

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-QSB**

☒ Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended January 31, 2007

☐ Transition Report pursuant to 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: **000-49995**

**FORTUNA GAMING CORP.**

(Exact name of small business Issuer as specified in its charter)

**Nevada**

(State or other jurisdiction of  
incorporation or organization)

**98-0389183**

(IRS Employer Identification No.)

**Bornstr 5**

**Hamburg, Germany**

(Address of principal executive offices)

(Zip Code)

Issuer's telephone number, including area code:  
011 49 2115838 8018

**Suite 104 4585 Canada Way,  
Burnaby, British Columbia, Canada**

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.  
**As of March 16, 2007 the issuer had 68,085,676 outstanding shares of Common Stock.**

Transitional Small Business Disclosure Format (Check one): Yes ☐ No ☒

## **PART I - FINANCIAL STATEMENTS**

### **ITEM 1. FINANCIAL STATEMENTS.**

Certain statements contained in this Form 10-QSB constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). These statements, identified by words such as "plan", "anticipate," "believe," "estimate," "should," "expect" and similar expressions, include our expectations and objectives regarding our future financial position, operating results and business strategy. These statements reflect the current views of management with respect to future events and are subject to risks, uncertainties and other factors that may cause our actual results, performance or achievements, or industry results, to be materially different from those described in the forward-looking statements. Such risks and uncertainties include those set forth under the caption "Management's Discussion and Analysis or Plan of Operation" and elsewhere in this Form 10-QSB. We do not intend to update the forward-looking information to reflect actual results or changes in the factors affecting such forward-looking information. We advise you to carefully review the reports and documents we file from time to time with the Securities and Exchange Commission ("SEC"), particularly our quarterly reports on Form 10-QSB and our current reports on Form 8-K. As used in this interim report, the terms "we", "us", "our", and "our company" mean Fortuna Gaming Corp. and "Fortuna" means its wholly owned subsidiary, Fortuna Gaming (UK) Limited, unless otherwise indicated. All dollar amounts in this annual report are in U.S. dollars unless otherwise stated.

**FORTUNA GAMING CORP.**

**(A Development Stage Company)**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**JANUARY 31, 2007**

**(Unaudited – see Note 1)**  
**(Stated in U.S. Dollars)**

**FORTUNA GAMING CORP.****(A Development Stage Company)****INTERIM CONSOLIDATED BALANCE SHEETS****AS OF JANUARY 31, 2007****(Unaudited- see Note 1)****Stated in U.S. Dollars**

	January 31, 2007	October 31, 2006
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	223	8,147
Prepaid expenses (Note 4)	140	740
	<u>363</u>	<u>8,887</u>
<b>Capital Assets</b> (Note 5)	<u>33,259</u>	<u>6,766</u>
	<u>33,622</u>	<u>15,653</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	325,311	341,088
Acquisition deposit and demand loan (Note 6(a) (b))	267,740	267,740
Promissory note (Note 6(d))	56,055	60,000
Demand loan (Note 6(c))	824,073	776,729
Interest payable	<u>126,299</u>	<u>101,676</u>
	<u>1,599,478</u>	<u>1,547,233</u>
<b>STOCKHOLDERS' (DEFICIENCY) EQUITY</b>		
Authorized:		
100,000,000 common shares with a par value of \$0.001 per share		
100,000,000 preferred shares with a par value of \$0.001 per share		
Issued and Outstanding :		
68,085,676 shares (Note 7 (b))	68,086	68,086
Additional paid-in capital	3,596,915	3,596,915
<b>Deficit Accumulated During The Development Stage</b>	<u>(5,230,857)</u>	<u>(5,196,581)</u>
	<u>(1,565,856)</u>	<u>(1,531,580)</u>
	<u>33,622</u>	<u>15,653</u>

**FORTUNA GAMING CORP.****(A Development Stage Company)****INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited – see Note 1)  
Stated in US Dollars**

	For the three months Ended January 31,		Cumulative From Inception March 14, 2002 To January 31, 2007
	2007	2006	
	\$	\$	\$
<b>Revenue</b>	-	-	-
<b>Expenses</b>			
Amortization	507	6,930	36,519
Bank charges	-	45	265
Consulting fees	-	429,098	2,043,103
Entertainment	-	161	8,363
Finders' fees	-	-	56,664
License fees	-	-	4,248
Management fees (Note 4)	-	80,250	244,665
Interest expense	28,601	7,945	129,231
Office and sundry	-	3,901	27,045
Professional fees	5,062	(2,266)	171,848
Promotion (Note 1(d))	-	4,544	356,737
Regulatory	106	4,667	31,660
Telephone and communications	-	3,738	9,495
Travel	-	36,246	153,923
<b>Loss before the following</b>	<u>34,276</u>	<u>575,259</u>	<u>3,273,766</u>
<b>Loss from discontinued operations:</b>			
G-Fed acquisition costs	-	121,624	364,974
Mineral property option and exploration expenditures	-	-	13,107
Write down of web development costs	-	-	418
Write down of capital assets	-	-	4,987
Write off of licensee fee and related hardware (Note 5)	-	-	57,911
Loss on write off of assets from discontinued business (Note 1(c))	-	-	1,515,694
<b>Net Loss For The Period</b>	<u>34,276</u>	<u>696,883</u>	<u>5,230,857</u>
<b>Basic And Diluted Loss Per Share</b>	\$ (0.001)	\$ (0.01)	
<b>Weighted Average Number Of Shares Outstanding</b>	<u>68,085,676</u>	<u>66,982,285</u>	

**FORTUNA GAMING CORP.**  
**(A Development Stage Company)**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited – see Note 1)**  
**Stated in US Dollars**

	For the three months Ended January 31,		Cumulative from Inception March 14, 2002 to January 31, 2007
	2007	2006	
	\$	\$	\$
<b>Cash Flows From Operating Activities</b>			
Net loss for the period	(34,276)	(696,883)	(5,230,857)
Non-cash items:			
Write off abandoned software investment	-	-	1,515,694
Write down of web development costs	-	-	418
Write down of capital assets	-	-	4,987
Write down of license fee and related hardware			57,911
Amortization	507	6,930	36,519
	(33,769)	(689,953)	(3,615,328)
<b>Adjustments To Reconcile Net Loss To Net Cash Used By Operating Activities</b>			
Change in prepaid expense	600	184,227	(140)
Current portion of promissory note receivable	-	21,804	56,055
Change in accounts receivable)	-	16,179	-
Change in accounts payable and accrued liabilities	(15,777)	105,759	325,310
Acquisition deposit loan (Note 6(a) )	-	500,000	267,740
Demand loan (Note 6(c))	47,344	298,450	824,074
Note payable (Note 6(d))	(3,945)	-	-
Change in interest payable	24,623	7,945	126,299
	19,076	444,411	(2,015,990)
<b>Cash Flows From Financing Activities</b>			
Issue of common stock	-	1,696	252,041
Paid-in capital	-	1,694,014	3,412,960
Share subscriptions converted to common shares	-	(1,695,710)	-
	-	-	3,665,001
<b>Cash Flows From Investing Activities</b>			
Promissory note	-	50,696	-
Purchase of hardware	-	-	(38,400)
Software license fee	(27,000)	-	(77,000)
Purchase of domain names	-	-	(10,175)
G-Fed Deposit	-	(500,000)	
Shares and Advances under Asset Purchase Agreement	-	-	(1,515,694)
Website development costs	-	-	(1,000)
Purchase of office equipment	-	-	(6,519)
	(27,000)	(449,304)	(1,648,788)
<b>(Decrease) Increase In Cash For The Period</b>	(7,924)	(4,893)	223
<b>Cash, Beginning Of Period</b>	8,147	4,893	-
<b>Cash, End Of Period</b>	223	-	223

**FORTUNA GAMING CORP.**  
(A Development Stage Company)  
**CONSOLIDATED STATEMENT OF**  
**SHAREHOLDERS' (DEFICIENCY) EQUITY**  
**PERIOD FROM INCEPTION, MARCH 14, 2002 TO JANUARY 31, 2007**  
(unaudited – see Note 1)  
(Stated in U.S. Dollars)

	Common Shares	Par Value	Additional Paid-In Capital	Subscrip- tions Receivable	Deficit Accumu- lated	TOTAL
		\$	\$	\$	\$	\$
Shares issued for cash at \$0.001	48,000	48	5,952			6,000
Shares issued to acquire mineral Property interest at \$0.001	160	0	20			20
Shares issued for cash at \$0.01	58,404	58	72,945			73,003
Shares issued for cash at \$0.15	5,626	6	105,487	(19,602)		105,493
Net loss for the period					(79,386)	(79,386)
Balance, October 31, 2002	112,190	112	184,404	(19,602)	(79,386)	105,130
Balance, October 31, 2002	112,190	112	184,404	(19,602)	(79,386)	105,130
Share subscriptions received				19,602		
Net loss for the period					(90,687)	(90,687)
Balance, October 31, 2003	112,190	112	184,404	-	(170,073)	14,443
Balance, October 31, 2003	112,190	112	184,404	-	(170,073)	14,443
Net loss for the period					(29,298)	(29,298)
Balance, October 31, 2004	112,190	112	184,404	-	(199,371)	(14,855)
Balance, October 31, 2004	112,190	112	184,404		(199,371)	(14,855)
Shares issued for S8 stock - cash and consultants' fees	480,000	480	95,520			96,000
Shares issued pursuant private Placement	577,334	578	1,442,758			1,443,336
Shares issued pursuant to Finder's Fee	22,666	22	56,642			56,664
Shares issued pursuant to Acquisition Agreement	1,200,000	1,200	28,800			30,000
Returned to Treasury	(1,200,000)	(1,200)	(28,800)			(30,000)
Shares issued pursuant Share Exchange Agreement	30,000,000	30,000	(15,000)			15,000
Shares issued for S8 stock – cash and consultants' fees	35,200,000	35,200	140,800			176,000
Adjust to Transfer Agent	283	1	282			283
Net loss for the period					(3,021,657)	(3,021,657)
Balance, October 31, 2005	66,392,473	\$ 66,393	\$ 1,905,406	-	\$(3,221,028)	\$(1,249,229)
Balance, October 31, 2005	66,392,473	\$ 66,393	\$ 1,905,406	-	\$(3,221,028)	\$(1,249,229)
Private Placements @ \$1.00	1,695,710	\$ 1,696	\$ 1,694,014			1,695,710
Adjust to Transfer Agent	(2,507)	(2)	(2,505)			(2,507)
Net loss for the period					(1,975,554)	(1,975,554)
Balance, October 31, 2006	68,085,676	\$ 68,086	\$ 3,596,915		\$(5,196,581)	\$(1,531,580)
Net loss for the period					(34,276)	(34,276)
Balance, January 31, 2007	68,085,676	\$68,086	\$3,596,915		\$(5,230,857)	\$(1,565,856)

## **NOTES TO INTERIM FINANCIAL STATEMENTS**

**JANUARY 31, 2007 AND 2006**

**(Unaudited – see Note 1)  
(Stated in U.S. Dollars)**

### **1. NATURE OF OPERATIONS**

The unaudited financial statements as of January 31, 2007 included herein have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with United States generally accepted principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. It is suggested that these financial statements be read in conjunction with the October 31, 2006 audited financial statements and notes thereto.

#### **a) Organization**

The Company was incorporated on March 14, 2002 under the laws of the State of Nevada as North American General Resources Corporation and we were primarily engaged in the acquisition and exploration of mining properties until November 2004.

On November 29, 2004 a Certificate of Amendment was filed with the Secretary of State in Nevada to change the name of the Company from North American General Resources Corporation to MoneyFlow Capital Corporation at which time we changed our business to providing financial services including operating a foreign exchange service and providing short-term loans and check cashing from retail premises.

By way of a reverse take over the Company changed its business and on June 28, 2005 a Certificate of Amendment was filed with the Secretary of State in Nevada to change the name of the Company from MoneyFlow Capital Corporation to Fortuna Gaming Corp.

#### **b) Principles of Consolidation**

The accompanying consolidated financial statements reflect the operations of Fortuna Gaming Corp. and its wholly owned subsidiaries, Fortuna Gaming (UK) Limited and Fortuna Gaming Corp. Limited. All intercompany accounts and transactions have been eliminated in consolidation.

#### **c) Discontinued Operations and Loss Associated with Write off of Assets Purchased**

From March 2002 until October, 2004, the Company had been in the exploration stage since its formation and had not realized any revenues from its planned operations. During this period, the Company was primarily engaged in the acquisition and exploration of mining properties.

On October 25, 2004, the Company entered into an agreement (the "Agreement") which provided that it would incorporate a Canadian subsidiary, MoneyFlow Capital Corporation ("MoneyFlow Canada"), which would purchase all of the assets of CMC Investments Inc. ("CMC") and its subsidiary, Canadian Cheque Cashing Corporation ("CCCC"), in exchange for the issuance of 6,000,000 shares of the Company and the assumption of two debt obligations amounting to approx \$2,500,000. As a result of entering into this Agreement, the Company changed its name from North American General Resources Corp. MoneyFlow Capital Corporation ("MoneyFlow Nevada") and its nature of business to providing financial services including operating a foreign exchange service and providing short-term loans and check cashing from retail premises through its subsidiary.



Under the terms of the Agreement the Company paid a total of \$1,473,336 relating to the development of financial software on behalf of its subsidiary Money Flow Canada. However, in February, 2005 the Company defaulted on its remaining payment obligations of \$1,040,140. As a result, the parties agreed to rescind the Agreement by returning the 6,000,000 shares to the Company's treasury in exchange for giving up its shares in MoneyFlow Canada. As a result of this termination, the Company's management and board of directors on record in February 2005 wrote off its investment of \$1,473,336 plus working capital of \$42,358 creating a loss of \$1,515,694.

d) Change of Business and Use of Consultants During Re-organization and Start Up Stage

On June 28, 2005, the Company changed its name to Fortuna Gaming Corp. and underwent a change in management and direction and is currently involved in the acquisition and licensing of on-line and mobile gaming technologies.

As the Company is in the start-up stage, Fortuna Gaming Corp. and its subsidiaries engaged the services of various consultants possessing critical knowledge and experience in the gaming industry, regulatory, legal and financial services sector. The services performed by consultants from June 28, 2005 to January 31, 2007 included legal, due diligence and accounting associated with the planned acquisition of GFED (of which negotiations were terminated on May 3, 2006), raising equity and debt financing, developing the Company's overall business plan and strategies, identifying, selecting and negotiating intellectual property licensing agreements, developing operational plans covering domestic and international operations, seeking out and hiring professional management, developing marketing and promotion plans including setting up an investor relations program, developing a merger and acquisition strategy and policy and developing corporate and potential acquisition candidates and establishing corporate governance policies.

e) G-FED Acquisition Deposit and Private Placement Advances

On December 4, 2005, the Company entered into a Letter of Intent to acquire, directly or indirectly, 100% of the assets of a software development company doing business as G-FED. A refundable deposit of \$500,000 USD was paid to the vendor's attorney pursuant to the signing of the Letter of Intent. On February 1, 2006, a second deposit of \$500,000 USD was paid to the vendor's attorneys bringing the total deposits to \$ 1million USD.

The Company also received private placement advances, held in a lawyers' trust account, totaling \$2,000,000. The funds were to be used as a down payment associated with the acquisition of G-FED. As announced in a press release dated May 3, 2006, based upon results from its due diligence examination process, discussions and negotiations relating to the purchase of the G-FED group terminated. With the termination of the acquisition, \$1,940,000 was returned to the lenders, leaving a balance of \$60,000 owing to one lender as of October 31, 2006. The \$60,000 note payable bears interest at a rate of 10% per annum accrued monthly. On November 2, 2006, the balance of \$7,923 held in trust was returned to this lender. \$3,978 was applied against accrued interest and the remaining \$3,945 was applied against the principal leaving a balance of \$56,055 outstanding. The Company has not received a formal demand for payment of the outstanding principle from the lender and is relying on continued support from this lender while it restructures its finances and pursues other business opportunities and acquisitions.

The \$1 million deposits less legal fees, advanced under the original Letter of Intent were returned to the Company and used to pay down demand loans as noted in Notes 6 (a) and (b).

f) Going Concern

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern.

As shown in the accompanying consolidated financial statements, the Company has incurred a net loss for the period from March 14, 2002 (inception) to January 31, 2007 of \$5,230,857 which includes a write-off of assets amounting to \$1,515,694 in 2005 for a failed venture prior to new management taking over the Company and \$364,974 in 2006 related to legal, due diligence and accounting costs associated with the acquisition of GFED. To date, the Company has no revenues. The future of the Company is dependent upon the continued support of its lenders, its ability to obtain financing and upon future profitable operations from the development of acquisitions. Management has plans to seek additional capital through a private placement and public offering of its common stock. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts of and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

The accompanying consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of consolidated financial statements for a period necessarily involves the use of estimates which have been made using careful judgment.

The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

#### **a) Capital Assets and Amortization**

Domain names and software licenses are recorded at cost and amortized on the declining balance basis at the rate of 30% per annum.

#### **b) Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates.

#### **c) Foreign Currency Translation**

The Company's functional currency is the U.S. dollar. Transactions in foreign currency are translated into U.S. dollars as follows:

- i) monetary items at the rate prevailing at the balance sheet date;
- ii) non-monetary items at the historical exchange rate;
- iii) revenue and expense at the average rate in effect during the applicable accounting period

#### **d) Income Taxes**

The Company has adopted Statement of Financial Accounting Standards No. 109 – "Accounting for Income taxes" (SFAS 109). This standard requires the use of an asset and liability approach for financial accounting, and reporting on income taxes. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized.

#### **e) Basic and Diluted Loss Per Share**

In accordance with SFAS No. 128 – "Earnings Per Share", the basic loss per common share is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding. Diluted loss per common share is computed similar to basic loss per common share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. At January 31, 2007, the Company has no stock equivalents that were anti-dilutive and excluded in the earnings per share computation.

### **4. PREPAID EXPENSES**

Prepaid expense in the amount of \$140 is the balance of an advanced legal retainer held in trust on behalf of the Company. These funds will be applied against future legal expenses.

### **5. CAPITAL ASSETS**

The Company's license with MGN was cancelled on October 1, 2006 and accordingly, the software (license) and hardware related to this business segment were written off in 2006, creating a book loss of \$57,911.

As announced on November 8, 2006, the Company entered into a Software License Agreement (“Agreement”) with G.I. ENTERPRISES, LTD., of KN Nevis, West Indies (the “Licensor”). Under the terms of the Agreement, the Company acquired a non exclusive license to both Poker and Casino Software developed by the Licensor. The terms of the license agreement required a payment of a license fee amounting to \$45,000 of which \$27,000 has been paid as at January 31, 2007 and accounted for. The remaining \$18,000 is payable when the gaming software is fully customized and licensed.

Net book value of Capital Assets consists of a domain name and the previously noted software license. The book value of these capital assets amounts to \$33,259 as at January 31, 2007.

Capital assets are amortized on the declining balance basis at the rate of 30% per annum, prorated from the date purchased.

- i) Domain names – Cost of \$10,175 less accumulated amortization of \$3,916
- ii) Software license – Costs of \$27,000.

## **6. LOANS PAYABLE AND PROMISSORY NOTE**

- (a) During the fiscal year ending October 31, 2006,, the Company issued a Demand Loan for \$500,000 to a third party to fund the first G-FED deposit. After the collapse of the G-Fed transaction, effective May 3, 2006, \$322,260 was repaid to the lender, leaving a principle balance owing of \$177,740. The loan is payable on demand and bears interest at a rate of 10% per annum accrued monthly.
- (b) During the fiscal year ending October 31, 2006, the Company issued a Demand Loan for \$500,000 to a third party to fund the second G-FED deposit. After the collapse of the G-Fed transaction, effective May 3, 2006, \$410,000 was repaid to the lender, leaving a principle balance owing of \$90,000. The loan is payable on demand and bears interest at a rate of 10% per annum accrued monthly.

The principle balance owing on the acquisition deposit loans in 6 (a) and 6 (b) amounts to \$267,740. The Company has not received a formal demand for payment of the outstanding principle from either lender and is relying on continued support from its lenders while it restructures its finances and pursues other business opportunities and acquisitions.

- (c) The Company has received advances from a third party to cover operating costs and the first installment towards the gaming software license. Advances total \$824,073 as at January 31, 2007 and are payable on demand and have no fixed terms of repayment. The advances bear interest at a rate of 10% per annum accrued monthly. The Company has not received a formal demand for payment of the outstanding principle from this lender and is relying on continued support from the lender to allow it to restructure its finances.
- (d) During the fiscal year ending October 31, 2006, the Company received private placement advances, held in a lawyers’ trust account, totaling \$2,000,000. The funds were to be used as a down payment associated with the acquisition of G-Fed. With the termination of the acquisition, \$1,940,000 was returned to the lenders, leaving a balance of \$60,000 owing to one lender at year end. The Promissory Note bears interest at a rate of 10% per annum accrued monthly. On November 2, 2006, the balance of \$7,923 held in trust was returned to this lender. \$3,978 was applied against accrued interest and the remaining \$3,945 was applied against the principal leaving a balance of \$56,055 outstanding. The Company has not received a formal demand for payment of the outstanding principle from the lender and is relying on continued support from this lender while it restructures its finances and pursues other business opportunities and acquisitions.

## **7. SHARE CAPITAL**

- a) Authorized:
  - 100,000,000 common shares with a par value of \$0.001 per share
  - 100,000,000 preferred shares with a par value of \$0.001 per share
- b) Issued:
  - As of January 31, 2006 the number of issued and outstanding common shares was 68,085,676.

As of March 14, 2007 the number of issued and outstanding common shares is 68,085,676. There are no Preferred Shares issued as of March 14, 2007.

c) **Stock Option Plan**

As at January 31, 2007, there were no stock options available.

d) **Weighted-average shares outstanding**

Loss per share has been calculated using the weighted-average number of common shares outstanding during the year of 68,085,676. Diluted loss per shares does not differ from basic loss per share as all potential common shares are anti-dilutive.

**8. RELATED PARTY TRANSACTION**

During the year, there were no related party transactions.

**9. SUBSEQUENT EVENTS**

- a) On February 26, 2007, pursuant to the terms of a Software License Agreement entered into by the company, the remaining \$18,000 of a total of \$45,000 was paid. This payment was funded through a third party lender. See Note 6 (c).
- b) The Company's 100% owned subsidiaries, Fortuna Gaming (UK) Limited and Fortuna Gaming Corp. Limited, were incorporated in the United Kingdom as part of the corporate structure to operate its gaming business and to acquire G-Fed. From the date of incorporation to the date of this report, both UK subsidiaries have not generated any revenues and have been dormant as a result of management's decision to not acquire G-Fed in May 2006. As part of its strategy to eliminate non essential costs, management has decided that both UK subsidiaries are no longer required and will be commencing a process that will lead towards a voluntary wind down and/or having both companies struck from the registrar of companies in the UK.

## **ITEM 2. MANAGERMENTS' DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.**

This quarterly report contains forward-looking statements as that term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "continue" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled "Risk Factors", that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

Financial information contained in this quarterly report and in our consolidated unaudited financial statements are stated in United States dollars and are prepared in accordance with United States generally accepted accounting principles. The following discussion should be read in conjunction with our consolidated unaudited financial statements and the related notes that appear elsewhere in this quarterly report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this quarterly report, particularly in the section entitled "Risk Factors".

Discussion of our financial condition and results of operations should be read in conjunction with our consolidated unaudited financial statements and the notes thereto included elsewhere in this quarterly report prepared in accordance with accounting principles generally accepted in the United States. This discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those anticipated in these forward-looking statements.

### **PLAN OF OPERATIONS**

In the spring and summer of 2006, the indications became very strong and clear that gaming companies that depended heavily on the U.S. market for online gambling customers to support their business model, were at risk of collapsing. Due to this business and legal risk, a decision was made by management to avoid acquisitions such as was contemplated with G-Fed, where such companies had a history of servicing and processing deposits from US residents.

As reported in our October 31, 2006 10KSB, in view of this turn of events, operating costs were cutback and the company went into a "suspension" mode, while it assessed its options. To preserve cash and cut costs, we terminated consulting agreements and management services. Management has been seeking out sources of funds to pay down debt, restructure its operations and pursue other business opportunities, joint ventures and acquisitions.

A number of operators that depended on the US market and invested in a large infrastructure to support its US player base were caught off guard with law changes making it illegal to take deposits in the US. In order to survive, they had to incur significant downsizing costs, filed for bankruptcy protection and/or went into involuntary liquidation, which negatively impacted shareholder value.

At the same time, a number of companies have emerged as successful by concentrating on the European market. Research was done on what works and what doesn't and who will be available. This change in the US law, actually opened up significant opportunities for our Company and with a clean slate from a US perspective, having not processed any deposits from US players, we are well positioned to take advantage of customer and market growth occurring outside of the US .

In order to take advantage of the knowledge it established in this industry, on November 8, 2006 management announced the signing of a software license agreement with a software developer. The turnkey package which includes a complete suite of poker and casino games has been customized and can be found at our corporate web site [www.fortunagamingcorp.com](http://www.fortunagamingcorp.com). The gaming site can be accessed by clicking on [www.FortunaRoyale.com](http://www.FortunaRoyale.com). The site will cater to non US players and international

players where it is legal to process player deposits. The turnkey solution provided by the software developer includes a gaming sub-license from the government of Curacao and 24/7 player support.

A marketing program is being developed that will initially focus on players in Europe (Germany, Italy and the UK) and Asia. Management is looking to raise funds to support the costs associated with re-launching the business and is seeking continued support from its existing lenders during this phase of restructuring.

On the basis that we will be offering our gaming product to the market, we estimate our general marketing and operating expenses for the next twelve month period to be as follows:

#### *Marketing and Travel Costs*

We expect to incur discretionary marketing costs in the range of \$10,000 to \$20,000 per month.

#### *Consultant Compensation*

Given the early stage of our operations, we intend to continue to outsource our professional and personnel requirements by retaining consultants on an as-needed basis. We estimate that our consultant and related professional compensation expenses for the next twelve month period will be approximately \$120,000.

#### *Professional Fees*

We expect to incur on-going legal, accounting and audit expenses to comply with our reporting responsibilities as a public company under the United States Securities Exchange Act of 1934, as amended. We estimate such expenses for the next fiscal year to be approximately \$35,000.

#### *General and Administrative Expenses*

We anticipate spending \$15,000 on general and administrative costs in the next twelve month period. These costs primarily consist of expenses such as office supplies, telephone, courier and web site updates.

### **OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

The following discussion and analysis explains trends in our financial condition and results of operations for the two quarters ended January 31, 2007 and 2006. This discussion and analysis of the results of operations and financial condition should be read in conjunction with our 2006 audited financial statements and the related notes, as well as statements made elsewhere in this Form 10-QSB.

#### **Critical Accounting Policies**

Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of consolidated financial statements for a period necessarily involves the use of estimates which have been made using careful judgment. In determining estimates of net recoverable amounts and net realizable values, or whether there has been a permanent impairment in value for accounts receivable, inventories, capital assets, investments, patent rights and other assets, we rely on assumptions regarding applicable industry performance and prospects, as well as general business and economic conditions that prevail and are expected to prevail. Assumptions underlying asset valuations are limited by the availability of reliable comparable data and the uncertainty of predictions concerning future events.

By nature, asset valuations are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the estimated net recoverable amounts and net realizable values may change by a material amount.

The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies outlined in our October 31, 2006 10KSB.

## **Going Concern and continuing operations**

Our consolidated financial statements have been prepared assuming we will continue as a going concern. We have incurred a net loss for the period from March 14, 2002 (inception) to January 31, 2007 of \$5,230,857 which includes a write-off of assets amounting to \$1,515,694 in 2005 for a failed venture, as well as legal and accounting costs associated with the due diligence process relating to the G-FED transaction amounting to \$364,974. To date the Company is still in the development stage and has no sales. Our future is dependent upon the continued support of our lenders, our ability to obtain financing and upon future profitable operations from the development of acquisitions. Management has plans to seek additional capital through a private placement of our common stock and the issuance of debt. Our consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts of and classification of liabilities that might be necessary in the event we cannot continue in existence.

Operations to date have been covered primarily from financings associated with equity transactions. There can be no assurances that we will be successful in raising additional cash to finance operations. If not, we will be required to reduce operations and/or liquidate assets. Our consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should we be unable to continue as a going concern.

## **Results of Operations for the Three Months Ended January 31, 2007 and January 31, 2006.**

As the Company is a Development Stage Company, we have not earned any revenues to date. We do not anticipate earning any revenues until the 2nd or 3rd quarter of fiscal 2007.

As a result of management's decision to curtail operating costs while it assesses its future direction, expenses for the three months ended January 31, 2007 amounted to \$34,276 compared to \$696,883 for the same period in 2006. The operating costs of \$34,276 for 2007 includes \$28,601 in interest expense, \$5,062 in professional fees, \$106 in filing fees and \$507 in amortization costs. The \$696,883 incurred in 2006 included \$429,098 in consulting fees, \$80,250 in management fees and \$121,624 in G-Fed due diligence costs, which were zero for the same period in 2007.

Capital assets include \$27,000 paid to the software developer in November 2006.

The promissory note which amounted to \$60,000 at October 31, 2006 was reduced by \$3,945 on November 2, 2006.

The demand loan increased from \$776,729 at October 31, 2006 to \$824,073 to cover payments of current liabilities and the \$27,000 payment for the gaming software.

Interest payable increased \$24,623 for the quarter on acquisition and demand loans outstanding.

### Net Loss

Our Loss for the three months ended January 31, 2007 amounted to \$34,276 compared to a loss of \$696,883 for the same period 2006. We have incurred a net loss in the amount of \$5,230,857 from inception to January 31, 2007, which includes the write off of our investment in MoneyFlow Canada, due diligence costs relating to G-Fed and write-offs of license fees.

### Liquidity and Financial Condition

Since inception, we have used our common stock and borrowings to raise money for the property acquisition, for corporate expenses and to repay outstanding indebtedness.

Our consolidated financial statements contained in this interim report contemplate our continuation as a going concern. However, we have sustained substantial losses and are still in the development stage. Additional funding will be necessary to continue development and marketing of our product. As outlined in Note 1(f) of these interim financial statements, we intend to arrange for the sale of additional shares of our common stock to obtain additional operating capital for at least the next twelve months.

## **Off-Balance Sheet Arrangements**

We have no significant off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to stockholders.

## **Risk Factors**

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below and the other information in this Interim Report before investing in our common stock. If any of the following risks occur, our business, operating results and financial condition could be seriously harmed. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment.

Because we will need additional financing to fund our activities, our accountants have included in their audit report that the Company's recurring losses and lack of operations raises substantial doubt about our ability to continue as a going concern.

We have incurred a net loss of \$5,230,857 for the period from March 14, 2002 (inception) to January 31, 2007, and have no revenue to date. We will require additional financing to sustain our business operations and we may not be able to obtain financing as required.

Since this is a new direction for the business and as a development stage company, we face a high risk of business failure due to our inability to predict the success of our business

We have just begun the initial stages of the new business, and thus have no way to evaluate the likelihood that we will be able to operate the business successfully.

Because of the unique difficulties and uncertainties inherent in new ventures, we face a high risk of business failure

Potential investors should be aware of the difficulties normally encountered by commencing a new business venture and the high rate of failure of such enterprises. The likelihood of success must be considered in light of the problems, expenses, difficulties, complications and delays encountered in connection with the business we plan to undertake.

As we undertake our new business direction in the gaming business, we may become subject to new government regulation that may increase the anticipated cost of the business

Many government jurisdictions have ruled that online gaming is illegal and, accordingly, management is evaluating where Fortuna will conduct its operations in order to be compliant.

Our common stock is "penny stock", with the result that trading of our common stock in any secondary market may be impeded

The SEC has adopted rules that regulate broker-dealer practices in connection with transactions in penny stocks. Penny stocks are generally equity securities with a price of less than \$5.00, other than securities registered on certain national securities exchanges or quoted on the Nasdaq system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock, to deliver a standardized risk disclosure document prepared by the Commission, that: (a) contains a description of the nature and level of risk in the market for penny stocks in both public offerings and secondary trading; (b) contains a description of the broker's or dealer's duties to the customer and of the rights and remedies available to the customer with respect to a violation to such duties or other requirements of Securities' laws; (c) contains a brief, clear, narrative description of a dealer market, including bid and ask prices for penny stocks and the significance of the spread between the bid and ask price; (d) contains a toll-free telephone number for inquiries on disciplinary actions; (e) defines significant terms in the disclosure document or in the conduct of trading in penny stocks; and (f) contains such other information and is in such form, including language, type, size and format, as the Commission shall require by rule or regulation. The broker-dealer also must provide, prior to effecting any transaction in a penny stock, the customer with: (a) bid and offer quotations for the penny stock; (b) the compensation of the broker-dealer and its salesperson in the transaction; (c) the number of shares to which such bid and ask prices apply, or other comparable information relating to the depth and liquidity of the market for such stock; and (d) a monthly



account statements showing the market value of each penny stock held in the customer's account. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from those rules; the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written acknowledgment of the receipt of a risk disclosure statement, a written agreement to transactions involving penny stocks, and a signed and dated copy of a written suitability statement. These disclosure requirements may have the effect of reducing the trading activity in the secondary market for our stock as it is subject to these penny stock rules. Therefore, stockholders may have difficulty selling those securities.

### **ITEM 3. CONTROLS AND PROCEDURES**

As required by Rule 13a-15 under the Exchange Act, we have carried out an evaluation of the effectiveness of the design and operation of our company's disclosure controls and procedures as of the end of the period covered by this quarterly report, being January 31, 2007. This evaluation was carried out under the supervision and with the participation of our company's Chief Executive Officer. Based upon that evaluation, our company's Chief Executive Officer concluded that our company's disclosure controls and procedures are effective as at the end of the period covered by this report. There have been no changes in our internal controls over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our company's reports filed under the Exchange Act is accumulated and communicated to management, including our company's Chief Executive Officer, President, Secretary, Treasurer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

The term "internal control over financial reporting" is defined as a process designed by, or under the supervision of, our Company's principal executive and principal financial officer, or persons performing similar functions, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- a. Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the registrant;
- b. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the registrant are being made only in accordance with authorizations of management and directors of the registrant; and
- c. Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the registrant's assets that could have a material effect on the financial statements.

## **PART II – OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

We are not party to any legal proceedings and to our knowledge no such proceedings are threatened or contemplated.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

There were no unregistered sales of equity securities during the period covered by this report.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

There has been no default in the payment of principal or interest with respect to any indebtedness incurred by us.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

No matters have been submitted to a vote of security holders during the period covered by this report.

**ITEM 5. OTHER INFORMATION.**

Not applicable.

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.**

**(a) Exhibits and Index of Exhibits**

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
31.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes- Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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**(b) Reports on Form 8-K.**

The following reports on Form 8-K were filed during the fiscal quarter ended January 31, 2007. Since January 31, 2007 we have not filed any reports on Form 8-K:

<b>Date Filed</b>	<b>Content</b>
November 8, 2006	The Company announced that Fortuna Gaming (UK) Limited entered into a Software License Agreement ("Agreement") with G.I. ENTERPRISES, LTD., of KN Nevis, West Indies (the "Licensor"). Under the terms of the Agreement, the Company has acquired a non exclusive license to both Poker and Casino Software developed by the Licensor.

## **SIGNATURES**

In accordance with requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### **FORTUNA GAMING CORP.**

By: /s/ Richard Von Ritter

Richard Von Ritter

President, Chief Executive Officer,

Chief Financial Officer and Director

(Principal Executive Officer and Principal Financial Officer)

Date: March 16, 2007

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## CERTIFICATIONS

I, Richard Von Ritter, Chief Executive Officer and Chief Financial Officer of Fortuna Gaming Corp., certify that;

- (1) I have reviewed this Quarterly Report on Form 10-QSB of Fortuna Gaming Corp.;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of the internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2007

*/s/ Richard Von Ritter*

By: Richard Von Ritter  
Title: Chief Executive Officer  
Chief Financial Officer

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**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND  
CHIEF FINANCIAL OFFICER PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Richard Von Ritter, Chief Executive Officer and Chief Financial Officer of Fortuna Gaming Corp. (the "Company"), hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (i) The Quarterly Report on Form 10-QSB of the Company, for the three months ending January 31, 2007, and to which this certification is attached as Exhibit 32 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: */s/ Richard Von Ritter*  
Name: Richard Von Ritter  
Title: Chief Executive Officer  
and Chief Financial Officer  
Date: March 16, 2007

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