate to obtain such insurance.

Without such insurance, and if Fortune Bay becomes subject to environmental liabilities, the payment of such liabilities would reduce or eliminate its available funds or could exceed the funds Fortune Bay has to pay such liabilities and result in bankruptcy. Should Fortune Bay be unable to fund fully the remedial cost of an environmental problem, Fortune Bay might be required to enter into interim compliance measures pending completion of the required remedy.

### **Costs of Land Reclamation Risk**

It is difficult to determine the exact amounts which will be required to complete all land reclamation activities in connection with the properties in which Fortune Bay holds an interest. Reclamation bonds and other forms of financial assurance represent only a portion of the total amount of money that will be spent on reclamation activities over the life of a mine. Accordingly, it may be necessary to revise planned expenditures and operating plans in order to fund reclamation activities. Such costs may have a material adverse impact upon the financial condition and results of operations of Fortune Bay.

### **No Assurance of Title to Property**

There may be challenges to title to the mineral properties in which Fortune Bay holds a material interest. If there are title defects with respect to any properties, Fortune Bay might be required to compensate other persons or perhaps reduce its interest in the affected property. Also, in any such case, the investigation and resolution of title issues would divert management's time from ongoing exploration and development programs.

### **Risk of Amendments to Laws**

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on Fortune Bay and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

### **Commodity Prices**

The price of the Company's shares, Fortune Bay's financial results and exploration, development and mining activities may in the future be significantly adversely affected by declines in the price of gold or other minerals. The price of gold or other minerals fluctuates widely and is affected by numerous factors beyond Fortune Bay's control, such as the sale or purchase of commodities by various central banks and financial institutions, interest rates, exchange rates, inflation or deflation, fluctuation in the value of the United States dollar and other foreign currencies, global and regional supply and demand, the political and economic conditions of major mineral-producing countries throughout the world, and the cost of substitutes, inventory levels and carrying charges. Future serious price declines in the market value of gold or other minerals could cause continued development of and commercial production from Fortune Bay's properties to be impracticable. Depending on the price of gold and other minerals, cash flow from mining operations may not be sufficient and Fortune Bay could be forced to discontinue production and may lose its interest in, or may be forced to sell, some of its properties. Economic viability of future production from Fortune Bay's mining properties, if any, is dependent upon the prices of gold and other minerals.

In addition to adversely affecting any reserve estimates and its financial condition, declining commodity prices can impact operations by requiring a reassessment of the feasibility of a particular project. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to a particular project. Even if the project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed.

### **Foreign Countries and Regulatory Requirements**

Fortune Bay has investments in properties and projects located in foreign countries, including Mexico. The carrying values of these properties and Fortune Bay's ability to advance development plans or bring the projects to production may be adversely affected by whatever political instability and legal and economic uncertainty might exist in such countries. These risks may limit or disrupt Fortune Bay's projects, restrict the movement of funds or result in the deprivation of contractual rights or the taking of property by nationalization, expropriation or other means without fair compensation.

There can be no assurance that industries which are deemed of national or strategic importance in countries in which Fortune Bay has operations or assets, including mineral exploration, production and development, will not be nationalized. The risk exists that further government limitations, restrictions or requirements, not presently foreseen, will be implemented. Changes in policy that alter laws regulating the mining industry could have a material adverse effect on Fortune Bay. There can be no assurance that Fortune Bay's assets in these countries will not be subject to nationalization, requisition or confiscation, whether legitimate or not, by an authority or body.

In addition, in the event of a dispute arising from foreign operations, Fortune Bay may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdiction of courts in Canada. Fortune Bay also may be hindered or prevented from enforcing its rights with respect to a governmental instrumentality because of the doctrine of sovereign immunity. It is not possible for Fortune Bay to accurately predict such developments or changes in laws or policy or to the extent to which any such developments or changes may have a material adverse effect on Fortune Bay's operations.

### **Acquisitions and Integration**

From time to time, it can be expected that Fortune Bay will examine opportunities to acquire additional exploration and/or mining assets and/or businesses. Any acquisition that Fortune Bay may choose to complete may be of a significant size, may change the scale of Fortune Bay's business and operations, and may expose Fortune Bay to new geographic, political, operating, financial and geological risks. Fortune Bay's success in its acquisition activities depends upon its ability to identify suitable acquisition candidates, negotiate acceptable terms for any such acquisition, and integrate the acquired operations successfully with those of Fortune Bay. Any acquisitions would be accompanied by risks. In the event that Fortune Bay chooses to raise debt capital to finance any such acquisitions, Fortune Bay's leverage will be increased. If Fortune Bay chooses to use equity as consideration for such acquisitions, existing shareholders may suffer dilution. Alternatively, Fortune Bay may choose to finance any such acquisitions with its existing resources. There can be no assurance that Fortune Bay would be successful in overcoming these risks or any other problems encountered in connection with such acquisitions.

### **Internal Controls**

Internal controls over financial reporting are procedures designed to provide reasonable assurance that transactions are properly authorized, assets are safeguarded against unauthorized or improper use, and transactions are properly recorded and reported. A control system, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance with respect to the reliability of financial reporting and financial statement preparation.

### **Conflicts of Interest**

Some of the directors and officers of Fortune Bay are directors and officers of other companies, some of which are in the same business as Fortune Bay. Some of Fortune Bay's directors and officers will continue to pursue the acquisition, exploration and, if warranted, the development of mineral resource properties on their own behalf and on behalf of other companies, and situations may arise where they will be in direct competition with Fortune Bay. Fortune Bay's directors and officers are required by law to act in the best interests of Fortune Bay. They may have the same obligations to the other companies in respect of which they act as directors and officers. Discharge of their obligations to Fortune Bay may result in a breach of their obligations to the other companies and, in certain circumstances, this could expose Fortune Bay to liability to those companies. Similarly, discharge by the directors and officers of their obligations to the other companies could result in a breach of their obligation to act in the best interests of Fortune Bay. Such conflicting legal obligations may expose Fortune Bay to liability to others and impair its ability to achieve its business objectives.

## **Influence of Third Party Stakeholders**

The lands in which Fortune Bay holds an interest, or the exploration equipment and roads or other means of access which Fortune Bay intends to utilize in carrying out its work programs or general business mandates, may be subject to interests or claims by third party individuals, groups or companies. In the event that such third parties assert any claims, Fortune Bay's work programs may be delayed even if such claims are not meritorious. Such delays may result in significant financial loss and loss of opportunity for Fortune Bay.

## **Fluctuation in Market Value of Common Shares**

The market price of the Common Shares can be affected by many variables not directly related to the corporate performance of Fortune Bay, including the market in which it is traded, the strength of the economy generally, the availability and attractiveness of alternative investments, and the breadth of the public market for the stock. The effect of these and other factors on the market price of Common Shares in the future cannot be predicted. The lack of an active public market could have a material adverse effect on the price of Common Shares.

## **Cybersecurity Risks**

The Company relies on information technology systems including, without limitation, its networks, equipment, hardware, software, telecommunications, and other information technology (collectively, "IT systems"), and the IT systems of its vendors and third-party service providers, to operate its business as a whole including its exploration projects. IT systems are subject to an increasing threat of continually evolving cybersecurity risks including, without limitation, computer viruses, security breaches, and cyberattacks. In addition, the Company is subject to the risk of unauthorized access to its IT systems or its information through fraud or other means. Any cybersecurity incidents or other IT systems disruption could result in operational delays, destruction or corruption of data, security breaches, financial losses from remedial actions, the theft or other compromising of confidential or otherwise protected information, fines and lawsuits, or damage to the Company's reputation. Any such occurrence could have an adverse impact on the Company's financial condition and results of operations.

## **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

### **Disclosure Controls and Procedures**

Disclosure controls and procedures (as such term is defined (as such term is defined in Multilateral Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*) have been designed by the Company to provide reasonable assurance that:

- (a) material information relating to the Company is made known to the CEO and the CFO by others, particularly during the period in which the annual filings are being prepared; and
- (b) information required to be disclosed by the Company in its annual filings, interim filings or other reports that it files or submits under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation, and is accumulated and communicated to management, including the CEO and CFO, to allow timely decisions regarding required disclosures.

The CEO and CFO have concluded that as of the end of the period covered by this MD&A, the design and operation of the disclosure controls and procedures are effective to ensure that information required to be disclosed in reports that it files or submits to regulatory authorities is recorded, processed, summarized and reported within the time periods specified by regulation, and is accumulated and communicated to management, including our CEO and CFO, to allow timely decisions regarding required disclosures.

## **Internal Control over Financial Reporting**

The Company's management, with the participation of its CEO and CFO, has designed, established and is maintaining a system of internal control over financial reporting. Under the supervision of the CFO, as at December 31, 2017, the Company's internal control over financial reporting is a process designed to provide reasonable assurance that the financial information prepared by the Company for external purposes is reliable and has been recorded, processed and reported in an accurate and timely manner and in accordance with IFRS.

Management, with the participation of its CEO and CFO, has used the Internal Control—Integrated Framework to evaluate the effectiveness of internal control over financial reporting, which is a recognized and suitable framework issued by the Committee of Sponsoring Organizations (COSO Framework) published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The Company's controls include policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the annual financial statements or interim financial statements.

There have been no changes to the controls during the period that materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

## **Limitations of Controls and Procedures**

The Company's management, including the CEO and CFO, believe that any disclosure controls and procedures or internal controls over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

## **CRITICAL ACCOUNTING POLICIES**

The preparation of the Financial Statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management routinely makes judgments and estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the future resolution of the uncertainties increase, these judgments become even more subjective and complex. The Company's significant accounting policies are disclosed in Note 3, *Summary of Significant Accounting Policies*, to the December 31, 2017 audited consolidated financial statements.

The Company has identified certain accounting policies that the Company believes are most critical in understanding the judgments that are involved in producing the consolidated financial statements and the estimates made that could impact results of the operations, which are discussed below.

## **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 statement of 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.

During the year-ended December 31, 2017, there were no indicators of impairment or impairment reversals on the Company’s long lived assets.

### **Long lived assets - *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 the 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 production has commenced, 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.

## **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.

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's assets and liabilities are outlined in Note 4, *Significant Accounting Judgments and Key Sources of Estimation Uncertainty*, to the December 31, 2016 audited consolidated financial statements of the Company.

## **OTHER INFORMATION**

Additional information regarding the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.fortunebaycorp.com](http://www.fortunebaycorp.com).

## **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INFORMATION**

This MD&A contains "forward-looking information", as such term is defined in applicable Canadian securities legislation. Forward-looking information is necessarily based on a number of estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies. All statements other than statements which are reporting results as well as statements of historical fact set forth or incorporated herein by reference, are forward looking information that may involve a number of known and unknown risks, uncertainties and other factors, many of which are beyond the Company's ability to control or predict. Forward-looking information can be identified by the use of words such as "may," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "intends," "continue," or the negative of such terms, or other comparable terminology.

This information includes, but is not limited to comments regarding:

- the Company's exploration and development plans for the exploration properties;
- liquidity to support operations;
- completion of a NI 43-101 report for any of the exploration properties;
- the establishment and estimates of additional mineral resources;
- anticipated expenditures for development, exploration and corporate overhead;
- timing and issuance of any permits;
- estimates of closure costs and reclamation liabilities;
- the Company's ability to continue as a going concern;
- the Company's ability to obtain financing to fund future expenditure and capital requirements; and
- the impact of adoption of new accounting standards.

Although the Company believes that the plans, intentions and expectations reflected in this forward-looking information are reasonable, the Company cannot be certain that these plans, intentions or expectations will be achieved. Actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking information contained in this report. Disclosure of important factors that could cause actual results to differ materially from the Company's plans, intentions or expectations is included in this report under the heading "Risk Factors".

Forward-looking information inherently involves risks and uncertainties that could cause actual results to differ materially from the forward-looking information. Factors that could cause or contribute to such differences include, but are not limited to unexpected changes in business and economic conditions, including the global financial and capital markets; significant increases or decreases in gold prices; changes in interest and currency exchange rates; changes in operating costs; results of current and future exploration and development activities; results of future feasibility studies; joint venture relationships; political or economic instability, either globally or in the countries in which the Company operates; local and community impacts and issues; timing of receipt of government approvals; accidents and labour disputes; environmental costs and risks; competitive factors, including competition for property acquisitions; availability of external financing at reasonable rates or at all; and the factors discussed in this MD&A under the heading "Risk Factors".



Many of these factors are beyond the Company's ability to control or predict. These factors are not intended to represent a complete list of the general or specific factors that may affect the Company. The Company may note additional factors elsewhere in this MD&A. All forward-looking statements and information speak only as of the date made. All subsequent written and oral forward-looking statements attributable to the Company, or persons acting on the Company's behalf, are expressly qualified in their entirety by these cautionary statements. Readers are cautioned not to put undue reliance on forward-looking information due to the inherent uncertainty therein. Fortune Bay disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise.