*Unaudited Condensed Interim Consolidated Financial Statements of*

# FORTUNE BAY CORP.

June 30, 2020

(Expressed in Canadian Dollars)

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of these condensed interim consolidated financial statements, they must be accompanied by a notice indicating that these condensed interim consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

# FORTUNE BAY CORP.

## Unaudited Interim Consolidated Statements of Financial Position

| *Expressed in Canadian dollars* | **June 30, 2020** | December 31, 2019 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash | **$ 1,942,914** | $ 23,454 |
| Accounts receivable (Note 3) | **31,537** | 21,865 |
| Prepaid expenses and deposits | **4,492** | 18,051 |
| | **1,978,943** | 63,370 |
| Reclamation deposit | **38,197** | 38,197 |
| Property and equipment (Note 4) | **158,587** | 158,771 |
| Exploration and evaluation assets (Note 5) | **15,385,125** | 15,309,613 |
| **Total assets** | **$ 17,560,852** | $15,569,951 |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (Note 6) | **$ 328,449** | $ 513,741 |
| Loan payable (Note 7) | **190,580** | 265,200 |
| | **519,029** | 778,941 |
| Deferred income tax liability (Note 9) | **394,027** | 318,280 |
| | **913,056** | 1,097,221 |
| **Equity** | | |
| Shareholders' equity | **16,647,796** | 14,472,730 |
| **Total liabilities and equity** | **$ 17,560,852** | $ 15,569,951 |

Nature of operations and going concern (Note 1)
Commitments and contingencies (Note 14)
Subsequent event (Note 15)

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

Approved on behalf of the Board of Directors on August 28, 2020

"Michael Gross"
Director

"Wade Dawe"
Director

# FORTUNE BAY CORP.

## Unaudited Interim Consolidated Statements of Loss and Comprehensive Loss

*Expressed in Canadian dollars*

| | **Three-month period ended June 30, 2020** | Three-month period ended June 30, 2019 | **Six-month period ended June 30, 2020** | Six-month period ended June 30, 2019 |
|---|---|---|---|---|
| **Operating expenses** | | | | |
| Office, travel and promotion | **$ 14,408** | $ 16,799 | **$ 28,293** | $ 34,073 |
| Depreciation | **-** | 213 | **-** | 423 |
| Finance fees and interest | **9,052** | 3,846 | **22,564** | 3,846 |
| Professional fees | **12,844** | 13,312 | **32,761** | 26,347 |
| Salaries and benefits | **85,186** | 73,448 | **154,059** | 141,851 |
| Contract services | **3,000** | 3,000 | **6,000** | 6,000 |
| Securities and regulatory | **12,751** | 10,593 | **24,144** | 19,979 |
| Share-based compensation | **52,347** | 12,361 | **63,956** | 27,927 |
| Foreign exchange loss (gain) | **3,388** | (1,342) | **9,635** | 2,878 |
| | **(192,976)** | (132,230) | **(341,412)** | (263,324) |
| **Other income** | | | | |
| Interest | **-** | - | **150** | - |
| **Net loss before income tax** | **(192,976)** | (132,230) | **(341,262)** | (263,324) |
| Deferred income tax recovery (expense) (Note 9) | **1,993** | (2,624) | **(75,747)** | (8,470) |
| **Net loss and comprehensive loss for the period** | **(190,983)** | $ (134,854) | **(417,009)** | $ (271,794) |
| Loss per share – basic and diluted | **$0.01** | $ 0.01 | **$0.02** | $ 0.01 |
| Weighted-average number of common shares outstanding | **25,786,086** | 21,037,263 | **23,411,675** | 21,037,263 |

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

# FORTUNE BAY CORP.
## Unaudited Interim Consolidated Statements of Changes in Equity

| *Expressed in Canadian dollars* | Number of Common Shares | Common Shares $ | Warrants $ | Contributed Surplus $ | Retained Earnings (Deficit) $ | Total Shareholders' Equity $ |
|---|---|---|---|---|---|---|
| **Balance, January 1, 2019** | **21,037,263** | **4,125,738** | **235,926** | **318,462** | **10,363,495** | **15,043,621** |
| Net loss and comprehensive loss for the period | - | - | - | - | (271.794) | (271,794) |
| Share-based compensation expense | - | - | - | 27,927 | - | 27,927 |
| **Balance, June 30, 2019** | **21,037,263** | **4,125,738** | **235,926** | **346,389** | **10,091,701** | **14,799,754** |
| **Balance, January 1, 2020** | **21,037,263** | **4,125,738** | **235,926** | **361,410** | **9,749,656** | **14,472,730** |
| Units issued pursuant to private placement (Note 8) | 7,857,144 | 2,138,889 | 611,111 | - | - | 2,750,000 |
| Warrants issued as finder's fee (Note 8) | - | - | 220,000 | - | - | 220,000 |
| Unit issuance costs (Note 8) | - | (343,685) | (98,196) | - | - | (441,881) |
| Net loss and comprehensive loss for the period | - | - | - | - | (417,009) | (417,009) |
| Share-based compensation expense | - | - | - | 63,956 | - | 63,956 |
| **Balance, June 30, 2020** | **28,894,407** | **5,920,942** | **968,841** | **425,366** | **9,332,647** | **16,647,796** |

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

# FORTUNE BAY CORP.
## Unaudited Interim Consolidated Statements of Changes in Cash Flows

| *Expressed in Canadian dollars* | **Six-month period ended June 30, 2020** | Six-month period ended June 30, 2019 |
|---|---|---|
| **Operating activities** | | |
| Net loss for the period | **$ (417,009)** | $ (271,794) |
| Charges to loss not involving cash: | | |
| Depreciation | **-** | 423 |
| Share-based compensation | **63,956** | 27,927 |
| Deferred income tax expense (Note 9) | **75,747** | 8,470 |
| Finance fees and interest | **22,564** | 2,400 |
| Foreign exchange on deferred income taxes | **-** | 4,409 |
| Net change in non-cash working capital related to operations (Note 10) | **(197,763)** | 168,711 |
| **Net cash used in operating activities** | **(452,505)** | (59,454) |
| **Financing activities** | | |
| Units issued pursuant to financing, net of costs | **2,528,119** | - |
| Loan received from (repaid to) a related party, net (Notes 7 and 11) | **(79,080)** | 60,000 |
| **Net cash provided by financing activities** | **2,449,039** | 60,000 |
| **Investing activities** | | |
| Additions to exploration and evaluation assets | **(77,074)** | (88,733) |
| **Net cash used in investing activities** | **(77,074)** | (88,733) |
| Increase (decrease) in cash during the period | **1,919,460** | (88,187) |
| Cash, beginning of period | **23,454** | 107,911 |
| Cash, end of period | **$ 1,942,914** | $ 19,724 |

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

### 1. NATURE OF OPERATIONS AND GOING CONCERN

**Nature of operations**

Fortune Bay Corp. (the "Company" or "Fortune Bay") was incorporated on February 4, 2016 as 9617337 Canada Limited under the laws of the Canada Business Corporations Act as part of a plan of arrangement with kneat.com, inc. which was completed on June 27, 2016. The Company commenced trading on the TSX Venture Exchange ("TSX-V") on July 4, 2016 under the symbol FOR.

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

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

**Going concern**

These unaudited condensed interim consolidated financial statements have been prepared on a going-concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. For the six-month period ended June 30, 2020, the Company incurred a loss before income taxes of $417,009 (year ended December 31, 2019 - $517,616). The Company has no income or cash inflows from operations. In addition to its working capital requirements, the Company must secure sufficient funding to maintain legal title to its resource properties, to fund its exploration and development activities and to fund its general and administrative costs. Such circumstances lend significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. Management is evaluating alternatives to secure additional financing so that the Company can continue to operate as a going concern. Nevertheless, there can be no assurance that these initiatives will be successful or sufficient.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### a) Statement of Compliance and Basis of Consolidation

The unaudited condensed interim consolidated financial statements of the Company and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34"), as issued by the IASB. Accordingly, certain information normally included in annual financial statements prepared in accordance with IFRS, as issued by the IASB, has been omitted or condensed. The unaudited condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2019.

The policies applied in these unaudited condensed interim consolidated financial statements are based on IFRS as of August 28, 2020, the date the Board of Directors approved the financial statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ended December 31, 2020 could result in the restatement of these unaudited condensed interim consolidated financial statements.

These unaudited condensed interim consolidated financial statements include certain assets, liabilities and results of operations of the Company, including the following subsidiaries:

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

The financial results of the subsidiaries above, which are controlled by Fortune Bay, are included in the consolidated financial statements from the date that control commences until the date whereby control ceases. Control exists when an investor has power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the returns.

All subsidiaries have the same year end. All intercompany balances, revenue and expense transactions are eliminated upon consolidation.

These unaudited condensed interim consolidated financial statements have been prepared using the same policies and methods of computation as the annual consolidated financial statements of the Company for the year ended December 31, 2019. Refer to Note 2, *Basis of Presentation and Summary of Significant Accounting Policies*, and Note 4, *New Accounting Standards,* of the Company's annual consolidated financial statements for the year ended December 31, 2019 for information on the accounting policies.

### 3. ACCOUNTS RECEIVABLE

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| Sales tax receivable | $ 31,537 | $ 21,865 |

### 4. PROPERTY AND EQUIPMENT

| **Cost** | Land and building | Computer and office equipment | Field equipment | Total |
|---|---|---|---|---|
| As at January 1, 2019 | $157,542 | $38,599 | $91,543 | $287,684 |
| Additions | - | - | - | - |
| As at December 31, 2019 and June 30, 2020 | $157,542 | $38,599 | $91,543 | $287,684 |

| **Accumulated depreciation** | Land and building | Computer and office equipment | Field equipment | Total |
|---|---|---|---|---|
| As at January 1, 2019 | $ - | $35,757 | $89,788 | $125,545 |
| Depreciation | - | 2,842 | 526 | 3,368 |
| As at December 31, 2019 | $ - | $38,599 | $90,314 | $128,913 |
| Depreciation | - | - | 184 | 184 |
| As at June 30, 2020 | $ - | $38,599 | $90,498 | $129,097 |

| **Carrying amount** | Land and building | Computer and office equipment | Field equipment | Total |
|---|---|---|---|---|
| Balance, December 31, 2019 | $157,542 | $ - | $1,229 | $158,771 |
| Balance, June 30, 2020 | $157,542 | $ - | $1,045 | $158,587 |

For the six-month period ended June 30, 2020, the Company has capitalized depreciation expense of $184 (June 30, 2019 - $261).

### 5. EXPLORATION AND EVALUATION ASSETS

| | Goldfields | Ixhuatán | Total |
|---|---|---|---|
| As at January 1, 2019 | $12,470,917 | $2,658,534 | $15,129,451 |
| Additions | 51,533 | 128,629 | 180,162 |
| As at December 31, 2019 | $12,522,450 | $2,787,163 | $15,309,613 |
| Additions | 15,550 | 59,962 | 75,512 |
| As at June 30, 2020 | $12,538,000 | $2,847,125 | $15,385,125 |

*Goldfields*

As at June 30, 2020, the Company holds a 100% interest in the Goldfields property located near Uranium City, Saskatchewan, which includes the Box Deposit, the Athona Deposit and several exploration targets.

*Ixhuatán*

As at June 30, 2020, the Company has a 100% interest in the Ixhuatán Project, which is located in the state of Chiapas, Mexico.

*Other*

The Company has a 2% net smelter royalty ("NSR") over future production from the Huizopa Project, located in Chihuahua, Mexico. The Company also has the right to a production bonus of US$4.0 million payable over two years from the date commercial production commences at Huizopa, as well as the right to 20% of the proceeds of disposal of Huizopa if it is disposed of prior to reaching commercial production. All consideration is contingent on the future development of the property. The Company considers the fair value of this consideration to be $nil.

The Company also holds a NSR on exploration properties in the Dominican Republic: the Ampliación Pueblo Viejo, Ponton and La Cueva properties. These properties were sold by the Company to an unrelated third party in 2014. The NSR is equal to 1.0% when the price of gold is less than US$1,000 per ounce, 1.5% when the price of gold is between US$1,000 and USD$1,400 per ounce, and 2% when the price of gold is above US$1,400 per ounce. The Company has assigned a value of $nil to the NSR.

In connection with the sale of these properties in the Dominican Republic, the Company also received a promissory note equal to the greater of $5.0 million or 1 million common shares of the purchaser. The promissory note is subject to the completion of a National Instrument ("NI") 43-101 compliant measured and indicated resource estimate on these concessions of a minimum of one million ounces of gold equivalent (at an average grade of 2.5 grams per tonne ("gpt") or higher for Ampliación Pueblo Viejo and 1.5 gpt or higher for Ponton and La Cueva) or actual gold production from these concessions plus a NI 43-101 compliant measured and indicated resource estimate on these concessions (at an average grade of 2.5 gpt gold equivalent for APV and 1.5 gpt gold equivalent or higher for Ponton and La Cueva) exceeding one million ounces of gold equivalent. The Company has assigned a value of $nil to the promissory note.

## 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| Trade accounts payable and accrued liabilities | $ 99,903 | $112,576 |
| Amounts payable to related parties, including director fees | 228,546 | 401,165 |
| | $328,449 | $513,741 |

## 7. LOAN PAYABLE

During the year ended December 31, 2019, the Company entered into a loan agreement with a related company that is co-owned by a director and officer of the Company. The loan was for up to $350,000, has an annual interest rate of 12% on the drawn balance of the loan and has a 4% lender fee which is deducted as amounts are drawn from the loan. The loan is repayable in full, including all interest and lender fees, on demand. During the period ended June 30, 2020, the Company signed an amendment to the loan payable, increasing the total amount of borrowing available to $400,000. All other terms remained unchanged. The Company repaid $190,580 of the loan payable, plus interest of $20,325, during the period ended June 30, 2020.

As at June 30, 2020, the Company has an outstanding balance due of $190,580, which includes lender fees of $7,330, plus accrued interest payable of $4,537.

## 8. SHARE CAPITAL

### a) Common Shares

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

| | Number of shares | Amount |
|---|---|---|
| Outstanding, January 1, 2019 | 21,037,263 | $ 4,125,738 |
| Shares issued during the year | - | - |
| Outstanding, December 31, 2019 | 21,037,263 | $ 4,125,738 |
| Shares issued during the period | 7,857,144 | 2,138,889 |
| Share issuance costs | - | (343.685) |
| Outstanding, June 30, 2020 | 28,894,407 | $ 5,092,942 |

On May 7, 2020, the Company completed a private placement financing for aggregate gross proceeds of $2,750,000. The Company issued 7,857,144 units at an issue price of $0.35 per unit, with each unit comprised of one common share and one-half common share purchase warrant. Each whole warrant is exercisable into one common share of the Company at an exercise price of $0.50 per share for a period of three years. Directors of the Company subscribed for 1,428,572 units pursuant to the financing.

The value allocated to the common shares issued was $2,138,889, and the value allocated to the common share purchase warrants was $611,111. Total costs associated with the private placement, consisting of broker warrants, professional and regulatory fees, as well as cash finder's fees, were $441,881. The Company allocated $343,685 to the costs of issuing the common shares and $98,196 to the costs of issuing the warrants. All securities issued pursuant to the private placement are subject to a four-month hold period in accordance with Canadian securities legislation.

Pursuant to the private placement, a finder's fee was paid to Numus Capital Corp., a company owned by an officer and director of Fortune Bay. The finder's fee consisted of cash of $192,500, or 7% of the gross proceeds of the financing, and 550,000 common share purchase warrants that are exercisable into 550,000 common shares of the Company at an exercise price of $0.50 per share for a period of three years. The warrants issued to Numus Capital Corp. were valued at $220,000.

### b) Warrants

| | Number of warrants | Amount |
|---|---|---|
| Outstanding, January 1, 2019 and December 31, 2019 | 2,459,063 | $ 235,926 |
| Warrants issued during the period | 3,928,572 | 611,111 |
| Broker warrants issued during the period | 550,000 | 220,000 |
| Warrant issuance costs | - | (98,196) |
| Outstanding, June 30, 2020 | 6,937,635 | $ 968,841 |

During the period ended June 30, 2020, the Company issued 3,928,572 warrants pursuant to the private placement completed on May 7, 2020. The warrants are exercisable at $0.50 and expire on May 7, 2023. 550,000 warrants were issued as a finder's fee for the private placement to Numus Capital Corp., valued at $220,000. These warrants are exercisable at $0.50 and expire on May 7, 2023.

The fair value of the warrants issued has been estimated at the grant date using the Black-Scholes option pricing model. The weighted-average assumptions used in the pricing model for the period ended June 30, 2020 are as follows:

| | |
|---|---|
| Risk-free interest rate | 0.26% |
| Expected life | 3.0 years |
| Expected volatility | 88% |
| Expected dividend per share | nil |
| Weighted-average fair value | $0.40 |

As at June 30, 2020, the Company had the following warrants outstanding:

| Number of warrants | Exercise price | Expiry date |
|---|---|---|
| 2,287,500 | $0.60 | February 22, 2021 |
| 171,563 | $0.40 | February 22, 2021 |
| 3,928,572 | $0.50 | May 7, 2023 |
| 550,000 | $0.50 | May 7, 2023 |

### c) Share-Based Compensation

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

The estimated fair value of options recognized has been estimated at the grant date using the Black-Scholes option pricing model. Option pricing models require the input of highly subjective assumptions, including the expected volatility. Changes in the assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable estimate of the fair value of the Company's stock options. For options that vest based on non-market performance criteria, an estimate is made on the grant date and each reporting date as to the number of options that are expected to vest based on performance criteria being satisfied. Changes in the estimates can materially affect the share-based compensation expense recognized in the statement of loss.

The following table reconciles the stock option activity during the six-month period ended June 30, 2020 and the year ended December 31, 2019:

| | Number of options | Weighted-average exercise price |
|---|---|---|
| Balance, January 1, 2019 | 1,175,000 | $ 0.41 |
| Granted | 250,000 | 0.31 |
| Balance, December 31, 2019 | 1,425,000 | $ 0.39 |
| Granted | 500,000 | 0.79 |
| Balance, June 30, 2020 | 1,925,000 | $ 0.49 |

The Company granted 500,000 stock options to an officer during the period ended June 30, 2020. These options are exercisable at $0.79 and expire on June 15, 2025. 62,500 vested on the grant date, and 187,500 will vest over three years. The remaining 250,000 options will vest in tranches according to performance-based criteria to be met over two years from the date of grant.

The fair value of the stock options granted during the period ended June 30, 2020 and the year ended December 31, 2019 have been estimated at the grant date using the Black-Scholes option pricing model. The weighted-average assumptions used in the pricing model are as follows:

| | **June 30, 2020** | **December 31, 2020** |
|---|---|---|
| Risk-free interest rate | 0.31% | 1.65% |
| Expected life | 4.5 years | 4.5 years |
| Expected volatility | 100% | 100% |
| Expected dividend per share | Nil | nil |
| Weighted-average fair value | $0.56 | $0.22 |

The following table summarizes information relating to outstanding and exercisable stock options as at June 30, 2020:

| Expiry date | Weighted-average remaining contractual life (in years) | Number of options outstanding | Number of options exercisable | Weighted-average exercise price |
|---|---|---|---|---|
| July 11, 2021 | 1.0 | 1,000,000 | 1,000,000 | $ 0.40 |
| March 5, 2023 | 2.7 | 175,000 | 116,666 | $ 0.45 |
| October 11, 2024 | 4.3 | 250,000 | - | $ 0.31 |
| June 15, 2025 | 4.9 | 500,000 | 62,500 | $ 0.79 |

For the six-month period ended June 30, 2020, the estimated value of options earned and recorded in the unaudited condensed interim consolidated statement of loss was $63,956 (six-month period ended June 30, 2019 - $27,927). As at June 30, 2020, 964,441 options were available for granting under the Plan.

## 9. INCOME TAXES

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

| | Six-month period ended June 30, 2020 | Six-month period ended June 30, 2019 |
|---|---|---|
| Loss before income taxes | $(341,262) | $(263,324) |
| Statutory rate | 31% | 31% |
| Tax recovery at statutory rate | (105,791) | (81,630) |
| Expense for losses and deductible temporary differences not recognized in current and prior years | 10,770 | 81,171 |
| Permanent differences and other | 19,274 | 8,929 |
| Income tax expense | $ 75,747 | $ 8,470 |

The tax effects of temporary differences that would give rise to the deferred tax assets and liabilities at June 30, 2020 and December 31, 2019 are as follows:

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| **Deferred tax assets** | | |
| Net operating losses carried forward | $ 305,961 | $ 327,802 |
| **Deferred tax liabilities** | | |
| Exploration and development | 699,988 | 646,082 |
| Net deferred tax liability | $ 394,027 | $ 318,280 |

At June 30, 2020, the Company recognized a net deferred tax liability of $394,027 (December 31, 2019 - $318,280) related to the difference between the book value and the tax value of the Company's exploration and evaluation assets in Mexico.

## 10. SUPPLEMENTAL CASH FLOW INFORMATION

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

| | Six-month period ended June 30, 2020 | Six-month period ended June 30, 2019 |
|---|---|---|
| Accounts receivable | $ (9,672) | $ (3,239) |
| Prepaid expenses and deposits | 13,559 | 14,586 |
| Accounts payable and accrued liabilities | (201,650) | 157,364 |
| | $ (197,763) | $ 168,711 |

## 11. RELATED PARTY TRANSACTIONS

Amounts payable to officers, directors and companies owned thereby were $419,126 as at June 30, 2020 (December 31, 2019 - $666,365), including a loan payable to a related company of $190,580. During the six-month period ended June 30, 2020, the Company incurred costs for controller services from a related company that is co-owned by a director and officer of the Company, Numus Financial Inc. ("Numus"), in the amount of $6,000, incurred rent and office costs in the amount of $15,150 and recognized other cost reimbursements from Numus of $1,923. During the year ended December 31, 2019, the Company incurred costs for controller services from Numus of $12,000 and incurred net rent and office costs in the amount of $31,038 and recognized other cost reimbursements from Numus of $4,431. As at June 30, 2020, the net amount payable by the Company to Numus was $72,086 (December 31, 2019 - $75,988). $25,057 was repaid to Numus during the period ended June 30, 2020.

During the year ended December 31, 2019, the Company entered into a loan agreement with a related company that is co-owned by a director and officer of the Company. Refer to Note 7 for details of the loan terms. During the six-month period ended June 30, 2020, $115,960 was drawn on the loan, including a lender fee of $4,460, and the Company repaid $190,580, including lender fees of $7,330. As at June 30, 2020, the balance of the loan was $190,580, plus interest payable of $4,537 (December 31, 2019 - $265,200 plus interest payable of $6,809). The loan is being used to fund exploration and evaluation asset expenditures and operating costs.

During the period ended June 30, 2020, the Company completed a private placement financing of 7,857,144 units for aggregate gross proceeds of $2,750,000 (Note 8). Directors of the Company subscribed for 1,428,572 units pursuant to the financing. In addition, a finder's fee was paid to Numus Capital Corp., a company co-owned by an officer and director of Fortune Bay. The finder's fee consisted cash of $192,500, or 7% of the gross proceeds of the financing, and 550,000 common share purchase warrants that are exercisable into 550,000 common shares of the Company at an exercise price of $0.50 per share for a period of three years.

## 12. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### a) Capital Management

The primary objective of managing the Company's capital is to ensure that there is sufficient available capital to support the long-term growth strategy of the Company in a way that optimizes the cost of capital and ensures the Company remains in sound financial position. The capital of the Company consists of items included in equity, net of cash, as follows:

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| Equity | $16,647,796 | $14,472,730 |
| Less: cash | (1,942,914) | (23,454) |
| | $14,704,882 | $14,449,276 |

The Company manages its capital structure and makes adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may issue equity or debt instruments from time to time. No changes were made in the objectives, policies or processes for managing capital during the six-month period ended June 30, 2020.

**b) Fair Values of Financial Instruments**

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

**c) Financial Risk Management Objectives**

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

**d) Market Risk**

Gold prices are affected by various forces, including global supply and demand, interest rates, exchange rates, inflation or deflation and worldwide political and economic conditions. The ability of the Company to capitalize on its current exploration and evaluation assets is impacted by the market price of gold. There has been no change to the Company's exposure to market risks or the manner in which these risks are managed and measured.

**e) Credit Risk**

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

The Company's maximum exposure to credit risk is represented by the carrying amount of the Company's cash and accounts receivable. Cash is placed with high-credit quality financial institutions. The fair value of the accounts receivable balance approximates its carrying value due to the relatively short periods to maturity. There are no material financial assets that the Company considers to be past due.

At each reporting date, the Company assesses whether there has been an impairment of financial assets. The Company has not recorded an impairment on any financial assets during the period ended June 30, 2020.

**f) Liquidity Risk**

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

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

In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments. The following table summarizes the remaining contractual maturities of the Company's financial liabilities:

| | Payments due by period as of June 30, 2020 | | | | |
|---|---|---|---|---|---|
| | Within 1 year | 2-3 years | 4-5 years | Over 5 years | Total |
| Accounts payable and accrued liabilities | $ 328,449 | $ - | $ - | $ - | $ 328,449 |
| Loan payable | 190,580 | - | | | 190,580 |
| | $ 519,029 | $ - | $ - | $ - | $519,029 |

**g) Currency Risk**

The Company is exposed to currency risk on its United States dollar and Mexican peso cash, accounts receivable and accounts payable and accrued liabilities in addition to certain of its operating costs. For the period ended June 30, 2020, changes in the exchange rate between the aforementioned currencies and the Canadian dollar would not have impacted the Company's net loss by a material amount as the balance of funds held, receivable or owing in these currencies was not material. The currency risk is minimal, therefore the Company does not hedge its currency risk.

## 13. SEGMENT INFORMATION

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

| | **Canada** | **Mexico** | **Total** |
|---|---|---|---|
| **As at June 30, 2020** | | | |
| Property and equipment | $ 158,587 | $ - | $ 158,587 |
| Evaluation and exploration assets | 12,538,000 | 2,847,125 | 15,385,125 |
| | $12,696,587 | $2,847,125 | $15,543,712 |

| | **Canada** | **Mexico** | **Total** |
|---|---|---|---|
| **As at December 31, 2019** | | | |
| Property and equipment | $ 158,771 | $ - | $ 158,771 |
| Evaluation and exploration assets | 12,522,450 | 2,787,163 | 15,309,613 |
| | $12,681,221 | $2,787,163 | $15,468,384 |

## 14. COMMITMENTS AND CONTINGENCIES

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

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

Certain of the Company's exploration and evaluation properties are subject to royalty obligations based on mineral production from the properties. Royalty obligations for the Goldfields Project may arise once the property enters production. The royalty obligations are a 2% NSR for the Box and Athona deposits at the Goldfields property. 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 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.

As at June 30, 2020, the Company has a services agreement with Numus for the provision of management services, rent and other office costs at a fee of $32,400 per year, continuing until both parties mutually agree to terminate.

The Company has employment arrangements with the Chief Executive Officer and Chief Financial Officer of the Company which provide that, should a change in control event occur, the Chief Executive Officer will receive a lump sum payment equal to between 24 and 36 months of his then current base salary and the Chief Financial Officer will receive a lump sum payment equal to 12 months of her then current base salary. In the event of a change of control, the Executive Chairman will receive a lump sum payment of 72 months of his current base compensation.

## 15. SUBSEQUENT EVENT

Subsequent to June 30, 2020, 125,000 warrants were exercised at a price of $0.60 per common share for gross proceeds of $75,000.